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PROGRAM : BBA

SEMESTER;2ND

SECTION:B

Q1:On 2nd july 2010 Delta company acquired a new machine with an estimated useful life of 5 years .cost of equipment was $75000 with $5000 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

ANSWER

1) Depreciation Formula for the Straight Line Method:

Depreciation Expense = (Cost – Salvage value) / Useful life

Depreciation Expense =($75,000- $5,000)/ 5

Depreciation Expense=$70,000/5

Depreciation Expense= $14,000

2) Double decline balance:-

Periodic Depreciation Expense = Beginning book value x Rate of depreciation

The beginning book value of the asset is filled in at the beginning of year 1 and the salvage value is filled in at the end of year 5.

The rate of depreciation (Rate) is calculated as follows:

Expense= (100%/5) 2

Expense=40%

Multiply the rate of depreciation by the beginning book value to determine the expense for that year.

Depreciation expense= ($75,000)(40%)

Depreciation expense=$30,000

3) MACRS:-

MACRS stands for modified accelerated cost recovery system.

Cost ×

1

× A × Depreciation Convention

Useful Life

A is 100% or 150% or 200%

In Depreciation convention we can also put rate of depreciation.

($75,000)(1/5)(100%)(40%)

Depreciation expense=$6,000

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

ANSWER

The main purpose of adjusting entries is to update the accounts to conform with the accrual concept. ... If adjusting entries are not prepared, some income, expense, asset, and liability accounts may not reflect their true values when reported in the financial statements. For this reason, adjusting entries are necessary.

1)Accrued revenues.Accrued revenue is revenue that has been earned by providing a good or service, but for which no cash has been received.

2)Accrued expenses..Accrued liabilities are liabilities that reflect expenses that have not yet been paid or logged under accounts payable during an accounting period

3)Deferred revenues. ...Deferred income is, in accrual accounting, money earned for goods or services which have not yet been delivered. According to the revenue recognition principle, it is recorded as a liability until delivery is made, at which time it is converted into revenue.

4)Prepaid expenses..A prepaid expense is a type of asset on the balance sheet that results from a business making advanced payments for goods or services to be received in the future. Prepaid expenses are initially recorded as assets, but their value is expensed over time onto the income statement.

5)Depreciation expenses..A depreciation expense is the amount deducted from gross profit to allow for a reduction in the value of something because of its age or how much it has been use

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

ANSWER

The difference between a general partnership and a limited partnership, a general partnership means the same for everyone meaning they share the business profits, debts, running business. Limited partnership is like an investor. Invests money in the business but down not have any management responsibilities.

In limited partnerships  at least one of the owners is considered a "general" partner who makes business decisions and is personally liable for business debts. ... The limited liability partnership  is a similar business structure but it has no general partners

Q4:Distinguish between partnership and corporation ?

ANSWER

A partnership is the default business structure for a company with multiple owners. In a partnership, co-owners report their share of the business’s income and losses on their personal tax returns. 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