

Financial Accounting Review Practice Set

Assignment Overview

This assignment is a review of general financial accounting principles and procedures. In this assignment you will create general journal entries for a series of transactions. You may optionally show the impact of these transactions on a set of t-accounts and you must create a trial balance and adjusted trial balance. You will then close out the income statement accounts as you would at year end.

In a continuation of this assignment later this semester (see Module #10), you will explore how your journal entries might be created in an automated system by entering your “manual” journal entries into the SAP ERP system. The SAP system will then be used to produce a set of financial statements (balance sheet and income statement). If you fail to successfully complete the Excel portion of this assignment it will be impossible to complete the SAP portion.

Global Bike Inc. (GBI)

We will be working with a company called Global Bike Inc., (GBI). Information regarding GBI follows.

Company History

Global Bike Inc. has a pragmatic design philosophy that comes from its deep roots in both the off-road trail racing and long-distance road racing sports. Nearly 20 years ago, its founders designed their first bikes out of necessity—they had races to win and the bikes that were available at the time did not perform to their extremely high standards. So, they took matters into their own hands and built legendary bikes that would outlast and outperform the competition. From these humble origins, Global Bike Incorporated was born and continues to deliver innovative high-performance bicycles to the world’s most demanding riders.

This heritage of entrepreneurial spirit and quest for design perfection is still the cornerstone of GBI’s corporate philosophy. GBI produces bikes for the most demanding competitors—whether the competition is on pavement or dirt, for money, fame or just bragging rights.

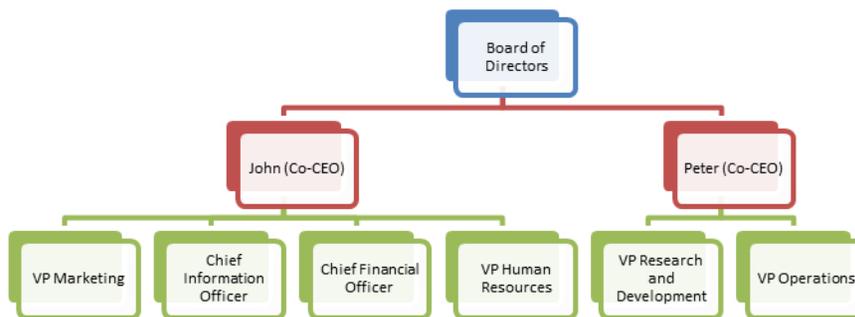
John Davis earned his racing scars in the mountain racing circuit in America, where he won numerous downhill and cross-country championships. Early on, John realized that the mass-produced bicycles available were inadequate in many ways for the type of racing he was doing. So, John stripped four of his old bikes down to the bare metal and rebuilt them into a single “Frankenstein” bike that he rode to win the national championship. Once news of his Frankenstein bike got out, John’s friends and even his competitors began asking him to build them a Frankenstein bike too. While recovering from an injury in 1990, John started producing the first series of Frankenstein bikes in his garage—each one custom-built from cannibalized parts from other bikes. As more and more orders came in, John successfully expanded Frankenstein Bikes from his garage operations into a full-blown manufacturing facility in Dallas and began producing custom trail bikes which he sold through a network of specialized bike dealers throughout the country.

At nearly the same time, halfway around the world in Heidelberg, Germany, Peter Schwarz was studying engineering and competing in regional touring races on weekends. In between his races and

studies, Peter worked at a bike shop in Heidelberg, fixing student bikes and tuning the touring bikes that he and his friends rode for competitions. As Peter's reputation as a fierce competitor and mechanical wizard grew, he also began to design and build road bikes based on an ultra-light composite frame that he had created for one of his engineering courses. Peter's innovative use of carbon composite materials allowed him to build a frame that was significantly stronger and one tenth the weight of competing frames. As a student, Peter did not have a great deal of financial resources, so he partnered with a local company that manufactured his frame designs as a contract manufacturer. Soon, Peter's frames were being used by racers all over Europe and he started Heidelberg Composites to market and design frames which would be fabricated by a contract manufacturer on a larger scale. Heidelberg Composites sold its frames to specialized bike stores throughout Europe and directly to racing teams, eventually becoming the leader in lightweight touring frames in Europe.

Through a twist of fate, Peter and John met each other in 2000 and immediately recognized their mutual passion for performance and complimentary business models. Each had been looking for a partner in another racing field and each had been looking for a partner in a different market. They quickly realized that a merger between their two companies would be extremely synergistic and that the combination of their product lines and regional distribution channels would generate a great deal of efficiencies.

So, in 2001, Heidelberg Composites and Frankenstein Bikes merged to form Global Bike Incorporated. Today, John and Peter share the responsibilities for managing GBI's growing organization as co-CEO's. John is responsible for sales, marketing, service & support, IT, finance and human resources groups and Peter is responsible for research, design, procurement and manufacturing groups from an organizational reporting perspective.



GBI is a world class bicycle company serving the professional and “prosumer” cyclists for touring and off-road racing. GBI's riders demand the highest level of quality, toughness and performance from their bikes and accessories.

Product Development

Product development is the most critical element of GBI's past and future growth. GBI has invested heavily in this area, focusing on innovation, quality, safety and speed to market. GBI has an extensive innovation network to source ideas from riders, dealers and professionals to continuously improve the performance, reliability and quality of its bicycles.

In the touring bike category, GBI's handcrafted bicycles have won numerous design awards and are sold in over 10 countries. GBI's signature composite frames are world-renowned for their strength, low weight and easy maintenance. GBI bikes are consistently ridden in the Tour de France and other major international road races. GBI produces two models of their signature road bikes, a deluxe and

professional model. The key difference between the two models is the type of wheels used, aluminum for the basic model and carbon composite for the professional model.

GBI's off-road bikes are also recognized as incredibly tough and easy to maintain. GBI trail bikes are the preferred choice of world champion off-road racers and have become synonymous with performance and strength in one of the most grueling sports in the world. GBI produces two types of off-road bike, a men's and women's model. The basic difference between the two models is the smaller size and ergonomic shaping of the women's frame.

GBI also sells accessories comprised of helmets, t-shirts and other riding accessories. GBI partners with only the highest quality suppliers of accessories which will help enhance riders' performance and comfort while riding GBI bikes. The accessories list is shown here as trading goods.

| | | |
|------------------------------------|----|----------|
| DELUXE TOURING BIKE (BLACK) | EN | DXTR1000 |
| DELUXE TOURING BIKE (RED) | EN | DXTR3000 |
| DELUXE TOURING BIKE (SILVER) | EN | DXTR2000 |
| MEN'S OFF ROAD BIKE | EN | ORMN1000 |
| PROFESSIONAL TOURING BIKE (BLACK) | EN | PRTR1000 |
| PROFESSIONAL TOURING BIKE (RED) | EN | PRTR3000 |
| PROFESSIONAL TOURING BIKE (SILVER) | EN | PRTR2000 |
| WOMEN'S OFF ROAD BIKE | EN | ORWN1000 |

GBI Finished Products

| | | |
|-------------------|----|----------|
| AIR PUMP | EN | PUMP1000 |
| ELBOW PADS | EN | EPAD1000 |
| FIRST AID KIT | EN | FAID1000 |
| KNEE PADS | EN | KPAD1000 |
| OFF ROAD HELMET | EN | OHMT1000 |
| REPAIR KIT | EN | RKIT1000 |
| ROAD HELMET | EN | RHMT1000 |
| T-SHIRT | EN | SHRT1000 |
| WATER BOTTLE | EN | BOTL1000 |
| WATER BOTTLE CAGE | EN | CAGE1000 |

GBI Trading Goods

Information System

When the company first started, a manual, Excel-based accounting system was put in place. However, the company has decided that it needs to computerize its accounting process to be more efficient. In addition, in order to expand their sales to additional wholesale markets, Global Bike, Inc. (GBI) must have EDI (electronic data interchange) capabilities by July 1. A project team has been established to meet this deadline and the computerization of the accounting system is the first step in implementation of the company's new information system and their link to global partners. GBI uses a perpetual inventory system to account for both types of inventory, bicycles and accessories, as well as raw materials and work-in-process.

Consultants have configured the new computer system and it is ready to use. The books of the company were closed on December 31st to prepare for the transition to the new system. The account balances are now ready to be transferred to the new computer system. GBI will run parallel systems during January; that is, they will record transactions in both the manual system and their new computerized system to make sure the new system is set up properly. This is a standard business practice that reduces the risks associated with implementing new systems.

Chart of Accounts for Global Bike, Inc.

The chart of accounts is a means of organizing general ledger accounts for grouping or sorting and to generate financial statements. Generally a unique numeric code (although alphanumeric can also be used) is given to an account based on its type. A block of code may be set aside for specific types of accounts. For instance, in the case of GBI, account numbers 100000 through 109999 are reserved for "cash" or liquid asset accounts. The entire set of codes and blocks of code is called the chart of accounts. Global Bike's chart of accounts follows:

| G/L Account | G/L Acct Long Text |
|-------------|---|
| 100000 | Bank Account |
| 110100 | Accounts Receivable (Direct Posting Account) |
| 110150 | Allowance for Bad Debt |
| 110200 | Interest Receivable |
| 200600 | Inventory-Operating Supplies |
| 200900 | Inventory-Raw Materials (Direct Post) |
| 200910 | Inventory-Finished Goods (Direct Post) |
| 200920 | Inventory-Trading Goods (Direct Post) |
| 200930 | Inventory-Semi-finished Goods (Direct Post) |
| 210000 | Prepaid Insurance |
| 211000 | Prepaid Supplies |
| 212000 | Prepaid Advertising |
| 215000 | Prepaid Rent |
| 216000 | Deposits |
| 220000 | Notes Receivable |
| 220110 | Land |
| 220210 | Production Machinery, Equipment and Fixtures |
| 220310 | Accumulated Depreciation –Production mach, Equip. |
| 220400 | Office Furniture |
| 220500 | Accumulated Depreciation-Office Furniture |
| 220600 | Office Equip and Computers |
| 220700 | Accumulated Depreciation- Office Equipment |
| 300100 | Payables-Income Taxes |
| 300200 | Accounts Payable (Direct Posting Account) |
| 300300 | Payables-Interest |
| 300400 | Payables-Short-Term Notes |
| 300500 | Payables-Long-Term Notes |
| 300600 | Payables-Commissions |
| 300700 | Payables-Salaries and Wages |
| 300800 | Accrued Expense |
| 310000 | Goods Receipt / Invoice Receipt Account |
| 320000 | Accrued Tax – Output |
| 321000 | Accrued Tax- Input |
| 322000 | Unearned Revenues |
| 329000 | Common Stock |
| 329100 | Additional Paid-in-Capital |
| 330010 | Retained Earnings (Direct Post) |
| 600000 | Sales Revenue |
| 610000 | Sales Discount |
| 620000 | Miscellaneous Revenue |
| 630000 | Revenue Deductions |
| 640000 | Gain or Loss on Sale of Assets |
| 650000 | Customer Service Revenue |
| 650100 | Customer Service Revenue Settlement |
| 700000 | Labor Expense |
| 720000 | Raw Material Consumption Expense |
| 720100 | Finished Product Consumption Expense |
| 720200 | Trading Good Consumption Expense |
| 720300 | Semi-Finished Consumption Expense |

| | |
|--------|---|
| 740000 | Supplies Expense |
| 740200 | Legal and Professional Expense |
| 740300 | Rent Expense |
| 740400 | Insurance Expense |
| 740500 | Payroll Expense-Office |
| 740600 | Payroll Expense-Administrative |
| 740700 | Sales Expense |
| 740800 | Tax Expense - Property |
| 740900 | Tax Expense- Income |
| 741000 | Miscellaneous Expense |
| 741200 | Bad Debt Expense |
| 741300 | Information Technology Expense Account |
| 741400 | Production Order Variance Expense Account |
| 741500 | Utilities Expense |
| 741600 | Manufacturing Output settlement |
| 741700 | Manufacturing Output Settlement Variance |
| 741800 | Depreciation Expense |
| 741900 | Advertising Expense |
| 742000 | Vendor Discounts Missed |
| 742100 | Shipping Expense |
| 760000 | Purchase Price Difference |
| 760100 | Production Variance |
| 770000 | Research and Development |
| 780000 | Cost of Goods Sold |

Detailed Assignment Requirements

The next few pages show the balances in GBI accounts as of December 31st and then the descriptions of events occurring during January for which you are to make general journal entries in a manual accounting system. Your manual accounting system needs to include a general journal, t-accounts, and a trial balance, all of which will be generated in Excel, (see the sample problem for the format). Don't forget to include your beginning and ending balances in your t-accounts.

Later this semester, you will enter all the data into the SAP ERP system. When you enter your data into the SAP system the resulting financial information from the manual system and the SAP system should **match exactly**.

Assignment Steps

1. Record the daily transactions if appropriate, (some events presented may not involve journal entries), as general journal entries into Excel.
 - i. A sample problem and solution (Tucker Boats) has been made available to you to study on the D2L Content page. Looking over the answer to the sample problem may be helpful in reviewing your Excel skills.
 - ii. You must use Excel formulas as much as possible in this assignment. For example, you should design your Journal Entry worksheet so that by entering the account number, the proper account title is automatically filled in the adjacent column.
 - iii. The use of t-accounts is not required (nor recommended) though you may use them if you desire. Doing so will take quite a bit longer than using SUMIF formulas on your trial balance worksheet to reference the journal entries.

- iv. If done correctly, changing the account number on a journal entry should result in related changes to the numbers on your trial balance worksheet. As much as possible, you should create links between your spreadsheets and complete formulas to expedite this process and minimize the risk of an error in data entry.
2. The next step is to record the adjusting entries into the general journal and then link them into the trial balance.
3. Record closing entries in your trial balance as if this were a year-end close. Closing entries must consist only of Excel formulas on your trial balance worksheet (i.e. nothing on the journal entries worksheet).
4. A PDF version of the completed, month-end trial balance is provided for you to check your work. Matching your Excel file with the trial balance is no guarantee that you will earn 100% of the points on this assignment. In addition to some other things, I will do one or more of the following to further test your work:
 - i. Delete one or more journal entries (for example, for the last 10 days of the month).
 - ii. Change some account numbers and/or values on journal entries.
 - iii. Change beginning balances from debits to credits or vice versa.

In all cases your Excel file should be designed in such a way to appropriately recalculate the trial balance worksheet to reflect the kinds of data changes made above. In no case should you “hard code” values on your trial balance that will prevent this from happening (or you will lose points). Changes should also not result in negative values appearing on your trial balance worksheet (a negative debit should really be a positive number in the credit column or vice versa).

Account Balances as of December 31st

| | Debit Balance | Credit Balance |
|---|----------------------|-----------------------|
| 100000 Bank Account | \$252,518 | |
| 110100 Accounts Receivable (Direct Posting Account) | 108,420 | |
| 110150 Allowance for Bad Debtg | | 2,500 |
| 200600 Inventory-Operating Supplies | 750 | |
| 200900 Inventory-Raw Materials (Direct Post) | 32,000 | |
| 200910 Inventory-Finished Goods (Direct Post) | 281,298 | |
| 200920 Inventory-Trading Goods (Direct Post) | 66,474 | |
| 210000 Prepaid Insurance | 5,000 | |
| 212000 Prepaid Advertising | 1,000 | |
| 220110 Land (Direct Post) | 425,000 | |
| 220210 Production Machinery, Equip & Fixtures(Dir.Post) | 915,000 | |
| 220310 Accumulated Depreciation-Machinery (Direct Post) | | 305,000 |
| 300200 Accounts Payable (Direct Posting Account) | | 47,900 |
| 300700 Payables-Salaries and Wages | | 110,000 |
| 300800 Accrued Expense | | 988 |
| 320000 Accrued Tax – Output | | 3,063 |
| 329000 Common Stock | | 1,000,000 |
| 330010 Retained Earnings (Direct Posting) | | 618,009 |

Events During January

| <u>Event</u> | <u>Date</u> | <u>Description of Event</u> |
|--------------|-------------|---|
| 1 | January 3 | Employees are paid monthly on the first business day of the month for work done in the previous month. The total payroll for the previous month is \$110,000. (Ignore payroll taxes for this assignment.) Accounting wrote and distributed the paychecks. |
| 2 | | GBI received \$55,692 in safety product inventory and \$37,128 in raw materials from Dallas Bike Basics. This inventory was ordered on December 28. The payment terms for the invoice total of \$92,820 are net 10 days. GBI paid the CWX shipping company \$550 with a manual check for the shipment of the goods. The bill of lading showed that the safety product inventory arrived in 6 boxes with a total weight of 120 lbs and the raw materials came on a pallet and weighed 100 lbs. |
| 3 | | Windy City Bikes in Chicago, IL ordered \$22,000 of bicycle accessories from GBI. The cost of the accessories (to GBI) is \$15,180. The goods were shipped to Windy City immediately via UPS using Windy City's UPS shipping number. The terms of payment for Windy City's order are 2/10 net 30 days. |
| 4 | January 7 | GBI received payment of \$16,850 from Northwest Bikes in Seattle, WA for the balance due on their account. |
| 5 | January 10 | GBI's account on the utility company website is updated at the end of each month when the meter is read. GBI uses this data to accrue the expenses at the end of each month (in this case on December 31 st .) This allows recognition of the expense in the correct period. Expenses are usually accrued at the end of the month as "Accrued Expenses". GBI paid the December utility bill of \$988 via the company's automatic electronic bill pay program. |
| 6 | | GBI's advertisement in the English language edition of Italian Cycling Journal was published today. This ad was prepaid at the end of July for six months of advertising, August through January, (Five months of advertising have already been used.) |
| 7 | January 11 | The office manager in San Diego ordered \$350 of office (operating) supplies from Staples. While on the way back from a delivery, one of the warehouse staff picked up the Staples order and brought it to GBI's office. GBI has an account with Staples and payment terms are net 10. Operating supplies expense is figured at the end of the month determined by the amount of supplies used during the month. |
| 8 | | GBI ordered \$99,418 in raw materials from Space Bike Composites in Houston, TX. Terms of payment to Space Bikes are net 30. |

| | | |
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| 9 | | GBI received payment from Windy City Bikes for their order from January 3. Windy City paid the invoice amount less the discount for paying within 10 days. |
| 10 | January 12 | GBI paid \$92,820 via bank transfer for the inventory order that they received from Dallas Bike Basics January 3. |
| 11 | January 13 | In order to better track inventory, GBI ordered a bar-coding and tracking system which will be installed and tested by Computer Specialists, Inc. (CSI). The system will allow employees to track inventory using mobile devices and special software which will link into their new computerized accounting system. The barcode system costs \$5,995 (including sales tax) and CSI will charge GBI \$1,200 for the installation and tests. GBI paid a deposit of \$3,000 on the system and the remainder is due and payable when the system is installed. GBI will classify the bar-coding system as "Production Machinery, Equipment and Fixtures". |
| 12 | January 17 | GBI paid an invoice from Lightbulb Accessory Kits for ordered goods that were received on December 20. The amount of the invoice from Lightbulb is \$17,010 due net 30. |
| 13 | | The city of Denver will be hosting a decathlon at the end of February. The event is expected to create demand for high quality bikes. Rocky Mountain Bikes in Denver, CO placed an order with GBI for \$128,130 worth of bicycles to be delivered immediately. Rocky Mountain will pay the shipping. The bikes cost GBI \$79,441. GBI shipped the order immediately so that Rocky Mountain can start promoting the bikes. Because Rocky Mountain is a good customer, GBI is giving them special terms of net 45 days on this order. |
| 14 | | GBI received raw materials inventory ordered from Space Bike Composites January 11. Shipping charges of \$802 were included in the \$100,220 invoice from Space Bike. |
| 15 | | GBI received notice that Bunky's Bicycle Emporium had declared section 13 bankruptcy which meant GBI would not be able to collect the \$1,610 that Bunky's owed them. |
| 16 | January 18 | GBI received a \$89,960 funds transfer from Silicon Valley Bikes in Palo Alto for the balance due on their account. |
| 17 | January 19 | GBI paid Staples for the office supplies they received January 11. |
| 18 | | SoCal Bikes in Irvine, CA placed an order for \$2,300 in bicycle helmets for a special event in February. The merchandise cost GBI \$1,380. SoCal sent a truck to the GBI distribution center in San Diego, CA and picked up the merchandise directly from GBI's warehouse. Terms of payment are net 30. (Don't forget to charge sales tax of 8.75% for this order.) |
| 19 | January 24 | Beantown Bikes in Boston, MA placed an order with GBI for \$27,450 in bicycles. The cost of the bicycles is \$17,092. Beantown Bikes is a new customer. Its buyers saw GBI's booth at a trade show. Because |

| | | |
|----|------------|---|
| | | Beantown is a new customer, they must either wait until their credit can be approved or pay for the order before GBI will ship the bikes to them. |
| 20 | January 25 | GBI has been offered the opportunity to advertise in the Bicycle Times online magazine for a reduced price if they pay for three months in advance. In light of the upcoming Tour de France, the advertising is a great opportunity for GBI to get additional recognition. The advertising will start in February. GBI wrote a check for \$15,000 for three months of advertising. |
| 21 | January 26 | GBI received notification from their bank that \$27,450 had been transferred to their account from Beantown Bikes, so GBI's warehouse personnel shipped Beantown's order. Beantown will be responsible for paying Fed-X \$360 for shipping the order. |
| 22 | January 27 | The county approved GBI's building plans for their new warehouse. Estimated building costs are \$1,050,000 which will be funded via a mortgage from Bank of America. GBI plans to break ground on the new building April 18 th of this year. |
| 23 | | GBI sent a \$30,890 check to Night Rider Aluminum Products for an order of bicycle parts GBI received December 30th. |
| 24 | | Big Apple Bikes in New York City is expanding to another location in New York and needs to stock the new location. GBI received a phone order from Big Apple for \$232,315 in bicycles and \$108,490 in bicycle accessories and safety gear at special discount prices. The cost of the bicycles in this order is \$169,586 and the cost of the accessories is \$65,094. Big Apple will have a contract trucking company pick up the order when it is ready. The order is sent to GBI's warehouse for picking and packing which may take a couple days. Payment terms to Big Apple for this order are net 30. |
| 25 | January 31 | GBI pays sales tax once a quarter via the state's electronic filing and payment system. GBI filed its return and paid \$3,063 in sales tax for the quarter ending December 31. |
| 26 | | GBI paid February's rent of \$4,500 for the office and warehouse space in San Diego. |
| 27 | | CSI installed and tested the new barcode system. The warehouse manager approved the installation and commented that she thinks it works great. GBI wrote a check to CSI for \$4,195 and gave it to the installer. |
| 28 | | Big Apple's truck arrived at GBI's warehouse and picked up the order from January 27 th . |

Adjustment information as of January 31, not already given in the original transaction(s):

1. Based on prior experience, GBI estimates that approximately $\frac{1}{2}$ % of the net credit sales (gross credit sales minus returns of credit sales) for the month will become bad debt. GBI writes off bad debts as they occur and recognizes bad debt expense based on anticipated bad debts as an adjusting entry each month.
2. As a control measure, physical inventories are taken on a periodic basis alternating between the raw materials inventory, finished goods inventory and trading goods inventory. Physical inventory of the trading goods inventory was taken at the end of January. It was determined that the value of the **trading goods** merchandise on hand was \$40,710.
3. GBI counted the office supplies on hand after the close of business on the last day of the month and determined the cost of the unused office supplies to be \$620.
4. Production Machinery, Equipment and Fixtures were placed in service on January 1, 2008, are expected to last 15 years with no salvage value. The bar-code system has a 5 year life and no salvage value. GBI depreciates fixed assets on a straight-line basis and those assets acquired in the first half of the month are depreciated for the entire month, while fixed assets placed in service during the last half of the month are not depreciated until the second month. Depreciation is rounded to the nearest dollar and assets are depreciated on a monthly basis (i.e. number of days in the month is not of consequence).
5. GBI used the Internet to review the monthly charges for utilities the business consumed during January. Based on the internet report, the amount to be billed by the utilities company for January usage is \$1,046.
6. Liability insurance for the six month period ending on February 28 in the amount of \$15,000 was paid last August on the first of the month. Liability insurance is assumed to be utilized uniformly over the six month policy period.
7. GBI needs to recognize the wages expense for the month. Since all employees are paid salaries and no changes have been made, this amount is the same as the previous month salaries. (For purposes of this assignment, ignore manufacturing and assume all labor costs will be expensed.)

Assignment Submission

Save your Excel workbook with all four spreadsheets: General Journal, Trial Balance, Beginning Balances, and Chart of Accounts. Submit your Excel workbook to the D2L Dropbox prior to the due date.