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QUESTION # 1

Data:

Cost of equipment = $75000

Useful life = 5 years

Scrap value = $5000

1. Straight line method:

Solution:

Formula =➔ $\frac{\text{cost - residual value}}{\text{Useful life}}$

$$\frac{75000-5000}{5\text{years}} = 14000 \text{ depreciation charged every year}$$

1. 14000/year
2. 14000/year
3. 14000/year
4. 14000/year
5. 14000/year

1.

STRAIGHT LINE METHOD				
Year	Computation	Depreciation Expense	Accumulated Depreciation	Book value
				$75000
1st	7000x1/5x1/2	$7000	$7000	$68000
2nd.	70000x1/5	14000	$21000	$54000
3rd	70000x1/5	14000	$35000	$40000
4th	70000x1/5	14000	$49000	$26000
5th	70000x1/5	14000	$63000	$12000
6th	7000x1/5x1/2	$7000	$70000	$50000
		Total 70000		

2.

DOUBLE DECLINING METHOD				
Year	Computation	Depreciation Expense	Accumulated Depreciation	Book value
				$75000
1st	75000x40%	30000	30000	45000
2nd.	45000x40%	$18000	48000	27000
3rd	27000x40%	10800	58800	16200
4th	16200x40%	6480	65280	9720
5th	9720x40%	4720	70000	5000
		Total 70000		

3.

MACRS METHOD				
Year	Computation Cos x Rate IRS Table	Depreciation Expense	Accumulated Depreciation	Book value
				$60000
1st	$75000x20%	$15000	$15 000	
2nd.	75000x32%	$24000	39000	36000
3rd	75000X19.20%	14400	53400	21600
4th	75000x11.52%	8640	62040	12960
5th	75000x11.52%	8640	70680	4320
6th	75000x5.76%	4320	75000	
		Total=$75000		

QUESTION # 2

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

THE NEED FOR ADJUSTING ENTREIS:

We need adjusting entries for measuring income and financial statements the life of a business consists of series of accounting periods this practice enable decision makers to compare the financial statement of successive period of and to identify significant trends.

But measuring the net income of a relatively short accounting period poises a problem some transaction effect the revenue or expense of a more than one period there for adjusting entire are needed ate the end of each period the purpose of these entries is assign to each period the appropriate amount revenue and expense.

For example:

Magazine publisher often sell two or three years of subscriptions to their publicans at the end of each accounting period these publisher make adjusting entries recognizing the portion of their advance receipt earn during the current period most companies own depreciable asset at the end of each period these companies make adjusting entire to allocate part of the cost of these assets to depreciation expense. In a summary adjusting entries are need whenever transaction effect the revenue or expense of more than one accounting period these entries assign revenue to the period in which they are earned and expense to the period in which the related goods or service are used.

In theory a business could make adjusting entries on a daily base but a practical matter these entries are made only at the end of each accounting period thus adjusting the accounts is an end of the period procedure associated with the preparation of financial statement.

Types of adjusting entries:

The exact number of adjustment needed at the end of each accounting period depends on the nature of the company's business activities however most adjusting entries fall into one of four general categories.

1. Entries to opportion costs:

A cash expenditure (or cost) that will benefit more than one accounting period usually is recorded by debating an asset account.

For example:

Supplies, unexpired insurance and so on and by crediting cash in each future period that benefits form the use of this asset and adjusting entry is made to allocate a portion of the asset's cost to expense this adjusting entry by debating the appropriate expense account.

For example: supplies expense, insurance expense and crediting the asset account.

2. Entries to opportion unearned revenue:

A business may collect cash in advance for services to be given in future accounting periods this type of transactions are recorded by debating cash in by crediting liability account.
In the period the services are given, and adjusting entry is made to record the portion of revenue earned during the period.
The adjusting entry is recorded by debating unearned revenue and by crediting revenue earned for the value of the services given.

3. Entries to record unrecorded expenses:

In expense may be incurred in the current accounting period even though no bill has been received and no cash payment will accrue until a future period these accrued expenses are recorded by an adjusting entry made at the end of the accounting period the adjusting entry is recorded by debating the appropriate expense account (for example: interest expense, salary expense) and by crediting the related liability.

4. Entries to record unrecorded revenue:

Revenue may be earned during the current period but not yet be collected or recorded in the accounting records.
Revenue earned for which no cash has been collected is recorded by an adjusting entry made at the end of the accounting period.
The adjusting entry is recorded by debating accounts receivables and by crediting revenue earned.

End of Current Period

Entries	Prior periods	Current period	Future periods
1. Entries to Opportion Recorded costs	Transaction paid future Expense in advance	Adjusting Entry	
2. Entries to opportion Unearned revenue	Transaction collected from Customers in advance	Adjusting Entry	
3. Entries to record Unrecorded expenses		Adjusting Entry	Transaction liability Will be paid
4. Entries to record Unrecorded revenue		Adjusting Entry	Transaction received Will be collected

QUESTION # 3

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

Partnership Definition: A general partnership definition is “two or more people that have agreed to engage in business practices for the purpose of profit.” Properly forming a partnership will require that the following is met:

- The partnership includes two or more people
- All partners agree to any liability that their partnership may face
- Proof that an agreement is made

It is possible for you to form a partnership orally, but oral partnerships do not provide proof that will be necessary if any legal consequences are faced. Instead, a Partnership Agreement should be used to clearly define a partnership.

1. General Partnerships:

General partnerships are businesses where each partner has total liability for the debts and actions of the partnership as a whole. Each partner can take part in the daily management of the partnership and they share equally in the profits of the business. Each partner has unlimited liability for the actions of the partnership, which includes the actions of the other partners.

2. Limited Partnerships:

- A limited partnership has advantages that do not exist in a general partnership. Each limited partner has liability for the debts of the business limited to the extent of their investment in the company. Should the business become liable for some debt or legal proceeding, the limited partners' personal assets are not at risk like those in a general partnership. Unlike general partnerships, the limited partners have no management authority or input toward the operation of the company; this is usually left to a single partner who is classified as a general partner, and is responsible for the debts and liabilities of the company.

  The general partner is usually paid a management fee. It is becoming common for limited partnerships to have a corporation or LLC become the general partner in a limited partnership, thus lessening the liability of the partnership with the protections offered by the corporation.

- An LP is a form of partnership that has two types of partners: a general partner and limited partners. There has to be at least one general partner and at least one limited partner in every LP. The general partner manages the operation of the LP. In addition, general partners are personally responsible for the liabilities of the LP. They are entitled to their share of the profits, which is determined and agreed upon in the partnership agreement. Their role is the same as that of general partners in a general partnership. General partners can be natural persons or legal entities. Therefore, businesses often use an LLC or a corporation to be the general partner of the LP, providing personal liability protection to the owners.

  Limited partners, on the other hand, only contribute to the business with their monetary investment. They are shielded from personal liabilities, but they can lose their financial investment in the LP. Limited partners have no voting power and no control over the operation of the LP. Limited partners receive payment for their financial investment, similar to a dividend paid to shareholders of a corporation. Limited partners can lose their status and be held personally responsible for business liabilities if they are found to be actively involved in the management of the business. Limited partners don't have to pay self-employment tax as general partners do. This is because they only receive "dividends" for their share of investment in the business and they are not considered self-employed as long as they stay passive in the business operation

3. Limited Liability Partnership (LLP):

An LLP is a form of partnership where all the partners enjoy limited liabilities. All partners are allowed to be involved in the management of the LLP. The procedures of operation can be spelled out in detail in the Limited Liability Partnership Agreement. Distribution of profits is also flexible.

LLPs are often preferred by professional service businesses, such as law firms, accounting firms and financial service firms. This is because partners of an LLP are not liable for the negligence or malpractice claims made against other partners. It is especially for this reason that some states do not allow licensed professionals to form an LLC. Even among the states that do allow this, some only permit certain types of professionals to choose the LLP structure. Founding partners can utilize the flexibility in management provided by an LLP to maintain control of the business, without having to give up too much say in the operation to junior partners. Unlike a general partnership, an LLP may be subject to state franchise tax.

QUESTION # 4

Distinguish between partnership and corporation?

Definition: A partnership is the default business structure for a company with multiple owners. In a partnership, co-owners report their share of the business's income and losses on their personal tax returns. A corporation, which is formed by filing articles of incorporation, is a legally separate business entity owned by shareholders. An elected board and board-appointed officers manage the corporation.

What Is a Partnership?

A partnership is a business that's jointly owned and run by multiple people. If you start a business tomorrow and share the responsibilities with one or more other people, you'd by default have a partnership unless you specifically choose a different structure, such as an LLC or corporation.

A partnership is a pass-through entity. This means that there's no business income tax on a partnership. Instead, co-owners report their share of the business's income and losses on their personal tax returns and pay their personal income tax rate.

What Is a Corporation?

A corporation is a separate legal entity. The only way to establish a corporation is to file formation paperwork with the state. The owners, called shareholders, are not personally liable for the debts or obligations of the business.

An S-corporation and C-corporation are the two main types of corporations:

Features of corporations

There are four core characteristics that typically define a business corporation:

- Transferable shares
- Centralized management under a board structure
- Limited liability
- Legal personality

Key Differences between Partnerships vs. Corporation:

PARTNERSHIP	C-CORPORATION	S-CORPORATION	
Formation	Business license + DBA + partnership agreement	Articles of incorporation, corporate bylaws, shareholder agreement, stock certificates	Articles of incorporation, corporate bylaws, shareholder agreement, stock certificates, IRS Form 2553
Ownership	Two or more people	One or more people, no more than 100 shareholders	One or more people, unlimited shareholders
Taxation	Personal taxes	Personal tax + corporate income tax	Personal taxes
Liability	Unlimited personal liability, except for LPs and LLPs	No personal liability	No personal liability
Ongoing Costs and Maintenance	Annual tax or filing fee (in some states)	Regular board meetings, shareholder meetings, maintain records, annual report	Regular board meetings, shareholder meetings, maintain records, annual report