

1. On January 2, 2002, Beige Company has completed the construction of a building for a total cost of P15,000,000. The building is to be depreciated on a straight – line basis over its estimated useful life of 50 years. On January 2, 2017. Beige converted the building into a commercial establishment with only minor renovation costs incurred. In consultation with an appraiser the building's sound value as of January 1, 2017 was P14,700,000. In January 1, 2018 due to sudden change in the economic environment, Beige is evaluating possible impairment. Reliable estimate revealed that the building has a remaining useful life of 10 years and will provide a total net cash inflow of P1,500,000 per year implicit rate is 10%.

What is the amount of impairment loss if any. On January 1, 2018?

- a. None
 - b. P948,000
 - c. P984,000
 - d. P1,214,000
2. Margot Corporation has one of its many departments that perform machining operations on parts that are sold to contractors. A group of machines have an aggregate book value at the latent balance sheet data (December 31, 2017) totaling P369,000. It has been determined that this group of machinery constitutes a cash generating unit for purposes of applying PAS 36. Upon analysis, the following facts about future expected cash inflows and outflows become apparent based on the diminishing productivity expected of the machinery as it ages, and the increasing cost that will be incurred to generate output from the machines.

<u>Year</u>	<u>Revenues</u>	Costs, Excluding <u>Depreciation</u>	PV of Discount <u>Rate of</u>
<u>5%</u>			
2016	P225,000	P 84,000	.952
2017	240,000	126,000	.907
2018	195,000	165,000	.864
2019	60,000	45,000	.823

The fair value less cost to sell of the machinery in this cash – generating unit is determined by reference to use machinery quotation sheets obtained from a prominent dealer. After deducting disposition costs, the net selling price is calculated as P253,500.

What is the amount of impairment loss to be recognized by Margot Company on December 31, 2017?

- a. P93,105
- b. P99,215
- c. P301,255
- d. P115,500

3. On January 1 2016, Westfield Company purchased building to be leased out under on operating lease out under an operating lease. The total payment fro the purchase is P9,900,000 which included a 10% non-recoverable purchase tax. The entity used the cost model for the investment property. The building has a useful life of 20 years. On December 31, 2017, impairment indicators are present. On such date, it was determined that the fair value less cost disposal of the building was P7,000,000. What amount of impairment loss should be recognized for 2017?
 - a. 0
 - b. 1,910,000
 - c. 2,405,000
 - d. 2,900,000

4. On July 1, 2018, Carver Company acquired Jones Company in a business combination. As a result of the combination, the amounts of goodwill recorded for each of the three reporting units of the acquired were Retailing P300,00, Service P200,000 and financing P400,000. Near the end of 2018 a new major competitor entered the market and Carver was concerned that this might cause a significant decline in the value of the goodwill for the three major reporting units December 31, 2018. On such date, the amounts of goodwill are retailing P250,000, service P100,000 and Financing P600,000
 What amount of impairment of goodwill should be recorded on December 31, 2018?
 - a. 0
 - b. 100,000
 - c. 150,000
 - d. 250,000

5. Marjorie Company acquired a machine for P320,000 on August 31, 2016. The machine has a five-year life, a P50,000 residual value and was depreciated using the straight-line method. On May 31, 2019, a test for recoverability reveals that the expected net future undiscounted cash inflows related to the continued use and eventual disposal of the machine total P150,000. The machine's actual fair value on May 31, 2019 is P135,000 with no residual value. Assuming a loss on impairment is recognized on May 31, 2019, what is the depreciation expense for June 2019?
 - a. 3,148
 - b. 4,500
 - c. 5,000
 - d. 6,352

6. Ben Company provided the following calculation of an impairment loss on December 31, 2016:

	Goodwill	Net assets
Carrying amount	3,000,000	9,000,000
Impairment loss	<u>(3,000,00)</u>	<u>(2,000,000)</u>
Adjusted carrying amounts	<u>-</u>	<u>7,000,000</u>

There has been a favorable change in the estimate of the recoverable amount of the net assets. The recoverable amount is now P8,000,000 on December 31, 2017 on December 31, 2017 if there was no impairment loss recognized on December 31, 2017. Asset are depreciated at 20% of reducing balance.

What gain on reversal of impairment should be recognized in 2017?

- a. 0

- b. 1,000,000
- c. 1,600,000
- d. 2,400,000

7. Research and development cost for Head Corporation for the year ended December 31, 2018:

Project A. Expected total revenues P7,000,000 starting in early 2020 Expected total cost will be P5,000,000. Costs incurred to date, all in 2018, are P2,200,000.

Project B. Expected total revenues P6,000,000, Costs incurred to date are P3,500,000. Expected total costs are P4,500,000. The commencement of commercial sales is uncertain due to problems in raising funds to cover the final development costs.

Project C. Expected total revenues, P3,500,000 with P1,000,000 of revenue already earned in 2018. Total development costs incurred, all in 2018, were P3,800,000.

Research projects. Total costs spend in 2018 were P1,500,000

What total amount should be charged against income in 2018 related to the research and development costs?

- a. 1,500,000
- b. 5,000,000
- c. 3,300,000
- d. 6,300,000

8. Ball Company incurred the following research and development cost during the current year:

Direct cost of doing contract research and development work for the government unit	400,000
Depreciation	300,000
Salaries	700,000
Indirect costs appropriately allocated	200,000
Materials	180,000

What is the research and development expense in the current year?

- a. 1,080,000
- b. 1,380,000
- c. 1,580,000
- d. 1,780,000

9. Dweller Inc. incurred P500,000 of capitalizable costs to develop computer software during 2015. The software will earn total revenues over its 4 – year life as follows : 2015 – P400,000 ; 2016 –P500,000 ; 2017 – P600,000; and 2018 – P500,000.

What amount of the computer software cases should be expensed in 2015?

- a. P100,000
- b. P125,000

- c. P175,000
- d. P500,000

10. Metal Company incurred the following costs during the current year:

Laboratory research aimed at discovery of knew knowledge	75,0000
Design of tools, jigs, molds and dies involving technology	22,000
Quality control during commercial production, including routine testing	35,000
Equipment acquired two years ago, having an estimated useful life of five years with no residual value, used in various R & D projects the entire year	150,000
R & D service performed by Stone Company for Metal Company	23,000
R & D service performed by Metal Company for Key Company	2,000
What amount of R & D expense should be reported in the current year?	

- a. 120,000
- b. 150,000
- c. 187,000
- d. 217,000

11. On January 1, 2016, the city government provide Eros Company a zero interest, P8,000,000 loan with a 4-years term. The prevailing market rate of interest for the type of loan is 8%. The PV of 1 at 8% for 4 periods is 3.312. what amount of deferred grant income should be recognized on December 31. 2017?

- a. 0
- b. 1,141,568
- c. 1, 649,600
- d. 2,120,000

12. City Company included once upon in each package sold. A towel offered as a premium to customer who send in 10 coupons

	2017	2018
Packages sold	500,000	800,000
Number of towels acquired P40 per towel	30,000	45,000
Number of towels distributed as premium	20,000	50,000
Number of towels to be distributed as premium Next period	5,000	10,000

What amount should be reported as premium expense in 2018?

- a. 1,800,000
- b. 2,000,000
- c. 2,200,000
- d. 2,400,000

13. Kristine Company records stamp service revenue and provides for the cost of redemptions in the stamps are sold to licensees. The past experience indicates that only 80% of the stamps sold to

licensees will be redeemed. The liability for stamp redemptions was P6,000,000 on January 1, 2018. Additional information during the year is as follows:

Stamp service revenue from stamps sold to licensees

Cost of redemptions cost would be P2,250,000. What is the estimated liability on December 31, 2018?

- a. 3,250,000
- b. 5,050,000
- c. 5,500,000
- d. 7,250,000

14. Oak Company offers a three-year warranty on its products. The entity previously estimated warranty cost to be 2% of sales. Due to a technological advance in production at the beginning of 2018, the entity now believes 1% of sales to be a better estimate of warranty costs. Warranty costs of P80,000 and P96,000 were reported in 2016 and 2017, respectively. Sales for 2018 were P5,000,000. What is the warranty expense for 2018?

- a. 50,000
- b. 88,000
- c. 100,000
- d. 138,000

15. During 2016, Mei Company introduced a new line of machines that carry a three-year warranty against defects. Based on experience, warranty costs are estimated at 2% of sales in the year of sale. Sales were P1,200,000, P3,000,000 and P4,200,000 for 2016, 2017 and 2018 respectively. Actual warranty expenditures were P18,000, P90,000 and P270,000 for 2016, 2017 and 2018 respectively. What amount should be reported as warranty liability on December 31, 2018?

- a. 0
- b. 30,000
- c. 408,000
- d. 630,000

16. After three profitable years, Clarisse Company decided to offer a bonus to the branch manager of income over P2,000,000 earned by the branch. The income for the branch was P3,500,000 before tax and before bonus for the current year. The bonus is computed on income excess of P2,000,000 after deducting the bonus but before deducting tax. What is the bonus for the current year?

- a. 300,000
- b. 375,000
- c. 400,000
- d. 700,000

17. Abe Company provides an incentive compensation plan under which the president receives a bonus equal to 10% of the income before tax but after deduction of the bonus and income tax was P360,000. What was the bonus?

- a. 36,000
- b. 60,000
- c. 66,000
- d. 90,000

18. On February 5, 2018, an employee filed a P2,000,000 lawsuit against Steel Company for damages suffered when one of Steel's plants exploded on December 20, 2017. Steel's legal counsel expects

the entity will be lose the lawsuit ad estimates the loss to be between P500,000 but e entity will not agree to the settlement. On December 31, 2017, what should be reported as liability from lawsuit?

- a. 500,000
- b. 900,000
- c. 1,000,000
- d. 2,000,000

19. Ace Company is involved in litigation regarding a faculty product sold in a prior year. The entity has consulted with an attorney and determined that there is a 50% chance of losing. He attorney estimated that the amount of any payment would be between P500,000 and P800,000 with P500,000 as the best estimate. What is the required journal entry as result of this litigation?

- a. No journal entry is required
- b. Debit Litigation Expense and credit Litigation Liability P250,000
- c. Debit Litigation Expense and credit Litigation Liability P500,000
- d. Debit Litigation Expense and credit Litigation Liability P660,000

20. During 2017, Rina Company s the defendant in a patent infringement lawsuit. The lawyer believe there is a 30% chance that the court will dismiss the case and the case and the entity will incur no outflow of economic benefits. However, if the court rules in favor of the claimant, the lawyers believe that there is a 20% chance that the entity will be required to pay damage of P200,000 and an 80% chance that the entity will be required to pay damages of P100,000. Other outcomes are unlikely. The court is expected to rule in late December 2018. There is no indication that the claimant will settle out of court. A 7% risk adjustment factor to the probability-weighted expected cash flow is considered appropriate to reflect the uncertainties in the cash flow estimates. An appropriate discount rate 5% per year. The present value of 1 at 5% for one period is 0.95. What is the measurement of the provision for lawsuit?

- a. 0
- b. 36,594
- c. 85,396
- d. 89,880

21. In May 2017, Caso Company filed suit against Wayne seeking P1,900,000 damages for patent infringement. A court verdict in November 2016 awarded Caso P1, 500,000 in damages but Wayne's appeal is not expected to be decided before 2018. Caso's counsel believes it its probable that Caso will be successful against Wayne for an estimated amount in the range between P800,000 and P1,000,000 considered the mostly likely amount. What amount should Caso record as income from the lawsuit in 2018?

- a. 0
- b. 800,000
- c. 1,000,000
- d. 1,500,000

22. On July 1, 2018, Marseto Company borrowed P100,000 on a 10%, five-year interest-bearing note. On December 31, 2018, the fair value of the note is determined to be P97,500. Marseto elects the fair value option for reporting financial liabilities. On December 31,2018, what amounts should be presented for this note?

A	B	C	D
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Interest expense	0	5,0000	10,000	10,000
Note payable	97,500	97,000	97,500	100,000
Gain(loss)	(7,500)	2,500	2,500	0

23. On January 1, 2018, London Company borrowed P500,000 on a 8%, non-interest-bearing note due in four years. The present value of the note on January 1, 2018 was P367,500. The entity elects the fair value option for reporting financial liabilities, on December 31, 2018, it is determined the fair value of the note is P408,150. At what amount should the discount on note payable be presented on December 31, 2018?
- 0
 - 91,850
 - 103,100
 - 132,500
24. On January 1, 2018, Hubert Company sold 12% bonds with a face value of P6,000,000. The bonds mature in five years and interest is paid semi-annually on June 30 and December 31. The bonds were sold for P6,462,000 to yield 10%. The entity used the effective interest method of amortization. What is the interest expense for 2018?
- 600,000
 - 644,355
 - 646,200
 - 720,000
25. On July 1, 2018, after recording interest and amortization, York Company converted P1,000,000 of 12% convertible bonds into 50,000 ordinary shares of P1 par value. On the convention date, the carrying amount of the bonds was P1,300,000, the market value of the bonds was P1,400,000, and the shares were publicly trading at P30 per share. Using the book value method, what amount of shares premium should be recorded as a result of the conversion?
- 950,000
 - 1,250,000
 - 1,350,000
 - 1,500,000
26. On December 31, 2018, Moss Company issued P1,000,000 of 11% bonds at 109. Each P1,000 bond was issued with fifty detachable share warrants, each of which entitled the bondholder to purchase one ordinary share of P5 par for P25. Immediately after issuance, the market value of each warrant was P4. On December 31, 2018, what amount should be recorded as discount or premium on issuance of bonds payable?
- 40,000 premium
 - 90,000 premium
 - 110,000 discount
 - 200,000 discount
27. On June 30, 2018, King Company had outstanding 9%. P5,000,000 face value bonds maturing June 30, 2023. Interest was payable semi-annually every June 30 and December 31. The entity did not elect the fair value option for reporting financial liabilities. On June 30, 2018, after amortization was

recorded for the period, the unamortized bond premium and bond issue cost were P30,000 and P50,000, respectively. On the date, the entity acquired all outstanding bonds on the open market at 98 and retired them. On June 30, 2018, what amount should be recognized as gain before income tax on redemption of bonds?

- a. 20,000
- b. 80,000
- c. 120,000
- d. 180,000

28. On December 31, 2016, Laurence Company reported bonds payable having a face amount of P2,000,000 and unamortized discount of P160,000. The bonds were retired at 102 on October 31, 2017. Accrued interest on October 31, 2017 amounted to P50,000 which was paid in cash. The annual discount amortization for 2017 was P30,000. What amount of gain or loss on extinguishment should be recognized for 2017?

- a. 175,000 loss
- b. 170,000 loss
- c. 125,000 loss
- d. 175,000 gain

29. On January 1, 2018, Father Company issued P8,000,000 10% bonds at 105 which are due on December 31, 2022. Each 1,000 bond was issued with 20 non-detachable share warrants, each of which entitled the bondholder to purchase one share of Feather for P45 with a par value of P20 per share. On January 1, 2018, the market value of each warrant is P4 while the bond ex-warrant was selling at 95. What is the equity component from the issuance of bonds with share warrants?

- a. 0
- b. 400,000
- c. 640,000
- d. 800,000

30. During 2018, Mae Company experienced financial difficulties and is likely to default on P5,000,000, 15% three-year note dated January 1, 2016 payable to Global bank. On December 31, 2018, the bank agreed to settle the note and unpaid interest of P750,000 for P4,000,000 cash payable on January 31, 2019. What amount should be reported as gain from extinguishment of debt in the 2018 income statement?

- a. 0
- b. 1,000,000
- c. 1,750,000
- d. 2,250,000

31. Taft Company borrowed P1,000,000 from a bank on July 1, 2016. As part of the loan agreement, the borrower granted the bank a security interest in land with original cost of P750,000. The fair value of the land on July 1, 2016 was P900,000. The land was transferred to the bank in full settlement of the loan on June 30, 2017. The land had fair value of P950,000 June 30, 2017. What amount should be recorded by the bank for the land of June 30, 2017?

- a. 0
- b. 750,000
- c. 900,000

- d. 950,000
32. Tabloid Company negotiated with a major creditor to restructure a maturing debt on December 31, 2018. The creditor was owed a principal of P10,000,000 and interest of P8,000,000 and note receivable from Tabloid Company's customer with a face value of P2,000,000. The equipment had a carrying amount of P5,000,000.
What amount should be recognized as gain from extinguishment of debt on December 31, 2018?
- 0
 - 1,200,000
 - 2,000,000
 - 4,200,000
33. On December 31, 2017, Veronica Company reported fair value of plan assets P9,000,000 and projected benefit obligation P9,400,000. On December 31, 2018, the entity reported fair value of plan assets P9,900,000 and projected benefit obligation P11,100,000. During 2018, contribution as P1,260,000 and benefits paid were P1,125,000. The discount rate for 2017 and 2018 were 10% and 9%, respectively. What is the re-measurement gain or loss attribute to plan assets for 2018?
- 45,000 gain
 - 45,000 loss
 - 135,000 gain
 - 135,000 loss
34. On January 1, 2018, before adoption of PAS 19R, Church Company had a projected benefit obligation of P4,350,000 and pension plan assets with a fair value of P2,650,000. The entity had unrecognized past service cost of P450,000 and an unrecognized actuarial gain of P150,000. The entity decided to adopt PAS 19R on January 1, 2018. What is included in the journal entry to effect the initial adoption on January 1, 2018 of PAS 19R?
- No entry
 - Debit expense P300,000
 - Debit retained earnings P300,000
 - Debit prepaid/accrued benefits cost P450,000
35. Rapp Company leased a new machine to a lessee on January 1, 2018. The lease is an operating lease and expires on January 1, 2023. The annual rental is P90,000. Additionally, on January 1, 2023, the annual rental is P90,000. Additionally, on January 1, 2018, the lessee paid P50,000 to the lessor as a lease bonus and P25,000 as a security deposit to be refundable upon expiration of the lease. What amount of rental revenue should be recognized for 2018?
- 90,000
 - 100,000
 - 125,000
 - 140,000
36. Wall Company leased office premise to a lessee for five-year term beginning January 1, 2018. Under the terms of the operating lease, rent for the first year is P80,000 and rent for year two through five is P125,000 per annum. However, as an inducement to enter the lease, Wall granted the lessee the first six months of the lease rent-free. What amount should be reported as rental income for 2018?

- a. 80,000
- b. 180,000
- c. 116,000
- d. 120,000

37. On January 1, 2018, Wren Company leased a building to a lessee under an operating lease for ten years at P500,000 per year, payable the first day for each year. The lessor paid P150,000 to real estate broker a finder fee. The building is depreciated P120,000 per year. The entity incurred insurance and property tax expense totaling P90,000. What is the net rental income for 2018?
- a. 275,000
 - b. 290,000
 - c. 350,000
 - d. 365,000
38. Adrian Company leased an office space from a lessor at an annual rental of P300,000 on January 1, 2016. The lease will commence on January 1, 2016 and will end on December 31, 2019. The lease agreement specifies that rental will be paid at the beginning of each year will increase at 10% annually. What amount of rent expense should be recognized for 2017?
- a. 300,000
 - b. 330,000
 - c. 348,075
 - d. 363,000
39. On October 1, 2016, Nova Company leased office space at a monthly rental of P350,000 for ten years expiring on September 30, 2026. Payment is made at the start of every month. As an inducement to enter into the lease, the lessor permitted the lease to occupy the premises rent-free from October 1, 2016 to December 31, 2016. On December 31, 2017, what amount should be recognized as accrued rent payable?
- a. 0
 - b. 981,750
 - c. 1,023,750
 - d. 4,095,000
40. Christopher Company leased machine on January 1, 2016 with the following information:
- | | |
|---|----------|
| Annual rental payable at the beginning of each lease year | 400,000 |
| Lease term | 10 years |
| Useful life of machine | 12 years |
| Implicit interest rate | 14% |
| PV of an annuity of 1 in advance for 10 periods at 14% | 5.95 |
| PV of 1 for 10 periods at 14% | 0.27 |
- The entity has the option to purchase the machine on January 1, 2026 by paying P500,000 which approximates the fair value of the machine on option exercise date. What amount should be recognized initially as lease liability?
- a. 0
 - b. 2,245,000
 - c. 2,380,000
 - d. 2,515,000

41. Mane Company lease equipment with a ten-year useful life, from Joy Company on January 1, 2016 for an eight-year period expiring December 31, 2024. Equal annual payments under the lease are P800,000 and are due on January 1 of each year. The first payment was made on January 1, 2016. The rate of interest contemplated by Mane and Joy is 8%. The cash selling price of the equipment on Joy's accounting records was P4,200,000. The lease provide for a bargain purchase option on the part of the lessee upon the lease expiration. What total amount of expense should Mane recognize for the year ended December 31, 2016?
- 496,5000
 - 829,700
 - 893,700
 - 953,825
42. Howe Company leased equipment to lessee on January 1, 2016 for an eight-year expiring December 31, 2023. Equal payments under the lessee are P600,000 and are due January 1. of each year. The first payment was made on January 1, 2016. The list selling price of the equipment P3,520,000 and the carrying amount is P2,800,000. The lease is appropriately accounted for as a sales-type lease. The present value of the lease payments is P3,300,000. What amount on the profit should be reported for 2016?
- 0
 - 90,000
 - 500,000
 - 720,000
43. Orville Company is a dealer in equipment. The entity leased equipment to a lessee on January 1, 2016 for an eight-year period expiring January 1, 2024. Equal annual payments under the lease are due at the end of each year beginning December 31, 2016. The lease agreement included a guaranteed residual value of P200,000 and a implicit rate of 100%. it was determined that the fair value of the asset is P3,000,000 the carrying amount is P2,500,000 and the present value of the minimum lease payment at 10% is P2,760,900. The PV of 1 at 10% for 8 periods is 0.467, and the PV of an ordinary annuity of 1 at 10% for 8 periods is 5.335. what is the total financial revenue over the lease term?
- 1,379,156
 - 1,439,100
 - 1,498,594
 - 1,558,538
44. On January 1, 2016, Yole Company signed a 10-year non-cancelable lease agreement to lease an equipment to Warehouse Company. The agreement required equal rental payments at the each year beginning December 31, 2016. The fair value of the building on January 1, 2016 is P6,000,000 and the carrying amount is P5,000,000. The equipment has an estimated economic life of 10 years with no residual value. At the termination of the lease, the title to the building will be transferred to the lessee. The lessee's incremental borrowing rate is 11%. The lessor determined the annual rental to insure a 10% rate of return which is known to the lessee. What total amount of income should be the lessor recognize in 2016 if the transaction is treated as sales type?
- 1,000,000
 - 1,500,000
 - 1,600,000
 - 1,660,000

45. On December 31, 2016, Lane Company sold equipment and simultaneously leased it back for twelve years. Pertinent information at this date is as follows:
 Sales price
 Carrying amount
 Estimated remaining economic life
 On December 31, 2016, what amount should be reported a deferred gain from the sale?
- 0
 - 110,000
 - 112,000
 - 120,000
46. On January 1, 2018, Halt Company sold a computer system to Finance Company for P5,000,000 and immediately leased the computer system back. The computer was carried on Halt's books at value of P4,400,000. The term of the non-cancelable lease is 10 years and title will transfer to the lessee at the end of the lease term. The lease agreement required equal rental payments of P830,000 at the end of the lease term. The lease agreement required equal rental payments of P830,000 at the end of the year. The implicit rate is 10%. The computer has a fir value of P5,000,000 on January 1, 2018, and an estimated economic life of 12 years. Halt Company paid executor costs of P100,000 for the year. What is the deferred gain on December 31, 2018?
- 440,000
 - 540,000
 - 550,000
 - 600,000
47. On January 1, 2018 Hook Company sold equipment with a carrying amount of P100,000 and a remaining useful life of ten years for P150,000. The entity immediately leased the equipment bac under a ten-year finance lease with a present value of P150,000 and will depreciate the equipment using the straight-line method. The entity made the first annual lease payment of P24,412 in December 2018. On December 31, 2018, what amount should be reported as unearned gain on equipment sales?
- 0
 - 25,588
 - 45,000
 - 50,000
48. Barton Inc. received the following information from its pension plan trustee concerning the operation of the company's defined – benefit pension plan, for the year ended December 31,2016.

	<u>January 1, 2016</u>	<u>December 31,2016</u>
Fair value of pension plan assets	P4,200,000	P4,500,000
Defined benefit obligation	4,800,000	5,160,000
Accumulated OCI – Net Gain / Loss -0-		(90,000)

The service costs component of pension expense for 2016 is P360,00 and the past service cost due to an increase in benefits is P60,000. The discount rate is 10%. What is the amount of pension expense for 2016?

- a. P360,000
- b. P432,000
- c. P480,000
- d. P531,000

49. At the end of the current year, Kennedy Co. has a defined benefit obligation of P335,000 and pension plan asset with a fair value of P245,000. The amount of the vested benefits for the plan is P225,000. Kennedy has an accumulated actuarial gain of P8,300. What account and amount related to its pension plan will be reported on the company's statement of financial position?

- a. Pension liability of P74,300
- b. Pension Liability of P90,000
- c. Pension asset of P223,300
- d. Pension asset of P110,000

50. On January 1, 2018, Alyanna Company had 110,000 shares issued and 100,000 shares outstanding. The entity had the following transaction in 2018:

March 1	Issued 15,000 shares
June 1	Resold 2,500 shares of treasury
September 1	Completed a 2-for-1 shares split

What is the number of shares outstanding on December 31, 2018?

- a. 117,500
- b. 230,000
- c. 235,000
- d. 250,000

51. Rudd Company had 700,000 ordinary shares authorized and 300,000 shares outstanding on December 31, 2016. The following events occurred during 2017:

January 31	Declared 10% stock dividend
June 30	Purchase 100,000 shares
August 1	Reissued 50,000
November 30	declared 2-for-1 stocks split

On December 31, 2017, how many ordinary shares are outstanding?

- a. 560,000
- b. 600,000
- c. 630,000
- d. 660,000

52. Arp Company reported the following outstanding share capital on December 31, 2018:

- 30,000 preference shares 5% cumulative, par value P10, fully participating as to dividends were in arrears.
- 200,000 ordinary shares, par value P1

On December 31, 2018, the entity declared dividends of P100,000. What was the amount of dividends payable to ordinary stockholders?

- a. 10,000
- b. 34,000
- c. 40,000
- d. 47,500

53. At Dec. 31, 2017 Proof Company had 450,000 shares of ordinary share outstanding. On September 1, 2017 an additional 150,000 shares of ordinary share were issued. In addition, Proof had P10,000,000 of 6% convertible bonds outstanding at December 31, 2017 which are convertible 300,000 shares of ordinary share. The carrying value of bonds as of December 31, 2017 and based on a rate of 8% is P9,205,800. No bonds were converted into ordinary shares in 2014. The net income for the year ended December 31, 2018 was P3,750,000

Assuming the income tax rate was 32%, what should be the diluted earnings per share for the year ended Dec 31, 2018 of Proof Company?

- P5.20
 - P5.31
 - P8.44
 - P7.50
54. Salvation Corporation has two classes of securities outstanding – ordinary share and an 8% convertible bond issue with a face amount of P16,000,000. Interest payments dates of the bond issue are June 30 and December 31. The conversion clause in the bond indenture entitles the bondholder to receive forty (40) shares of P20 per value ordinary shares in exchange for each P1,000 bond. On June 30, 2017, the holders of P2,400,000 face value bonds exercised the conversion privilege. The equity component of the convertible debt at the time of issue is P950,000. The market price of the bonds on the date was P1,100 and the market price of the ordinary share was P35. The total unamortized bond discount at the date of conversion was P1,000,000.

In applying the book value method, what amount should Salvation credit to the “Share premium in excess of Par” account as a result of this conversion?

- P160,000
 - P330,000
 - P472,500
 - P1,440,00
55. On December 31, 2016, the shareholders equity section of Marvel Company’s balance sheet appeared as follows:

Contributed capital:

Common stock P8 par value, 200,000 shares authorized issued and Outstanding 60,00 shares	P480,000
Additional paid in capital	<u>1,280,000</u>
Total	1,760,000
Retained earnings	<u>824,000</u>
Total	P2,584,000

The following are selected transactions involving stockholders equity in 2017:

On January 4, 2017 the board of directors obtained authorization for 20,000 shares of P40 par value non – cumulative preferred stock (that carried an indicated divided rate of P4 per share was callable at P42 per share. On January 14, the company sold 12,000 shares of preferred stock at P40 per share and issued another 2,000 in exchange for an equipment valued at P80,000. On March 8 the board directors declared 2 for 1 split on the common stock. On April 20 after the stock split, the company purchased 1,000 shares of common stock for the treasury at an average price of P12 per share, 1,000 of these shares subsequently were sold on May 1 at an average price of P16 per share. On July 15. The board of directors declared a cash dividend of P4 per share. On July 15 the board of directors declared a cash dividend of P4 per share on the preferred stocks and P140 on common shares. The date of record was July 21 and the dividends were paid on August 15. The board of directors declared a 15% stock dividend on November 28 when the common stock was selling for P20 per share. The date of record was on December 15 and dividend was to be distributed on January 5, 2018. Net loss for the year, P215,000.

What is the balance of the stockholder's equity of Marvel Company as of December 31 ,2017?

- a. P2,720,800
- b. P2,780,800
- c. P2,802,800
- d. P2,820,800

56. On December 1, 2018, Nilo Company declared a property dividend of marketable securities to be distributed on December 31, 2018 to shareholders of record on December 15, 2018. On December 1, 2018, the trading what is the effect of this property dividend on 2018 retained earnings after all nominal accounts are closed?
- a. 78,000 decrease
 - b. 60,000 decrease
 - c. 0
 - d. 18,000 increase
57. Mine Company declared and distributed a 15% share dividend with fair value of P5,000,000 and par value of P4,000,000 and a 30% share dividend with a fair value of P10,000,000,000 and par value of P7,000,000. What amount should be recognized as share premium from share dividend?
- a. 0
 - b. 1,000,000
 - c. 3,000,000
 - d. 4,000,000
58. At the current year-end, Danica Company issued 4,000 ordinary shares of P100 par value in connection with stocks dividend. The market value per share on the date of declaration was P150. The shareholder's equity immediately before issuance of stock dividend comprised share capital P1000 par P2,000,000, share premium P3,000,000 and retained earnings P1,500, 000. What amount should be reported as retained earnings immediately after the stock dividend?
- a. 900,000
 - b. 1,100,000
 - c. 1,500,000
 - d. 2,100,000

59. On July 1, 2016, Bart Company had 200,000 ordinary shares of P10 par outstanding and the market price of the share is P12. On the same date, the entity declared a 1-for-2 reverse share split. The par of the was increased from P10 to P20 and one new P20 pare share was issued for each two P10 shares outstanding. Immediately before the 1-for2 reverse stock split, the share premium was P450,000. What is the balance of the share premium account immediately after reverse stock split is affected.

- a. 0
- b. 450,000
- c. 650,000
- d. 850,000

60. Kevin Company sustained heavy losses for several years and underwent quasi-reorganization via recapitalization on December 31, 2016. The entity provided the following information:

	Fair Value	Carrying Amount
Inventory	5,700,000	6,000,000
Equipment	7,200,000	8,000,000

The share capital is P6,000,000 with a P6 par value, share premium is P1,500,00 and the deficit is P6,200,000 before the adjustment. The par value is reduce by 1/3 of the original amount. What amount must the shareholders contribute in order to eliminate the deficit?

- a. 0
- b. 1,800,000
- c. 850,000
- d. 900,000

61. During 2016, Super Company sold a comic strip to Fantasy Company and will receive royalties of 20% of future revenue associated with the comic strip. On December 31, 2016, Super received royalty payments of P 200,000 Fantasy reported revenue of P 1,500,000 in 2017 from the comic strip what amount should Super report as royalty revenue in 2017?

- a. 125,000
- b. 175,000
- c. 200,000
- d. 300,000

62. Joana Company had a trademark that was licensed to Marie Company for royalties of 15% of sales of the trademark items. Royalties are payable semi-annually on March 15 for sales in July through December of the prior year, and on September 15 for sales in January through June of the current year. The entity received royalties of P 1,000,000 and P 1, 200,000 on March 15, 2016 and March 15, 2017, respectively and P 1,500,00 and P 1, 700,000 on September 14, 2016 and September 15 2017, respectively. The license estimated that sales of the trademark items would total P 6,000 for July through December 2017. What amount of royalty revenue should be reported in 2017?

- a. 2,600,000
- b. 2, 900,000
- c. 3, 800, 000
- d. 4, 100,000

63. Rill Company owns a 20% royalty interest in an oil well. The entity receives royalty payments on January 31, for the oil sold between the previous June 1 and November 30 and July 31 for oil sold between December 1 and May 31 Production show the following oil sales:

June 1, 2016 – November 30, 2016	300,000
December 1, 2016 – December 31, 2016	50,000
December 1, 2016 – May 31, 2017	400,000
June 1, 2017 – November 30 2017	325,000
December, 2017 – December 31, 2017	70,000

What amount should be reported royalty revenue for 2017?

- a. 140,000
- b. 144,000
- c. 149,000
- d. 159,000

64. Ina Company had the following beginning and ending balances in prepaid experienced and accrued liabilities for the current year:

	Prepaid expenses	Accrued liabilities
Beginning balance	5,000	8,000
Ending balance	10,000	20,000

Debits to operating expense totaled P100,000. What amount paid for operating expenses during the current year?

- a. 83,000
- b. 93,000
- c. 107,000
- d. 117,000

65. Richard Company disclosed supplemental information on the effect of changing prices. The entity computed the increase in current cost of inventory as follows:

Increase in current cost (normal peso)	1,500,000
Increase in current cost (constant peso)	1,200,000

What amount should be disclosed as the inflation component of the increase in current cost?

- a. 300,000
- b. 1,200,000
- c. 1,500,000
- d. 2,700,000

66. On December 31, 2016, Kim Company owned two assets as follows:

	Equipment	Inventory
Current cost	100,000	80,000
Recoverable amount	95,000	90,000

The entity voluntarily disclosed supplementary information about current cost on December 1, 2016. In such a disclosure, what amount should be reported as total assets?

- a. 175,000
- b. 180,000
- c. 185,000
- d. 190,000

67. On December 30, 2016, Future Company paid P2,000,000 for land. On December 31, 2016, the current value of the land was P2,000,000. Ignoring income tax, by what amount should shareholders equity be increased for 2016 and 2017 in current value financial statements?

	a	b	c	d
2016	0	0	20,000	200,000
2017	50,000	250,000	0	50,000

68. David Company reported the following machinery on December 31, 2016

	Cost	Accumulated depreciation
Acquired in December 2013	4,000,000	1,600,000
Acquired in December 2015	1,000,000	200,000

Index number at the end of each year are 120 for 2013, 125 for 2015, and 350 for 2016. What should be reported in a hyperinflationary statement of financial position prepared on December 31, 2016 as the carrying amount of the machinery?

- a. 3,200,000
- b. 7,800,000
- c. 8,960,000
- d. 9,240,000

1. On January 2, 2002, Beige Company has completed the construction of a building for a total cost of P15,000,000. The building is to be depreciated on a straight – line basis over its estimated useful life of 50 years. On January 2, 2017. Beige converted the building into a commercial establishment with only minor renovation costs incurred. In consultation with an appraiser the building's sound value as of January 1, 2017 was P14,700,000. In January 1, 2018 due to sudden change in the economic environment, Beige is evaluating possible impairment. Reliable estimate revealed that the building has a remaining useful life of 10 years and will provide a total net cash inflow of P1,500,000 per year implicit rate is 10%.

What is the amount of impairment loss if any. On January 1, 2018?

- a. None
 - b. P948,000
 - c. P984,000
 - d. P1,214,000
2. Margot Corporation has one of its many departments that perform machining operations on parts that are sold to contractors. A group of machines have an aggregate book value at the latent balance sheet data (December 31, 2017) totaling P369,000. It has been determined that this group of machinery constitutes a cash generating unit for purposes of applying PAS 36. Upon analysis, the following facts about future expected cash inflows and outflows become apparent based on the diminishing productivity expected of the machinery as it ages, and the increasing cost that will be incurred to generate output from the machines.

<u>Year</u>	<u>Revenues</u>	Costs, Excluding	PV of Discount
		<u>Depreciation</u>	<u>Rate of</u>
5%			
2016	P225,000	P 84,000	.952
2017	240,000	126,000	.907
2018	195,000	165,000	.864
2019	60,000	45,000	.823

The fair value less cost to sell of the machinery in this cash – generating unit is determined by reference to use machinery quotation sheets obtained from a prominent dealer. After deducting disposition costs, the net selling price is calculated as P253,500.

What is the amount of impairment loss to be recognized by Margot Company on December 31, 2017?

- a. P93,105
- b. P99,215
- c. P301,255
- d. P115,500

3. On January 1 2016, Westfield Company purchased building to be leased out under on operating lease out under an operating lease. The total payment fro the purchase is P9,900,000 which included a 10% non-recoverable purchase tax. The entity used the cost model for the investment property. The building has a useful life of 20 years. On December 31, 2017, impairment indicators are present. On such date, it was determined that the fair value less cost disposal of the building was P7,000,000. What amount of impairment loss should be recognized for 2017?
- 0
 - 1,910,000
 - 2,405,000
 - 2,900,000
4. On July 1, 2018, Carver Company acquired Jones Company in a business combination. As a result of the combination, the amounts of goodwill recorded for each of the three reporting units of the acquired were Retailing P300,00, Service P200,000 and financing P400,000. Near the end of 2018 a new major competitor entered the market and Carver was concerned that this might cause a significant decline in the value of the goodwill for the three major reporting units December 31, 2018. On such date, the amounts of goodwill are retailing P250,000, service P100,000 and Financing P600,000
- What amount of impairment of goodwill should be recorded on December 31, 2018?
- 0
 - 100,000
 - 150,000
 - 250,000
5. Marjorie Company acquired a machine for P320,000 on August 31, 2016. The machine has a five-year life, a P50,000 residual value and was depreciated using the straight-line method. On May 31, 2019, a test for recoverability reveals that the expected net future undiscounted cash inflows related to the continued use and eventual disposal of the machine total P150,000. The machine's actual fair value on May 31, 2019 is P135,000 with no residual value. Assuming a loss on impairment is recognized on May 31, 2019, what is the depreciation expense for June 2019?
- 3,148
 - 4,500
 - 5,000
 - 6,352

6. Ben Company provided the following calculation of an impairment loss on December 31, 2016:

	Goodwill	Net assets
Carrying amount	3,000,000	9,000,000
Impairment loss	<u>(3,000,00)</u>	<u>(2,000,000)</u>
Adjusted carrying amounts	<u>-</u>	<u>7,000,000</u>

There has been a favorable change in the estimate of the recoverable amount of the net assets. The recoverable amount is now P8,000,000 on December 31, 2017 on December 31, 2017 if there was no impairment loss recognized on December 31, 2017. Asset are depreciated at 20% of reducing balance.

What gain on reversal of impairment should be recognized in 2017?

- 0

- b. 1,000,000
- c. 1,600,000
- d. 2,400,000

7. Research and development cost for Head Corporation for the year ended December 31, 2018:

Project A. Expected total revenues P7,000,000 starting in early 2020 Expected total cost will be P5,000,000. Costs incurred to date, all in 2018, are P2,200,000.

Project B. Expected total revenues P6,000,000, Costs incurred to date are P3,500,000. Expected total costs are P4,500,000. The commencement of commercial sales is uncertain due to problems in raising funds to cover the final development costs.

Project C. Expected total revenues, P3,500,000 with P1,000,000 of revenue already earned in 2018. Total development costs incurred, all in 2018, were P3,800,000.

Research projects. Total costs spend in 2018 were P1,500,000

What total amount should be charged against income in 2018 related to the research and development costs?

- a. 1,500,000
- b. 5,000,000
- c. 3,300,000
- d. 6,300,000

8. Ball Company incurred the following research and development cost during the current year:

Direct cost of doing contract research and development work for the government unit	400,000
Depreciation	300,000
Salaries	700,000
Indirect costs appropriately allocated	200,000
Materials	180,000

What is the research and development expense in the current year?

- a. 1,080,000
- b. 1,380,000
- c. 1,580,000
- d. 1,780,000

9. Dweller Inc. incurred P500,000 of capitalizable costs to develop computer software during 2015. The software will earn total revenues over its 4 – year life as follows : 2015 – P400,000 ; 2016 –P500,000 ; 2017 – P600,000; and 2018 – P500,000.

What amount of the computer software cases should be expensed in 2015?

- a. P100,000
- b. P125,000

- c. P175,000
- d. P500,000

10. Metal Company incurred the following costs during the current year:

Laboratory research aimed at discovery of knew knowledge	75,0000
Design of tools, jigs, molds and dies involving technology	22,000
Quality control during commercial production, including routine testing	35,000
Equipment acquired two years ago, having an estimated useful life of five years with no residual value, used in various R & D projects the entire year	150,000
R & D service performed by Stone Company for Metal Company	23,000
R & D service performed by Metal Company for Key Company	2,000

What amount of R & D expense should be reported in the current year?

- a. 120,000
- b. 150,000
- c. 187,000
- d. 217,000

11. On January 1, 2016, the city government provide Eros Company a zero interest, P8,000,000 loan with a 4-years term. The prevailing market rate of interest for the type of loan is 8%. The PV of 1 at 8% for 4 periods is 3.312. what amount of deferred grant income should be recognized on December 31. 2017?

- a. 0
- b. 1,141,568
- c. 1, 649,600
- d. 2,120,000

12. City Company included once upon in each package sold. A towel offered as a premium to customer who send in 10 coupons

	2017	2018
Packages sold	500,000	800,000
Number of towels acquired P40 per towel	30,000	45,000
Number of towels distributed as premium	20,000	50,000
Number of towels to be distributed as premium Next period	5,000	10,000

What amount should be reported as premium expense in 2018?

- a. 1,800,000
- b. 2,000,000
- c. 2,200,000
- d. 2,400,000

13. Kristine Company records stamp service revenue and provides for the cost of redemptions in the stamps are sold to licensees. The past experience indicates that only 80% of the stamps sold to

licensees will be redeemed. The liability for stamp redemptions was P6,000,000 on January 1, 2018. Additional information during the year is as follows:
Stamp service revenue from stamps sold to licensees
Cost of redemptions cost would be P2,250,000. What is the estimated liability on December 31, 2018?

- a. 3,250,000
- b. 5,050,000**
- c. 5,500,000
- d. 7,250,000

14. Oak Company offers a three-year warranty on its products. The entity previously estimated warranty cost to be 2% of sales. Due to a technological advance in production at the beginning of 2018, the entity now believes 1% of sales to be a better estimate of warranty costs. Warranty costs of P80,000 and P96,000 were reported in 2016 and 2017, respectively. Sales for 2018 were P5,000,000. What is the warranty expense for 2018?

- a. 50,000**
- b. 88,000
- c. 100,000
- d. 138,000

15. During 2016, Mei Company introduced a new line of machines that carry a three-year warranty against defects. Based on experience, warranty costs are estimated at 2% of sales in the year of sale. Sales were P1,200,000, P3,000,000 and P4,200,000 for 2016, 2017 and 2018 respectively. Actual warranty expenditures were P18,000, P90,000 and P270,000 for 2016, 2017 and 2018 respectively. What amount should be reported as warranty liability on December 31, 2018?

- a. 0
- b. 30,000
- c. 408,000
- d. 630,000**

16. After three profitable years, Clarisse Company decided to offer a bonus to the branch manager of income over P2,000,000 earned by the branch. The income for the branch was P3,500,000 before tax and before bonus for the current year. The bonus is computed on income excess of P2,000,000 after deducting the bonus but before deducting tax. What is the bonus for the current year?

- a. 300,000**
- b. 375,000
- c. 400,000
- d. 700,000

17. Abe Company provides an incentive compensation plan under which the president receives a bonus equal to 10% of the income before tax but after deduction of the bonus and income tax was P360,000. What was the bonus?

- a. 36,000
- b. 60,000**
- c. 66,000
- d. 90,000

18. On February 5, 2018, an employee filed a P2,000,000 lawsuit against Steel Company for damages suffered when one of Steel's plants exploded on December 20, 2017. Steel's legal counsel expects

the entity will lose the lawsuit and estimates the loss to be between P500,000 but the entity will not agree to the settlement. On December 31, 2017, what should be reported as liability from lawsuit?

- a. 500,000
- b. 900,000
- c. 1,000,000
- d. 2,000,000

19. Ace Company is involved in litigation regarding a faulty product sold in a prior year. The entity has consulted with an attorney and determined that there is a 50% chance of losing. The attorney estimated that the amount of any payment would be between P500,000 and P800,000 with P500,000 as the best estimate. What is the required journal entry as result of this litigation?

- a. No journal entry is required
- b. Debit Litigation Expense and credit Litigation Liability P250,000
- c. Debit Litigation Expense and credit Litigation Liability P500,000
- d. Debit Litigation Expense and credit Litigation Liability P660,000

20. During 2017, Rina Company is the defendant in a patent infringement lawsuit. The lawyer believes there is a 30% chance that the court will dismiss the case and the case and the entity will incur no outflow of economic benefits. However, if the court rules in favor of the claimant, the lawyers believe that there is a 20% chance that the entity will be required to pay damage of P200,000 and an 80% chance that the entity will be required to pay damages of P100,000. Other outcomes are unlikely. The court is expected to rule in late December 2018. There is no indication that the claimant will settle out of court. A 7% risk adjustment factor to the probability-weighted expected cash flow is considered appropriate to reflect the uncertainties in the cash flow estimates. An appropriate discount rate 5% per year. The present value of 1 at 5% for one period is 0.95. What is the measurement of the provision for lawsuit?

- a. 0
- b. 36,594
- c. 85,396
- d. 89,880

21. In May 2017, Caso Company filed suit against Wayne seeking P1,900,000 damages for patent infringement. A court verdict in November 2016 awarded Caso P1,500,000 in damages but Wayne's appeal is not expected to be decided before 2018. Caso's counsel believes it is probable that Caso will be successful against Wayne for an estimated amount in the range between P800,000 and P1,000,000 considered the most likely amount. What amount should Caso record as income from the lawsuit in 2018?

- a. 0
- b. 800,000
- c. 1,000,000
- d. 1,500,000

22. On July 1, 2018, Marseto Company borrowed P100,000 on a 10%, five-year interest-bearing note. On December 31, 2018, the fair value of the note is determined to be P97,500. Marseto elects the fair value option for reporting financial liabilities. On December 31, 2018, what amounts should be presented for this note?

A	B	C	D
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Interest expense	0	5,0000	10,000	10,000
Note payable	97,500	97,000	97,500	100,000
Gain(loss)	(7,500)	2,500	2,500	0

23. On January 1, 2018, London Company borrowed P500,000 on a 8%, non-interest-bearing note due in four years. The present value of the note on January 1, 2018 was P367,500. The entity elects the fair value option for reporting financial liabilities, on December 31, 2018, it is determined the fair value of the note is P408,150. At what amount should the discount on note payable be presented on December 31, 2018?
- 0
 - 91,850
 - 103,100
 - 132,500
24. On January 1, 2018, Hubert Company sold 12% bonds with a face value of P6,000,000. The bonds mature in five years and interest is paid semi-annually on June 30 and December 31. The bonds were sold for P6,462,000 to yield 10%. The entity used the effective interest method of amortization. What is the interest expense for 2018?
- 600,000
 - 644,355
 - 646,200
 - 720,000
25. On July 1, 2018, after recording interest and amortization, York Company converted P1,000,000 of 12% convertible bonds into 50,000 ordinary shares of P1 par value. On the convention date, the carrying amount of the bonds was P1,300,000, the market value of the bonds was P1,400,000, and the shares were publicly trading at P30 per share. Using the book value method, what amount of shares premium should be recorded as a result of the conversion?
- 950,000
 - 1,250,000
 - 1,350,000
 - 1,500,000
26. On December 31, 2018, Moss Company issued P1,000,000 of 11% bonds at 109. Each P1,000 bond was issued with fifty detachable share warrants, each of which entitled the bondholder to purchase one ordinary share of P5 par for P25. Immediately after issuance, the market value of each warrant was P4. On December 31, 2018, what amount should be recorded as discount or premium on issuance of bonds payable?
- 40,000 premium
 - 90,000 premium
 - 110,000 discount
 - 200,000 discount
27. On June 30, 2018, King Company had outstanding 9%. P5,000,000 face value bonds maturing June 30, 2023. Interest was payable semi-annually every June 30 and December 31. The entity did not elect the fair value option for reporting financial liabilities. On June 30, 2018, after amortization was

recorded for the period, the unamortized bond premium and bond issue cost were P30,000 and P50,000, respectively. On the date, the entity acquired all outstanding bonds on the open market at 98 and retired them. On June 30, 2018, what amount should be recognized as gain before income tax on redemption of bonds?

- a. 20,000
- b. 80,000
- c. 120,000
- d. 180,000

28. On December 31, 2016, Laurence Company reported bonds payable having a face amount of P2,000,000 and unamortized discount of P160,000. The bonds were retired at 102 on October 31, 2017. Accrued interest on October 31, 2017 amounted to P50,000 which was paid in cash. The annual discount amortization for 2017 was P30,000. What amount of gain or loss on extinguishment should be recognized for 2017?

- a. 175,000 loss
- b. 170,000 loss
- c. 125,000 loss
- d. 175,000 gain

29. On January 1, 2018, Father Company issued P8,000,000 10% bonds at 105 which are due on December 31, 2022. Each 1,000 bond was issued with 20 non-detachable share warrants, each of which entitled the bondholder to purchase one share of Feather for P45 with a par value of P20 per share. On January 1, 2018, the market value of each warrant is P4 while the bond ex-warrant was selling at 95. What is the equity component from the issuance of bonds with share warrants?

- a. 0
- b. 400,000
- c. 640,000
- d. 800,000

30. During 2018, Mae Company experienced financial difficulties and is likely to default on P5,000,000, 15% three-year note dated January 1, 2016 payable to Global bank. On December 31, 2018, the bank agreed to settle the note and unpaid interest of P750,000 for P4,000,000 cash payable on January 31, 2019. What amount should be reported as gain from extinguishment of debt in the 2018 income statement?

- a. 0
- b. 1,000,000
- c. 1,750,000
- d. 2,250,000

31. Taft Company borrowed P1,000,000 from a bank on July 1, 2016. As part of the loan agreement, the borrower granted the bank a security interest in land with original cost of P750,000. The fair value of the land on July 1, 2016 was P900,000. The land was transferred to the bank in full settlement of the loan on June 30, 2017. The land had fair value of P950,000 June 30, 2017. What amount should be recorded by the bank for the land of June 30, 2017?

- a. 0
- b. 750,000
- c. 900,000

d. 950,000

32. Tabloid Company negotiated with a major creditor to restructure a maturing debt on December 31, 2018. The creditor was owed a principal of P10,000,000 and interest of P8,000,000 and note receivable from Tabloid Company's customer with a face value of P2,000,000. The equipment had a carrying amount of P5,000,000.

What amount should be recognized as gain from extinguishment of debt on December 31, 2018?

- a. 0
- b. 1,200,000
- c. 2,000,000
- d. 4,200,000

33. On December 31, 2017, Veronica Company reported fair value of plan assets P9,000,000 and project benefit obligation P9,400,000. On December 31, 2018, the entity reported fair value of plan assets P9,900,000 and projected benefit obligation P11,100,000. During 2018, contribution as P1,260,000 and benefits paid were P1,125,000. The discount rate for 2017 and 2018 were 10% and 9%, respectively. What is the re-measurement gain or loss attribute to plan assets for 2018?

- a. 45,000 gain
- b. 45,000 loss
- c. 135,000 gain
- d. 135,000 loss

34. On January 1, 2018, before adoption of PAS 19R, Church Company had a projected benefit obligation of P4,350,000 and pension plan assets with a fair value of P2,650,000. The entity had unrecognized past service cost of P450,000 and an unrecognized actuarial gain of P150,000. The entity decided to adopt PAS 19R on January 1, 2018. What is included in the journal entry to effect the initial adoption on January 1, 2018 of PAS 19R?

- a. No entry
- b. Debit expense P300,000
- c. Debit retained earnings P300,000
- d. Debit prepaid/accrued benefits cost P450,000

35. Rapp Company lease a new machine to a lessee on January 1, 2018. The lease is an operating lease and expires on January 1, 2023. The annual rental is P90,000. Additionally, on January 1, 2023. The annual rental is P90,000. Additionally, on January 1, 2018, the lessee paid P50,000 to the lessor as a lease bonus and P25,000 as a security deposit to be refundable upon expiration of the lease. What amount of rental revenue should be recognized for 2018?

- a. 90,000
- b. 100,000
- c. 125,000
- d. 140,000

36. Wall Company leased office premise to a lessee for five-year term beginning January 1, 2018. Under the terms of the operating lease, rent for the first year is P80,000 and rent for year two through five is P125,000 per annum. However, as an inducement to enter the lease, Wall granted the lessee the first six months of the lease rent-free. What amount should be reported as rental income for 2018?

- a. 80,000
- b. 180,000**
- c. 116,000
- d. 120,000

37. On January 1, 2018, Wren Company leased a building to a lessee under an operating lease for ten years at P500,000 per year, payable the first day for each year. The lessor paid P150,000 to real estate broker a finder fee. The building is depreciated P120,000 per year. The entity incurred insurance and property tax expense totaling P90,000. What is the net rental income for 2018?

- a. 275,000**
- b. 290,000
- c. 350,000
- d. 365,000

38. Adrian Company leased an office space from a lessor at an annual rental of P300,000 on January 1, 2016. The lease will commence on January 1, 2016 and will end on December 31, 2019. The lease agreement specifies that rental will be paid at the beginning of each year will increase at 10% annually. What amount of rent expense should be recognized for 2017?

- a. 300,000
- b. 330,000
- c. 348,075**
- d. 363,000

39. On October 1, 2016, Nova Company leased office space at a monthly rental of P350,000 for ten years expiring on September 30, 2026. Payment is made at the start of every month. As an inducement to enter into the lease, the lessor permitted the lease to occupy the premises rent-free from October 1, 2016 to December 31, 2016. On December 31, 2017, what amount should be recognized as accrued rent payable?

- a. 0
- b. 981,750**
- c. 1,023,750
- d. 4,095,000

40. Christopher Company leased machine on January 1, 2016 with the following information:

Annual rental payable at the beginning of each lease year	400,000
Lease term	10 years
Useful life of machine	12 years
Implicit interest rate	14%
PV of an annuity of 1 in advance for 10 periods at 14%	5.95
PV of 1 for 10 periods at 14%	0.27

The entity has the option to purchase the machine on January 1, 2026 by paying P500,000 which approximates the fair value of the machine on option exercise date. What amount should be recognized initially as lease liability?

- a. 0
- b. 2,245,000
- c. 2,380,000**
- d. 2,515,000

41. Mane Company lease equipment with a ten-year useful life, from Joy Company on January 1, 2016 for an eight-year period expiring December 31, 2024. Equal annual payments under the lease are P800,000 and are due on January 1 of each year. The first payment was made on January 1, 2016. The rate of interest contemplated by Mane and Joy is 8%. The cash selling price of the equipment on Joy's accounting records was P4,200,000. The lease provide for a bargain purchase option on the part of the lessee upon the lease expiration. What total amount of expense should Mane recognize for the year ended December 31, 2016?
- a. 496,5000
 - b. 829,700**
 - c. 893,700
 - d. 953,825
42. Howe Company leased equipment to lessee on January 1, 2016 for an eight-year expiring December 31, 2023. Equal payments under the lessee are P600,000 and are due January 1. of each year. The first payment was made on January 1, 2016. The list selling price of the equipment P3,520,000 and the carrying amount is P2,800,000. The lease is appropriately accounted for as a sales-type lease. The present value of the lease payments is P3,300,000. What amount on the profit should be reported for 2016?
- a. 0
 - b. 90,000
 - c. 500,000**
 - d. 720,000
43. Orville Company is a dealer in equipment. The entity leased equipment to a lessee on January 1, 2016 for an eight-year period expiring January 1, 2024. Equal annual payments under the lease are due at the end of each year beginning December 31, 2016. The lease agreement included a guaranteed residual value of P200,000 and a implicit rate of 100%. it was determined that the fair value of the asset is P3,000,000 the carrying amount is P2,500,000 and the present value of the minimum lease payment at 10% is P2,760,900. The PV of 1 at 10% for 8 periods is 0.467, and the PV of an ordinary annuity of 1 at 10% for 8 periods is 5.335. what is the total financial revenue over the lease term?
- a. 1,379,156
 - b. 1,439,100**
 - c. 1,498,594
 - d. 1,558,538
44. On January 1, 2016, Yole Company signed a 10-year non-cancelable lease agreement to lease an equipment to Warehouse Company. The agreement required equal rental payments at the each year beginning December 31, 2016. The fair value of the building on January 1, 2016 is P6,000,000 and the carrying amount is P5,000,000. The equipment has an estimated economic life of 10 years with no residual value. At the termination of the lease, the title to the building will be transferred to the lessee. The lessee's incremental borrowing rate is 11%. The lessor determined the annual rental to insure a 10% rate of return which is known to the lessee. What total amount of income should be the lessor recognize in 2016 if the transaction is treated as sales type?
- a. 1,000,000
 - b. 1,500,000
 - c. 1,600,000**
 - d. 1,660,000

45. On December 31, 2016, Lane Company sold equipment and simultaneously leased it back for twelve years. Pertinent information at this date is as follows:
 Sales price
 Carrying amount
 Estimated remaining economic life
 On December 31, 2016, what amount should be reported a deferred gain from the sale?
- 0
 - 110,000
 - 112,000
 - 120,000
46. On January 1, 2018, Halt Company sold a computer system to Finance Company for P5,000,000 and immediately leased the computer system back. The computer was carried on Halt's books at value of P4,400,000. The term of the non-cancelable lease is 10 years and title will transfer to the lessee at the end of the lease term. The lease agreement required equal rental payments of P830,000 at the end of the lease term. The lease agreement required equal rental payments of P830,000 at the end of the year. The implicit rate is 10%. The computer has a fir value of P5,000,000 on January 1, 2018, and an estimated economic life of 12 years. Halt Company paid executor costs of P100,000 for the year. What is the deferred gain on December 31, 2018?
- 440,000
 - 540,000
 - 550,000
 - 600,000
47. On January 1, 2018 Hook Company sold equipment with a carrying amount of P100,000 and a remaining useful life of ten years for P150,000. The entity immediately leased the equipment bac under a ten-year finance lease with a present value of P150,000 and will depreciate the equipment using the straight-line method. The entity made the first annual lease payment of P24,412 in December 2018. On December 31, 2018, what amount should be reported as unearned gain on equipment sales?
- 0
 - 25,588
 - 45,000
 - 50,000
48. Barton Inc. received the following information from its pension plan trustee concerning the operation of the company's defined – benefit pension plan, for the year ended December 31,2016.

	<u>January 1, 2016</u>	<u>December 31,2016</u>
Fair value of pension plan assets	P4,200,000	P4,500,000
Defined benefit obligation	4,800,000	5,160,000
Accumulated OCI – Net Gain / Loss -0-		(90,000)

The service costs component of pension expense for 2016 is P360,00 and the past service cost due to an increase in benefits is P60,000. The discount rate is 10%. What is the amount of pension expense for 2016?

- a. P360,000
- b. P432,000
- c. P480,000
- d. P531,000

49. At the end of the current year, Kennedy Co. has a defined benefit obligation of P335,000 and pension plan asset with a fair value of P245,000. The amount of the vested benefits for the plan is P225,000. Kennedy has an accumulated actuarial gain of P8,300. What account and amount related to its pension plan will be reported on the company's statement of financial position?

- a. Pension liability of P74,300
- b. Pension Liability of P90,000
- c. Pension asset of P223,300
- d. Pension asset of P110,000

50. On January 1, 2018, Alyanna Company had 110,000 shares issued and 100,000 shares outstanding. The entity had the following transaction in 2018:

March 1	Issued 15,000 shares
June 1	Resold 2,500 shares of treasury
September 1	Completed a 2-for-1 shares split

What is the number of shares outstanding on December 31, 2018?

- a. 117,500
- b. 230,000
- c. 235,000
- d. 250,000

51. Rudd Company had 700,000 ordinary shares authorized and 300,000 shares outstanding on December 31, 2016. The following events occurred during 2017:

January 31	Declared 10% stock dividend
June 30	Purchase 100,000 shares
August 1	Reissued 50,000
November 30	declared 2-for-1 stocks split

On December 31, 2017, how many ordinary shares are outstanding?

- a. 560,000
- b. 600,000
- c. 630,000
- d. 660,000

52. Arp Company reported the following outstanding share capital on December 31, 2018:

- 30,000 preference shares 5% cumulative, par value P10, fully participating as to dividends were in arrears.
- 200,000 ordinary shares, par value P1

On December 31, 2018, the entity declared dividends of P100,000. What was the amount of dividends payable to ordinary stockholders?

- a. 10,000
- b. 34,000
- c. 40,000
- d. 47,500

53. At Dec. 31, 2017 Proof Company had 450,000 shares of ordinary share outstanding. On September 1, 2017 an additional 150,000 shares of ordinary share were issued. In addition, Proof had P10,000,000 of 6% convertible bonds outstanding at December 31, 2017 which are convertible 300,000 shares of ordinary share. The carrying value of bonds as of December 31, 2017 and based on a rate of 8% is P9,205,800. No bonds were converted into ordinary shares in 2014. The net income for the year ended December 31, 2018 was P3,750,000

Assuming the income tax rate was 32%, what should be the diluted earnings per share for the year ended Dec 31, 2018 of Proof Company?

- a. P5.20
- b. P5.31**
- c. P8.44
- d. P7.50

54. Salvation Corporation has two classes of securities outstanding – ordinary share and an 8% convertible bond issue with a face amount of P16,000,000. Interest payments dates of the bond issue are June 30 and December 31. The conversion clause in the bond indenture entitles the bondholder to receive forty (40) shares of P20 per value ordinary shares in exchange for each P1,000 bond. On June 30, 2017, the holders of P2,400,000 face value bonds exercised the conversion privilege. The equity component of the convertible debt at the time of issue is P950,000. The market price of the bonds on the date was P1,100 and the market price of the ordinary share was P35. The total unamortized bond discount at the date of conversion was P1,000,000.

In applying the book value method, what amount should Salvation credit to the “Share premium in excess of Par” account as a result of this conversion?

- a. P160,000
- b. P330,000
- c. P472,500**
- d. P1,440,00**

55. On December 31, 2016, the shareholders equity section of Marvel Company's balance sheet appeared as follows:

Contributed capital:

Common stock P8 par value, 200,000 shares authorized issued and Outstanding 60,00 shares	P480,000
Additional paid in capital	<u>1,280,000</u>
Total	1,760,000
Retained earnings	<u>824,000</u>
Total	P2,584,000

The following are selected transactions involving stockholders equity in 2017:

On January 4, 2017 the board of directors obtained authorization for 20,000 shares of P40 par value non – cumulative preferred stock (that carried an indicated divided rate of P4 per share was callable at P42 per share. On January 14, the company sold 12,000 shares of preferred stock at P40 per share and issued another 2,000 in exchange for an equipment valued at P80,000. On March 8 the board directors declared 2 for 1 split on the common stock. On April 20 after the stock split, the company purchased 1,000 shares of common stock for the treasury at an average price of P12 per share, 1,000 of these shares subsequently were sold on May 1 at an average price of P16 per share. On July 15. The board of directors declared a cash dividend of P4 per share. On July 15 the board of directors declared a cash dividend of P4 per share on the preferred stocks and P140 on common shares. The date of record was July 21 and the dividends were paid on August 15. The board of directors declared a 15% stock dividend on November 28 when the common stock was selling for P20 per share. The date of record was on December 15 and dividend was to be distributed on January 5, 2018. Net loss for the year, P215,000.

What is the balance of the stockholder's equity of Marvel Company as of December 31 ,2017?

- a. P2,720,800
- b. P2,780,800
- c. P2,802,800
- d. P2,820,800

56. On December 1, 2018, Nilo Company declared a property dividend of marketable securities to be distributed on December 31, 2018 to shareholders of record on December 15, 2018. On December 1, 2018, the trading what is the effect of this property dividend on 2018 retained earnings after all nominal accounts are closed?
- a. 78,000 decrease
 - b. 60,000 decrease
 - c. 0
 - d. 18,000 increase
57. Mine Company declared and distributed a 15% share dividend with fair value of P5,000,000 and par value of P4,000,000 and a 30% share dividend with a fair value of P10,000,000,000 and par value of P7,000,000. What amount should be recognized as share premium from share dividend?
- a. 0
 - b. 1,000,000
 - c. 3,000,000
 - d. 4,000,000
58. At the current year-end, Danica Company issued 4,000 ordinary shares of P100 par value in connection with stocks dividend. The market value per share on the date of declaration was P150. The shareholder's equity immediately before issuance of stock dividend comprised share capital P1000 par P2,000,000, share premium P3,000,000 and retained earnings P1,500, 000. What amount should be reported as retained earnings immediately after the stock dividend?
- a. 900,000
 - b. 1,100,000
 - c. 1,500,000
 - d. 2,100,000

59. On July 1, 2016, Bart Company had 200,000 ordinary shares of P10 par outstanding and the market price of the share is P12. On the same date, the entity declared a 1-for-2 reverse share split. The par of the was increased from P10 to P20 and one new P20 pare share was issued for each two P10 shares outstanding. Immediately before the 1-for2 reverse stock split, the share premium was P450,000. What is the balance of the share premium account immediately after reverse stock split is affected.

- a. 0
- b. 450,000
- c. 650,000
- d. 850,000

60. Kevin Company sustained heavy losses for several years and underwent quasi-reorganization via recapitalization on December 31, 2016. The entity provided the following information:

	Fair Value	Carrying Amount
Inventory	5,700,000	6,000,000
Equipment	7,200,000	8,000,000

The share capital is P6,000,000 with a P6 par value, share premium is P1,500,00 and the deficit is P6,200,000 before the adjustment. The par value is reduce by 1/3 of the original amount. What amount must the shareholders contribute in order to eliminate the deficit?

- a. 0
- b. 1,800,000
- c. 850,000
- d. 900,000

61. During 2016, Super Company sold a comic strip to Fantasy Company and will receive royalties of 20% of future revenue associated with the comic strip. On December 31, 2016, Super received royalty payments of P 200,000 Fantasy reported revenue of P 1,500,000 in 2017 from the comic strip what amount should Super report as royalty revenue in 2017?

- a. 125,000
- b. 175,000
- c. 200,000
- d. 300,000

62. Joana Company had a trademark that was licensed to Marie Company for royalties of 15% of sales of the trademark items. Royalties are payable semi-annually on March 15 for sales in July through December of the prior year, and on September 15 for sales in January through June of the current year. The entity received royalties of P 1,000,000 and P 1, 200,000 on March 15, 2016 and March 15, 2017, respectively and P 1,500,00 and P 1, 700,000 on September 14, 2016 and September 15 2017, respectively. The license estimated that sales of the trademark items would total P 6,000 for July through December 2017. What amount of royalty revenue should be reported in 2017?

- a. 2,600,000
- b. 2, 900,000
- c. 3, 800, 000
- d. 4, 100,000

63. Rill Company owns a 20% royalty interest in an oil well. The entity receives royalty payments on January 31, for the oil sold between the previous June 1 and November 30 and July 31 for oil sold between December 1 and May 31 Production show the following oil sales:

June 1, 2016 – November 30, 2016	300,000
December 1, 2016 – December 31, 2016	50,000
December 1, 2016 – May 31, 2017	400,000
June 1, 2017 – November 30 2017	325,000
December, 2017 – December 31, 2017	70,000

What amount should be reported royalty revenue for 2017?

- a. 140,000
- b. 144,000
- c. 149,000
- d. 159,000

64. Ina Company had the following beginning and ending balances in prepaid experienced and accrued liabilities for the current year:

	Prepaid expenses	Accrued liabilities
Beginning balance	5,000	8,000
Ending balance	10,000	20,000

Debits to operating expense totaled P100,000. What amount paid for operating expenses during the current year?

- a. 83,000
- b. 93,000
- c. 107,000
- d. 117,000

65. Richard Company disclosed supplemental information on the effect of changing prices. The entity computed the increase in current cost of inventory as follows:

Increase in current cost (normal peso)	1,500,000
Increase in current cost (constant peso)	1,200,000

What amount should be disclosed as the inflation component of the increase in current cost?

- a. 300,000
- b. 1,200,000
- c. 1,500,000
- d. 2,700,000

66. On December 31, 2016, Kim Company owned two assets as follows:

	Equipment	Inventory
Current cost	100,000	80,000
Recoverable amount	95,000	90,000

The entity voluntarily disclosed supplementary information about current cost on December 1, 2016. In such a disclosure, what amount should be reported as total assets?

- a. 175,000
- b. 180,000
- c. 185,000
- d. 190,000

67. On December 30, 2016, Future Company paid P2,000,000 for land. On December 31, 2016, the current value of the land was P2,000,000. Ignoring income tax, by what amount should shareholders equity be increased for 2016 and 2017 in current value financial statements?

	a	b	c	d
2016	0	0	20,000	200,000
2017	50,000	250,000	0	50,000

68. David Company reported the following machinery on December 31, 2016

	Cost	Accumulated depreciation
Acquired in December 2013	4,000,000	1,600,000
Acquired in December 2015	1,000,000	200,000

Index number at the end of each year are 120 for 2013, 125 for 2015, and 350 for 2016. What should be reported in a hyperinflationary statement of financial position prepared on December 31, 2016 as the carrying amount of the machinery?

- a. 3,200,000
- b. 7,800,000
- c. 8,960,000
- d. 9,240,000