**Id: 16200**

**Ahmad**

**Module Leader: Quaid Iqbal Module: Cost Accounting**

**Spring Semester 2020 Time:09:00pm to 03:00pm**

**Online Assignment (50 Marks) Best Of Luck**

**Instructions**: These questions should be solved and submitted in PDF or MS World format

**(30 Marks)**

**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

Ans1:

Cost………………………………….. $ 75,000

Estimated residual value…………. $5000

Estimated useful life……………. 5

Straight line formula :

cost – Residual value = 75,000 - 5000 = 14,000

Year of useful life 5 year

**Cost of the dep asset…………………….75000**

**Less: estimated residual value…… 5000**

**Total amount to be depreciated…70000**

**Estimated life …………………………. 5 year**

**Dep expense each year ($75,000/ 5)………. $14,000**

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| --- |
| **Straight line method**  **Depreciation accumulated book**  **Year comp expense depreciation value** |
| **$ 75,000**  **First $ 70,000 1/5 $14,000 $ 14,000 61,000**  **Second $70,000 1/5 14,000 28,000 47,000**  **Third 70$,000 1/5 14,000 42,000 33,000**  **Fourth $70,000 1/5 14,000 56,000 19,000**  **Fifth $70,000 1/5 14,000 70,000 5,000**  **Total …………………………… $ 7,0000** |

**Double – declining method**

|  |
| --- |
| **Depreciation accumulated book**  **Year comp expense depreciation value** |
| **75,000**  **first $ 75,000 \* 40% $ 30,000 $30,000 45,000**  **second $45,000\* 40% 18,000 48,000 27,000**  **third $ 27,000\*40% 10,800 58,800 16200**  **fouth $16200\*40% 6,480 65,280 9720**  **fifth $ 9720\*20% 1944 67224 7776**  **sixth $7776\*35.7% 2776 70,000 5000**  **total…………………. $70,000** |

|  |
| --- |
| **MACRS INCOME TAX METHOD**  **comp depreciation accumulated book**  **year (cost \* rate) Expense depreciation value** |
| **First 75000 20% 15,000 15,000 60,000**  **Second 75000 32% 24,000 39,000 36,000**  **Third 75000 19.20 14,400 53,400 21,600**  **fourth 75000 11.52% 8,640 62,040 12,960**  **fifth 75000 11.52% 8,640 70,680 4,320**  **sixth 75000 5.76% 4,320 75,000 - 0-**  **total………………. $75,000** |

**Q2:** Why we need adjusting entries? Define types of adjusting Entries. **(10 Marks)**

**Ans:** need of adjusting entries are following:

* Any entry to record unrecognized income or expenses for more than one period.
* When recording adjusting entries remember two very important need.
* First cash is never involved in adjusting entries. Cash is always recorded when it is actually received or paid .
* Second , adjusting entries always involve either a revenue account or an expense account.
* An adjusting journal entry involves an income statement account(revenue or expense) along with a balance sheet account( asset or liability) and typically relates to the account for accrued expense, accrued revenue, prepaid expense and unearned revenue.

Types of adjusting entries

There are four types of **adjusting entries,**

1. **Entries to apportion recorded costs**
2. **Entries to apportion recorded un-earned revenue**
3. **Entries to record un-recorded expenses**
4. **Entries to recorded un-recorded revenue**

**1: Apportion recorded costs:**

When a business makes an expenditure that will benefits more then one accounting period.

The amount is usally debited to an assets account

At the end every period the benefits from the expenditure will be made adjusting entries. To transfer the cost from the assets account to expense account. There are some example of these entries are:

* **Prepaid expenses:** services / goods have not been received by us but cash already paid in advance… An asset (DR Account)

Example: rent. Supplies

* **Building supplies:**

when supplies are purchased. There costs will be debit to the asset account.

Adjusting entries at june 2

The balance of the building account were 1500 on june 1

Now remaining supplies are amount of 1000 june 1

This show that supplies of amount 400 have been used in june

* June 1
* Supplies expense ……… 400
* Building supplies…….. 1000

Asset expense

1000 400

**This adjusting entries show two purpose :**

1. It change to expense the cost of supplies used.
2. It decrease the balance of the building supplies account to 1000 The amount of supplies estimated to be on hand at june 1

* **Insurance policies**

These polices provide a service over a period of time. To start that on January 4 a business purchased one year insurance policy for 12,000

Now 12,000 cash converted in to insurance policy of worth $12,000

Insurance police for 1 year 1/12 the cost 1000$

* **Depreciation of house**

The monthly depreciation expense is basd on the folling facts.

Estimated cost of the house is 30000$

Life time of house is 20 years(240)

Using the straight line method of depreciation the cost start to expire each month is 1/240 of 30,000… 83

**Apportioning Unearned revenue**

* Service/ goods are not received but payment are paid in advance.
* For example Health Club Member ship, Air line tickets in advance of a schedule,
* For any accounting reason amounts collected in advance didn’t represent revenue Because these amounts have not yet been earned.
* Amounts collected from customers in advance are recorded by debiting the cash account and crediting an unearned revenue account
* **Example**: Airline tickets , offering space on rent, membership fees

**3: Recording Un-Recorded Expenses:**

Service and goods are received by us but cash has not been paid.

Wages. Electricity bills

**4:Recording Un-Recorded Revenue:**

Service/ goods are sold by us , but cash has not been received by us.

* Airport Shuttle aggrement
* 1500 p/m
* days......750

**Q3:** Distinguish among a general partnership, limited partnership and a limited liability partnership? **(5 Marks)**

# Ans: General partnership:

A general partner has the authority to act and making decision for all partners. Partners generally share profits or losses as per the agreement made between them

# Limited partnership:

Limited partnership is that in which liabilities of some partners are limited up to the amount of their capitals. In this partnership, there is at least one partner whose has unlimited liability.

# Limited liability partnership:

**Limited Liability Partnership (LLP)** – Similar to an LLC, an LLP provides each of its partners with limited liability protection, as well as the ability to manage the business directly. However, unlike an LLC, partners in all LLP are only legally responsible for their own actions and cannot be held liable for the negligence of other partners

**Q4:** Distinguish between partnership and corporation? **(5 Marks)**

ANS: Partnership:

* partnership is the relation between two persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
* **Liability** – Partners/owners are personally liable for the entity’s obligations & debts
* **Income tax treatment**:The partnership is taxed according to the respective income of their partners. This income is subjected to the graduated income tax scale for individuals. This scale shows the percentage of tax that will be applied to your income depending on your income level.

Corporation**:**

## Definition

**A corporation maintains a separate and distinct existence from its stockholders, directors, and officers; in other words, a corporation is viewed as a different person in the eyes of the law.**

* **Liability – Based on its definition, your personal assets as a shareholder/director/officer cannot be used to pay the debts of the corporation; however, once you do invest, the capital you pay becomes part of corporate assets and your risk is directly proportional to this amount.**
* **Income Tax Treatment – The income of the corporation is subject to the corporate tax rate and not the individual tax rate**