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

(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

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

Q3: Distinguish among a general partnership, limited partnership and a limited liability partnership? **(5 Marks)**

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

Name: Muhammad Ali Sohail

ID: 15989

Semester: 2nd (Sec-A)

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

1) Straight line

Life = 5years

Cost = 75000

Residual value = 5000

NO OF YEARS	DEPRECIATION
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

$$\textbf{Annual depreciation expense} = \frac{\text{cost of assets}-\text{residual value}}{\text{usefull life of the assets}}$$

$$\textbf{Annual depreciation expense} = \frac{75000-5000}{5}$$

Annual Depreciation expense = 14000 on 2nd July 2010

2) DOUBLE-DECLINE BALANCE:

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

Depreciation rate = $\frac{1}{\text{useful life}} \times 100 = \frac{1}{5} \times 100$

Rate = 20 % x 2 = 40 %

3) 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

ADJUSTING ENTRIES:

Adjusting Journal Entries (AJE) or adjusting entries are made to update the accounts and bring them to their correct balances.

WHY WE NEED ADJUSTING ENTRIES:

The main purpose of adjusting entries is to update the accounts to confirm with the accrual concept (the accrual concept states that income is recognized when earned regardless of when collected and expense is recognized when incurred regardless of when paid). 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 my not reflect their true values when reported in the financial statements.

For this reason adjusting entries are necessary.

TYPES OF ADJUSTING ENTRIES

1) ACCRUED INCOME (Accrued revenue):

That income which is earned but not yet received.

2) ACCRUED EXPENSE:

Those expenses which are incurred but not yet paid.

3) DEFERRED INCOME (Unearned revenue):

That income which is received but not yet earned.

4) PREPAID EXPENSE:

Those expenses which are paid but not yet incurred.

5) NON-CASH EXPENSES (estimates):

These cash are for non-cash items such as depreciation, doubtful debts, etc.

QUESTION: 3

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

ANSWER

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 legal action 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.

Question: 4

Distinguish between partnership and corporation?

ANSWER

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