**IQRA NATIONAL UNIVERSITY (INU)**

**Name # SHAHID KHAN.**

**Roll no # 16599.**

**Section # B.**

**Program # BBA.**

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**Subject # Principles of Accounting.**

**Submitted to # Sir QUAID IQBAL.**

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 **Answer Sheet of Principles Of Accounting.**

**Answer # 1: Straight Line Method.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Computation**  | **Depreciation Expense** | **Accumulated Depreciation** | **Book value** |
|  |  |  |  | $75,000  |
| 1st | $70,000/ 1/5 | $14,000  | $14,000  | $61,000  |
| 2nd | $70,000/ 1/5  | $14,000  | $28,000  | $47,000  |
| 3rd | $70,000/ 1/5 | $14,000  | $42,000  | $33,000  |
| 4th | $70,000/ 1/5 | $14,000  | $56,000  | $19,000  |
| 5th | $70,000/ 1/5 | $14,000  | $70,000  | $5,000  |
|  |  |  |  |  |
| **Total** |  | **$70,000**  |  |  |

 **Double declining Method.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Computation**  | **Depreciation Expense** | **Accumulated Depreciation** | **Book value** |
|  |  |  |  | $75,000  |
| 1st | $75,000/40% | $30,000  | $30,000  | $45,000  |
| 2nd | $45,000/40%  | $18,000  | $48,000  | $27,000  |
| 3rd | $27,000/40% | $10,800  | $58,800  | $16,200  |
| 4th | $16,200/40% | $6,480  | $65,280  | $9,720  |
| 5th | $9,720/40% | $4,720  | $70,000  | $5,000  |
|  |  |  |  |  |
| **Total** |  | **$70,000**  |  |  |

 **MACRS.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Computation**  | **Depreciation Expense** | **Accumulated Depreciation** | **Book value** |
|  |  |  |  | $75,000  |
| 1st | $75,000/20% | $15,000  | $15,000  | $60,000  |
| 2nd | $75,000/32%  | $24,000  | $39,000  | $36,000  |
| 3rd | $75,000/19.20% | $14,400  | $53,400  | $21,600  |
| 4th | $75,000/11.52% | $8,640  | $62,040  | $12,960  |
| 5th | $75,000/11.52% | $8,640  | $70,680  | $4,320  |
| 6th | $75,000/5.76% |  $4,320 |  $75,000 |  -0- |
| **Total** |  | **$75,000**  |  |  |

**Answer # 2: Adjusting Entries:**

 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. Their main purpose is to match incomes and expense to appropriate accounting.

The transactions which are recorded using adjusting entries are not spontaneous but are spread over a period of time. Not all journal entries recorded at the end of an accounting period are adjusting entries. For Example, an entry to record a purchase on the last day of a period is not an adjusting entry. An adjusting entry always involves either income or expense account.

**Types of Adjusting Entries:**There are some types of adjusting entries are following below:

**1).Accrued Revenues:**

Under the accrual method of accounting, a business is to report all of the revenue that it has earned during an accounting period. A business may have earned fees from having provided services to clients, but the accounting records do not yet contain the revenues or the receivables. An accrual type adjusting entry must be made in order for the financial statements to report the revenues and the related receivables. If a business has earned 5000 of revenues, but they are not recorded as of the end of the accounting period, the accrual type adjusting entry will be:

 Accrued Receivables 5000.

 Service Revenues 5000.

**2).Accrued Expenses:**

 Under the accrual method of accounting, the financial statements of a business must report all of the expenses that it has incurred during an accounting period. For example, a business needs to report an expense that has occurred even if a suppliers invoice has not yet been received. Let's assume that a company utilized a worker from temporary personal agency on Dec 27. The company expects to receive an invoice on Jan 2 remit payment on Jan 9. Since the expense and the payable occurred in Dec, the company needs to accrue the expense and liability as of Dec 31 with the following adjusting entry:

 Temporary Help Expense 200.

 Accrued Liabilities 200.

**3).Deferred Revenues:**

The amounts received in advance of being earned must be deferred to a liability account until are earned. Let's assume that company receives $4000 on Dec 10 for services. It will provide at a later date. Prior to issuing its Dec financial statements. Must determine how much of the $4000 has been earned as of Dec31. The reason is that only the amount that has been earned can be included in Dec's revenues. The amount that is not earned as of Dec 31 must be reported as a liability on the Dec 31 balance sheet.

If $300 has been earned the service revenues account must include 3000. The remaining 1000 that has not been earned will be deferred. The deferred will be evidenced by a credit of 1000 in a liability account such as deferred revenues or Unearned Revenues.

The adjusting entry for this deferral depends on how the receipt of 4000 was recorded on Dec 10. if the receipt of 4000 was recorded with a credit to service revenues the Dec 31 adjusting entries will be;

 Service Revenues 1000.

 Deferred Revenues 1000.

**4).Deferred Expenses:**

Under the accrual method of accounting, any payment for future expense must be deferred to an asset account until the expenses are used up or have expired.

Let's assume that a new company pays 6000 on Dec 27 for the insurance on its vehicle for the six month period beginning Jan 1. For Dec 27 through 31, the company should have an asset prepaid insurance or prepaid expenses of 6000. In each of the months January through June, the company must reduce the asset account by recording the following adjusting entry:

 Insurance Expense 1000.

 Prepaid Insurance 1000.

**Answer # 3):General Partnership:**

 A general partnership is an organizational structure under which the partners in a business have unlimited personal liability for the obligation of the entity. Under this arrangement, all partners are assumed to have certain management responsibilities for running the organization. A key advantage is that employees can aspire to be made a partner, and thereby share in the profits of the entity. The result can be unusually motivated group of employees with low turnover, especially if the management group regularly promotes employees into the partnership.

Given the personal financial risk taken on by a general partner, it is common for some investors to instead be designed as limited partners. Under this arrangement, a limited partner is only liable for the amount of his or her investment in the partnership. Once that investment has been consumed, a limited partner bear no additional personal liability. The partners in general partnership are not employees, and so do not submit a Form w-2 to the IRS. Instead, they file a Form K-1, which states their shares of the partnership's gain or losses.

**Limited Partnership:**

 Two or more people can form a business structure known as a partnership. A limited partnership, requires at least one general partner and one limited partner. The general partner runs the business and is responsible for the business's actions, obligations and management. For this reason, he often receives additional pay. He also takes the biggest risk. The limited partner does not take part in the day to day operations of the company. Her liability is limited to the general partner from creditors and lawsuits is for hoim to forma corporation or a limited liability company. A partnership can be a corporation or a limited liability company.

**Limited Liability Partnership(LLP):**

 A typical partnership form of the business suffers from the problem of unlimited liability. Liabilities of partners of a firm extend rights up to their personal assets. This makes regular partnerships undesirable for a lots of entrepreneurs. One solution for this issue exists in the form of limited liability partnerships, better known as LLP.

Partners of typical partnership firms have unlimited liability towards their collective debts and legal consequences. This means that their own assets are liable for attachment for the meeting the firm's debts and liabilities. And limited liability partnerships (LLP) solves this problem.

An LLP has all basic features of a regular partnership firm, except that of same legal entity status and unlimited liability of partners. Consequently, limited liability partnerships have legal existence and identity separate from that of its partners. Its partners have limited liabilities.

**Answer # 4):Partnership And Corporation:**

 A corporation is a separate legal entity from its owners. A partnership is a business entity with individuals who share the risk benefits of business.

A corporation and a partnership are both entities formed with the intention of doing business. However they have very different structure. A partnership is formed when two or more individuals or businesses come together to do business for profit, and share the ownership, liability and profit of the business.

A corporation , on the other hand , is a separate legal entity, which is owned by shareholders. It has legal rights and liabilities, and may work for profit or not for profit. In case of profit, the profit is first reinvested in the corporation and then among the stockholders in the form of dividends, as decided by the president of the corporation.

The profits in a partnership may be greater, as there are usually less owners than a corporation. However a partnership has limited investment chances and no liability protections which means that if anything goes wrong, the owners are held directly responsible. This is not the case in a corporation, as the corporation is a separate legal entity, the blame does not fall on the stockholders, but on the corporation itself and possibly on the board of directors.

Also a general partnerships is a easier to set up with limited paperwork, legal proceedings and tax obligation. In regard to this, the setup and operation of a corporation is much more complicated with much more intricate proceedings and taxations. Also in some area a corporation may have to submit paperwork with the government on a yearly basis.

 **(The End)**