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

 **Time:09:00pm to 03:00pm**

**Online Assignment (50 Marks**

**Spring Semester 2020**

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**) 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

Ans:

GIVEN DATA:

Cost: $75000

Salvage= $5000

Depreciation= $75000-$5000= $70000.

Annual Depreciation= $70000/5= $14000.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Computation | Depreciation | Acc. Depreciation | Book Value |
| 2010 | 70000\*1/5 | 14000 | 14000 | 61400 |
| 2011 | 70000\*1/5 | 14000 | 28000 | 47000 |
| 2012 | 70000\*1/5 | 14000 | 42000 | 33000 |
| 2013 | 70000\*1/5 | 14000 | 56000 | 19000 |

2.

Given Data:

Cost: $75000

Salvage= $5000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Computation | Depreciation | Acc. Depreciation | BV |
| 1 | 75000\*40% | 30000 | 30000 | 45000 |
| 2 | 45000\*40% | 18000 | 48000 | 27000 |
| 3 | 27000\*40% | 10800 | 58800 | 16200 |
| 4 | 16200\*40% | 6480 | 65280 | 9720 |
| 5 | 9720\*40% | 4720 | 70000 | 5000 |

3 .MACRS method

Cost= $75,000

Residual value= 5000

Years of useful life= 5

Depreciation schedule: MACRS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Years | Computation cost x rate From IRS table  | Depreciation expenses | Accumulated depreciation | Book value |
| 1 | 75000x20.00% | 15000 | 15000 | 60000 |
| 2 | 75000 x32.00% | 24000 | 390000 | 36000 |
| 3 | 75000 x19.20% | 14400 | 53400 | 21600 |
| 4 | 75000 x11.52% | 8640 | 62040 | 12960 |
| 5 | 75000 x 11.52% | 8640 | 70680 | 4320 |
| 6 | 75000 x 5.76% | 4320 | 75000 | 0 |
| Total … … | ……………… | 75000 |  |  |

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

**ADJUSTTING ENTRIES:**

The main purpose of adjusting entries is to **update the accounts to conform the accrual concept**. At the end of the accounting period, some income and expenses may have not been recorded, taken up or updated; hence, there is a need to update the accounts.

Some transaction affect the revenue or expenses of more the one period.

 Therefore adjusting entries are needed at the end of each period.

There are three different types of adjusting entries as follows**:**

* Prepayments.
* Accruals.
* Non-cash expenses.

**PREPAYMENT:**

 Prepayment is an accounting term for the settlement of a debt or instalment loan before its official due date.

 Prepayment is the payment of a bill, operating expense, or non-operating expense that settles an account before it become due.

**ACCRUALS:**

A charge for work that has been done but not yet invoiced, for which provision is made at the end of a financial period.

* Accrual is recognition of revenues and it leads to cash receipt or expenditure.
* So accrual revenue refers to recognition of revenue that has been earned but not yet received.

**Non-cash expense:**

Non-cash expenses appear on an income statement because accounting principles require them to be recorded despite not actually being paid for with cash. The most common example of a non-cash expense is **depreciation**, where the cost of an asset is spread out over time even though the cash expense occurred all at once.

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

**GENERAL PARTNERSHIP:**

 In a general partnership, each partner has rights has responsibilities similar to those of a sole proprietor. Also, each partner has the full authority of an owner to negotiate contracts binding upon the business. This concept is called mutual agency. Every also has unlimited personal liability for the debts of the firm. Combining the characteristics of unlimited personal liability and mutual agency makes a general partnership a potentially dangerous form of business organization

For example

 Each general partner can withdraw cash and many other assets from the business at will. Assume, for example that you enter into a general partnership with tom jones. You agree to split profits and losses 50-50. ]

**LIMILED PARTNERSHIPS:**

 A limited partnership has one or more general partners and one or more limited partners.The general partners in the traditional sense with unlimited personal liability for the debts of the business and the righty to make managerial decisions.

The limited partners are basically passive investors. The share in the profits and losses of the business, but they do not participate actively in management and are not personal liable for debts of the business. Thus, if the firm goes under the losses incurred by the limited by the limited partners are limited to the amounts they have invested in the business.

**LIMITED LIABILITY PARTNERSHIPS:**

A limited liability partnership is a relatively new form of business organization. State traditionally have required professional, such as doctors, lawyers, and accountant, to organize their practice either as sole proprietorships as partnerships. The purpose of this requirement was to ensure that these professionals had unlimited liability for their professional activities.

Over the years, many professional partnerships have grown in size. Several public accounting firms, for example, now have thousands of partners and operate in countries all over the world. Also, lawsuits against professional firms have increased greatly in number and in dollar amount. In this type of partnership, each partner has unlimited personal liability for his or her owner professional activities.

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

PARTNERSHIP:

A partnership is an unincorporated business owned by two or more partners. A partnership often is referred to as a firm.

Partnerships are the least common form of business organization –probably because the often wind up with too many bosses. However, they are widely used for professional practices, such as medicine, law, and public accounting. Partnership are also used for many small business especially those that are family-owned. Most partnership are small businesses –but certainly not all.

**CORPORATIONS**:

 A corporation Is legal entity, having an existence separate and distinct from they of its owners. The owners of a corporation are called stockholders or shareholder, and their ownership is evidenced by transferable shares of capital stock

A corporation is more difficult and costly to form then other types of organizations. The corporation must obtain a charter from the state in which it is formed, and it must receive authorization from that state to issue shares of capital stock. The formation of a corporation usually requires the services of an attorney.

 ---------------------------------The End------------------------------------