



LIFE·PAC®

Accounting

Student Book

Unit 10



ACCOUNTING LIFE PAC 10

BUSINESS SIMULATION

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ACCOUNTING LIFE PAC 10

BUSINESS SIMULATION

OVERVIEW

This LIFE PAC® will review all the accounting procedures learned in LIFE PACs 1–9 by using a business simulation. This simulation incorporates all the steps used to complete an accounting cycle. The business in this simulation uses a journal and general ledger to summarize all transactions.



OBJECTIVES

When you have completed this LIFE PAC you will be able to complete the following accounting procedures:

1. Open the general ledger accounts.
2. Record transactions in a journal.
3. Prepare a payroll register.
4. Prepare an employer payroll tax expense summary and record the entry for payroll taxes expense.
5. Post journal transactions to the general ledger.
6. Prepare a trial balance on the worksheet.
7. Record the adjusting entries on the worksheet.
8. Calculate net income/net loss to complete the worksheet.
9. Prepare the following financial statements:
 - a. Income Statement
 - b. Statement of Owner's Equity
 - c. Balance Sheet
10. Record and post the adjusting entries.
11. Record and post the closing entries.
12. Prepare a post-closing trial balance.



BUSINESS SIMULATION FOR LARSON'S TOURS



Introduction to Larson's Tours

Larson's Tours, owned by Olive Larson, is a service business organized as a sole proprietorship. Larson's Tours organizes tours for individuals or groups. Mrs. Larson rents office space at a local mall. She has hired employees for the office. All other services needed by the business are subcontracted for each individual tour or vacation. The business derives its revenue from tour fees.

Fiscal Period. Larson's Tours uses a one-month accounting cycle or fiscal period. The fiscal period begins on March 1 and ends on March 31 of the current year.

Payroll. Larson's Tours is required by federal law to withhold federal income tax, FICA tax, and Medicare tax from each employee's wages. The business is also subject to payroll taxes at the following rates: FICA, 6.2%; Medicare, 1.45%; federal unemployment, 0.8%; state unemployment, 4.3% (NOTE: This is a different rate than used in previous LIFEPAcs. Rates will vary from state to state).

Employee Information. Refer to the withholding table on page 22 as you review the employee information for the two payrolls in March as shown below:

March 15th payroll:	Empl. #1 – Andrea Baker, Single, 1 Allowance, Gross Pay \$800.00
	Empl. #2 – Craig Sommer, Single, 1 Allowance, Gross Pay \$800.00
March 31st payroll:	Empl. #1 – Andrea Baker, Single, 1 Allowance, Gross Pay \$800.00
	Empl. #2 – Craig Sommer, Single, 1 Allowance, Gross Pay \$800.00
	Empl. #3 – Lewis Season, Single, 0 Allowance, Gross Pay \$200.00

Chart of Accounts

Open the general ledger, using the following chart of accounts:

Larson's Tours Chart of Accounts General Ledger	
(100) ASSETS	(400) REVENUE
110 Cash (<i>requires two ledger pages</i>)	410 Tour Fees
120 Petty Cash	(500) EXPENSES
130 Supplies	510 Advertising Expense
140 Prepaid Insurance	520 Automobile Expense
150 Automobile	530 Insurance Expense
160 Office Equipment	540 Miscellaneous Expense: Postage, bank charges, lunches, equipment repair, office cleaning, credit card charges
(200) LIABILITIES	550 Payroll Taxes Expense
210 A to Z Office Supply	560 Rent Expense
220 Employee Income Tax Payable	570 Salary Expense
230 FICA Tax Payable	580 Supplies Expense
240 First City Bank	590 Utilities Expense
250 Medicare Tax Payable	
260 Unemployment Tax Payable–Federal	
270 Unemployment Tax Payable–State	
(300) OWNER'S EQUITY	
310 Olive Larson, Capital	
320 Olive Larson, Drawing	
330 Income Summary	

Source Documents

The following is a description of the various source documents, their abbreviations and the transactions for which they are used in this business simulation.

Document	Abbreviation	Transactions
Register Tapes	T	Cash and credit card receipts from tour fees
Receipts	R	Cash received from sources other than tour fees
Check Stubs	Ck	Cash payments
Memorandum	M	Transactions directed by bookkeeper, accountant or owner

Narrative of Transactions

Record the following transactions, beginning on page 1 of the journal. This page may be removed from the LIFE PAC. NOTE: It is recommended that you post each day's transactions after they are recorded in the journal.

- March 1 Received cash from Mrs. Larson as an investment, \$22,000.00, R1.
- 2 Took office equipment from home for use in the tour agency. The equipment had a value \$1,500.00, M1.
- 3 Purchased an automobile for \$17,950.00 for the business. Mrs. Larson paid \$7,800.00 in cash and signed a note at the First City Bank for the balance to be paid over 4 years, Ck101.
- 4 Paid cash for supplies, \$1,800.00, Ck102.
- 4 Paid cash for rent, \$1,250.00, Ck103.
- 4 Paid cash for postage, \$6.80, Ck104
- 4 Received cash from tour fees, \$2,675.00, T4.
- 6 Paid cash for insurance, \$3,280.00, Ck105.
- 6 Bought supplies on account from A to Z Office Supply, \$895.00, M2.
- 7 Paid cash for the telephone bill, \$235.00, Ck106.
- 7 Paid cash for gas for the automobile, \$17.90, Ck107.
- 8 Paid cash for lunch for prospective clients, \$98.00, Ck108.
- 9 Paid cash for service completed on the automobile, \$495.00, Ck109.
- 9 Paid cash to the owner for personal use, \$850.00, Ck110.
- 10 Paid cash to A to Z Office Supply on account, \$450.00, Ck111.
- 10 Paid cash for the electric bill, \$790.00, Ck112.
- 11 Received cash from tour fees, \$7,690.00, T11.
- 13 Paid cash for lunch for prospective clients, \$108.00, Ck113.
- 13 Paid cash for a magazine advertisement, \$975.00, Ck114.
- 13 Paid cash for office cleaning, \$110.00, Ck115.
- 13 Paid cash for gas for the automobile, \$23.00, Ck116.
- 14 Paid cash for an advertisement in the newspaper, \$83.50, Ck117.
- 14 Paid cash on account to A to Z Office Supply, \$445.00, Ck118.
- 15 Purchased supplies on account from A to Z Office Supply, \$695.00, M3
- 15 Complete the payroll register for March 15.
- 15 Record the semimonthly payroll from the March 15th payroll register, Ck119.
- 15 Record the employer payroll taxes expense from the employer's payroll tax summary sheet, M5.
- 16 Paid cash for equipment repair, \$19.80, Ck120.
- 16 Paid cash for the first car payment to First City Bank, \$350.00, Ck121.
- 17 Paid cash for postage, \$87.90, Ck122.
- 17 Paid cash for additional insurance, \$1,860.00, Ck123
- 18 Paid cash to the owner for personal use, \$850.00, Ck124.
- 18 Paid cash for service to the automobile, \$79.95, Ck125



- 18 Received cash from tour fees, \$5,670.00, T18
- 18 Paid cash for lunches for clients, \$158.00, Ck126
- 20 Paid cash for the telephone bill, \$367.00, Ck127
- 20 Paid cash for office cleaning, \$110.00, Ck128
- 21 Paid cash for service for the automobile, \$82.50, Ck129
- 21 Paid cash on account to A to Z Office Supply, \$250.00, Ck130
- 22 Paid cash for a computer, \$1,195.00, Ck131.
- 23 Paid cash for advertising, \$60.00, Ck132.
- 23 Paid cash for equipment repair, \$7.50, Ck133.
- 24 Paid cash for supplies, \$295.00, Ck134.
- 25 Hired an additional employee, Season Lewis.
- 25 Received cash from tour fees, \$3,895.00, T25.
- 27 Paid cash for lunch for clients, \$318.00, Ck135.
- 28 Paid cash for gas for the automobile, \$27.00, Ck136.
- 30 Paid cash to the owner for personal use, \$850.00, Ck137.
- 30 Record the bank service charge, \$9.75, M9.
- 30 Received cash from tour fees, \$1,975.00, T31.
- 30 Paid cash to establish a petty cash fund, \$300.00, Ck138.
- 30 Record the credit card charges, \$682.00, M10.
- 31 Prepare the semimonthly payroll register.
- 31 Record the semimonthly payroll from the March 31st payroll register, Ck139.
- 31 Record the employer payroll taxes expense from the March 31st employer tax expense summary sheet, M12.
- 31 Prepare the trial balance on the worksheet for the month ended March 31 of the current year.
- 31 Use the following end-of-month inventories to calculate and make adjusting entries, and then complete the worksheet.
- | | |
|---|------------|
| Supplies on hand on March 31: | \$1,180.00 |
| Value of Prepaid Insurance on March 31: | \$2,030.00 |
- 31 Prepare these financial statements:
- income statement
 - statement of owner's equity (NOTE: Refer to the transactions for the month to determine if any additional investments in the business were made after the initial cash investment on March 1st).
 - balance sheet
- 31 Record and post the adjusting entries.
- 31 Record and post the closing entries.
- 31 Prepare a post-closing trial balance.



Account Title:							Account No.				
Date		Explanation	Post. Ref.	Debit		Credit		Balance			
								Debit		Credit	

Account Title:							Account No.				
Date		Explanation	Post. Ref.	Debit		Credit		Balance			
								Debit		Credit	

Account Title:							Account No.				
Date		Explanation	Post. Ref.	Debit		Credit		Balance			
								Debit		Credit	