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***Department: BBA ( 2nd Semester )***

***Section: ( A )***

***Subject: Principles of Accounting***

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**Q No.4:** Distinguish between partnership and corporation?

**Ans:**

|  |  |  |
| --- | --- | --- |
| **Description** | **Partnership** | **Corporation** |
| 1. Legal status 2. Liability of owners for business debt 3. Accounting status 4. Tax status 5. Persons with managerial authority 6. Continuity of the business | 1. Not a separate legal entity 2. Personal liability for partnership debt 3. Separate entity 4. Income taxable to partners 5. Every partner 6. New partnership is formed with the change in partners | 1. Separate legal entity 2. No personal liability for corporate debts 3. Separate entity 4. Files a corporate tax return and pays income taxes on its earnings 5. Hired professional managers 6. Indefinite existence |

**Q No.3:** Distinguish among a general partnership, limited partnership, and a limited liability partnership?

**Ans:**

1. **General partnership**

* In a general partnership, each partner has the rights and responsibilities similar to those of a sole proprietor.
* Each general partner can withdraw cash and many other assets from the business at will.
* Also, each partner has the full authority of an owner to negotiate contracts binding upon the business.
* Every partner also has unlimited personal liability for the debts of the firm.

1. **Limited partnership**

* A limited partnership has one or more general partners and one or more limited partners.
* The general partners are partners in traditional sense.
* The general partners have unlimited personal liabilities for debts of the business and the rights to make managerial decisions.
* The limited partners are basically passive investors.
* Limited partners share in the profits and losses, but they do not participate actively in management and are not personally liable for the debts of business.

1. **Limited liability partnership**

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

**Q No.2:**  Why we need adjusting entries? Define types of adjusting entries.

**Ans:**

**The need of adjusting entries**

Some transactions effect the revenue or expenses of more than one period. Therefore adjusting entries needed at the period the appropriate amount of revenue and expenses.

**For example:**

The soccer team sells their footage to the TV channels for a period of 2-3 years. At the end of each accounting period, these teams make adjusting entries recognizing the portion of their advance receipts earned the current period.

**Types of adjusting entries:**

1. **Apportioning recorded costs**

When a business make 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 benefiting for this expenditure, an adjusting entry is made to transfer an appropriate portion of the cost from the asset account to expenses account. This adjusting entry is called apportioning recorded costs.

1. **Entries to apportion un-earned revenue**

When a customer pays in advance to avail a service in latter accounting period. For example health club membership, airline tickets in advance of a schedule, etc.

For accounting purpose amount collected in advance do not represent revenue.

Because these amount have not yet earned. For this amount an adjusting entry made which is called apportioning unearned revenue.

1. **Entries to record un-recorded expenses**

An expense may be incurred in the current accounting period even though no bill has been received and no cash payment will occur until a future period. These occurred expenses are recorded by an adjusting entry made at the end of accounting period called un-recorded expenses.

1. **Entries to record un-recorded revenue**

Revenue may be accrue, or earned, during the current period, but not yet be collected or recorded in the accounting records. Revenue earn, for which no cash has been collected, is record by an adjusting entry made at end of the accounting period called record un-recorded revenue.

**Q No. 1:**

**Ans:**

* **Data:**

Cost of equipment= $75000

Residual value = $5000

Useful life = 5 years

Sol:

cost – residual value/ useful life

= 75000-5000/5

= $14000 per year

* **straight line method**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| year | computation | depreciation  expense | Accumulated  depreciation | Book value |  |
| First  Second  Third  Furth  Fifth  Sixth  Total | $70000(1)/5(1/2)  $70000(1)/5  $70000(1)/5  $70000(1)/5  $70000(1)/5  $70000(1)/5(1/2) | $7000  $14000  $14000  $14000  $14000  $7000 | $7000  $21000  $35000  $49000  $63000  $70000 | $75000  $68000  $54000  $40000  $26000  $12000  5000 |  |
| $70000 |

* **Double Declining Method**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| year | computation | Depreciation expense | Accumulated depreciation | Book value |
| First  Second  Third  Furth  Fifth  Total | $75000(40%)  $45000(40%)  $27000(400%)  $16200(40%)  $9720(40%) | $3000  $18000  $10800  $6480  $4720 | $3000  $48000  $58800  $65280  $70000 | $75000  $45000  $27000  $16200  $9720  5000 |
| $70000 |

* **MACRS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Computation | Depreciation expense | Accumulated depreciation | Basis (book value) |
| 1  2  3  4  5  6  total | $75000(20%)  $75000(32%)  $75000(19.20%)  $75000(11.52%)  $75000(11.52%)  $75000(5.76%) | $15000  $24000  $14400  $8640  $8640  $4320 | $15000  $39000  $53400  $62040  $70680  $75000 | $60000  $36000  $21600  $12960  $4320  $0 |
| $75000 |