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Subject: Principle of accounting
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Q1: on 2nd July 2010, Delta Company acquired a new machine with an estimated useful life of 5 years. Cost of equipment was \$75,000 with \$5,000 residual value. Calculate the amount of depreciation under each of the three depreciation methods listed below.

- 1) Straight-Line
- 2) Double decline balance
- 3) MACRS

Ans:

- **Data:**
 - Cost of equipment=\$75000
 - Residual value=\$5000
 - Useful life= 5 years

Sol:

$$\frac{\text{Cost—Residual value}}{\text{Useful life}} = \frac{75000-5000}{5} = \$14000 \text{ per year}$$

- **Straight Line Method:**

Year	Computation	Depreciation Expense	Accumulated Depreciation	Book value
First	$\$70000 \times 1/5 \times 1/2$	\$7000	\$7000	\$75000
Second	$70000 \times 1/5$	14000	21000	68000
Third	$70000 \times 1/5$	14000	35000	54000
Fourth	$70000 \times 1/5$	14000	49000	40000
Fifth	$70000 \times 1/5$	14000	63000	26000
Sixth	$70000 \times 1/5 \times 1/2$	7000	70000	12000
		\$70000		5000

- **Double Declining Method:**

Year	Computation	Depreciation Expense	Accumulated Depreciation	Book value
First	$\$75000 \times 40\%$	\$30000	\$30000	\$75000
Second	$\$45000 \times 40\%$	18000	48000	45000
Third	$\$27000 \times 40\%$	10800	58800	27000
Fourth	$\$16200 \times 40\%$	6480	65280	16200
Fifth	$\$9720 \times 40\%$	4720	70000	9720
Total		\$70000		5000

- **MACRS**

Year	Computation (Cost x Rate from IRS table)	Depreciation Expense	Accumulated Depreciation	Basis (Book value)
1	\$75000x20%	\$15000	\$15000	\$60000
2	\$75000x32%	24000	39000	36000
3	\$75000x19.20%	14400	53400	21600
4	\$75000x11.52%	8640	62040	12960
5	\$75000x11.52%	8640	70680	4320
6	\$75000x5.76%	4320	75000	0
Total		\$75000		

Q2: Why we need adjusting entries? Define types of adjusting entries.

Ans:

- **The Need for adjusting Entries:**

We need adjusting entries for measuring income and preparing financial statements. The life of a business consists of series of accounting periods. This practice enables decision makers to compare the financial statements of successive periods and to identify significant trends.

Measuring the net income of relatively short accounting periods poses a problem. Some transactions effect the revenue or expenses of more than one period. The purpose of these entries is to assign to each period the appropriate amounts of revenues and expenses.

For Example:

Soccer team sells their footage rights to the Tv channels for a period of 2-3 years. At the end of each accounting period , these teams make adjusting entries recognizing the portion of their advance receipts earned during the current period.

Adjusting entries are needed whenever transactions affect the revenue or expense of more than one accounting period. These entries assign revenues to the periods in which they are earned, and expenses to those in which the goods are used.

Business could make adjusting entries on a daily basis, But as a practical matter these entries are made only at the end of each accounting period.

- **Types of Adjusting Entries:**

Adjusting entries may fall into the following four types.

- 1. Entries to apportion recorded costs:**

Expenditure or cost that will benefit more than one accounting period usually is recorded by debiting an asset account .

Example: Supplies, unexpired insurance.

An adjusting entry is made to allocate a portion of the assets cost to expense. At the end of the accounting period the adjusting entry is recorded by debiting the appropriate expense account (for example, supplies expense, insurance expense) and crediting the asset account.

- 2. Entries to apportion unearned revenue:**

A business may collect cash in advance for services to be given in future accounting periods this type of transactions are recorded by debating cash in by crediting liability account.

In the period the services are given, and adjusting entry is made to record the portion of revenue earned during the period. The adjusting entry is recorded by debating unearned revenue and by crediting revenue earned for the value of the services given.

- 3. Entries to record unrecorded expenses:**

In expense may be incurred in the current accounting period even though no bill has been received and no cash payment will accrue until a future period these accrued expenses are recorded by an adjusting entry made at the end of the accounting period the adjusting entry is recorded by debating the appropriate expense account (for example: interest expense, salary expense) and by crediting the related liability

4. Entries to record unrecorded revenue:

Revenue may be earned during the current period but not yet be collected or recorded in the accounting records.

Revenue earned for which no cash has been collected is recorded by an adjusting entry made at the end of the accounting period.

The adjusting entry is recorded by debating accounts receivables and by crediting revenue earned.

**End of
Current
period**

Entries	Prior periods	Current period	Future periods
1. Entries to Apportion Recorded costs	Transaction paid future Expense in advance	Adjusting Entry	
2. Entries to apportion Unearned revenue	Transaction collected from Customers in advance	Adjusting Entry	
3. Entries to record Unrecorded expenses		Adjusting Entry	Transaction liability Will be paid
4. Entries to record Unrecorded revenue		Adjusting Entry	Transaction received Will be collected

Q3: Distinguish among a general partnership, limited partnership and a limited liability partnership?

Ans:

- **General Partnership:**
 - Each partner has rights and responsibilities similar to those of a sole proprietor.
 - Each general partner can withdraw cash and many other assets from the business at will.
 - Each partner has the full authority of an owner to negotiate contacts binding upon the business.
 - Every partner has unlimited personal liability.

- **Limited Partnership:**
 - Have one or more general partners and one or more limited partners.
 - Only general partners have unlimited liability while limited partners are basically passive investors.
 - Only general partners have the right to make managerial decisions.
 - Losses incurred on limited partners are limited to the amounts they have invested in the business.

- **Limited Liability Partnership:**
 - Partnership in which some or all partners have limited liabilities.
 - Each partner is not responsible or liable for another partner's misconduct or negligence.

Q4: Distinguish between partnership and corporation?

Ans:

- **Partnership:**
 - A partnership is an unincorporated business owned by two or more partners.
 - Contract or agreement is signed between partners.
 - It is a lawful business.
 - Sharing of losses and profits between partners.
 - Unlimited liability
 - Not a separate legal entity
 - Number of partners for business maybe up to 20.
 - Types of partnerships are General, Limited, Limited liability
 - Examples: PWC, Michelin

➤ **Corporations:**

- A corporation is a business entity that is owned by its shareholders, who elect a board of directors to oversee the organization's activities.
- The corporation is liable for the actions and finances of the business – the shareholders are not.
- Legal Entity separate and distinct
- Limited liability
- Types are: Nonprofit, Municipal, Professional, Business
- Examples: Microsoft, Google