

Case Study 2: Managing Your Business

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Instructions:

1. Print and read the following case study.
2. On your own, complete the **Accounting Application** questions.
3. As a class, complete the **Class Interaction and Discussion** questions.
4. Optional: Complete the **Small Group Extension Activity** and **Internet Exploration and Research Activity**.
5. Complete the **Summary Questions**.

Objectives:

After completing the following case study, you will be able to:

- Explain the importance of understanding accounting if you are a small business owner
 - Prepare general journal entries for daily transactions
 - Describe the elements of a general journal entry
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Study Tips:

Complete this case study after Chapter 6, Glencoe Accounting, First-Year Course.
Approximate time to complete: 1 hour.

Overview:

According to the Internal Revenue Service, 17.6 million sole proprietorship tax returns were filed in 1999. But being a sole proprietor often means not only doing the work that produces income, but it also means taking care of the bookkeeping, marketing, public relations, and office records of the business. Owners need to pay attention to expenses, plan cash flow, buy insurance, hire employees, and keep track of the competition.

How do sole proprietors take care of their businesses and serve their customers too?

- Judee Levinson, who started her own law practice, has learned to set aside one day per month just to send out bills and record her accounts receivable. She pays a referral service to handle some of her marketing efforts and she hands out business cards every chance she gets.
- Joseph Trammell, a refurbisher of furniture, markets his business by spending one day each week introducing himself to local insurance agents who, in turn, may give him referrals.
- Tim Anfinson, a cabinetmaker, pays an outside accountant to handle his bookkeeping and relies on recommendations from customers and suppliers to maintain a steady stream of work.

Have you ever thought about operating your own business? What kind of business would it be? Would you hire an outside accountant to handle your bookkeeping? A solid understanding of accounting and financial recordkeeping can help you make an informed decision about who you trust with your financial welfare and ensure that your accounting records are maintained properly.

Accounting Applications:

Instructions: Now that you have reviewed the case study above, answer the following questions on your own.

1. You are the owner of a computer repair business and have hired a contract bookkeeper. At the end of the first month, you deliver your checkbook stubs, receipts, and invoices for the month to the individual. You provide the following list of accounts.

Chart of Accounts (partial)

Assets

Cash in Bank
Computer Equipment
Computer Repair Tools
Office Supplies

Equity

Owner's Capital
Owner's Withdrawals

Revenue

Sales

Expenses

Rent Expense
Utilities Expense

You ask for a copy of the general journal page after the transactions are journalized. What items would you look for in reviewing this page?

2. An entry on October 2 uses ASSETS as the description for both the debit and credit, and the source document is recorded as Check 1445. What is your reaction to this entry?

3. You know that Check 1445 was written to buy computer repair tools. The check was for \$376. What is the journal entry to record this transaction? Use page 4 of the general journal.

GENERAL JOURNAL						PAGE <u>4</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12
13						13
14						14
15						15
16						16

4. You made a deposit on October 10 for a customer who paid cash for a box of diskettes, \$15, Receipt 98. What is the correct journal entry to record this transaction? Use page 5 of the general journal.

GENERAL JOURNAL						PAGE <u>5</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12
13						13
14						14
15						15
16						16

5. Your rent is due on the 15th of every month. The bookkeeper should write Check 1446 for \$700 to your building management company, FirstLine Properties. What journal entry should be made for this transaction? Use page 6 of the general journal.

GENERAL JOURNAL						PAGE <u>6</u>
DATE	DESCRIPTION	POST. REF.	DEBIT		CREDIT	
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
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6. You discover a receipt in your car for office supplies that you bought with your personal cash. It is Receipt 45926 from Office Depot for \$19.57, dated October 21. You forgot to give it to the bookkeeper. You call to say you'll fax it over. What entry should the bookkeeper make for the receipt? Use page 7 of the general journal.

GENERAL JOURNAL						PAGE <u>7</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1					1	
2					2	
3					3	
4					4	
5					5	
6					6	
7					7	
8					8	
9					9	
10					10	
11					11	
12					12	
13					13	
14					14	
15					15	
16					16	

Class Interaction and Discussion:

Instructions: Read the following questions. As a class, discuss your responses.

Discuss with your teacher and class the idea of starting your own business. Consider the following:

- Have you ever imagined that you'd like to work for yourself and own your own business?
- Would you need to hire other employees?
- Why would you like the idea of working for yourself?
- What disadvantages would there be?
- If you hire an outside accountant to do the bookkeeping, why would you still need to understand accounting concepts?

Optional Small Group Extension Activity:

Instructions: Break into small groups of three or four students. Discuss your answers to the following questions.

1. Discuss ideas for opening a new business. Decide on one business and write the journal entry that would establish an initial investment of cash or equipment by the owner. Use today's date.

2. Each group should be able to explain its journal entry.

Optional Internet Exploration and Research Activity:

Instructions: Use the Internet to research the following activity.

As a small business owner, you will probably have to invest in a commercial accounting software package. There are several on the market that are easy to use and affordable. Using your favorite search engine, research accounting software products and answer the following questions.

1. Write a brief description for two kinds of accounting software packages suitable for the small business owner. Include the price and features of the software.

Summary Questions:

1. What are source documents?

2. What is a general journal?

3. What are the elements of a general journal entry?
