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***PROGRAM: BBA***

***SUBJECT: ACCOUNTING***

***DATE: 25/6/2020***

**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 $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) **(straight-line)**

|  |  |  |  |
| --- | --- | --- | --- |
| year | Book value | depreciation | Book value |
| 2/7/2010 | 75000 | 14000 | 61000 |
| 1/1/2011 | 61000 | 14000 | 47000 |
| 1/1/2012 | 47000 | 14000 | 33000 |
| 1/1/2013 | 33000 | 14000 | 19000 |
| 1/1/2014 | 19000 | 14000 | 5000 |
|  |  |  |  |

**(Double decline balance)**

First divided 100% by 5 years=100%/5=20%

Multiply 20% by 2=20%/2=40%

Multiply 40% by total cost =40%\*75000=30000

(**macrs)** 75000 (20%)= 15000

75000 (32%)= 24000

75000 (19.20%) = 14400

75000 (11.52%) = 8640

75000 (11.52%) = 8640

Year straight macrs

1. 75000
2. 60000 20%
3. 51000 32%
4. 60600 19.20%
5. 66360 11.52%
6. 66360 11.52%

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

ANS) **adjusting entries**: the main purpose of adjusting entries is to update the accounts to conform which 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.

If adjusting entries are not prepared, some income, expenses, assets, and liability accounts may not reflect their true valves when reported in the financial statement. For this reasons adjusting entries are necessary.

***TYPES OF ADJUSTING ENTRIES***

* Most adjusting entries fall into one of four general categories.
* Entries to apportion recorded costs
* Entries to apportion un-earned revenue
* Entries to record um-recorded expenses
* Entries to record un-recorded revenue

***APPORTION RECORDED COSTS***

* When a business makes an expenditures that will benefit more than one accounting period,
* The amount is usually debited to an assets account.
* At the end of each period benefitting from this expenditure, an adjusting entry is made.
* To transfer an appropriate portion of the cost from the asset account to expense account.
* Examples of these kind of entries are pre-paid expenses

***PRE-PAID EXPENSES***

* Payment in advance is often made for such items like insurance, rent, supplies etc.
* Pre-paid expenses are assets; they become expenses only as the goods or services are used up.

***SHOP SUPPLIES***

* As supplies are purchased, there costs is debited to the asset account
* Adjusting entries at December 31,
* The balance of shop supplies account were $1800 on Dec 1st
* Now remaining supplies are of amount $1200 on Dec 31st
* This indicates that supplies of amount $600 have been used in December
* December 31st
* Supplies expenses $600
* Shop supplies $1200
* Assets expenses

$1200 $600

***INSURANCE POLICIES***

* These policies provide a service over a period of time.
* Assume that on Feb 1st a business purchased one year insurance policy for $18,000
* $18,000 cash converted in to insurance policy of worth $18,000

***INSURANCE POLICIES***

* Insurance policy is for 1 year there for 1/12 of the cost of $1500 p/m.
* The inherence expense for the month of December is recorded by following adjusting entries.
* Assets expenses

16500 1500

***DEPRECIATION OF BUILDINGS***

* The monthly depreciation expenses is based on the following fact:
* Estimated cost of building is $36,000
* Life time of building is 20 years 240 months
* Using the straight line method of depreciation the cost assumed to expire each month is 1/240 of $36,000 or $150

***DEPRECIATION OF TOOLS & EQUIPMENT***

* Let suppose depreciation time of tools& equipment is 5 years 60 month using straight line method.
* Total value of tool & equipment is $15000
* The depreciated value of tools by year end will be $12,000

***APPORTIONING UNEARNED REVENUE***

* When customers pay in advance to avail a service in later accounting periods.
* For example Health Club Member ship, Airline tickets in advance of a schedule, etc.

***APPORTIONING UNEARNED REVENUE***

* For accounting purposes amounts collected in advance do not 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.

***APPORTIONING UNEARNED REVENUE***

* The balance of an unearned revenue account is considered to be a liability.
* Because company will have to offer its services to its clients.
* It appears in liability section of a balance sheet not in the income statement.

***APPORTIONING UNEARNED REVENUE EXAMPLES***

* Airline tickets
* Offering space on rent
* Membership fees
* Etc.

***RECORDING UN-RECORDED EXPENSES***

* Wages
* Interest Expenses

***RECORDING UN-RECORDED REVENUE***

* Airport Shuttle agreement.
* 1500 p/m
* 15 days......750

**Q3: Distinguish among a general partnership, limited partnership and a limited liability partnership?**

ANS)

**GENERAL PARTNERSHIP:**

This is the simplest type of partnership to form since you don't need to file with the state or pay fees beyond that for a permit or business license. Each person has unlimited liability with this form, but liabilities must have a mutual agreement.

**LIMITED PARTNERSHIP:**

. Usually requiring state registration, this structure features both general and limited partners. Unlike a general partner, any limited partner can only lose up to the amount she invested and actually doesn't help manage the business. You'll find this form more common for short-term businesses.

**LIMITED LIABILITY PARTNERSHIP:**

Available only for professional services businesses as defined by the state, this partnership type features protection of personal assets. So, partners don't need to worry about having to use their personal funds or lose their property to pay for business debts. However, the partners will still have full liability for any malpractice**.**

**Q4: distinguish between partnership and corporation?**

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

A corporation and a partnership are both entities formed with the intention of doing business. However, they have very different structures. 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.

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.

***CORPORATION***

Definition: a legal entity which is separate from its owners.

Ownership: stockholders.

Formed: formed under operational state laws with articles of incorporation.

Types: subchapter-s corporation, Professional Corporation.

Management: run by a board of directors.

Raising money: By sale of financial instruments like stocks and bonds.

Liability: The stockholders are not held responsible in case of a fault, the corporation is.

Dissolution: Stockholder approval, government approval.

***PARTNERSHIP***

Definition: A business entity with individuals who share the risk and benefits of business.

Ownership: Partners.

Formed: An agreement among the members

Types: general partnership, limited partnership, limited liability partnerships.

Management: Run by the partners

Raising money: From current members, getting new members, a loan.

Liability: The partners share the liability, and are directly responsible in case of fault.

Dissolution: Decision of the partners.