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**Sec:A**

**Subject: Principle of accounting**

**Departamnet: BBA**

**Submitted to: Mr. Quaid**

**Q No.4:**

**Answer/below**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 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 | |

**Qno:3**

**Answer/below**

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.

**Qno :1**

**Answer/below**

**Ans:**

▪ Data:

▪ Cost of equipment=$75000

▪ Residual value=$5000

▪ Useful life= 5 years

Sol:

Cost—Residual value 75000--5000

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Useful 5

▪ **Straight Line Method:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Computation | depreciation  expense | Accumulated  depreciation | Book value |
| First  Second  Third  Fourth  Fifth  Sixth | $7000x1/5x1/2  70000x1/5  70000x1/5  70000x1/5  70000x1/5  70000x1/5x1/2 | $7000  14000  14000  14000  14000  7000  \_\_\_\_\_\_  $70000 | $7000  21000  35000  49000  63000  700000 | $75000  68000  54000  40000  26000  12000  5000 |

**▪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  $70000 | $3000  $48000  $58800  $65280  $70000 | $75000  $45000  $27000  $16200  $9720  5000 |

**▪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  $75000 | $15000  $39000  $53400  $62040  $70680  $75000 | $60000  $36000  $21600  $12960  $4320  $0 |

**Qno:2**

**Answer/below**

 The Need for adjusting Entries:

We need adjusting entries for measuring income and preparing financial statements. The life of

a business consists of series of accounting periods. This practice enables decision makers to

compare the financial statements of successive periods and to identify significant trends.

Measuring the net income of relatively short accounting periods poses a problem. Some

transactions effect the revenue or expenses of more than one period. The purpose of these

entries is to assign to each period the appropriate amounts of revenues and expenses.

**For Example:**

Soccer team sells their footage rights 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 during the current period.

Adjusting entries are needed whenever transactions affect the revenue or expense of more than

one accounting period. These entries assign revenues to the periods in which they are earned,

and expenses to those in which the goods are used.

Business could make adjusting entries on a daily basis, But as a practical matter these entries are

made only at the end of each accounting period.

▪ **Types of Adjusting Entries:**

Adjusting entries may fall into the following four types.

**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.