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***PROGRAMME: BBA 2ND SEMETER***

***SECTION: A***

***SUBJECT: PRICIPLES OF ACCOUNTING***

***SUBMITTED TO: SIR QUAID IQBAL***

***QUESTION: 1***

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

July 2nd 2010 life = 5years

Cost = 75000 Rv = 5000

1. Straight line

|  |  |
| --- | --- |
| NO OF YEARS | DEP |
| July – Dec (2010) | 14000 x ½ =7000 |
| Jan – Dec (2011) | 14000 |
| Jan – Dec (2012) | 14000 |
| Jan – Dec (2013 ) | 14000 |
| Jan – Dec (2014) | 14000 |
| Jan –July (2015) | 7000 |

DEP = Cost - Residual value

Useful life

= 75000-5000

5

= 70000 = 14000

5

1. Double declining method

|  |  |  |  |
| --- | --- | --- | --- |
| YEAR | BOOK VALUE | DECILINING BALANCE | ACC. DEP |
| July – Dec 2010 | 75000 (40%) ½ | 15000 | 15000 |
| Jan-Dec 2011 | 60000 (40%) | 24000 | 39000 |
| Jan – Dec 2012 | 36000 (40%) | 14400 | 53400 |
| Jan-Dec 2013 | 21600 (40%) | 8640 | 62040 |
| Jan-Dec 2014 | 12960 (40%) | 5184 | 67224 |
| Jan-Dec 2015 | 7776 (40%) ½ | 1555 | 70000 |

Residual value =5000

Dep rate = 1 x 100 = 1 x 100

Useful life 5

Rate = 20 % x 2 = 40 %

1. MACRS

YEAR DEP RATE

1. 20 %

2 32%

3 19.20%

4 11.52 %

5 11.52 %

6 5.76 %

|  |  |  |
| --- | --- | --- |
|  | YEAR | DEP BALANCE |
| 1 | July-Dec 2010 | 75000 x 20 % = 15000 |
| 2 | Jan-Dec 2011 | 75000 x 32 % = 24000 |
| 3 | Jan-Dec 2012 | 75000 x 19.20 % = 14400 |
| 4 | Jan-Dec 2013 | 75000 x 11.52 % = 8640 |
| 5 | Jan-Dec 2014 | 75000 x 11.52 % = 8640 |
| 6 | Jan – July 2015 | 75000 x 5.76 % = 4320 |

***QUESTION: 2***

Why we need adjusting entries? Define types of adjusting Entries.

***ANSWER***

***Definition and Explanation***:

Adjustable entries (also known as the end of period adjustments) are journal entries created at the end of the accounting period to adjust accounts to accurately reflect current earnings and expenses.

Preparing for adjusting entries is the fourth stage of the accounting cycle and follows the preparation of unaided trial balance. Companies that prepare their financial statements generally prepare certain adjusting entries at the end of each accounting period according to the United States generally accepted accounting principles (US-GAAP) and the International Financial Reporting Standard (IFRS).

***The purpose of adjusting entries is:***

According to the contingency concept of accounting, income is recognized in the period in which it is earned and the cost is recognized in the period in which they are experienced. Some business transactions affect revenues and expenses for more than one accounting period. For example, a service provider may receive service charges from its customers for more than one period or pay a portion of its costs in advance. All revenues received or all expenses paid in advance will not be reported on the income statement for the current accounting period. Assign them to the relevant accounting period and report them to the relevant income statement.

The purpose of adjusting entries is to allocate a fair share of revenues and expenses for the appropriate accounting period. By creating adjustable entries, a portion of the proceeds will be allocated to the accounting period in which it is earned, and part of the expenses will be allocated to the accounting period. This ensures that only the relevant income and expenses. are reported in the income statement for a particular accounting period, and that the financial statements are properly prepared according to the aggregated concept of accounting.

***When is the entry adjustment made***?

Adjustable entries are usually made at the end of the accounting period. However, depending on the accounting requirements and the nature of the business the company conducts, they can be made at the end of a quarter, a month, or even a day.

***Types and examples of adjusting entries:***

Adjustable entries can be divided into the following four types.

***(1). Adjusting entries that convert assets into expenses:***

There will be some cash costs to take advantage of more than one accounting period. Examples of such expenses are the advance payment of rent or insurance, purchase of office supplies, purchase of office equipment or any other immovable property. These are recorded by depositing the appropriate property (prepaid rent, prepaid insurance, office supplies, office equipment, etc.) and cash account. This process is called deferral or expense. Adjustable entry is made at the end of the accounting period to convert a fair share of the asset into cost.

***Examples***

On January 01, 2015, the Moon Company paid Mr. X $ 9,000 for the rent of the Head Office Building during the first quarter of the year. If the company adjusts the entries on a monthly basis, the following are the journal entries:

Entry on January 1 when Advance Pays for Rent:



Adjusting the entry on January 31 to compensate for part of the prepaid rental (property):



\* 9000/3

Since the lease, 000 9,000 upfront is a full quarter (i.e., three months), the adjustment entry made on January 31 is also made at the end of the next two months (i.e., late February and March).

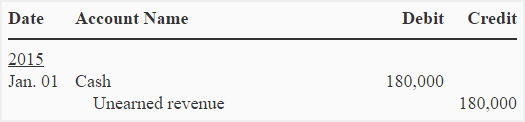
***(2). Adjusting liabilities entries into liabilities:***

For a period of time companies collect cash to provide certain goods or services in the future. Such cash receipt is recorded by debiting cash and depositing a liability account known as an unknown revenue account. This process is known as postponing or reducing income. At the end of the accounting period, the unknown income is converted into income earned by making an adjustable entry into the value of goods or services provided during that period.

***Examples:***

On January 01, 2015, Moon Company receives cash of $ 180,000 from Mr. Y (Company Customer). At the end of January, the total value of services rendered to Mr. Y was $ 15,000. If the accounts are adjusted at the end of each month, the following are the journal entries:

Admission on Jan. 1 after receiving advance payment



**Adjusting entry on January 31 to convert a portion of unearned revenue (a liability) to earned revenue**



***(3). Adjustment of entries to cover unpaid expenses:***

Unpaid expenses are those expenses, but cash is not paid during this period. Such expenses are recorded at the end of the accounting period by an adjusted entry. This is known as unpaid expenses.

***Examples:***

Moon Company pays its employees the fifth day of the month. Total salary payable for January, 500 8,500. If the Moon Company adjusts the entries at the end of each month, it will record the following adjustment entry on January 31st.

Admission Adjustment on January 31:



***(4). Adjustment of entries to generate unknown income:***

Unclaimed income means income earned but not collected during this period. Such income is recorded by making an adjusted entry at the end of the accounting period. This is known as earning unknown income.

**Examples**:

The Moon Company will be servicing Mr. Zed for $ 34,000 in January. Mr. Zed will be billed next month. The company records the revenue earned by making the following adjustment entry:

Admission adjustment on January 31



***QUESTION: 3***

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

***ANSWER***

***What is partnership?***

The partnership is a jointly owned and operated business by many people. If you start a business tomorrow and share responsibilities with one or more people, you may choose to create a partnership by default unless you choose a different structure, such as an LLC or a corporation.

The partnership is a pass-through entity. That means there is no commercial income tax on the partnership. Instead, co-owners report their share of business income and losses on their personal tax returns and pay their personal income tax rate.

***There are three basic types of partnerships***

***General Partnership***

A common partnership is a basic type of partnership. The general partner is considered a partnership owner. General partners can actively participate in the partnership and make decisions on behalf of the company. There may be more than one common partner.

General Partnership provides no liability protection for partners. If a partner is sued, all partners are liable. Many compare the general partnership with the sole proprietorship in this regard. This unit has since become less popular as other unit types allow greater liability protection.

***Limited partnership***

The limited partner has both a general partner and a limited partner.

Limited partnership occurs when the partner is an investor in the business and does not participate in day-to-day tasks. The general partner is responsible for maintaining the partnership and the limited partner is usually only an investor. Limited partners are often referred to as silent partners. They invest capital in exchange for a share in shared profits.

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, as long as they invest in the business. Limited partners however need to be careful - if they decide that they will spend considerable time managing the business direction during litigation, they may decide that they are indeed a living partner.

***Limited liability partnership***

Limited liability sharing is a very common option for professionals, including lawyers, accountants, doctors, dentists and other businesses who fall into the professional category.

Similar to LLCs, limited liability partnerships protect partners' personal property, so they are not used to meet business liabilities and liabilities. Individuals in a limited liability partnership are personally liable for wrongful or negligent acts, but other partners in a limited liability partnership are not responsible for those acts.

**QUESTION: 4**

Distinguish between partnership and corporation?

**ANSWER**

|  |  |  |
| --- | --- | --- |
|  | **Corporation** | **Partnership** |
| Definition | A legal entity which is separate from its owners. | A business entity with individuals who share the risk and benefits of business. |
| Ownership | Stockholders | Partners |
| Formed | Formed under operational state laws with Articles of Incorporation. | An agreement among the members. |
| Types | subchapter-s corporation, professional corporation | general partnership, limited partnership, limited liability partnerships |
| Management | Run by a board of directors | Run by the partners |
| Structure | Members of a corporation have to act in accordance with the corporation's charter. More structured, less flexible. Easier to transfer ownership of part of a corporation. | Partnerships have to adhere to a partnership agreement. More flexible, less structured. Each part of the business has to be individually transferred or sold. |
| Raising money | By sale of financial instruments like stocks and bonds. | From current members, getting new members, a loan |
| Liability | The stockholders are not held responsible in case of a fault, the corporation is. | The partners share the liability, and are directly responsible in case of fault. |
|  |  |  |
| Dissolution | Stockholder approval, government approval | Decision of the partners |

***THE END***