

*Financial and Managerial Accounting 13th Edition by
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solution manual*

Transparency Master 2-2

CHART OF ACCOUNTS

Larry Sharp, M.D.

The following information pertains to the medical practice of Larry Sharp, M.D. Using the information, develop a chart of accounts for Dr. Sharp. Remember to number the accounts using a flexible system of indexing, as described in your textbook.

- 1. Dr. Sharp is the sole shareholder of his medical practice.**
- 2. Dr. Sharp has the following assets that are used in the business: \$15,000 in cash, \$1,200 worth of supplies, and medical equipment that cost \$8,900.**
- 3. Dr. Sharp buys all of his medical supplies on account and pays for them within 30 days of the purchase.**
- 4. In payment for his services, Dr. Sharp will accept cash or will bill his patients.**
- 5. Dr. Sharp rents his office space. His lease agreement requires him to pay his own utilities.**
- 6. Dr. Sharp is required to carry malpractice insurance, which is paid at the beginning of each year.**
- 7. Dr. Sharp has one receptionist and one medical assistant who work for him full time. Each year, he buys the receptionist and the assistant flowers on their birthdays.**
- 8. To keep current on medical advances, Dr. Sharp frequently attends medical seminars. These seminars can cost as much as \$10,000 each year.**

SAMPLE CHART OF ACCOUNTS

Larry Sharp, M.D.

Assets

- 10 Cash**
- 11 Accounts Receivable**
- 12 Supplies**
- 13 Prepaid Insurance**
- 14 Medical Equipment**

Liabilities

- 21 Accounts Payable**

Stockholders' Equity

- 31 Common Stock**
- 32 Retained Earnings**
- 33 Dividends**

Revenues

- 41 Fees Earned**

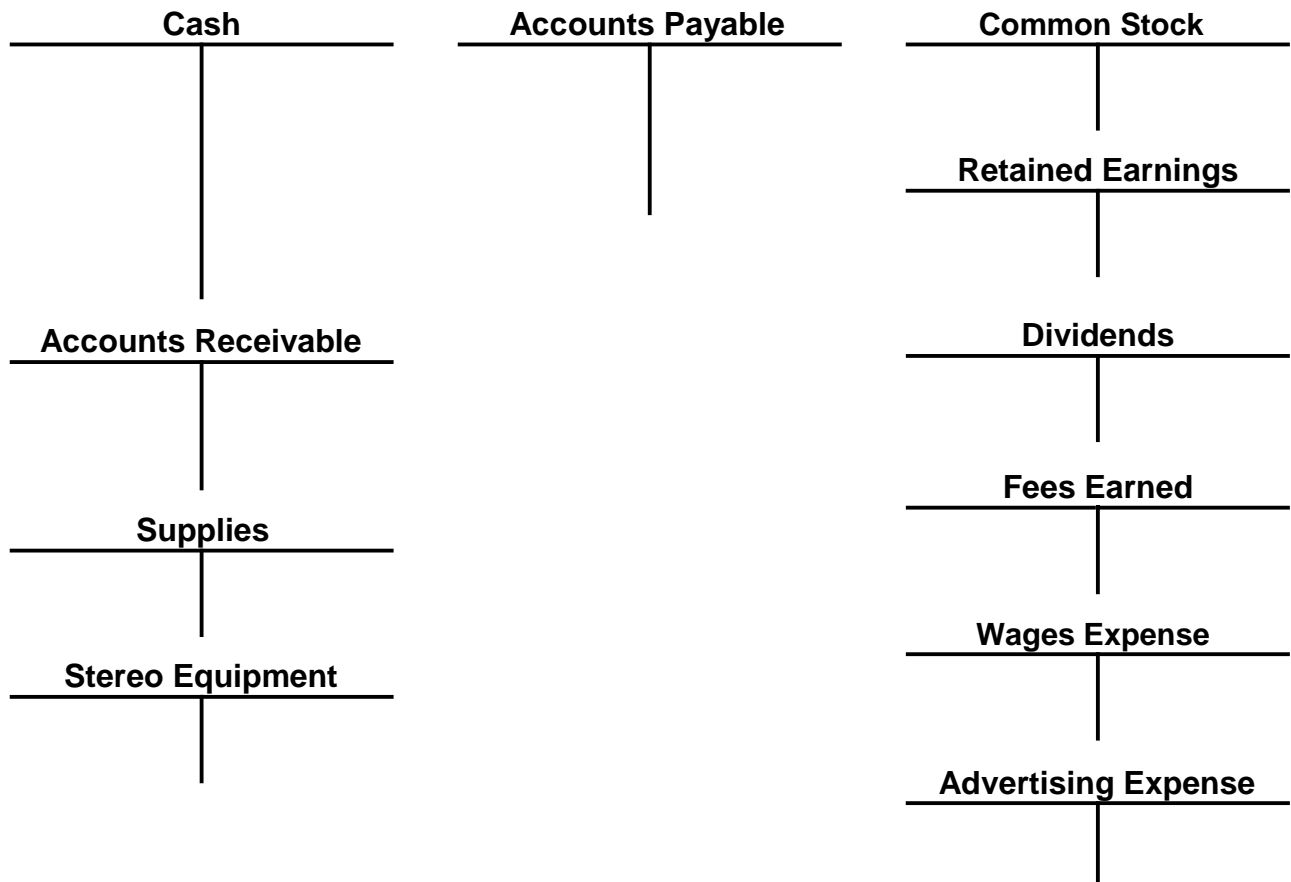
Expenses

- 51 Wages Expense**
- 52 Rent Expense**
- 53 Utilities Expense**
- 54 Medical Seminars Expense**
- 55 Supplies Expense**
- 56 Miscellaneous Expense**

POSTING ENTRIES INTO T ACCOUNTS

Mark Gordon decided to start a business as a disc jockey for wedding receptions, reunions, and other parties. His business is called Music Express. Record the following journal entries for Music Express and post these entries to the appropriate T accounts.

- a. Issued common stock to Mark for \$7,000.
- b. Purchased \$5,700 of stereo equipment on account.
- c. Paid for an advertisement in local newspapers, \$500.
- d. Paid cash for supplies, \$75.
- e. Received \$1,000 cash from customers for music provided at class reunions.
- f. Paid for stereo equipment purchased in (b).
- g. Provided music at a wedding reception; the bride's father was billed \$300. Payment is due in 30 days.
- h. Paid wages of an assistant, \$150.
- i. Received cash from the customer billed in (g).
- j. Paid cash dividend to Mark, \$575.



POSTING ENTRIES INTO T ACCOUNTS

Solution

Mark Gordon decided to start a business as a disc jockey for wedding receptions, reunions, and other parties. His business is called Music Express. Record the following journal entries for Music Express and post these entries to the appropriate T accounts.

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- i. Received cash from the customer billed in (g).
- j. Paid cash dividend to Mark, \$575.

Cash	
a. 7,000	c. 500
e. 1,000	d. 75
i. 300	f. 5,700
	h. 150
	j. 575
1,300	

Accounts Receivable	
g. 300	i. 300
0	

Supplies	
d. 75	

Stereo Equipment	
b. 5,700	

Accounts Payable	
f. 5,700	b. 5,700
	0

Common Stock	
	a. 7,000

Dividends	
j. 575	

Fees Earned	
	e. 1,000
	g. 300
	1,300

Wages Expense	
h. 150	

Advertising Expense	
c. 500	

JOURNAL

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
20-- Sept. 1	Cash		8,000	
	Common Stock Owner's initial invest- ment.			8,000
3	Supplies		200	
	Cash Purchased supplies.			200
7	Cash		500	
	Fees Earned Received from cash customers.			500
12	Wages Expense		100	
	Cash Paid wages of assistant.			100
15	Office Equipment		275	
	Accounts Payable Purchased fax machine.			275
20	Accounts Receivable		1,310	
	Fees Earned Billed credit customers.			1,310

ACCOUNT Cash

ACCOUNT NO. 10

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

ACCOUNT Supplies

ACCOUNT NO. 12

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

ACCOUNT Common Stock

ACCOUNT NO. 31

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

ACCOUNT Fees Earned

ACCOUNT NO. 41

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

WRITING EXERCISE

- 1. Why are business transactions initially recorded in a journal?**

- 2. Why are business transactions posted from the journal to a ledger?**

Where Is the Answer— The Journal or the Ledger?

The answers to the following business questions can be determined by examining accounting records. For each question, state whether the answer can be found in the journal or the ledger.

- 1. A business owner has decided to purchase a piece of equipment costing \$1,500. He wants to know whether the business has enough cash to pay for the equipment.**
- 2. The company checkbook shows that a \$750 check was written on March 28. The owner wants to know why that check was written.**
- 3. A personnel manager wants to know the total her company has spent on employee wages so far this month.**
- 4. The marketing manager of a company wants to know the cost of a special full-page ad placed in the *Wall Street Journal* during the first week of December last year. The company frequently advertises in a variety of newspapers and magazines.**

Where Is the Answer— The Journal or the Ledger?

Solution

1. A business owner has decided to purchase a piece of equipment costing \$1,500. He wants to know whether the business has enough cash to pay for the equipment.

The ledger will show the current balance in the cash account.
2. The company checkbook shows that a \$750 check was written on March 28. The owner wants to know why that check was written.

The journal will show the account debited when the check was written and a brief description of the transaction.
3. A personnel manager wants to know the total her company has spent on employee wages so far this month.

The ledger will show the current balance in the wages expense account.
4. The marketing manager of a company wants to know the cost of a special full-page ad placed in the *Wall Street Journal* during the first week of December last year. The company frequently advertises in a variety of newspapers and magazines.

The journal entries around the first week of December will need to be searched for the cost of this ad. The description accompanying the entry should identify the Wall Street Journal ad.

TRIAL BALANCE

Music Express Trial Balance May 31, 20--

Cash	1,300	
Supplies	75	
Stereo Equipment	5,700	
Common Stock		7,000
Dividends	575	
Fees Earned		1,300
Wages Expense	150	
Advertising Expense	500	
	<u>8,300</u>	<u>8,300</u>

WHAT'S WRONG WITH THIS?

Journal Entries:

a. Cash	8,000	
Common Stock...		8,000
b. Supplies	200	
Cash		200
c. Cash	550	
Fees Earned		550
d. Wages Expense	1,340	
Cash		1,340
e. Accounts Receivable	810	
Fees Earned		810

T Accounts:

Cash		Common Stock											
<table border="0" style="width: 100%;"> <tr><td>a. 8,000</td><td></td></tr> <tr><td>c. 550</td><td></td></tr> <tr><td style="border-top: 1px solid black;">6,970</td><td></td></tr> </table>	a. 8,000		c. 550		6,970		<table border="0" style="width: 100%;"> <tr><td></td><td>a. 8,000</td></tr> <tr><td>b. 200</td><td>e. 810</td></tr> <tr><td>d. 1,340</td><td style="border-top: 1px solid black;">8,810</td></tr> </table>		a. 8,000	b. 200	e. 810	d. 1,340	8,810
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Accounts Receivable		Fees Earned											
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b. 200													
d. 1,340													

Trial Balance

Cash	6,970	
Accounts Receivable	810	
Supplies	200	
Common Stock		8,810
Fees Earned	500	
Wages Expense	1,340	
	9,810	8,810
	9,810	8,810

WHAT'S WRONG WITH THIS?

Solution

Trial Balance

Cash	7,010	
Accounts Receivable	810	
Supplies	200	
Common Stock		8,000
Fees Earned		1,360
Wages Expense	<u>1,340</u>	
	<u>9,360</u>	<u>9,360</u>

Music Express

Income Statements

For the Months Ended May 31 and June 30

			Increase	
			(Decrease)	
	<u>June</u>	<u>May</u>	<u>Amt</u>	<u>Per</u>
Fees earned	<u>\$2,100</u>	<u>\$1,300</u>	<u>\$ 800</u>	61.5%
Operating expenses:				
Wages expense	\$ 180	\$ 150	\$ 30	20.0%
Advertising expense	<u>600</u>	<u>450</u>	<u>150</u>	33.3%
Total operating expenses	<u>\$ 780</u>	<u>\$ 600</u>	<u>\$ 180</u>	30.0%
Net income	<u><u>\$1,320</u></u>	<u><u>\$ 700</u></u>	<u><u>\$ 620</u></u>	88.6%