

Solution Manual for Financial Accounting 14th Edition by Warren ISBN  
1305088433 9781305088436

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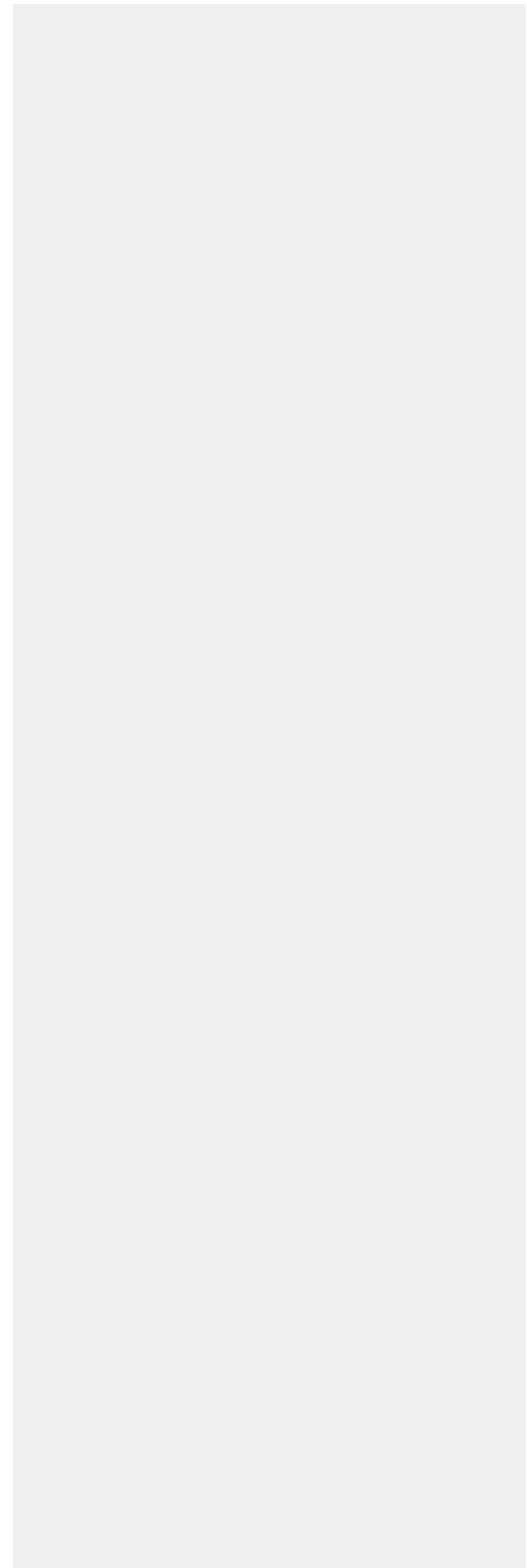
## OWNER'S EQUITY ACCOUNTS

**Assets = Liabilities + Owner's Equity**

<b>Account</b>	<b>Used to Record</b>
<b>Capital</b>	<b>Owner's Investments</b>
<b>Drawing</b>	<b>Owner's Withdrawals</b>
<b>Revenue</b>	<b>Revenues from Customers</b>

**Expense**

**Expenses Incurred in the  
Process of Generating  
Revenues**



# 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 owner 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

## **Owner's Equity**

- 31 Larry Sharp, Capital
- 32 Larry Sharp, Drawing

## **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. Mark transferred \$7,000 from a personal bank account to an account to be used for his business.
- 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. Mark withdrew \$575 cash for personal use.

Cash	Accounts Payable	M. Gordon, Capital	
		M. Gordon, Drawing	
Accounts Receivable		Fees Earned	
Supplies		Wages Expense	
Stereo Equipment		Advertising Expense	

## POSTING ENTRIES INTO T ACCOUNTS Solution

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**JOURNAL**

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
2014 Sept. 1	Cash		8,000	
	S. Morgan, Capital 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 S. Morgan, Capital**

**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	
M. Gordon, Capital .....		7,000
M. Gordon, Drawing .....	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	
J. Day, Capital ....		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		J. Day, Capital															
<table border="0" style="width: 100%;"> <tr><td>a. 8,000</td><td></td></tr> <tr><td>b. 200</td><td></td></tr> <tr><td>c. 550</td><td></td></tr> <tr><td>d. 1,340</td><td></td></tr> <tr><td colspan="2" style="border-top: 1px solid black;">6,970</td></tr> </table>	a. 8,000		b. 200		c. 550		d. 1,340		6,970		<table border="0" style="width: 100%;"> <tr><td>a. 8,000</td><td></td></tr> <tr><td>e. 810</td><td></td></tr> <tr><td colspan="2" style="border-top: 1px solid black;">8,810</td></tr> </table>	a. 8,000		e. 810		8,810	
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## Trial Balance

Cash .....	6,970	
Accounts Receivable .....	810	
Supplies .....	200	
<b>J. Day, Capital .....</b>		<b>8,810</b>
Fees Earned .....	500	
Wages Expense .....	<u>1,340</u>	
	<u><b>9,810</b></u>	<u><b>8,810</b></u>

# WHAT'S WRONG WITH THIS?

## Solution

### Trial Balance

---

Cash .....	7,010	
Accounts Receivable .....	810	
Supplies .....	200	
J. Day, Capital .....		8,000
Fees Earned .....		1,360
Wages Expense .....	<u>1,340</u>	<u>          </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>Perc</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>\$1,320</u>	<u>\$ 700</u>	<u>\$ 620</u>	88.6