Company Overview

College Computing is a company that assembles and sells computers. Its business is to assemble units according to users’ specifications, which are sold from its store located in downtown New Brunswick, New Jersey, as well as by telephone. The quality of their computers is well known among students at Rutgers University, who recommend the store. Sales have increased due to significant advertising in newspapers and on local radio stations. College Computing also has a prominent sign in the New Brunswick train station.

The company is owned and managed by two partners, Nick Hunter and Chris Fisher. After finishing their master’s degrees in Computer Science in 2000, they decided to start a local business together. Nick is in charge of Administration, Sales and Finance, and Chris is in charge of Production, Inventory and Personnel. Although familiar with a wide range of information technologies, they have no formal business or management training, and they are using only spreadsheets to help them with a manual accounting system. A former classmate, Colin Sheldon, who after graduating with a bachelor’s degree in Computer Science decided to pursue an MBA degree at the Rutgers Business School, has recently agreed to join their business partnership as Information Officer. He is planning to develop and install a new accounting information system to replace the existing manual procedures, to avoid redundant paperwork and to make the business processes operate more efficiently.

The company is located in New Brunswick in a building that Nick and Chris purchased in 2000 when they decided to start the business. At any one time, they employ approximately 10 students who work part time and are responsible for assembling and testing computers and installing programs, under the supervision of Chris. In addition to these technicians, the company has seven employees with the following responsibilities:

- John Brewer and Amy Cooper: salespersons handling in-store and telephone sales
- Rachel Cook: part time bookkeeper, also responsible for payroll
- Carole Baker: part time clerk in charge of accounts payable and accounts receivable
- Martin Scrivener: part time controller also responsible for purchasing
- Penny Teller: part-time cashier
- Andy Porter: part time employee responsible for delivering computers to customers and picking up components from various vendors.

As a budgetary control mechanism, several different cash accounts are used for different purposes in the business, with Martin Scrivener 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.

**Organization Chart**

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**Products**

College Computing assembles microcomputers in accordance with its customers' specifications. It also installs operating and application software. Computers assembled by College Computing are attractive to customers since, rather than purchasing the very latest computer hardware at top prices (which would provide features and specifications that go beyond their short-term needs), they can acquire custom-designed computers that precisely meet their needs, assembled from reliable but more reasonably-priced components, which can then be updated as their needs change at any time in the near future.

**Customers**

Most customers are students from Rutgers University, although there are also small and medium-size business customers in the area who buy from College Computing. Computers are usually picked up from the store when they are ready, but College Computing can also deliver them using a van it owns, charging a reasonable delivery fee. Customers generally pay 50% of the cost of a machine up front as a deposit when ordering, and the balance when they pick up the computer or take delivery. When the computers are ready, the customers are contacted and are offered two alternatives: they can collect the machine themselves and pay the remaining 50%, or they can have the computer delivered by van, in which case they must give the check and Remittance Advice to the delivery person. Local business customers (not individuals) who have prior business connections with College Computing are also permitted to make the final payment by mail within 30 days of receiving an Invoice following delivery.
Operating Procedures

Materials Acquisition

Twice a week (on Tuesday and Friday evenings) Chris Fisher determines production requirements. Based on the Sales Orders received from customers, he makes a Production Schedule for the following days showing what is to be produced, and a Work Schedule identifying which technicians must be called to work, according to the students’ current availability as previously notified to him. He also determines the items that need to be ordered to complete the computers to be assembled, and creates two copies of a Requisition; one is sent to Martin Scrivener and the other is filed chronologically.

Components are purchased either directly from U.S. manufacturers, or from retail stores. These components include (among others) motherboards, cables, switches, routers, microprocessors, hubs, disk drives, CD and DVD drives, multi-card readers, monitors, memory chips and keyboards. Chris maintains a list of approved vendors, which he updates with new vendors and new components released, based on price, quality of product, and prompt delivery schedules.

Using the Requisitions, Martin Scrivener checks vendor prices and availability, and prepares Purchase Orders, which are mailed to the vendors. When small items are bought locally, the order is first placed by telephone, and Andy Porter picks them up in person and brings them to the store, instead of waiting for shipment. Frequently used items are ordered when quantities on hand reach a minimum request level, while more uncommon items are ordered as and when needed. A copy of each Purchase Order is sent to the accounts payable clerk, a second copy is sent to Chris who files it until the parts are received, and a third copy is filed numerically along with the relevant Requisition. As part of his vendor approval process, Chris has negotiated customer discounts with many vendors, which are accounted for in prices negotiated with vendors. Due to the rapid obsolescence of components, College Computing usually purchases small quantities; therefore, College Computing does not receive volume purchase discounts.

College Computing expects vendors to ship the components immediately and not to combine different orders. When materials are received, either Nick Hunter or Chris Fisher inspects and counts them, annotates Chris’s copy of the Purchase Order with details of any faulty goods, or short or part deliveries, and counter-signs it. A Xerox copy of the counter-signed Purchase Order is made and sent to the accounts payable clerk. Chris uses his copy to update the Inventory Subsidiary Ledger, at standard cost, and to generate a Journal Voucher summarizing the inventory received that day, which he sends to Rachel Cook for posting to the General Ledger. He then files the annotated Purchase Order with the appropriate Requisition. When faulty goods are received, or short or part deliveries, Chris negotiates directly with the vendors to rectify such problems; faulty goods are returned for credit. A Faulty Goods Returned report is generated and sent to the accounts payable clerk; Chris retains a copy, filed numerically. Payment is withheld until a Credit Note is received from the vendor and attached to the appropriate vendor invoice together with the Faulty Goods Returned report. Materials that have been inspected are stored within the appropriate locations throughout the store, mostly in convenient bins in the workroom used for computer assembly.

Nick opens the incoming mail each day. Any invoices and credit notes received from vendors are passed to the accounts payable clerk, who matches them with the two different copies of the Purchase Order she has received, confirms that the details are correct, posts details of
amounts due to the Accounts Payable Subsidiary Ledger, and files the document set chronologically by due date. At the end of each day, she prepares a Journal Voucher summarizing all invoices received that day, which is sent to Rachel Cook for posting to the General Ledger. All the vendors approved by Chris invoice each shipment separately.

Each Friday, the accounts payable clerk prepares checks for all vendor invoices due to be paid the following week, which are sent to Martin Scrivener together with all the supporting documentation. One combined check is sent when several invoices from the same vendor are due in the same week. However, College Computing has adopted a policy of not making part payments. Any invoices subject to dispute (perhaps because of faulty or short deliveries) are held back until outstanding issues are resolved. Martin 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. When he has finished with the supporting documents, he returns them to Carole Hunt, who files them in chronological sequence after updating the Accounts Payable Subsidiary Ledger. Carole prepares a Journal Voucher summarizing the payments made and passes it to Rachel Cook, who uses it to post the General Ledger.

Fixed Assets

The company operates at a single store location in New Brunswick, which was purchased outright in 2000. Besides the building, College Computing owns a van to deliver goods and pick up materials from the vendors, testers of various kinds, and other large office and assembling equipment items such as Xerox machines, computers, signal generators and oscilloscopes. When new fixed assets are required, Chris orders the items and signs the Purchase Order. Nick countersigns the purchase order to signify his approval. When Fixed Assets are received they are inspected, stored and paid for in the same way as materials; annotated purchase orders are used to advise accounts payable of receipt; the accounts payable clerk prepares Journal Vouchers from vendor invoices and sends them to Rachel Cook for posting to the General ledger. Martin Scrivener computes the acquisition cost 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 partners have decided to replace them, Nick arranges disposal to one of a number of local dealers. Any proceeds from disposal are subsequently received as checks and banked in the same manner as Sales remittances. Martin Scrivener maintains a Fixed Asset Register in which he records acquisitions, depreciation, disposals and their proceeds. Each month, he produces a Journal Voucher recording depreciation, as well as Journal Vouchers in respect of disposals and disposal proceeds, which he passes to Rachel Cook for posting to the General Ledger.

Services

Services (e.g., insurance, advertising, etc.) are typically ordered informally by Nick, often by telephone; sometimes, however, contract negotiations are required first. Agreed service details are subsequently provided to Martin Scrivener on a Contracted Service Form; Nick files a copy alphabetically by service and provider, while Martin files his copy by date of issue. When the service involves a long-term contract (e.g., for electricity, water), a Contracted Service 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.
Martin Scrivener is responsible for confirming prior to payment that services have been satisfactorily completed and received.

**Production**

College Computing produces computers to satisfy specific customer orders. Based on his Production Schedules, Chris creates two copies of a Job Sheet for each ordered item, on which he assigns specific technicians to assemble the computers, to install software, or to test (and subsequently pack) finished computers. Job Sheets also show the materials that will be required. Chris authorizes the use of materials from inventory on a Materials Issue form, which he then uses to update the Inventory Subsidiary Ledger, and to prepare a Journal Voucher that he sends to Rachel Cook to be recorded in the General Ledger. He attaches the Materials Issue forms to the relevant Job Sheets.

At the end of each production stage, Chris signs the appropriate Job Sheets as approved. Completed Job Sheets are filed numerically, and the copies are sent to Martin Scrivener. When assembly is completed, the operating system is loaded and any other purchased software is installed. Finally, the machines are tested extensively before being packed for delivery. Each day, every technician completes a two-part Time Sheet recording the time spent on assembly, software installation or testing for each Job, which is signed as approved by Chris. One copy is sent to Martin Scrivener and the other is filed chronologically. Martin files all his copies of documents numerically.

Although Raw Materials are maintained on a perpetual inventory system, Finished Goods and Work In Progress currently are not. Work In Progress at the end of each period typically includes some partially assembled computers, some computers assembled but with no software loaded, and a few computers completed but not tested; its value is calculated manually by Martin Scrivener from completed Time Sheets and inspection of the incomplete Job Sheets, 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, Chris produces three copies of a Finished Goods Report. He uses one copy to update the Finished Goods Subsidiary Ledger and prepare the Journal Voucher to be sent to Rachel Cook; a second copy is sent to Martin Scrivener, and the third copy to Nick. Chris files his copy chronologically.

One of Martin Scrivener’s responsibilities is to reconcile the Job Sheets, Time Sheets, and Finished Goods Reports, and to investigate any discrepancies. Martin maintains the costing records. Finished goods are recorded at their actual costs at the end of each period. Martin prepares any necessary Journal Vouchers for Rachel Cook to update the General Ledger.

**Sales**

Sales Inquiries are received in the store or by telephone. The salespersons generate five copies of a written Quotation that are sent to Nick for approval. Nick ascertains that the prices in the Quotation are correct and that the order does not exceed the customer’s credit limit. Once the Quotation is approved, the salesperson sends the top copy, together with the last two (which are designated as Sales Orders), to the customer. The second copy is sent to accounts receivable, and the final copy is filed numerically. The bottom of the first Sales Order forms a detachable Remittance Advice for the up-front payment. The customer signs the Sales Orders to indicate acceptance of the Quotation and returns them, together with the Remittance Advice and the up-front payment, either to a salesperson in the store or by mail. The
Remittance Advice and check are passed to Nick, one copy of the Sales Order is sent to Chris for production, and the salesperson files the other copy with the Quotation. Based on the approved Quotation and the Remittance Advice for the up-front payment subsequently received from Nick, the accounts receivable clerk produces a Pro-forma Invoice with two copies, and files the second copy with the Quotation and returned Remittance Advice until the computer is finished. She also produces a second Remittance Advice for the final payment, which is sent to the customer along with the top copy of the Pro-forma Invoice.

When the computers are ready, the salespersons receive the Finished Goods Report from Nick. They call or e-mail the customers, according to the method previously agreed, to arrange collection or delivery and final payment.

If the computer is picked up in the store, the salesperson finds and checks the contents of the appropriate boxes, prepares four copies of a Shipping Notice and seals the boxes (after including one of the Shipping Notices). The second copy of the Shipping Notice is sent to Chris, the third is sent to accounts receivable, and the fourth is filed numerically. If the computer is to be delivered by van, the salesperson calls the customer to arrange a delivery time before preparing the Shipping Notices and sealing the boxes.

Cash and Remittance Advices for final payments that are not mailed to College Computing are collected by the salesperson at the time the customer picks up the computer, or by Andy Porter at the time he makes deliveries. In either of these cases customers are given Receipts for the money, and the checks and Remittance Advices are passed to Nick.

When the accounts receivable clerk receives the Remittance Advice for final payment for the computer, she stamps the Pro-forma Invoice and the Quotation "Payment Received" and prepares a Sales Invoice for the goods. One copy of the Invoice is passed to the salespersons to be mailed to the customer. A second copy 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 then filed numerically together with the Quotation, Pro-forma invoice and Remittance Advices. The Journal Voucher is sent to Rachel Cook.

Shipping Notices sent to accounts receivable are filed with the Pro-forma Invoices – after first being used to create the Invoice for local businesses with approval to pay on Invoice rather than waiting until final payment. Chris Fisher uses the Shipping Notice to update the Finished Goods Subsidiary Ledger, and to prepare a Journal Voucher at the end of the day that he sends to Rachel Cook for posting to the General Ledger. He files the Shipping Notice chronologically.

Nick endorses all checks received when the mail is opened, from salespersons, or from Andy Porter, and prepares a pre-list of the checks received. Copies of this pre-list are sent to Martin Scrivener, Rachel Cook, Carole Baker (together with the Remittance Advices), and Penny Teller (along with the checks). The accounts receivable clerk files her copies of the pre-list chronologically after updating the Accounts Receivable Subsidiary Ledger.

Rachel Cook 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 in her office.

Penny Teller 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 Martin Scrivener. Her other duties include correspondence with banks, physical control of unused checks and used check stubs, and administrative assistance to Martin Scrivener. She also maintains a small Petty Cash fund for incidental expenses on an imprest system.
Each day, Martin Scrivener 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, deposit 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 Rachel Cook.

**Human Resources Management**

Like many small businesses, College Computing relies extensively on the quality and skills of its employees. Nevertheless, none of the office staff has left or been replaced since the business opened, and technicians are commonly identified through contact with existing employees or occasional newspaper advertisements, and so College Computing’s recruiting activities remain informal, infrequent, and undocumented. Similarly, job interviews are conducted as necessary by Chris Fisher, but are not formally documented; also, on-the-job training, though important to production quality and efficiency, is carried out in an unscheduled manner as needs arise, and is not documented. Since many of the tasks to be performed do not require full-time employees, College Computing’s technicians are mostly students from Rutgers University who find a job they enjoy with a schedule they can change according to their classes. These students are hired on a semester (or summer) contract basis, though many return regularly for an extended period. The decision to hire any new staff member is made by Chris (after consulting Nick Hunter with regard to senior staff hires) and documented on an Employee Record Form showing personal details, date hired, initial salary or hourly wage, regular expected availability (for technicians), contract expiration date, etc. Chris files this form alphabetically by employee name, and sends a copy to Rachel Cook. After updating payroll records as necessary, Rachel files her copy chronologically. The same form is used to document changes in personal details or availability, or to extend the contract period for returning technicians. Similarly, an Employee Termination Form is used in the same manner when employees resign, retire, reach the end of their contract period, or are dismissed; it is filed as an attachment to the Employee Record Form.

Technicians are called to work by Chris in accordance with the Work Schedule, and paid weekly based on the number of hours worked as recorded on their signed Time Sheets. All other employees, part- or full-time, 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 and salary increases are determined each year by the partners. Following the partners’ approval, Chris prepares an internal memorandum notifying Martin Scrivener and Rachel Cook of the agreed rates and salaries for existing and new employees.

Using Martin Scrivener’s copies of the Time Sheets, Rachel determines hourly payroll each Friday morning by multiplying hours worked by the agreed rates. She also calculates the necessary deductions for all employees, and produces a Payroll Register showing, for each employee, the calculations of gross and net pay. One copy is filed chronologically, and another is sent to Chris for review. He signs this copy to show his approval and returns it to Rachel to be passed on to Martin Scrivener. Rachel also produces a Journal Voucher for the total payroll to journalize the General Ledger.

Checks are drawn on an imprest account (i.e., a bank account used only for payroll) by Rachel, and passed to Martin for signature, together with the approved copy of the Payroll Register. Martin 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 Rachel a Journal Voucher recording this transfer. He also distributes the checks 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 Chris once a month for technicians, and by Nick twice a year for staff members; 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. The partners record each evaluation on a Performance Evaluation Form; the signed original is given to the employee, and a copy is retained by Chris and filed as an attachment to the appropriate Employee Record Form. The partners review the Performance Evaluation Forms for staff members together annually, as part of the procedure used in determining appropriate salary increases.

**Finance**

College Computing is financed by loans from partners. Nick and Chris each invested 100,000 dollars at the beginning of the partnership. Every month they receive interest-only payments for that initial investment. When additional finance is needed, College Computing receives occasional supplementary loans from the owners. Each loan is negotiated with a current (fixed) interest rate and a final due date, details of which are communicated by the appropriate owner to Martin Scrivener via an internal memorandum. Funds received via such loans are recorded as loans received instead of cash receipts on Nick’s 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 Rachel. Separate monthly checks for each loan are disbursed to the owners, covering interest payments and, where appropriate, principal reduction. These checks are prepared by Martin Scrivener. Nick Hunter signs checks paid to Chris Fisher, and Chris signs checks paid to Nick. Martin Scrivener prepares a Journal Voucher summarizing all the month’s loan and interest payments, which is then passed to Rachel Cook, who uses it to post the General Ledger.

**General Ledger**

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

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