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Q#2) why we need adjusting entries? Define types of adjusting entries

Ans: Adjusting entries: are journal entries recorded at the end of an accounting period to adjust income and expense accounts so that they comply with The accrual concept of accounting. Their main purpose is to match incomes and expenses to appropriate accounting periods.

Need of Adjusting entries: some transactions affect the revenue or expenses of more than one period

- Therefore adjusting entries are needed at the end of each period
- The purpose of these entries is to assign to each period the appropriate amount of revenue and expense
- Ensure that income statement only reports revenue/ losses/ expenses that is earned/ incurred during accounting period
- Receivable and liabilities in balance sheet represent true amount

Types of adjusting entries: 4 general categories

- Entries to apportion recorded costs
- Entries to apportion un-earned revenue
- Entries to record un-recorded expenses
- Entries to record un-recorded revenue

Apportioning recorded costs:

When a business makes an expenditure that will benefit more then one accounting period

. The amount is usually debited to an asset account

. **To** transfer an appropriate portion of the cost from the asset account to expense account

. Example : pre-paid expenses and depreciation cost

Apportioning unearned revenue:

. When customers pat in advance to avail a service in later accounting period

. For example Air line tickets in advance , club member ship

Apportioning unearned revenue :

. For accounting purpose amount collected in advance do not represent revenue

. Because these amount have not yet been earned

. Amounts collected from customers in advance are recorded by debiting the cash account and crediting an unearned revenue account

- Example : wages

Apportioning unearned Revenue

.the balance of an unearned revenue account is considered to be a liability

. It appears in liability section of **a** balance sheet not in the income statement

- Example : airport shuttle agreement

Q#3) Distinguish among a general partnership , limited partnership and limited liability partnership ?

Ans : General partnership : general partnerships are business where each partner has total liability for the debts and action of the partnership as a whole. Each partner can take part in the daily management of yge partnership and they share equally in the profits of the business.

- **.** A general partner ship is one in which all of the partners have the ability to actively manage or control the business
- Each partner has unlimited liability for the actions of the partnership. Which included the action of the other partners
- Partners in a general partnership don't have any limit on their responsibility for the debts of the business

Limited partnerships:

A limited partnership has advangage 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

. A limited partnership has both limited and general partners. A limited partner is one who does not gave total respossibolity for the debts of the partnership

. The most a limited partner can lose is his investment in the business

Limited liability partnership :a limited liability partnership is a partnership in which some of all partners have limited liability .

- Limited liability partnership allow for a partnership structure where each partners liabilities is limited to the amount they put into the business
- Having business partners means spreading the risk ,skills ans expertise , and establishing a division of labor
- Limited liability mean that if the partnership fails creditor cannot go after a partner personal assets or income
- Limited liability partnerships are common in professional business like law firm accounting firm

Q#4) Distinguish between partnership and corporation ?

Ans: When starting a business, one of the first decisions you will be faced with is what kind of business to register. The type of business you decide on will affect your taxes, liability and how the company is run. If you are undecided on which business structure to choose, examining five major differences between a corporation and a partnership can help you decide the best option for your business.

Partnership:- A partnership is a business in which two or more individuals share ownership.

Corporation:- 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

Key points:-

1.A Partnership is formed with at least two individuals who want to do business together and share the ownership, profits, and liabilities of the business.

1.A Corporation is owned by shareholders and can be formed for profit or for non-profit. If the business is for profit, the profits are reinvested in the business and then divided among shareholders as dividends.

Difference between Partnership and corporation:

Partnership and corporation and other forms of business associations differ in two ways. One of these is that a corporation can be owned by a specific number of shareholders who decide how the business operations are going to be conducted.

But as you dive deeper into knowing which one to choose between partnership and corporation, I'll guide you about the main difference between partnership and corporation:

Q#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**

Ans :

Straight-Line

2) Double decline balance

3) MACRS

Answer:

Straight-Line Method

· Allocates the cost of the asset to expense evenly over years asset is used.

· The life of the asset is measured in years.

· Formula is: (Cost – Residual Value) / Estimated Life = Annual Depreciation

Cost of equipment =$75,000

Residual value = $5,000

Estimated Life = 5

1st year (75000-5000)*1/5*6/12= 7000 per year deprecation

2nd year (75000-5000)*1/5*12/12= 14000 2nd year deprecation

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5th year (75000-5000)*1/5*12/12= 14000 per year deprecation

Declining Balance Method

· Formula is: (Cost – Accumulated Depreciation) * Declining Balance Rate OR Book Value * Declining Balance Rate

· Rate = Double the straight-line method rate: (100%/useful life) x 2 OR 200% / useful life

· Residual Value is not used in the calculation of annual depreciation until the last year. An asset may not be depreciated below its residual value.

Useful life = 5 years --> Straight line depreciation rate = 1/5 = 20% per year

Depreciation rate for double declining balance method

= 20% x 200% = 20% x 2 = 40% per year

Depreciation = Book value x Depreciation rate

Year	Book value	Depreciation Rate	Depreciation Expense	Ending Book value	Accumulated Depreciation
1	75000	40%	15000	60000	15000
2	60000	40%	24000	36000	39000
3	36000	40%	14400	21600	53400
4	21600	40%	8640	12960	62040
5	12960	40%	7960	5000	67224

Depreciation for 5th year 7960 is to keep book value same as salvage value

(12960- 50000) / 7960 (At this point, depreciation stops)

Year	**Basis**	%	**Depreciation Expenses**	**Accumulated Depreciation**	**Ending book value**	**M**
2010	$75,000	15,000	$11,250	$11,250	$63,750	DB
2011	$75,000	25,500	$19 125	$30,375	$44,625	DB
2012	$75,000	17,850	$13,388	$43,763	$31,238	DB
2013	$75000	16,660	$12,495	$56,258	$18,743	Sl
2014	$75000	16,660	$12,495	$68,753	$6,248	SL
2015	$75000	8,330	$6,248	$75,000	$0	Sl