**Aiman imdad I’d no : 16923. Spring semester 2020**

**BBA 2 years. Principal of Accounting final paper**

**Question 1) cost of equipment $75,000** with $5000 residual value on 2nd july with 5 years machine life

So total amount to be depreciated : 75000 – 5000 = 70,000

So total years will be 6.

|  |
| --- |
| **Depreciation schedule**  **Straight-line method with half – year convention**  **Year. Computation.** Depreciation Accumulate. Book value  Amount. Depreciation |
| $75,000  2010. $70,000 ×1/5 ×1/2. $7000. $7000. $ 70,000  2011. $70,000 ×1/5. $14000. $21000. $56,000  2012. $ 70,000 ×1/5. $14000. $35000. $42,000  2013. $70,000 ×1/5. $14000. $49,000. $28,000  2014. $ 70,000 ×1/5. $14000. $63,000. $ 14,000  2015. $ 70,000 ×1/5 ×1/2. $7000. $70,000. $7000  Total= $ 70,000 |

**Double declining method:**

**As for** straight line it was 20% =1/5

So for double declining will be 40%

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Computation | Depreciation  Expense | Accumulated  Depreciation | Book value |
|  |  |  |  | **75000** |
| 2010 | **$**75,000×40% | 30,000 | **30,000** | **45000** |
|  |  |  |  |  |
| 2011 | 45000×40% | 18000 | 48,000 | **27000** |
| 2012 | 27000×40% | 10800 | **58,800** | **16200** |
| 2013 | 16200×40% | **6,480** | 65,280 | **9720** |
| 2014 | 9720×40% | 3,888 | **69,168** | **5832** |
|  |  |  |  |  |

**Macrs Method:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Years** | Computation | Depreciation expense | Accumulated depreciation | Book value  Basis |
|  |  |  |  |  |
| **1** | **$**75,000 × 20% | $15000 | **$15000** | $60 000 |
| 2 | $75,000 × 32% | **$**24000 | $39000 | **$**36,000 |
| **3** | $75,000 × 19.2% | **$**14,400 | $53,400 | 21,600 |
| **4** | $75,000 × 11.2% | **$**8,640 | $62,040 | **12,960** |
| **5** | $75,000 ×11.2% | **$8,640** | **$** 70,680 | 4,320 |
| **6** | $75,000 ×5.76% | $4 320 | **$** 75,000 | **0** |
|  | Total | $75,000 |  |  |

**Question 2) why do we need adjusting entries? Define it types.**

**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.

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 usually made on the last day of an [accounting period](https://www.accountingcoach.com/blog/what-is-an-accounting-period) (year, quarter, month) so that a company's financial statements comply with the [accrual method](https://www.accountingcoach.com/blog/what-is-the-accrual-method) of accounting. In other words, the adjusting entries are needed so that a company's:

* Income statement reports the [revenues](https://www.accountingcoach.com/blog/what-are-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](https://www.accountingcoach.com/blog/what-is-an-expense) 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

## Types of Adjusting Entries

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

1. **Accrued Income – income** earned but not yet received

Under the accrual method of accounting, a business is to report all of the revenues (and related receivables) that it has earned during an accounting period. A business may have earned fees from having provided services to clients, but the accounting records do not yet contain the revenues or the receivables. If that is the case, an accrual-type adjusting entry must be made in order for the financial statements to report the revenues and the related receivables..

1. **Accrued Expense –** expenses incurred but not yet paid

The financial statements of a business must report all of the expenses (and related payables) that it has incurred during an accounting period. For example, a business needs to report an expense that has occurred even if a supplier's invoice has not yet been received.

Example let's assume that a company utilized a worker from a temporary personnel agency on December 27. The company expects to receive an invoice on January 2 and remit payment on January 9. Since the expense and the payable occurred in December, the company needs to accrue the expense and liability as of December 31.

1. **Deferred Income – income** received but not yet earned

A deferred revenue journal entry is needed when a business supplies its services to a customer and the services are invoiced in advance.

For example, suppose a business provides web design services and invoices for annual maintenance of 12,000 in advance. At the time of invoicing the service has not been provided and the service revenue has not been earned, it therefore needs to be credited to the deferred revenue account.

Deferred revenue is sometimes referred to as unearned revenue.

|  |  |  |
| --- | --- | --- |
| Deferred Revenue Journal Entry | | |
| **Account** | **Debit** | **Credit** |
| Accounts receivable | 12,000 |  |
| Deferred revenue account |  | 12,000 |
| **Total** | **12,000** | **12,000** |

1. **Prepaid Expense –** expenses paid but not yet incurred

Prepaid expenses ( prepayments) represent payments made for expenses which have not yet been incurred.

In other words, these are "advanced payments" by a company for supplies, rent, utilities and others that are still to be consumed. Hence, they are included in the company's assets.

Pre-paid expenses are assets ,they become expense only as the goods or services are used up.

These policies provide a service over a period of time.

Assume that on Feb 1st a business purchased one year insurance policy for $18,000

$18,000 Cash converted in to insurance policy of worth $18,000

The monthly depreciation expense is based on the following facts:

Estimated cost of building is $36,000

Life time of building is 20 years (240 months)

Using the straight line method of depreciation, the cost assumed to expire each month is 1/240 of $36,000 or $.

**Question 3) Distinguish between general partnership, limited partnership and limited liability partners.**

1. **General partnership:**

Each partner has rights and responsibilities similar to those of a sole proprietorship .

Each general partner can withdraw cash and many other assets from the business at will.

Each partner has full authority of an owner to negotiate contract binding upon business. This is called **mutual agency.**

Every partner also has unlimited personal liability for the debts of the firm. This makes general partnership dangerous form of business organization.

1. **Limited partnerships :**

A limited partnership has one or more general partners and one and more limited partners.

The **general partners** are traditional ,with unlimited personal liability and actively involves in managerial activities.

The **limited partners** or sleeping partners are basically passive investors. The share in the profit and losses of the business but do not participate in management and not personally liable for the debts of the business .

If the firm losses, the limited partners are limited to the amount they have invested in the business.

1. **Limited liability partnerships:**

In limited liability partnership some or all partners have limited liability .

In an LLP, each partner is not responsible or liable for another partner's misconduct or negligence.

**Question 4) Distinguish between partnership and corporation:**

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.

**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.

**Partnerships:**

A partnership is an unincorporated business owned by two or more partners. A partner may be either an individual or a corporation. It is often referred to as a firm.

Partnerships are also used for small businesses ,especially those that are family- owned

**Characteristics:**

* Accounting purposes, a partnership is an entity separate from the other activities of its owners .
* In law, the partnership is not separate from its owner. The law regards the partners as personally and jointly responsible for the activities of the business.
* The assets of a partnership do not belong to the business. They belong jointly to all the partners .
* Unless special provisions are made ,each partner has unlimited personal liability for the debts of the business.
* The partnership itself pays no income taxes, but the partners include their respective shares of the firm’s income in their personal income tax returns.
* A partnership ends upon the withdrawal or death of
* an existing partner .
* Admission of a new partner terminates the previous partnership and creates a new legal entity, this is only a legal distinction .
* Partnership agreements often have provisions that make the retirement of the partners and the admission of new partners routine events, don’t affect the operations of business

**Corporation:**

A corporation is a legal entity, having an existence separate and distinct from that of its owners. The owners of corporation are called stockholders ( shareholders ),and their ownership is evidenced by transferable shares **of capital stock**.

**Characteristics of corporation:**

* A corporation must obtain charter for formation and authorization from state to issue shares of capital stock. It’s formation usually requires the services of an attorney.
* As a separate legal entity the corporation may own property in its name own.
* The assets of a corporation belongs to the corporation itself, not to the stockholders .
* A corporation has a legal status in court – it may sue and be sued as if were a person.
* As a legal entity, a corporation may enter into contracts, is responsible for its own debts, and pays income taxes on its earnings.
* On daily basis corporations are run **by salaried professionals managers** ,not by their stockholders, they are primarily investors, rather than active participants.
* **The top level of a corporation’s professional management is the board of directors.**
* **These directors** are hired by stock holders and are responsible for hiring the other professional managers.
* Directors elected by stock holders means that a stock holder or group of stock holders ,owning more than 60 % of the company’s stock effectively controls the corporation. The controlling stockholders have the voting power to elect the directors.
* The directors set company policies and appoint managers and corporate officers.
* The transferability of corporate ownership, together with professional management, gives corporations a greater continuity of existence.
* The individual stock holders may sell or give their shares to someone without disrupting business operations.
* **Stockholders in a corporation has no personal liability for the debts of the business.** If a

corporation fails ,stockholders losses are limited to the amount of their equity in the business.

**Accounting for corporate income taxes:**

Corporation must pay income taxes on its earnings. Corporate income taxes are usually payable in four quarterly installments.

If the company is to properly match income taxes with the related revenue, income taxes expenses should be recognized in the period in which taxable income is earned