

# *Thunder Mountain Snowmobile*

*4<sup>th</sup> Edition*

## *Introduction*

# *An Introduction To Thunder Mountain Snowmobile*

**Thunder Mountain Snowmobile** is a sole proprietorship, snowmobile sales and service operation owned by Zeke Martuski. Located at the base of Thunder Mountain near Lake Tahoe, California, Thunder Mountain Snowmobile is an exclusive dealer for Trail-Tracker Snowmobiles. The business also sells several other brands of snowmobiles and provides excellent service for all snowmobiles, including parts and labor. The business rents storage space to customers who prefer to keep their snowmobile equipment in the mountains and close to the trails. Owner Zeke Martuski is an avid winter sports enthusiast and is directly involved in trail and vehicle safety instruction. He participates regularly in snowmobile races as a sponsor and occasionally as a novice racer.

To complete the on-the-job training requirement for your accounting course, you have been placed in a four-week internship program with Thunder Mountain Snowmobile. You will be responsible for all of the accounting work from December 4 through December 31, 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 the business operations, and the closing of the books at the end of the fourth quarter. Since Thunder Mountain Snowmobile 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 correctly is to review the chart of accounts. **A clear understanding** of how certain accounts are used by Thunder Mountain Snowmobile **is required before you begin the recording process**. A detailed explanation of how several accounts are used in this accounting system follows on the next three pages. Pages 6 and 7 list the full **Chart of Accounts** and page 8 displays the **Customer List** and **Vendor List** with the account numbers used to identify these individuals and businesses when entering the transactions.

# *Chart of Accounts*

To properly enter the accounting transactions for **Thunder Mountain Snowmobile**, you will need to become familiar with the chart of accounts for the business. The business has **four** revenue accounts. **Snowmobile, Accessories & Parts Sales** and **Sales Returns and Allowances** record all transactions involving the sale and return of merchandise items. **Service Fees Earned** accounts for fees earned for servicing customer snowmobiles. **Sales tax (8%)** is charged on all merchandise and service sales. The revenue account **Storage Fees Earned** is adjusted at the end of each accounting period to reflect all of the storage fees **that have been earned**. The liability account **Unearned Storage Fees** is used to record all of the initial cash receipts for storage of customer snowmobiles and equipment. **Sales tax is not charged on storage fees.**

Thunder Mountain Snowmobile accepts both **bank** (Master Card and VISA) 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 **is not** recorded at the time of the sale.

For bank card charges, the business is charged a credit card fee (**1-4%**) which is recorded from a 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 Companies** being debited for the charge. This process maintains a record of all of the credit card company charges that are owed to Thunder Mountain Snowmobile until payment arrives from the credit card company. The credit card expense is recorded **when the cash is received from the credit card company**.

**Several accounts which require special attention are listed below:**

- 107    Accounts Receivable, Credit Card Companies** records all **company credit card** sales. The *Western National Credit Card Company* is the credit card company used in this business simulation. (All **bank card sales** (Master Card and VISA) are recorded as **cash sales**.)
- 111    Storage Fees Receivable** is used only for adjusting entries.
- 115    Merchandise Inventory** is the inventory account for all snowmobiles, accessories, and parts. Purchases of merchandise are recorded in the Purchases account.
- 121    Prepaid Insurance** is debited for the purchase of all insurance policies.
- 123    Prepaid Rent** is debited for rent payments made for more than one month in advance.
- 125    Prepaid Advertising** is used only for adjusting entries. All advertising costs are debited directly to the Advertising Expense account.

- 127**    **Store and Shop Supplies** is debited for all purchases of supplies.
- 205**    **Sales Tax Payable** records the **8% sales tax** that is charged for all merchandise sales, accessory and parts sales, and service sales. Sales tax is **not** charged on storage fees.
- 221**    **Unearned Storage Fees** is a liability account and is credited directly for all storage fees received in advance. Sales tax is not charged on storage fees.
- 305**    **Zeke Martuski, Withdrawals** is the owner's equity account debited for all cash and asset withdrawals from the business made by Zeke Martuski. At the end of each accounting period the account is closed into Zeke Martuski, Capital.
- 411**    **Service Fees Earned** is credited for all customer service and is billed at a rate of **\$60.00** per hour.
- 421**    **Storage Fees Earned** is adjusted at the end of the accounting period for all storage fees that **have been earned**. This adjustment is for all of the Unearned Storage Fees that have been earned by the end of the quarter.
- 501**    **Purchases of Merchandise** is the **Cost Account** debited for each purchase of snowmobiles, accessory items, or parts. No tax is charged on merchandise items that are purchased for resale. When the merchandise is sold to a customer the 8.0% sales tax is added to the retail selling price.
- 505**    **Transportation-In** is the **Cost Account** debited for all freight and delivery charges incurred in transporting merchandise to the Thunder Mountain Snowmobile receiving dock. **Deliveries to customers are charged to the Delivery Expense account.**
- 602**    **Store and Shop Supplies Expense** is used only for adjusting entries.
- 604**    **Advertising Expense** is debited directly for all advertising fees incurred. The account may require adjustment at the end of the quarter.
- 606**    **Delivery Expense** is debited for the delivery and freight charges incurred in shipping merchandise items to Thunder Mountain Snowmobile customers.

- 607 Credit Card Expense** accounts for the bank and company credit card fees charged to Thunder Mountain Snowmobile 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 when reported on the bank statement. Credit card charges for the use of company credit cards will be recorded when the cash payments are 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.** This adjusting entry will require a **debit to Credit Card Expense and a credit to Accounts Receivable, Credit Card Companies.**
- 608 Tools Expense** is debited for all small purchases of store and shop tools.
- 621 Rent Expense** is adjusted at the end of each quarter. Rental fees paid in advance for a period of more than one month are debited to the Prepaid Rent account.
- 622 Insurance Expense** is adjusted at the end of each accounting period. The payment of insurance premiums is debited to the Prepaid Insurance account.

When entering transactions in the Thunder Mountain Snowmobile 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. With the pointer at the account entry position, the account number can be entered manually or can be entered by clicking and selecting the appropriate account from the drop-down chart of accounts.

Special data entry procedures that will make your work very efficient have been built into the new Thunder Mountain Snowmobile accounting system. These procedures will be introduced and explained in detail in the first few entries that you journalize.

Detailed information on customer and vendor account activity and balances will be maintained automatically in the Accounts Receivable and the Accounts Payable ledgers. Information will be recorded in the system by identifying each customer or vendor/creditor by number. When accounts receivable or accounts payable is debited or credited in any transaction, the accounting system will ask for the customer or vendor/creditor number. When the transaction is posted, all of the subsidiary ledger information will be updated.

# **CHART OF ACCOUNTS**

## **ASSETS**

<b>101</b>	<b>Cash</b>
<b>102</b>	<b>Petty Cash</b>
<b>105</b>	<b>Accounts Receivable</b>
<b>107</b>	<b>Accounts Receivable, Credit Card Companies</b>
<b>109</b>	<b>Notes Receivable</b>
<b>111</b>	<b>Storage Fees Receivable</b>
<b>113</b>	<b>Interest Receivable</b>
<b>115</b>	<b>Merchandise Inventory</b>
<b>121</b>	<b>Prepaid Insurance</b>
<b>123</b>	<b>Prepaid Rent</b>
<b>125</b>	<b>Prepaid Advertising</b>
<b>127</b>	<b>Store and Shop Supplies</b>
<b>131</b>	<b>Store Equipment and Fixtures</b>
<b>132</b>	<b>Accum Depreciation, Store Equipment and Fixtures</b>
<b>135</b>	<b>Shop Equipment</b>
<b>136</b>	<b>Accumulated Depreciation, Shop Equipment</b>
<b>139</b>	<b>Trucks</b>
<b>140</b>	<b>Accumulated Depreciation, Trucks</b>

## **LIABILITIES**

<b>201</b>	<b>Accounts Payable</b>
<b>203</b>	<b>Notes Payable</b>
<b>205</b>	<b>Sales Tax Payable</b>
<b>209</b>	<b>Salaries &amp; Wages Payable</b>
<b>215</b>	<b>Interest Payable</b>
<b>221</b>	<b>Unearned Storage Fees</b>

## **OWNER'S EQUITY**

<b>301</b>	<b>Zeke Martuski, Capital</b>
<b>305</b>	<b>Zeke Martuski, Withdrawals</b>

## **REVENUE**

<b>401</b>	<b>Sales</b>
<b>402</b>	<b>Sales Returns &amp; Allowances</b>
<b>411</b>	<b>Service Fees Earned</b>
<b>421</b>	<b>Storage Fees Earned</b>

# **CHART OF ACCOUNTS**

## **COST OF GOODS SOLD**

<b>501</b>	<b>Purchases</b>
<b>502</b>	<b>Purchases Returns &amp; Allowances</b>
<b>503</b>	<b>Purchases Discounts</b>
<b>505</b>	<b>Transportation-In</b>

## **OPERATING EXPENSES**

<b>601</b>	<b>Salaries &amp; Wages Expense</b>
<b>602</b>	<b>Store &amp; Shop Supplies Expense</b>
<b>603</b>	<b>Truck Operating Expense</b>
<b>604</b>	<b>Advertising Expense</b>
<b>606</b>	<b>Delivery Expense</b>
<b>607</b>	<b>Credit Card Expense</b>
<b>608</b>	<b>Tools Expense</b>
<b>610</b>	<b>Depreciation Expense, Store Equipment &amp; Fixtures</b>
<b>611</b>	<b>Depreciation Expense, Shop Equipment</b>
<b>612</b>	<b>Depreciation Expense, Trucks</b>
<b>621</b>	<b>Rent Expense</b>
<b>622</b>	<b>Insurance Expense</b>
<b>623</b>	<b>Professional Services Expense</b>
<b>624</b>	<b>Electric and Gas Expense</b>
<b>625</b>	<b>Telephone Expense</b>
<b>627</b>	<b>Bank Service Charges</b>
<b>628</b>	<b>Cash Short &amp; Over</b>
<b>629</b>	<b>Miscellaneous Expense</b>

## **OTHER REVENUE**

<b>711</b>	<b>Interest Earned</b>
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## **OTHER EXPENSES**

<b>811</b>	<b>Interest Expense</b>
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## **INCOME SUMMARY**

<b>901</b>	<b>Income Summary</b>
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## **THUNDER MOUNTAIN SNOWMOBILE, INCORPORATED CUSTOMER LIST**

<b>Customer Number</b>	<b>Customer</b>
<b>10020</b>	<b>Alice Burger</b>
<b>10450</b>	<b>Bronze Lake Snowbusters</b>
<b>10670</b>	<b>Charles Chun</b>
<b>10700</b>	<b>Dream Snowmobile Club</b>
<b>10990</b>	<b>Charlene Hightower</b>
<b>11075</b>	<b>Robertta Jackson</b>
<b>11150</b>	<b>Barbara Kline</b>
<b>11220</b>	<b>Dwane Lyman</b>
<b>11370</b>	<b>Charles Nolanski</b>
<b>11460</b>	<b>Jack Novea</b>
<b>11500</b>	<b>Shasta Snowmobile Club</b>
<b>11710</b>	<b>Sierra Trackers</b>
<b>11725</b>	<b>Darin Young</b>
<b>11850</b>	<b>Zee Zee, Incorporated</b>

## **THUNDER MOUNTAIN SNOWMOBILE, INCORPORATED VENDOR LIST**

<b>Vendor Number</b>	<b>Vendor</b>
<b>20150</b>	<b>Ace Business Supply</b>
<b>21500</b>	<b>Dustin Supply</b>
<b>22900</b>	<b>Excell Sports , Incorporated</b>
<b>23600</b>	<b>Gayle &amp; Sons, Incorporated</b>
<b>24100</b>	<b>High Alpine Sports</b>
<b>27700</b>	<b>Prosser Meadows, Incorporated</b>
<b>28200</b>	<b>Star Bright Sports</b>
<b>28900</b>	<b>Timberline Snowmobile</b>
<b>29600</b>	<b>Trail-Tracker</b>



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

To properly and efficiently operate the computerized accounting system used by Thunder Mountain Snowmobile, you must be familiar with some basic business and account information and computer procedures. These procedures and details are summarized in the list below:

**Sales tax of 8.0%** is charged on all sales and labor. Sales tax is **not charged** on Storage Fees. When calculating sales tax, **round all amounts to the nearest cent** (\$2.5879 = \$2.59).

**Bank Card Sales are recorded the same as a cash sale.**

**Company Credit Card Sales** are recorded in the **Accounts Receivable, Credit Card Companies** account. **Credit Card Fees of 1-4%** will be assessed by banks and credit card companies for customer credit card charges. Bank credit card fees will be accounted for at the end of the month from 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 a rate of **\$60.00 per hour**. Where necessary, **round all calculations to the nearest cent**.

Thunder Mountain Snowmobile extends 30-day credit to all charge customers. **All balances that are over the 30-day credit period are considered past due.**

When **debits** equal **credits**, you will have a complete transaction to verify. If an error correction entry for cash requires a credit to cash and a check has not been issued, enter **ERROR** or **00000** as the check number.

You may terminate a journalizing session **at any time**. When you return to **Data Entry** at a later time, the last entry recorded will be displayed on the screen.

Go to the Log In screen of **PKL Software**. Select the **Thunder Mountain Snowmobile** button. **Before logging in**, move the pointer to the **Download Thunder Mountain Manual** button and click. Select **Part 1, Transactions for December 4-10**, and print the manuscript.