SHELDON SHIRTS

Company Overview

Sheldon Shirts is a producer of high-quality men’s shirts, which it sells mostly through department stores throughout the country. Although its name is not well known, since the majority of its products are branded using proprietary store labels, it is one of the leading firms in its field.

The company was started in 1948 when twin brothers Tom and Bob Sheldon went into business together on leaving the army. Although Tom and Bob both retired in 1990, and died in 1997 and 1998 respectively, the company is still a family-owned business, managed by the children and grandchildren of its founders. Tom’s eldest son, Peter, is Chairman and Chief Executive Officer, and his brother, Paul, is Chief Operating Officer. Their cousin, Mary Thompson, Bob’s only child, is Chief Financial Officer. These three second-generation owners sit on the Board, together with Peter’s two daughters, Angela and Melanie, who serve respectively as Sales Director and Purchasing Director, and Mary’s son Clark, who serves as the Personnel Director. Until recently, Paul’s son Colin has been studying full time for an MBA; now, however, he has just joined the Board of the family business as Chief Information Officer, with the mission of developing and installing new accounting information systems to replace the largely manual systems that have been in operation since the 1970s.

All of the company’s activities are centralized at a single facility in Edison, NJ. The company employs approximately 100 machine operators who actually manufacture and package the shirts for sale, under the supervision of 10 shift leaders. Sheldon Shirt’s market largely demands fairly traditional designs, and the company does not employ a design staff. Occasionally, however, freelance designers are commissioned to design special items. In addition to the machinists and shift leaders, the company employs three salespersons, two purchasing clerks, an inventory manger (Dave Mullins), three warehouse operators, two receiving clerks, three shipping clerks, a production manager (Fred Carter), two payroll clerks, a controller (Jose Gomez), a bookkeeper (Jane Allison), a cashier (Paul Anderson), three accounts receivable clerks, and two accounts payable clerks.

As a budgetary control mechanism, several different cash accounts are maintained and used for different purposes in the business, with Jose Gomez being responsible for moving money between them as needed. For instance, fixed assets are not purchased out of the regular cash account used for material purchases, cash receipts are not directly paid into the accounts used for payments, and interest-bearing accounts are used whenever possible to hold cash reserves.

The organization chart below shows the various reporting relationships of the staff as of the beginning of the current year.
**Products**

Sheldon Shirts produces 16 different standard styles of shirt, based on fit (standard or tailored), five different collar designs (wide spread, medium spread, traditional point, narrow point, button down), and cuff style (barrel or French). They are offered in a choice of 10 collar sizes (14 through 18½), three sleeve lengths (short, regular and long), three materials (cotton, cotton/polyester blend, or silk), and 12 combinations of pattern and colors (e.g., white and blue medium stripe).

**Customers**

Most customers are well-known large department stores, although a few are menswear specialists or smaller stores. Some customers order centrally for delivery to local branches, while others also order locally. One or two require delivery to a central warehouse and distribute goods using their own distribution systems. Almost all have centralized payment systems. Deliveries are made using third-party shipping companies such as FEDEX, UPS, etc.
Operating Procedures

Materials Acquisitions

Each Monday morning, Fred Carter prepares a Production Schedule for the following week, based on inventory levels, open orders on file in the warehouse, and his experience of prior production statistics. A copy of this schedule is passed to Dave Mullins, who uses it in conjunction with the Inventory Subsidiary Ledger to determine future inventory requirements; copies are also sent to the shift leaders. A Requisition for all the items that need to be ordered is created by Dave, who files his copy chronologically, and sends copies to Fred Carter and to the purchasing clerks.

Silks are purchased from importers in New York, but other raw materials are purchased from U.S. manufacturers. These include cotton and cotton/polyester blend fabrics, thread, buttons, pre-printed labels, collar stiffeners, and packaging materials. Melanie Sheldon maintains a list of approved vendors that she has developed over a period of years, based on quality of product, service, reliability, and prompt delivery schedules. The purchasing clerks use this to prepare Purchase Orders from the Requisitions, which are then mailed to vendors. All items are ordered within the week that they are requisitioned, in order to minimize the potential for production delays due to shortages of materials. As yet, Sheldon Shirts has no EDI or e-procurement capability. Two copies of each Purchase Order are sent to Dave Mullins, and another copy is sent to the accounts payable clerks; a fifth copy is filed numerically along with the relevant Requisition. Dave Mullins files one copy with his original Requisition, and passes the other to the receiving clerks. As part of her vendor approval process, Melanie has negotiated preferred customer discounts with many vendors, which are accounted for in prices negotiated with vendors. As a result, Sheldon Shirts does not receive volume purchase discounts. When they are not working on creating Purchase Orders, the clerks follow up late deliveries with vendors, and assist Melanie Sheldon in other tasks, including researching possible vendors to be added to the approved list.

All vendors use their own fleets of delivery trucks. When materials are received, the receiving clerks check details of the vendor and materials against the Purchase Order, and inspect and count the materials. On the rare occasions they occur, deliveries of faulty goods are rejected. The clerks record each delivery, including details of any faulty goods, or short or part deliveries, on a Goods Received Form, which they sign. One copy of the Goods Received Form is attached to the Purchase Order and then filed by date of receipt, another is sent to Dave Mullins, and a third is passed to the accounts payable clerks. Dave uses his copy to update the Inventory Subsidiary Ledger, and to generate a Journal Voucher summarizing the inventory received that day, which he sends to Jane Allison for posting to the General Ledger. He then files the Goods Received Form with the appropriate Requisition. It is also Dave’s responsibility to notify Melanie Sheldon of faulty goods, or short or part deliveries; she negotiates directly with the vendors to rectify such problems. Materials that have been inspected are handed over to the warehouse operators who are responsible for storing them in the appropriate locations throughout the warehouse.

Peter, Paul, and Mary take turns in opening the incoming mail each day. Any invoices received from vendors are passed to the accounts payable clerks, who match them with the copies of the Purchase Order and the Goods Received Form that they have received, confirm that details are correct, post details of amounts due to the Accounts Payable Subsidiary Ledger, and file the document set chronologically by due date. At the end of each day, they prepare a Journal Voucher summarizing all invoices received that day, which they send to Jane Allison for posting to the General Ledger. All the vendors approved by Melanie invoice
each shipment separately. Due to fabric-dyeing lead times, however, vendors may sometimes ship materials from several orders together.

Each Friday, the accounts payable clerks prepare checks for all vendor invoices due to be paid the following week, which they send to Jose Gomez, together with all the supporting documentation and a Journal Voucher summarizing the payments to be made. One combined check is sent when several invoices from the same vendor are due in the same week. However, Sheldon Shirts is an important customer for each of its vendors, and has adopted a policy of not making part payment. Any invoices subject to dispute (perhaps because of faulty or short deliveries) are held back until outstanding issues are resolved. Jose determines that the checks are correctly made out and that the goods have been received, are in usable condition, and correspond to items ordered for the purposes of the business. He then signs the checks, stamps the vendor invoices using a “PAID” stamp (to avoid duplicate payment), and mails the checks to the vendors. He also initials the Journal Voucher and passes it to Jane Allison, who uses it to post the General Ledger. When he has finished with the supporting documents, he returns them to the accounts payable clerks for filing in chronological sequence after they have updated the Accounts Payable Subsidiary Ledger.

**Fixed Assets**

Fixed assets acquisition is procedurally very similar to materials acquisition. The company operates at a single factory location in Edison that has been used since the company was founded. Machinery typically has a long service life, although machines do have to be replaced from time to time, as do the forklift trucks used in the warehouse, and other large office equipment items such as Xerox machines. All fixed assets purchases are first approved and minuted as such by the Board. Mary Thompson then prepares a Capital Expenditure Authorization Form, which is signed by her and counter-signed by Peter Sheldon. It is then passed to Melanie Sheldon, who supervises the ordering by her clerks, and signs the Purchase Order personally. When items are received, they are processed in the same way as normal receipts, except that Fred Carter carries out the inspections and also signs the Good Received Forms, and Mary Thompson signs the checks personally. Jose Gomez computes the acquisition cost of each Fixed Asset manually from vendors’ invoices as necessary. Fixed assets are depreciated monthly, except in the month of disposal, based on the recorded depreciation method, expected life and salvage value for each asset. When Fixed Assets are no longer useful, or the Board has decided to replace them, Fred Carter arranges disposal to one of a number of local dealers, as authorized by Paul Sheldon. Any proceeds from disposal are subsequently received as checks and banked in the same manner as Sales remittances. Jose Gomez maintains a Fixed Asset Register in which he records acquisitions, depreciation, disposals and their proceeds. Each month he prepares a Journal Voucher recording depreciation, as well as Journal Vouchers in respect of disposals and disposal proceeds, which he passes to Jane Allison for posting to the General Ledger.

**Services**

Services (e.g., insurance, advertising, etc.) are typically ordered informally by Paul Sheldon, often by telephone, though sometimes by letter or contract negotiation. Agreed service details are subsequently communicated to Jose Gomez on a Service Commitment Form; Paul files a copy alphabetically by service and provider, while Jose files his copy by date of issue. When the service involves a long-term contract (e.g., for electricity, water), a Service Commitment Form is generated when the service begins and when any change is made to the contract, but no separate order is recorded for individual service periods. The formal system then continues with the receipt of invoices for services, which are processed for payment in the regular way.
Jose Gomez is responsible for confirming prior to payment that services have been satisfactorily completed and received.

**Production**

Sheldon Shirts manufactures for inventory rather than to satisfy specific customer orders. The shift leaders create three-copy sets of Job Sheets based on Fred Carter’s Production Schedule, on which they assign various machinists to the different stages of production of each Job: cutting, sewing (including collar stiffeners, buttons and labels), or packing the shirts. The Job Sheets, one set for each individual item scheduled for production, also show which machines are to be used, and what materials will be required. One copy of each Job Sheet is sent to the warehouse operators, who are responsible for delivering the materials from the warehouse to the various machine stations at which they will be used when the Jobs are produced the following week. The warehouse operators complete a Materials Issue form for each item removed from inventory. One copy is retained in the warehouse, filed numerically; copies are sent to Dave Mullins and Fred Carter. Dave uses his copy to update the Inventory Subsidiary Ledger, and to prepare a Journal Voucher that he sends to Jane Allison to be recorded in the General Ledger. He files his copy in numerical sequence. Fred Carter distributes his copies to the shift leaders, who attach them to their copies of the relevant Job Sheets.

As each stage of production is completed, the shift leader responsible inspects the work and signs the Job Sheet accordingly. Completed Job Sheets are filed numerically, and the remaining copies are sent to Jose Gomez. Each day, every machinist completes a two-part Time Sheet recording the time spent on each Job that day, which is signed as approved by one of the shift leaders. One copy is sent to the payroll clerks, and the other to Jose Gomez. Jose files all his copies of production documents numerically.

Although Raw Materials and Finished Goods are maintained on perpetual inventory systems, Work In Progress currently is not. Work In Progress at the end of each period is usually limited to a few days production only, and is calculated manually by Jose Gomez on the basis of completed Time Sheets and inspection of the incomplete Job Sheets held by the shift leaders, together with their attached Materials Issue forms. However, it is anticipated that the new system will generate a daily Work In Progress ledger.

When production of each Job is complete, the warehouse operators are called to collect the finished shirts, which are packed in boxes containing a dozen shirts each, for storage in the warehouse; they create a Finished Goods Inwards Docket recording the items stored. One copy of this docket is filed numerically in the warehouse, a second is sent to Dave Mullins who uses it to update the Finished Goods Subsidiary Ledger and to prepare a Journal Voucher to be sent to Jane Allison, and a third copy is sent to Jose Gomez.

One of Jose Gomez’s responsibilities is to reconcile the Job Sheets (with attached Materials Issue forms), Time Sheets, and Finished Goods Inwards Dockets, and to investigate any discrepancies. Jose maintains the costing records. Finished goods are recorded at an estimated standard cost based on prior year’s activity and experience, and Jose makes adjustments for actual costs at the end of each period. Jose prepares any necessary Journal Vouchers for Jane Allison to update the General Ledger.

**Sales**

Normally sales orders are received via written Purchase Orders from the purchasing departments of customers, who are typically large department stores. Occasionally, urgent orders are received by telephone – in which case, salespersons may consult Angela Sheldon before accepting them. In either case, accepted orders are recorded on a Sales Order.
document. The top copy is mailed to the customer as confirmation, and three more copies are
passed to Angela Sheldon; a final copy is filed numerically by the salespersons. Angela is
responsible for canceling orders that exceed credit limits; otherwise, she sends the copies of
the Sales Order to the warehouse clerks, the shipping clerks, and the accounts receivable
clers. Although most large customers order shirts in whole dozens, Sheldon Shirts accepts
and fulfills orders for any quantity.

The warehouse clerks collect the items from their warehouse locations, box them, and prepare
a Packing Slip. They file the Sales Order together with a copy of the Packing Slip in numerical
sequence, and deliver the shirts, along with two further copies of the Packing Slip, to the
shipping clerks.

The shipping clerks collate the Packing Slips with their copy of the Sales Order, check the
contents of the box, prepare a five-part Bill of Lading, seal the boxes (including one of the
Packing Slips), and arrange collection of the package by FEDEX or UPS. One copy of the Bill
of Lading is sent to the customer fastened to the outside of the box containing the goods, one
is transferred to the freight company agent when the goods are collected, one is sent to Dave
Mullins, one is sent to the accounts receivable clerks, and the last copy is filed numerically
with the Packing Slip and the Sales Order.

Dave Mullins uses the Bill of Lading to update the Finished Goods Subsidiary Ledger, and to
prepare a Journal Voucher at the end of the day that he sends to Jane Allison.

When the accounts receivable clerks are notified by receipt of the Bill of Lading that goods
have been shipped, they match the items with the Sales Order and notify Angela Sheldon of
any problems. Sheldon Shirts carries a stable and well-established product range and is fairly
successful at predicting future order levels. It also carries a reasonably large inventory.
Consequently, stock outages are rare. If they do occur, however, Sheldon Shirts will make
part-deliveries and back-order remaining items unless the customer has expressly requested
otherwise. In this case, as a courtesy to customers, Sheldon Shirts has a policy of not invoicing
until the order is complete. Since production is scheduled weekly, this is not usually a
significant delay. Any back-ordered items are shipped immediately they are available, and are
not combined with shipments of other orders. As a result, each shipment contains items from
a single order.

The accounts receivable clerks prepare Sales Invoices for the goods shipped when orders are
complete. A copy is mailed to the customer together with a copy that serves as a Remittance
Advice. A third copy of the Invoice is used to update the Accounts Receivable Subsidiary
Ledger and to prepare a Journal Voucher at the end of each day summarizing all the invoices
issued. The copy Invoice is filed numerically together with the Sales Order and the Bill of
Lading. The Journal Voucher is sent to Jane Allison.

The director opening the mail endorses any checks, and prepares a pre-list of all checks
received. Copies of this pre-list are sent to Jose Gomez, Jane Allison, the accounts receivable
clers (together with the Remittance Advices), and Paul Anderson (along with the checks).
The accounts receivable clerks file their copies chronologically after using the Remittance
advises to update the Accounts Receivable Subsidiary Ledger.

Jane Allison creates a Journal Voucher from the pre-list, attaches the pre-list to it, posts the
General Ledger (debiting one of the company’s cash accounts), and files the documents
chronologically.

Paul Anderson prepares a deposit slip from the pre-list, deposits the checks at the bank, files
the pre-list by numerical sequence, and passes a copy of the deposit slip stamped by the bank
to Jose Gomez. His other duties include correspondence with banks, physical control of
unused checks and used check stubs, and administrative assistance to Jose Gomez. He also maintains a small Petty Cash fund for incidental expenses on an imprest system.

Each day, Jose Gomez compares the stamped deposit slips with the pre-list totals. Once a month, he reconciles movements on the cash accounts in the General Ledger with statements received from the bank, deposits slips, and check stubs. He is also responsible for arranging transfers between bank accounts with the bank. He prepares Journal Vouchers summarizing any such transfers, which are subsequently posted by Jane Allison.

With Angela Sheldon’s approval, customers are sometimes permitted to return faulty or unwanted goods (perhaps because of over ordering or duplicate orders). Any such items are received by the receiving clerks, who prepare a Returned Goods Slip showing the items returned and their condition. Copies of this slip are sent to Angela Sheldon and to Dave Mullins. Faulty goods are disposed of, and unopened goods in perfect condition are returned to inventory. Dave Mullins uses the Returned Goods Slips to update the Finished Goods Subsidiary Ledger and to prepare a summary Journal Voucher that is then sent to Jane Allison.

Angela Sheldon may also occasionally agree to provide a customer with an allowance for faulty goods without requiring the customer to return them. In this case, she prepares a Credit Note for the agreed amount. She files a copy in her office in numerical sequence, and sends a copy to the accounts receivable clerks. For returned goods, she also generates a Credit Note, attaches it to her copy of the Returned Goods Slip, and files them together. A copy of the Credit Note is again sent to the accounts receivable clerks. The accounts receivable clerks use the Credit Notes to update the Accounts Receivable Subsidiary ledger and to create a summary Journal Voucher, which they send to Jane Allison.

**Human Resources Management**

Sheldon Shirts has had a largely stable workforce, and many of the machinists are relatives or friends of each other. Recruitment is primarily conducted via occasional advertisements in local newspapers or, frequently, relies on referrals from existing employees; recruiting activities remain informal, infrequent, and undocumented. Similarly, job interviews are conducted as necessary by Clark Thompson, but are not formally documented. The decision to hire any new staff member is made by Clark and documented on an Employee Record Form showing personal details, date hired, initial salary or hourly wage, regular expected availability (for machinists), etc. Clark files this form alphabetically by employee name, and sends a copy to the payroll clerks. After updating payroll records as necessary, the clerks file this copy chronologically. The same form is used to document changes in personal details or availability. Similarly, an Employee Termination Form is used in the same manner when employees resign, retire, or are dismissed; it is filed attached to the Employee Record Form.

There is no formal training program in place for staff positions, although staff members are occasionally sent on third-party training courses on an *ad hoc* basis, which are ordered and paid for in the same way as other services. However, periodic in-house training courses are conducted for machinists, by one or two of the shift leaders. These begin with an orientation course for new employees, which includes instruction on packing shirts; all new employees start with this. Subsequent courses on various cutting and sewing skills are offered, typically for groups of about five machinists at a time, as required.

Machinists are paid based on the number of hours worked as recorded on their signed Time Sheets. All other employees, including shift leaders, receive a monthly salary. Monthly paid employees are hired with no planned termination date, but employment terms provide for one month’s notice by either party, or termination for cause. Hourly rates are determined each year by the Board based on Clark Thompson’s recommendations, as are salary increases.
Following Board approval, Clark prepares an internal memorandum notifying the payroll clerks of the agreed rates and salaries.

The payroll clerks determine hourly payroll each Friday by multiplying hours worked by the agreed rates. The necessary deductions for all employees are also calculated, and a Payroll Register is produced showing, for each employee, the calculations of gross and net pay. One copy is filed chronologically, and is another passed to Clark Thompson for review. He signs this copy to show his approval and passes it to Jose Gomez. The payroll clerks also produce a Journal Voucher for the total payroll, which is sent with the Payroll Register for approval by Clark, who then passes it on to Jane Allison to journalize the General Ledger.

Checks are drawn on an imprest account (i.e., a bank account used only for payroll) by the payroll clerks, and passed to Jose Gomez for signature. Jose is responsible for ensuring that the checks are in accordance with the approved Payroll Register (which he then files chronologically), for transferring the total amount for the payroll checks into the imprest account from one of the regular bank accounts, and for sending Jane Allison a Journal Voucher recording this transfer. He returns the checks to the payroll clerks for distribution to employees. When all the payroll checks have cleared, of course, the balance of the imprest account will again be zero.

Performance evaluations are completed by Clark Thompson twice a year; they are intended to enhance employee commitment and motivation, to identify the need for additional training, to assist in future hiring decisions, and as a basis for determining raises. Clark records each evaluation on a Performance Evaluation Form; the signed original is given to the employee, and a copy is retained by Clark and filed as an attachment to the appropriate Employee Record Form. The directors review the Performance Evaluations together annually, as part of the procedure used in determining appropriate salary increases.

**Finance**

The only source of outside finance utilized by Sheldon Shirts is occasional loans from investors. Each such loan is negotiated by Mary Thompson with a current (fixed) interest rate and a final due date. No formal record is kept of inquiries or negotiations that do not eventually result in agreed loans, but Mary communicates details of each successfully negotiated loan to Jose Gomez via an internal memorandum. Funds received via such loans are recorded as loans received instead of cash receipts on the pre-list of checks received; they are deposited into one of the cash accounts in the normal way, and recorded as loans received in the General Ledger by means of the Journal Voucher prepared, posted and filed by Jane Allison. Separate monthly checks for each individual loan are disbursed to the investors, covering interest payments and principal reduction. These checks are prepared by Jose Gomez, and signed by Mary Thompson herself. Jose Gomez prepares a Journal Voucher summarizing all the month’s loan payments and interest, which is then passed to Jane Allison, who uses it to post the General Ledger.

**General Ledger**

All Journal Vouchers received by Jane Allison are stamped “POSTED” and filed in a single chronological sequence after the appropriate General Ledger Accounts have been posted. Jane prepares a trial balance at the end of each period, which she passes to Jose Gomez. Jose prepares draft Financial Statements for submission to Mary Thompson.

Copies of documents whose disposition is not specified may be assumed to be filed chronologically by the person last having possession of them.