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**Final Term Paper Solution/Answers**

Q1:-

### Ans: +

|  |  |
| --- | --- |
| Cost of depreciable assets | 75000 |
| Estimated residual value | 5000 |
| Total amount to be dep | 70000 |
| Estimated useful life | 5 year |

|  |  |  |  |
| --- | --- | --- | --- |
| **Depreciation schedule** | | | |
| **Straight line method with half year convention** | | | |
| **Years** | **Computation** | **Depreciation Expense** | **Book Value** |
|  | | | 75000 |
| 1st | 70000\*1/5\*1/2 | 7000 | 68000 |
| 2nd | 70000\*1/5 | 14000 | 54000 |
| 3rd | 70000\*1/5 | 14000 | 40000 |
| 4th | 70000\*1/5 | 14000 | 26000 |
| 5th | 70000\*1/5 | 14000 | 12000 |
| 6th | 70000\*1/5.76% | 7000 | 5000 |
| Total | | 70000 |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | Book value | Dep Rate | Dep Exp | Acc/Dep | Net value |
| 31st Dec 2010 | 75000 | 40% | 30000 = 15000  2 | 15000 | 60000 |
| 31st Dec | 60000 | 40% | 24000 | 24000 | 36000 |
| 31st Dec | 36000 | 40% | 14400 | 14400 | 31600 |
| 31st Dec | 21600 | 40% | 8640 | 8640 | 12960 |
| 31st  Dec | 12960 | 40% | 5180 | 5184 | 7780 |
| 31st Dec | 7780 | 40% | 2780 | 2780 | 5000 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Depreciation schedule: MACRS tax method** | | | |
| **Years** | **Computation** | **Dep. Expense** | **Basis** |
| 1st | 75000\*20% | 15000 | 60000 |
| 2nd | 75000\*32% | 24000 | 36000 |
| 3rd | 75000\*19.20% | 14400 | 21600 |
| 4th | 75000\*11.52% | 8640 | 12960 |
| 5th | 75000\*11.52% | 8640 | 4320 |
| 6th | 75000\*5.76% | 4320 | 0 |
|  |  | 75000 |  |

**Q2:**

**Why we need adjusting entries? Define types of adjusting entries?**

**Answer:** The main purpose of adjusting entries is to update the accounts to conform with the accrual concept. 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 may not reflect their true values when reported in the financial statements. For this reason, adjusting entries are necessary.

If you do your own accounting, and you use the [accrual system](https://bench.co/blog/accounting/cash-vs-accrual-accounting/) of accounting, you’ll need to make your own adjusting entries.

If you do your own accounting and you use the [cash basis](https://bench.co/blog/accounting/cash-vs-accrual-accounting/) system, you likely won’t need to make adjusting entries.

No matter what type of accounting you use, if you have a bookkeeper, they’ll handle any and all adjusting entries for you

**Types of Adjusting Entries**

**The five types of adjusting entries**

**1. Accrued revenues**

When you generate revenue in one accounting period, but don’t [recognize](https://bench.co/blog/accounting/revenue-recognition/) it until a later period, you need to make an accrued revenue adjustment.

**Example adjusting entry**

In your general ledger, the adjustment looks like this. First, during February, when you produce the bags and invoice the client, you record the anticipated income.

For the sake of balancing the books, you record that money coming out of revenue.

| **Date** | **Account** | **Debit** | **Credit** |
| --- | --- | --- | --- |
| Feb. 27 | Accrued receivables | $1,200 |  |
| Feb. 27 | Revenue |  | $1,200 |

Then, when you get paid in March, you move the money from accrued receivables to cash.

| **Date** | **Account** | **Debit** | **Credit** |
| --- | --- | --- | --- |
| March 7 | Accrued receivables |  | $1,200 |
| March 7 | Cash | $1,200 |  |

**2. Accrued expenses**

Once you’ve wrapped your head around accrued revenue, accrued expense adjustments are fairly straightforward. They account for expenses you generated in one period, but paid for later.

**Example adjusting entry**

In February, you record the money you’ll need to pay the contractor as an accrued expense, debiting your labor expenses account.

| **Month** | **Account** | **Debit** | **Credit** |
| --- | --- | --- | --- |
| February 21 | Accrued expenses |  | $400 |
| February 21 | Labor expenses | $400 |  |

In March, when you pay the invoice, you move the money from accrued expenses to cash, as a withdrawal from your bank account.

| **Month** | **Account** | **Debit** | **Credit** |
| --- | --- | --- | --- |
| March 1 | Accrued expenses | $400 |  |
| March 1 | Cash |  | $400 |

**3. Deferred revenues**

If you’re paid in advance by a client, it’s deferred revenue. Even though you’re paid now, you need to make sure the revenue is recorded in the month you perform the service and actually incur the prepaid expenses.

**Example adjusting entry**

First, record the income on the books for January as [deferred revenue](https://bench.co/blog/accounting/deferred-revenue/). You’ll credit it to your deferred revenue account for now.

| **Date** | **Account** | **Debit** | **Credit** |
| --- | --- | --- | --- |
| January 6 | Cash | $2,000 |  |
| January 6 | Deferred revenue |  | $2,000 |

Then, in March, when you deliver your talk and actually earn the fee, move the money from deferred revenue to consulting revenue.

| **Date** | **Account** | **Debit** | **Credit** |
| --- | --- | --- | --- |
| March 7 | Deferred revenue | $2,000 |  |
| March 7 | Consulting revenue |  | $2,000 |

**4. Prepaid expenses**

Prepaid Expenses work a lot like deferred revenue. Except, in this case, you’re paying for something up front—then recording the expense for the period it applies to.

You rent a new space for your total manufacturing business, and decide to pre-pay a year’s worth of rent in December.

In December, you record it as prepaid rent expense, debited from an expense account.

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Prepaid rent expense | $12,000 |  |
| Cash |  | $12,000 |

Then, come January, you want to record your rent expense for the month. You’ll move January’s portion of the prepaid rent from an asset to an expense.

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Rent expense | $1,000 |  |
| Prepaid rent |  | $1,000 |

**5. Depreciation expenses**

When you depreciate an asset, you make a single payment for it, but disperse the expense over multiple accounting periods. This is usually done with large purchases, like equipment, vehicles, or buildings.

At the end of an accounting period during which an asset is depreciated, the total accumulated depreciation amount changes on your balance sheet. And each time you pay depreciation, it shows up as an expense on your income statement.

Q3:

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

# Answer:

**General partnership:**

A general partnership is a business arrangement by which two or more individuals agree to share in all assets, profits, and financial and legal liabilities of a jointly-owned business.

General partnerships offer participants the flexibility to structure their businesses however they see fit, giving partners the ability to control operations more closely.

A general partnership must satisfy the following conditions:

The partnership must minimally include two people.

All partners must agree to any liability that their partnership may incur.

The partnership should ideally be memorialized in a formal written [partnership agreement](https://www.investopedia.com/terms/a/articles-of-partnership.asp), though oral agreements are valid.

**Limited Partnership:**

A Limited Partnership is a business entity that consists of one or more General Partners, whose responsibilities include daily management of the company, and one or more Limited Partners, who do not participate in management. A General Partner may be an individual or an entity, such as a corporation.

**Limited Partnerships are typically utilized for two main purposes:**

To develop commercial real estate projects where the General Partner(s) is the organizer and manager of the construction and maintenance of the project, and the Limited Partner(s) is the investor who puts up the money for the project and then gets a return from the completed project's income stream. A Limited Partner(s) is a passive investor in this scenario. Shopping malls and apartment complexes are just a few of the typical projects that might be built and managed utilizing a Limited Partnership.

To use as an estate planning vehicle where the General Partner(s) is the parent who holds real estate (usually commercial real estate) and the Limited Partners are the heirs of the General Partner. This type of Limited Partnership is sometimes referred to as a "Family Limited Partnership." Typically, this is used when the asset in the Limited Partnership has an income stream and the parties do not want it to be sold upon the death of the General Partner.

**Limited liability partnership:-**

A limited liability partnership (**LLP**) is a partnership in which some or all partners (depending on the jurisdiction) have limited liabilities. It therefore can exhibit elements of [partnerships](https://en.wikipedia.org/wiki/Partnership) and [corporations](https://en.wikipedia.org/wiki/Corporation). In an LLP, each partner is not responsible or liable for another partner's misconduct or negligence.

Limited liability partnerships are distinct from [limited partnerships](https://en.wikipedia.org/wiki/Limited_partnerships) in some countries, which may allow all LLP partners to have limited liability, while a limited partnership may require at least one unlimited partner and allow others to assume the role of a passive and limited liability investor. As a result, in these countries, the LLP is more suited for businesses in which all investors wish to take an active role in management.

Q4:-

**Distinguish between partnership and corporation?**

Answer:

**Corporations and partnerships:-**

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.

In general partnerships, all management duties, expenses, liability and profits are shared between two or more owners. In limited partnerships, general partners share ownership responsibilities and limited partners serve only as investors

**Business Startup Costs**

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.

The U.S. Small Business Administration advises only established, large companies with multiple employees start corporations. Partnerships are less costly and simpler to form. Partners must register the business with the state and obtain local or state business licenses and permits.

**Liability of Corporations and Partnerships**

In partnerships, the general partners are held liable for all company debts and legal responsibilities. General partners' assets may be taken to pay company debts. Partnerships often include partnership agreements stating exactly what percent of the company each general partner is responsible for, and the percent can vary from partner to partner.

Corporations, on the other hand, do not hold individuals liable for the company's debt or legal obligations. The corporation is considered a separate entity and therefore the corporation itself is responsible for assuming all debts and legal fees, and the shareholders are not at risk of losing personal assets.

**Taxation of Corporations and Partnerships**

Partnerships do not have to pay business taxes but instead the profits and losses are "passed through" to the individual general partners, according to the U.S. Small Business Administration. Partnerships must file a tax return to report losses and profits to the Internal Revenue Service, and general partners include their share of profits and loss in the return. Corporations are required to pay state and national taxes, and shareholders must also pay taxes on their salaries, bonuses and dividends. The corporate tax rate is usually lower than the individual income tax rate, according to the SBA.

**Management of Corporations and Partnerships**

Partnerships have simpler management structures than corporations. In a partnership, all general partners decide how the company is run. General partners often assume management responsibilities or share in the decision of hiring and monitoring managers.

Corporations are governed by shareholders, who conduct regular meetings to determine company management and policies. Shareholders are generally not involved in the day-to-day management of the company but instead oversee managers who run the company.