IQRA National University

Department of Business Administration

Spring- Semester 2020 (Final term paper)

Course title: Principles of Accounting

Module Leader: Quaid Iqbal

Name: Aqsa Rehman **ID: 16282**

Class: BBA **Section: A**

Date: 25 June. 2020

Question 1:

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

1. Straight-Line Method

Given:

Cost of equipment= $75000

Residual vale= $5000

Useful life=$5000

The annual straight line depreciation is computed as following

Cost - residual value/useful life

=$75000 – 5000 / 5 years= $70000/5years = $14000per year

In tabular form:

Cost of depreciation asset	$75000
Less: estimated residual value	5000
Total amount depreciated	70000
Estimated useful life	5 years
Depreciation expense (70000 / 5)	$14000

Depreciation Schedule – Straight Line Method				
Year	Computation	Depreciation expense	Accumulated depreciation	Book value
First	70000*1/5	$14000	$14000	$75000
Second	70000*1/5	14000	28000	61000
Third	70000*1/5	14000	42000	47000
Forth	70000*1/5	14000	56000	33000
Fifth	70000*1/5	14000	70000	19000
		$70000		5000

2. Double decline method:

To illustrate the double decline method, consider the given example of the 75,000 equipment. The estimated useful life is 5 years; therefore, the straight line depreciation rate is 20 %(1/5years). Doubling the straight line rate indicates an accelerated depreciation rate at 40%.

Depreciation Schedule – Double Declining Balance Method				
Year	Computation	Depreciation expense	Accumulated depreciation	Book value
First	75000*40%	30000	30000	
second	45000*40%	18000	48000	
Third	27000*40%	10800	58800	
Forth	16200*40%	6480	65280	
Fifth	9720*40%	3888	69168	
		69168		

3. MACRS: The Tax Method

Depreciation Rate for Recovery Period						
Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year
1	33.33%	20.00%	14.29%	10.00%	5.00%	3.750%
2	44.45	32.00	24.49	18.00	9.50	7.219
3	14.81	19.20	17.49	14.40	8.55	6.677
4	7.41	11.52	12.49	11.52	7.70	6.177
5		11.52	8.93	9.22	6.93	5.713
6		5.76	8.92	7.37	6.23	5.285
7			8.93	6.55	5.90	4.888
8			4.46	6.55	5.90	4.522
9				6.56	5.91	4.462
10				6.55	5.90	4.461
11				3.28	5.91	4.462
12					5.90	4.461
13					5.91	4.462
14					5.90	4.461
15					5.91	4.462
16					2.95	4.461
17						4.462
18						4.461
19						4.462
20						4.461
21						2.231

Depreciation schedule – MACRS income tax method				
Year	Computation (cost *rate of IRS table)	Depreciation expense	Accumulated depreciation	Book value
				75000
1	75000*20%	$15000	$15000	60000
2	75000*32%	24000	39000	36000
3	75000*19.20%	14400	53400	21600
4	75000*11.52%	8640	62040	12960
5	75000*11.52%	8640	70680	4320
6	75000*5.76%	4320	75000	-0-
Total		75000		

Question 2:

Why we need adjusting entries? Define types of adjusting Entries.

ADJUTING ENTRIES:

Adjusting entries are accounting journal entries that convert a company's accounting records to the accrual basis of accounting. An adjusting journal entry is typically made just prior to issuing a company's financial statements.

OR

Adjusting entries are changes to journal entries you've already recorded. Specifically, they make sure that the numbers you have recorded match up to the correct accounting periods.

OR

Adjusting entries are journal entries recorded at the end of an accounting period to adjust income and expense accounts so that they comply with the accrual concept of accounting.

Need of adjusting entries:

- The purpose of adjusting entries is to accurately assign revenues and expenses to the accounting period in which they occurred.
- Their main purpose is to match incomes and expenses to appropriate accounting periods.
- To record depreciation and repayment for the period.
- To record an allowance for doubtful accounts and to record a reserve for sales returns
- To record any accrued revenue and expenses.
- To record the impairment of an asset
- To record any previously paid but unused expenditures as prepaid expenses

Types of adjusting entries:

1. Entries to apportion recorded cost:

A cash expenditure that will benefit more than one accounting period usually is recorded by debiting an asset account and by credit cash.

Examples:

Insurance, Supplies, Depreciation

2. Entries to apportion un-earned revenue:

A business may collect cash in advance for services in future accounting periods. Transactions of this this nature are usually recorded by debiting cash and by crediting a liability account.

Examples:

Season Tickets, Rent, Fees collected in advance.

3. Entries to record unrecorded expenses:

Record expenses that have been incurred, but unpaid, recognize expense, increase liability. These accrued expenses are recorded by an adjusting entry made at the end of the accounting period.

Examples:

Accrued interest, Salaries.

4. Entries to record unrecorded revenues:

Record revenue that has been earned, but not billed, recognize revenue, increase asset (receivables). Revenue earned, for which no cash has been collected, is recorded by adjusting entry made at the end of accounting year.

Examples:

Fees or Interest Earned

Question 3:

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

GENERAL PARTNERSHIP:

- A general partnership is one in which all of the partners have the ability to actively manage or control the business.
- In general partnership partners do not need to file any documents with the state to make your business a partnership.
- Partners in a general partnership don't have any limit on their personal responsibility for the debts of the business.
- Each partner in a general partnership is also "jointly and severally" liable for debts of the business.

LIMITED PARTNERSHIP:

- A limited partnership must have at least one general partner and one limited partner. And the partners are responsible for day-to-day activities running the business.
- A limited partnership is different from a general partnership in that it requires a partnership agreement. Some information about the business and the partners must be filed with the appropriate state agency.
- A limited partnership has both limited and general partners.
- A limited partner is one who does not have total responsibility for the debts of the partnership.

LIMITED LIABILITY PARTNERSHIP:

- A limited liability partnership does not have a general partner.
- Since every partner in limited liability partnership is given the ability to take part in the management of the company.
- Limited liability partnerships are usually structured with protection for partners' personal assets.
- A limited liability partnership will be governed by its partnership agreement.

- In most cases, a limited liability partnership is built to segregate liabilities of partners, limiting personal asset liability to only partners liable for specific actions.
- This type of partnership can ensure that not all partners have personal liability for the acts of other partners.
- If you need a business type that limits the liability of all partners, LLC formation could be your best choice.

Question 4:

Distinguish between partnership and corporation?

Partnership:

A partnership is formed when two or more individuals or businesses come together to do business for profit, and share the ownership, liability and profits of the business.

Corporation:

A corporation, which is formed by filing articles of incorporation, is a legally separate business entity owned by shareholders.
An elected board and board-appointed officers manage the corporation.

Differences between corporation and partnership:

	Corporation	**Partnership**
Definition	A legal entity which is separate from its owners.	A business entity with individuals who share the risk and benefits of business.
Ownership	Stockholders	Partners
Formed	Formed under operational state laws with Articles of Incorporation.	An agreement among the members.

Types	subchapter-s corporation, professional corporation	general partnership, limited partnership, limited liability partnerships
Management	Run by a board of directors	Run by the partners
Structure	Members of a corporation have to act in accordance with the corporation's charter. More structured, less flexible. Easier to transfer ownership of part of a corporation.	Partnerships have to adhere to a partnership agreement. More flexible, less structured. Each part of the business has to be individually transferred or sold.
Raising money	By sale of financial instruments like stocks and bonds.	From current members, getting new members, a loan
Liability	The stockholders are not held responsible in case of a fault, the corporation is.	The partners share the liability, and are directly responsible in case of fault.
Dissolution	Stockholder approval, government approval	Decision of the partners