

ANSWERS TO QUESTIONS

1. (a) An accounting information system collects and processes transaction data and communicates financial information to decision makers.
(b) Disagree. An accounting information system applies regardless of whether manual or computerized procedures are used to process the transaction data.
2. There are three principles for developing an accounting information system:
Cost effectiveness. The system must be cost-effective; that is, the benefits obtained from the information must outweigh the cost of providing it.
Useful output. To be useful, information must be understandable, relevant, reliable, timely, and accurate.
Flexibility. The system should accommodate a variety of users and changing information needs.
3. Common features of a computerized accounting package beyond recording transactions and preparing financial statements are: easy data access and report preparation; audit trail, internal controls, customization; and network compatibility.
4. ERP systems go far beyond the functions of an entry-level general ledger package. They integrate all aspects of the organization, including accounting, sales, human resource management, and manufacturing.
5. A subsidiary ledger is a group of accounts with a common characteristic. The accounts are assembled together to facilitate the accounting process by freeing the general ledger from details concerning individual balances. The advantages of using subsidiary ledgers are that they:
 - Show in a single account transactions affecting a single customer or single creditor, thus providing up-to-date information on specific account balances.
 - Free the general ledger of excessive details relating to accounts receivable and accounts payable. As a result, a trial balance of the general ledger does not contain vast numbers of individual account balances.
 - Assist in locating errors in individual accounts by reducing the number of accounts in one ledger and by using control accounts.
 - Permit a division of labor in posting by having one employee post to the general ledger and (a) different employee(s) post to the subsidiary ledgers.
6. (a) (1) Transactions to subsidiary accounts are generally posted daily.
(2) In contrast, postings to the control accounts are usually made in total at the end of the month.
(b) A control account is a general ledger account that summarizes subsidiary ledger data. Subsidiary ledger accounts keep track of specific account activity (i.e., specific debtors or creditors). A subsidiary ledger is an addition to, and an expansion of, the general ledger.

Questions Chapter 7 (Continued)

7. Sales journal. Records entries for all sales of merchandise on account.
Cash receipts journal. Records entries for all cash received by the business.
Purchases journal. Records entries for all purchases of merchandise on account.
Cash payments journal. Records entries for all cash paid.

Some advantages of each journal are given below:

- Sales journal. (1) Since the sales journal employs only one line to record a Sales transaction, its use reduces recording time; (2) the column totals are only posted to the general ledger once an accounting period; and (3) the journal's use separates responsibilities between employees.
- Cash receipts journal. (1) Its use aids in the posting process since the totals for Cash, Sales Discounts, Accounts Receivable, and Sales Revenue are all recorded in the general ledger only at the end of the month; and (2) it allows all accounts receivable credits to be posted to the appropriate subsidiary ledger accounts daily.
- Purchases journal. The advantages are similar to those of the sales journal except that items involved are Inventory debits and Accounts Payable credits.
- Cash payments journal. Similar advantages to cash receipts journal except the columns involved are different.

In general, special journals: (1) allow greater division of labor because various individuals can record entries in different journals at the same time; and (2) reduce posting time of journals.

8. The entry for the sales return should be recorded in the general journal. Since Thogmartin Company has a single-column sales journal, only credit sales can be recorded there. A purchase by Thogmartin Company has not taken place, so the use of the purchases journal is inappropriate. Finally, no cash is received or paid, so neither the cash receipts or cash payments journal should be used.
9. At the end of the month, after all postings to both the general ledger and the subsidiary accounts have been made, the total of the subsidiary account balances should equal the balance of the control account in the general ledger. In this case, the control account balance will be \$450 larger than the total of the subsidiary accounts.
10. The purpose of special journals is to facilitate the recording process of the business entity. Therefore, the columns included in any special journal should correspond to the unique needs of the entity. In particular, one type of business which might not require an Accounts Receivable column would be grocery stores. These businesses rarely sell on credit to their customers. The minimum frequency of the transaction implies no need for an Accounts Receivable column in the cash receipts journal.
11. (a) No, the customers' ledger will not agree with the Accounts Receivable control account. The customers' ledger will be posted correctly, but the Accounts Receivable control account will be incorrect.
(b) The trial balance will balance, although Cash will be \$4,000 too high and Accounts Receivable \$4,000 too low.
12. The special journal is the sales journal. The other account is Sales Revenue. (The cash receipts journal is an incorrect answer because there would be more than two month-end postings to general ledger accounts.)

Questions Chapter 7 (Continued)

13. (a) General journal. (d) Sales journal.
(b) General journal. (e) Cash receipts journal.
(c) Cash receipts journal. (f) General journal.
14. (a) Cash receipts journal. (d) Purchases journal.
(b) Cash receipts journal. (e) General journal.
(c) General journal. (f) Cash payments journal.
15. Typically included would be credit purchases of equipment, office supplies, and store supplies. However, any other item purchased on credit could also be included in a special column or the "other" column.
16. One such example is a purchase return. Here the Accounts Payable control and subsidiary account must be debited for the same amount. The debit/credit equality is unaffected since the balance sheet equation is computed using general ledger (control) accounts only. The subsidiary accounts should prove to the control account balance.
17. The general journal may be used to record such transactions as the granting of credit to a customer for a sales return or allowance, the receipt of credit from a supplier for purchases returned, acceptance of a note receivable from a customer, or the purchase of a plant asset by issuing a note payable. In addition, all correcting, adjusting, and closing entries should be made in the general journal.