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

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

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

Instructions: These questions should be solved and submitted in PDF or MS World format

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SECTION: A

DEPARTMENT: BBA

MODULE LEADER: QUAID IQBAL

(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

Year	Computation	Depreciation expenses	Accumulated Depreciation	Book value

First	$7000x1/5x1/2	$7000	$7000	$ 75000
Second	70000x1/5	14000	21000	68000
Third	70000x1/5	14000	35000	54000
Fourth	70000x1/5	14000	49000	40000
Fifth	70000x1/5	14000	63000	26000
			700000	
Sixth	70000x1/5x1/2	7000		12000
				5000

		$70000		

Double Declining Method:

Year	computation	Depreciation expense	Accumulated depreciation	Book value
First	$75000x40%	$30000	$30000	$ 75000
Second	$45000x40%	18000	48000	45000
Third	$27000x40%	10800	58800	27000
Fourth	$16200x40%	6480	65280	16200
Fifth	$9720x40%	4720	70000	9720
		______		500
Total		$70000		

MACRS

Year	Computation (Cost x Rate from IRS table)	Depreciation Expense	Accumulated Depreciation	Basis (Book value)

1	$75000x20%	$15000	$15000	$60000
2	$75000x32%	$ 24000	$39000	$36000
3	$75000x19.20%	$14400	$53400	$ 21600
		$8640	$62040	$12960
4	$75000x11.52%			
		$8640	$70680	$4320
5	$75000x11.52%			
		$ 4320	$75000	0
6	$75000x5.76%	____________		
		$75000		
Total				

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

Definition of Adjusting Entries

Adjusting entries are usually made on the last day of an accounting period (year, quarter, month) so that a company's financial statements comply with the accrual method of accounting. In other words, the adjusting entries are needed so that a company's:

- Income statement reports the revenues that have been *earned* during the accounting period
- Balance sheet reports the receivables that it has a right to receive as of the end of the accounting period
- Income statement reports the expenses and losses that were *incurred* during the accounting period
- Balance sheet reports the liabilities it has incurred as of the end of the accounting period

Adjusting Entries

Before financial statements are prepared, additional journal entries, called **adjusting entries**, are made to ensure that the company's financial records adhere to the revenue recognition and matching principles. Adjusting entries are necessary because a single transaction may affect revenues or expenses in more than one accounting period and also because all transactions have not necessarily been documented during the period.

Each adjusting entry usually affects one income statement account (a revenue or expense account) and one balance sheet account (an asset or liability account). For example, suppose a company has a $1,000 debit balance in its supplies account at the end of a month, but a count of supplies on hand finds only $300 of them remaining. Since supplies worth $700 have been used up, the supplies account requires a $700 adjustment so assets are not overstated, and the supplies expense account requires a $700 adjustment so expenses are not understated.

Adjustments fall into one of five categories: accrued revenues, accrued expenses, unearned revenues, prepaid expenses, and depreciation.

Purpose of Adjusting Entries

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

Types of Adjusting Entries

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

(1). Adjusting entries that convert assets to expenses:

Some cash expenditures are made to obtain benefits for more than one accounting period. Examples of such expenditures include advance payment of rent or insurance, purchase of office supplies, purchase of an office equipment or any other fixed asset. These are recorded by debiting an appropriate asset (such as prepaid rent, prepaid insurance, office supplies, office equipment etc.) and crediting cash account. This procedure is known as postponement or deferral of expenses. An adjusting entry is made at the end of accounting period for converting an appropriate portion of the asset into expense.

(2). Adjusting entries that convert liabilities to revenue:

Sometime companies collect cash for which the goods or services are to be provided in some future period. Such receipt of cash is recorded by debiting cash and crediting a liability account known as unearned revenue *account*. This procedure is known as postponement or deferral of revenue. At the end of accounting period the unearned revenue is converted into earned revenue by making an adjusting entry for the value of goods or services provided during the period.

(3). Adjusting entries for accruing unpaid expenses:

Unpaid expenses are expenses which are incurred but no cash payment is made during the period. Such expenses are recorded by making an adjusting entry at the end of accounting period. It is known as accruing the unpaid expenses.

4). Adjusting entries for accruing uncollected revenue:

Uncollected revenue is the revenue that is earned but not collected during the period. Such revenue is recorded by making an adjusting entry at the end of accounting period. It is known as accruing the uncollected revenue.

1. Accrued Income – income earned but not yet received
2. Accrued Expense – expenses incurred but not yet paid
3. Deferred Income – income received but not yet earned
4. Prepaid Expense – expenses paid but not yet incurred

Adjusting entries are also made for:

5. Depreciation
6. Doubtful Accounts or Bad Debts, and other allowances

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

(5 Marks)

GENERAL PARTNERSHIP

General partnerships are the original type of partnership. A general partner is considered the owner of the partnership. General partners are actively involved in the management of the partnership and can make decisions on the company's behalf. There can be more than one general partner.

General Partnerships offer no liability protection for the partners. All partners are held liable if one partner is sued. Many compare the general partnership to a sole proprietorship in this regard.

This type of entity has subsequently become less popular as other entity types allow for more liability protection.

LIMITED PARTNERSHIP

A Limited Partnership has both a general partner and a limited partner.

Limited Partnerships are formed when a partner is an investor in a business but is not involved in day-to-day operations. The general partner is responsible for the management of the partnership and the limited partner is generally an investor only. Limited partners are often referred to as silent partners. They invest capital in exchange for a portion of the profits of the partnership.

The liability of a limited partner is determined by their investment in the partnership. They generally have limited liability in the company's debts and liabilities, up to the amount of capital that they have invested in the business.

Limited partners must be careful though - if during litigation it is determined that they spend a significant amount of time managing the business direction, it can be determined that they were in fact acting as a general partner.

LIMITED LIABILITY PARTNERSHIP

Limited liability partnerships are the most common choice for professionals including attorneys, accountants, doctors, dentists, and other businesses that fall into the professional category.

Much like an LLC, the limited liability partnership protects the personal assets of the partners so they may not be used to satisfy business debts and liabilities. Individuals within a limited liability partnership may be held personally liable for wrongful or negligent acts but the other partners within the limited liability partnership are not liable for those acts.

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

A **partnership** is formed with at least two individuals who want to do business together and share the ownership, profits, and liabilities of the business.

A **corporation** is owned by shareholders and can be formed for profit or for non-profit. If the business is for profit, the profits are reinvested in the business and then divided among shareholders as dividends.

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.

In general partnerships, all management duties, expenses, liability and profits are shared between two or more owners. In limited partnerships, general partners share ownership responsibilities and limited partners serve only as investors.

Business Startup Costs

Corporations are more expensive and complicated to form than partnerships. Forming a corporation includes a lot of administrative fees, and complex tax and legal requirements. Corporations must file articles of incorporation, and obtain state and local licenses and permits. Corporations often hire lawyers for help with the process.

The U.S. Small Business Administration advises only established, large companies with multiple employees start corporations. Partnerships are less costly and simpler to form. Partners must register the business with the state and obtain local or state business licenses and permits.

Liability of Corporations and Partnerships

In partnerships, the general partners are held liable for all company debts and legal responsibilities. General partners' assets may be taken to pay company debts. Partnerships often include partnership agreements stating exactly what percent of the company each general partner is responsible for, and the percent can vary from partner to partner.

Corporations, on the other hand, do not hold individuals liable for the company's debt or legal obligations. The corporation is considered a separate entity and therefore the corporation itself is responsible for assuming all debts and legal fees, and the shareholders are not at risk of losing personal assets.

Taxation of Corporations and Partnerships

Partnerships do not have to pay business taxes but instead the profits and losses are "passed through" to the individual general partners, according to the U.S. Small Business Administration. Partnerships must file a tax return to report losses and profits to the Internal Revenue Service, and general partners include their share of profits and loss in the return. Corporations are required to pay state and national taxes, and shareholders must also pay taxes on their salaries, bonuses and dividends. The corporate tax rate is usually lower than the individual income tax rate, according to the SBA.

Management of Corporations and Partnerships

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.

Corporations are governed by shareholders, who conduct regular meetings to determine company management and policies. Shareholders are generally not involved in the day-to-day management of the company but instead oversee managers who run the company.