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

**Spring Semester 2020 Time: 09:00pm to 03:00pm**

**Online Assignment (50 Marks) Best Of Luck**

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**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

**ANSWER:**

Cost of depreciable asset 75000

Estimated residual value 5000

Total amount to be dep 70000

Estimated useful life 5-years

**DEPRECIATION SCHEDULE**

**Straight-line method with half-year convention**

**YEARS COMPUTATION DEPRECIATION EXPENSE BOOK VALUE**

**75000**

1st 70000\*1/5\*1/2 7000 68000

2nd 70000\*1/5 14000 54000

3rd 70000\*1/5 14000 40000

4th 70000\*1/5 14000 26000

5th 70000\*1/5 14000 12000

6th 70000\*1/5\*1/2 7000 5000

Total 70000

**DEPRECIATION SCHEDULE: MACRS TAX METHOD**

**Years Computation Dep. expense Basis**

1st 75000\*20% 15000 60000

2nd 75000\*32% 24000 36000

3rd 75000\*19.20% 14400 21600

4th 75000\*11.52% 8640 12960

5th 75000\*11.52% 8640 4320

6th 75000\*5.76% 4320 0

Total 75000

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

**ANSWER:**

**ADJUSTING ENTRIES:**

Adjusting entries are changes to journal entries you have already recorded. Specifically, they make sure that the numbers you have recorded match up to the correct accounting periods. Journal entries track how money moves- how it enters your business, leaves it, and moves between different accounts.

**THE NEED FOR ADJUSTING ENTRIES:**

* Single transaction may affect revenues or expenses in more than one accounting period.
* Therefore, adjusting entries are needed at the end of each period.
* The purpose of these entries is to assign to each period the appropriate amount of revenue and expenses.
* The main purpose of adjusting entries is to update the account to confirm with the accrual concept.

**TYPES OF ADJUSTING ENTRIES:**

Generally, there are 4 types of adjusting entries. Adjusting entries are prepaid for the following:

* ACCRUED INCOME- income earned but not yet received.
* ACCRUED EXPENSE- expenses incurred but not yet paid.
* DEFERRED INCOME- income received but not yet earned.
* PREPAID EXPENSE- expenses paid but not yet incurred.

Adjusting entries are also made for:

* Depreciation.
* Doubtful accounts or bad debts, and other allowances.

**OR**

Most adjusting entries fall intone of the 4 general categories:

* Entries to apportion recorded costs.
* Entries to apportion un-earned revenue.
* Entries to record un-recorded expenses.
* Entries to record un-recorded revenue.

**APPORTIONING RECORDED COSTS:**

* When a business makes an expenditure that will benefit more than one accounting period
* The amount is usually debited to an asset 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: Prepaid expenses and Depreciation costs

PREPAID EXPENSES:

* Payments in advance are often made for such items like insurance, rent, supplies etc.
* Prepaid expenses are assets, they became expense only as the goods or services are used up

SHOP SUPPLIES:

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

ASSETS EXPENSE

$1200 $600

* This adjusting entry serves 2 services:

1. It changes to expense the cost of supplies used
2. It reduces the balance of shop supplies account to $1200, the amount of supplies estimated to be on hand at December 31st

**INSURANCE POLICIES:**

* These policies provide a service over a period of time
* Assume that on February 1st a business purchased one-year insurance policy for $18000
* $18,000 cash converted into insurance policy of worth $18,000

**INSURANCE POLICIES:**

* Insurance policy is for one-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 EXPENSE

16500 1500

**DEPRECIATION OF BUILDINGS:**

The monthly depreciation expense is based on the following facts:

* Estimated cost of building is $36,000
* Life time of building is 20 years
* Using the straight-line method of depreciation, the cost assumed to expire each month is 1/240 of $36,000 or $150

**APPORTIONING UNEARNED REVENUE:**

* When customers pay in advance to avail a service in later accounting periods
* For-example health Club Membership, Airline tickets in advance of a schedule etc.
* For accounting purposes amount 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
* The balance of an unearned revenue account is considered to be a liability
* Because company will have to suffer its services to its clients
* It appears in liability section of a balance sheet not in the income statement

**EXAMPLES:**

* Airlines 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? **(5 Marks)**

**ANSWER:**

Creating a business is difficult to do alone. Bringing on someone as a partner can seems like a great way to take some of the burden off of you while increasing the connections you have and therefore your chances of success.

**GENERAL PARTNERSHIP:**

A general partnership is a business entity made of two or more partners who agree to establish and run a business.

A general partner may be an individual or an entity, such as corporation.

**ADVANTAGES AND DISADVANTAGES OF A GENERAL PARTNERSHIP:**

**ADVANTAGES:**

* **EASY TO CREATE:**

The biggest selling point of a general partnership, as opposed to limited and limited partnerships or limited liability partnerships is that they are quite easy to create.

* **FLOW OF PERSONAL INCOME:**

Like limited partnerships and LLC’s taxed as partnerships, a general partnership allows for all partners involved in a business to directly pass through profits and losses to into their personal income taxes. As a result, the income generated from the partnership is taxed at their personal income tax rates rather than as a separate business entity.

* **FLEXIBILITY:**

Like limited partnerships and LLC’s taxed as a partnership, general partnerships allow you to negotiate the terms relating to allocation of profits and losses, management operations and transfer of interests.

**DISADVANTAGES:**

* **EASY TO DISSOLVE:**

Like other business entities in Florida, absent a formal partnership agreement, general partnerships rely on the state statuses to provide defaults rules for all aspects of governance.

* **LITTLE PROTECTION:**

As a general partnership, all partners are liable for business debts and all legal issues that arise. There is no formal legal protection in place because you don’t incorporate the business into a separate legal entity. Consequently, this exposure to liability renders general partnerships as bad vehicles for business in most cases.

* **LACK OF STRUCTURE:**

When you are first starting a business and have no idea where you are going with it, a general partnership can be a huge asset. Its always important to get good advice and sit down with an estate and business attorney to help you get started the right way.

**LIMITED PARTNERSHIP:**

A Limited partnership is a business entity that consists of one or more General partners, whose responsibilities include daily management of the company, and one and more Limited partners, who do not participate in management.

**ADVANTAGES AND DISADVANTAGES OF LIMITED PARTNERSHIP:**

**ADVANTAGES:**

* Unlimited shareholders
* Certain tax advantages
* Utilization of financial/managerial strengths of Partners
* Unlimited cap on Capital Acquisition with partnership agreement
* Liability protection for Limited Partners

**DISADVANTAGES:**

* Extensive documentation required
* Lack of legal distinction for general partners
* General partners’ personal assets unprotected
* General partners liable for Each Other’ actions
* Less protection from Excessive Taxation
* Partnership Terminated upon death or withdrawal of one of the partners
* More advantages by forming a limited liability company

**LIMITED LIABILITY PARTNERSHIP:**

A limited liability partnership (LLP) is a partnership in which some or all partners have limited liabilities.

In an LLP, each partner is not responsible or liable for another partner’s misconduct or negligence.

**KEY POINTS OF LLP:**

* LLP allow for a partnership structure where each partner’s liabilities is limited to the amount they put into the business.
* Having business partners means spreading the risk, leveraging individual skills and expertise, and establishing a division of labour.
* Limited liability means that if the partnership fails, creditors cannot go after the partner’s personal assets or income.
* LLP’s are common in professional business-like law firms, accounting firms and wealth managers.

**DIFFERENCE:**

* A limited partnership is a relationship where one or more partners are not involved in the day-to-day management of the business while a general partner may invest money into a company.
* A general partner may also be personally liable for the debts of the company, while the limited partner is not.
* A general partnership shares the business profits, debts, running business while limited partnership is like an investor. Invests money in the business but down not have any management responsibilities.
* In limited partnerships (LP’s), at least one of the owner’s is considered a ‘general’ partner who makes business decisions and is personally liable for business debts while LLP is a similar business structure but it has no general partners.

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

**ANSWER:**

**DIFFERENCE BETWEEN PARTNERSHIP AND CORPORATION:**

The major differences between partnership and corporation are as follows:

**STRUCTURE OF CORPORATION AND PARTNERSHIP:**

Corporations and partnerships differ in their structures, with corporations being more complex and including more people in the decision-making process. A corporation is an independent legal entity owned by shareholders, in which the shareholders decide on how the company is run and who manages it. A partnership is a business in which two or more individuals share ownership.

**BUSINESS STARTUP COSTS:**

Corporations are more expensive and complicated to form than partnerships. Forming a corporate includes a lot of administrative fees, and complex tax and legal requirements.

**LIABILITY OF CORPORATION AND PARTNERSHIP:**

In partnerships, the general partners are held liable for all company debts and legal responsibilities. On the other hand, corporations do not hold individual liable for the company’s debt or legal obligations.

**TAXATION OF CORPORATION AND PARTNERSHIP:**

Partnerships do not have to pay business taxes but instead the profits and losses are passed through to the individual general partners. While corporation are required to pay state and national taxes, and shareholders must also pay taxes on their salaries, bonuses and dividends.

**MANAGEMENT OF CORPORATION AND PARTNERSHIP:**

Partnerships have simpler management structures than corporations. In a partnership, all general partners decide how the company is run. General partners often assume management responsibilities or share in the decision of hiring and monitoring managers. While corporations are governed by shareholders, who conduct regular meetings to determine company management and policies.