

Zacks Bike Hut

Level II

1st Web-Based Edition

Introduction

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Zacks Bike Hut, Level II – Introduction

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An Introduction To Zacks Bike Hut

Zacks Bike Hut is a small corporation locally owned by several stockholders interested in promoting recreational activities with road and mountain bikes. John Stanly and Robert Marino, owners and stockholders of the company, have full responsibility for its operation. The business, located in Downieville, California, is in the center of major road and mountain bike events in Northern California. The business sells road and mountain bikes and a few accessories, provides excellent repair and tune-up service, as well as lessons and demonstrations on mountain bike riding.

To complete the on-the-job training requirement for your accounting course, you have been placed in a four-week internship program with Zacks Bike Hut. You will be responsible for all of the accounting activities from June 3 through June 30, including recording the transactions, auditing your work, and correcting all errors. Your internship will also require the printing and preparation of the financial statements, analysis of the statements and business operations, and the closing of the books at the end of the second quarter, June 30. Since Zacks Bike Hut uses a computerized accounting system, this opportunity to obtain hands-on experience and practice your accounting skills should be very rewarding and exciting.

The first step in operating the computerized system properly is to gain a **clear understanding** of how certain accounts are used by Zacks Bike Hut, and to review the chart of accounts **before you begin the recording process.**

The Revenue Accounts

The business has four revenue accounts: **Sales, Sales Returns & Allowances, Service Fees Earned, and Lesson Fees Earned.**

Sales is used to account for the sales of all road and mountain bikes and accessories.

Sales Returns and Allowances is used to account for all transactions involving the return of merchandise items.

Service Fees Earned is used to maintain a record of all fees earned servicing customer equipment.

Lesson Fees Earned is adjusted at the end of each accounting period to reflect all of the lesson fees **that have been earned.**

Unearned Lesson Fees (a liability account) is used to record all of the initial cash receipts for

lessons which are usually sold on a one to six-month basis after a free introductory lesson. *Sales tax is charged on lesson fees.*

Bank Credit Card and Company Credit Card Sales

Zacks Bike Hut accepts both **bank credit cards** and **company credit cards**. When a customer purchases merchandise using a bank credit card, the sale is entered as a **cash sale**. The credit card expense (1-4%) **is not** recorded at the time of the sale. For bank card charges, the business is charged a credit card fee which is found on the bank statement received at the end of the month.

If a customer uses a company credit card, the sale is recorded as a sale on account with **Accounts Receivable, Credit Card Company** being debited for the charge. This process maintains a record of all of the credit card company charges that are owed to Zacks Bike Hut, until payment arrives from the credit card company. The credit card expense is recorded **when the cash payment is received from the credit card company**.

The Perpetual Inventory System

Zacks Bike Hut uses a **perpetual inventory system**. All merchandise purchases and sales transactions will include additional data entry regarding the quantity and the specific item(s) being purchased or sold. This information will be an automatic part of each journal entry where merchandise is involved. It will maintain a constant updated record of the quantity of all merchandise on hand and the total value of the inventory.

With the perpetual inventory system, when any merchandise or accessories are sold for cash, on credit, or through customer use of a bank or company credit card, **a second entry is required to update the general ledger accounts**. This second entry will include a **debit to Cost of Goods Sold** and a **credit to Merchandise Inventory** and **WILL BE AUTOMATICALLY JOURNALIZED AND POSTED BY THE PROGRAM**.

The Net Method of Recording Purchases

Zacks Bike Hut uses the **NET** method to record all purchases of merchandise. All purchases from vendors who extend cash discounts are **recorded at the NET cost** (the list price less the discount). **Example:** An inventory item with a \$1,200.00 list price and extended terms of 2/10, n/30 will be recorded as a debit to Merchandise Inventory for \$1,176.00 ($\$1,200.00 \times .98$). All merchandise will be purchased on account and credited to Accounts Payable. As each purchase invoice is paid on time, Accounts Payable will be debited and Cash credited. ***On the rare occasion when a purchase invoice that offers a cash discount is, through error, not paid within the discount period, the lost discount will be recognized.*** This will require a debit to the **Discounts Lost** account and a credit to the **Accounts Payable** account. This credit to Accounts Payable will restore the balance owed to the vendor to the full balance due (at list prices). This balance will then be paid in cash.

Customer and Vendor Accounts

Detailed information on customer and vendor account activity and balances will be maintained automatically in the Accounts Receivable and the Accounts Payable ledgers with each recorded transaction involving a credit sale or credit purchase of merchandise. This will require identifying each customer or vendor/creditor by number when the transaction is recorded.

Several Ledger Accounts which require special attention are listed below:

- 106 Allowance for Doubtful Accounts** is a contra current asset account that is debited when accounts receivable are written off as bad debts.

- 107 Accounts Receivable, Credit Card Company** is used to record all **company credit card** sales. When the cash is received from the credit card company, the credit card expense is recorded.

- 115 Merchandise Inventory** is the inventory account for all merchandise and accessories. The perpetual inventory system will maintain a running balance of the Merchandise Inventory account as well as the exact quantity of each product stocked by Zacks Bike Hut. The correct running balance of this account will be a major check figure given at the end of each period (7 days) of data entry.

- 121 Prepaid Insurance** is debited for the purchase of all insurance policies.

- 125 Prepaid Advertising** is used only for adjusting entries. All advertising costs are debited directly to the Advertising Expense account since most of the advertising will be completed by the end of the accounting period.

- 127 Store and Shop Supplies** is debited for all purchases of supplies. Check printing charges are also charged to this account.

- 150 Land** owned by Zacks Bike Hut is currently used only as an overflow parking area, but future plans call for expansion of the store and storage facilities.

- 205 Sales Tax Payable** accounts for the **7% sales tax**. *Sales tax (7%) is charged on all merchandise sales, service sales, and lesson fees.*

- 221 Unearned Lesson Fees** is credited directly for all lesson fees received in advance. Customers are asked to pay their lesson fees at least one month in advance. *Sales tax is charged on lesson fees.*

- 311 Dividends Declared** is debited for all official dividend declarations. At the end of each accounting period, the account is closed to the Retained Earnings account.

- 411 Service Fees Earned** is credited for all customer service and billed at a rate of **\$62.00** per hour.
- 421 Lesson Fees Earned** is adjusted at the end of the accounting period for all lesson fees that have been earned during the quarter.
- 501 Cost of Goods Sold** is the Cost Account that is debited for the cost of each item sold. Under the perpetual inventory system, with each sale of merchandise, Cost of Goods Sold is debited and Merchandise is credited. With each sales return of merchandise, Merchandise is debited and Cost of Goods Sold is credited. As each sale or sales return entry is entered and the merchandise inventory involved is identified, the program will automatically record the entry to update the Cost of Goods Sold and the Merchandise Inventory accounts.
- 505 Transportation-In** is the **Cost Account** debited for all freight and delivery charges incurred in transporting merchandise to the Zacks Bike Hut. Most of the merchandise shipments to Zacks Bike Hut have FOB destination terms. The few shipments received with FOB shipping point (FOB factory) terms are **charged to the Transportation-In account**. The amounts charged to Transportation-In (usually not material) are added to the Cost of Goods Sold when calculating the Gross Profit of the business. Freight charges for the delivery of plant and equipment assets to the business are charged directly to the specific asset account.
- 602 Store and Shop Supplies Expense** is used only for adjusting entries.
- 604 Advertising Expense** is debited directly for all advertising fees incurred.
- 606 Delivery Expense** is an **Operating Expense Account**, debited for the delivery and freight charges incurred in **shipping merchandise items to customers**.
- 607 Credit Card Expense** accounts for the bank and company credit card fees charged to Zacks Bike Hut for allowing customers to use their credit cards to purchase merchandise and services. These fees will be between 1 and 4 percent of the total amount (including sales tax) of the customer charge. Credit card charges for bank cards will be accounted for at the end of the month on the bank statement. Credit card charges for the use of company credit cards will be recorded when the cash is received from the credit card company. **An end-of-the-period adjustment will be made at the end of each quarter to account for accrued credit card charges on credit card company receivables that will be collected during the subsequent quarter.**
- 608 Tools Expense** is debited for all small purchases of store and shop tools.

- 621 Rent Expense** is debited on the first of each month as a check for **\$500.00** is issued for the use of an off-site and storage facility. A lease agreement has the facilities under contract until December 31.
- 622 Insurance Expense is adjusted at the end of each accounting period.**
- 623 Bad Debt Expense is estimated at the end of each quarter using the aging of accounts receivable method.**
- 627 Bank Service Charges** is debited for all service costs on the business checking account.
- 628 License Expense** is debited for all business and vehicle license fees.
- 633 Discounts Lost** is charged for the loss incurred when a purchase invoice, through error, is not paid on time (before the end of the discount period). When the NET purchases method is used to record the purchases of merchandise, an internal control system is established to insure that all invoices are paid in time to qualify for the discount. The Discounts Lost account should never have an entry if the control system is in place and is used properly.
- 713 Dividends Earned** is an **Other Revenue Account** that is credited for dividends earned on short-term investments.

When entering the transactions in the Zacks Bike Hut accounting system, all of the accounts will be identified by account number. You will see the account title appear instantly on the screen as you enter the account number. If you wish to use the drop-down chart of accounts for your entries, click on the right side of the data entry screen. You may use the scroll bar to move through the chart.

Zacks Bike Hut
Chart of Accounts

ASSETS

101	Cash
102	Petty Cash
103	Short-Term Investments
105	Accounts Receivable
106	Allowance for Doubtful Accounts
107	Accounts Receivable, Credit Card Company
109	Notes Receivable
113	Interest Receivable
115	Merchandise Inventory
121	Prepaid Insurance
124	Prepaid Property Tax
125	Prepaid Advertising
127	Store and Shop Supplies
131	Store Equipment
132	Accumulated Depreciation, Store Equipment
135	Shop Equipment
136	Accumulated Depreciation, Shop Equipment
139	Delivery Van
140	Accumulated Depreciation, Delivery Van
150	Land

LIABILITIES

201	Accounts Payable
201	Accounts Payable
203	Notes Payable
205	Sales Tax Payable
207	Dividends Payable
209	Salaries & Wages Payable
211	Estimated Property Taxes Payable
213	Income Taxes Payable
215	Interest Payable
221	Unearned Lesson Fees
231	Long-term Notes Payable

STOCKHOLDERS' EQUITY

- 301 Common Stock
- 305 Retained Earnings
- 311 Dividends Declared

REVENUE

- 401 Sales
- 402 Sales Returns & Allowances
- 411 Service Fees Earned
- 421 Lesson Fees Earned

COST OF GOODS SOLD

- 501 Cost of Goods Sold
- 505 Transportation-In

OPERATING EXPENSES

Store And Shop Expenses

- 601 Salaries & Wages Expense
- 602 Store & Shop Supplies Expense
- 603 Van Operating Expense
- 604 Advertising Expense
- 606 Delivery Expense
- 607 Credit Card Expense
- 608 Tools Expense
- 610 Depreciation Expense, Store Equipment
- 611 Depreciation Expense, Shop Equipment
- 612 Depreciation Expense, Delivery Van

Administrative Expenses

- 621 Rent Expense
- 622 Insurance Expense
- 623 Bad Debt Expense
- 624 Property Tax Expense
- 625 Utilities Expense
- 626 Telephone Expense
- 627 Bank Service Charges
- 628 License Expense
- 629 Professional Services Expense
- 631 Cash Short & Over
- 633 Discounts Lost
- 635 Miscellaneous Expense

OTHER REVENUE

- 711 Interest Earned
- 713 Dividends Earned
- 721 Gain on Sale of Assets
- 731 Gain on Short-Term Investments
- 741 Miscellaneous Revenue

OTHER EXPENSES

- 811 Income Taxes Expense
- 813 Interest Expense
- 821 Loss on Sale/Disposal of Assets
- 831 Loss on Short-Term Investments

INCOME SUMMARY

- 901 Income Summary

Zacks Bike Hut Customer List

Customer Number	Customer
10200	Sally Bridges
10325	Downieville Wheels
10360	Sugar Folley
10440	Mountaineers Bike Club
10525	Doris Highlander
10555	Highland Riders
10875	Shirley Rawlins
10900	49'er Riders
11110	Sierra Rough Necks
11500	Allen Yarborough

***Zacks Bike Hut
Vendor List***

Vendor Number	Vendor
20150	American Cycles
20500	Bingham Supply
20750	Crater Bikes
22600	Jurassic Bikes
23100	Moon Shine Sports
23700	Noreen's Freight Lines
24500	Packard Bicycles
25700	Zebra Bikes, Inc.

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***KEY DETAILS TO REMEMBER
AS YOU JOURNALIZE TRANSACTIONS***

To properly and efficiently operate the computerized accounting system used by Zacks Bike Hut, you must be familiar with several important computer procedures as well as business and account information details. These procedures and details are summarized in the list below:

All sales or sales returns of merchandise items will require two entries. After the regular sales or sales return entry with the appropriate sales tax included, the program will **automatically** record the second entry required with an update to the **Cost of Goods Sold** and the **Merchandise Inventory** accounts.

Inventory information is entered into the system for any journal entry that changes the quantity/value of the Merchandise Inventory account. When a journal entry for any sales, sales return, merchandise purchase, or merchandise return transaction is verified, the inventory information is then requested. When the inventory information matches the journal entry, **click on Post** and the general ledger, subsidiary ledger, and the inventory ledger will be updated.

The **Net Method** is used to record all merchandise purchases. It is intended that all invoices be paid on time. If an error is made and an invoice is not paid on time, the cost of this error will be recorded in the **Discounts Lost** account.

All merchandise carries a 50% markup on **net cost**. **Example:** A bicycle with a net cost of \$1,200.00 would sell at retail for \$1,800.00 ($\$1,200.00 \times 1.50$).

Sales tax of 7% is charged on all sales, service labor, and lessons. When calculating sales tax, **round all amounts to the nearest cent** ($\$4.025768 = \4.03).

Credit Card Fees of 1% to 4% will be assessed by banks and credit card companies. Bank credit card fees will be accounted for at the end of the month from the information received on the bank statement. Credit card company fees will be recorded when the cash is received from the credit card company.

Labor charges will be billed to customers at the rate of **\$62.00 per hour**. Where necessary, **round all calculations to the nearest cent**.

For all short-term **interest calculations use exact days and a 360-day banker's year**.

Zacks Bike Hut extends **30-day credit to all charge customers**. Balances that are **over the 30-day credit** period are considered past due.

The **error correction procedure for this practice set requires two journal entries**. First, using the same date as the error entry, the error entry must be backed out (reversed). Using the same date, the correct entry is then recorded. See further error correction instructions in Module 1, page 14.

Completing Zacks Bike Hut Practice Set

Be sure to keep a copy of this Introduction to Zacks Bike Hut close at hand as you complete your accounting assignment for Zacks Bike Hut. You will often use this introduction module as a guide and reference for completing the assignment.

If you are ready to proceed,

1. Go to pksoftware.com and Log on to Zacks Bike Hut
2. Click on Support in the Menu Bar
3. Select Down Load Student Manual
4. Click on Module 1: Transactions for June 3-9
5. Print a copy of Module 1
6. Follow the instructions in Module 1 and record the journal entries

Heads Up:

At the beginning of each module is a ‘Heads Up’ describing transactions to be recorded (journalized) that are not considered to be day-to-day business transactions of buying and selling merchandise or paying operating expenses. Be sure to review for these types of transactions before completing the module.

Check Figures:

After completing each module, click on Check Figures in the Menu Bar to verify the balances of your ledger accounts against the correct balances of the ledger accounts. After you’ve confirmed your ledger account balances are correct, continue to the subsequent module.