

1. On January 1, 2019, Arlyn Company had capitalized cost of P6,000,000 for a new computer software with an economic life of 4 years. Sales for 2019 amounted to P3,000,000. The total sales of software over the economic life are expected to be P10,000,000. The pattern of future sales cannot be measured reliably. On December 31, 2019, the software had a fair value less cost of disposal of P4,400,000. What net amount of the capitalized software cost should be reported on December 31, 2019?
- 4,200,000
  - 4,400,000
  - 4,500,000
  - 6,000,000

2. On January 1, 2019, Alpha Company signed an annual maintenance agreement with a software provider for P15,000 and the maintenance period begins on March 1, 2019. Alpha also incurred P5,000 on January 1, 2019 related to software modification request that will increase the functionality of the software asset five-years using the straight-line-method. What is the total expense that should be recognized as a result of the maintenance agreement and the software modification for 2019?
- 5,000
  - 13,500
  - 16,000
  - 20,000

3. Flip Company incurred the following computer software costs for the development and sale of software programs during the current year:

|                                                                               |           |
|-------------------------------------------------------------------------------|-----------|
| Planning costs                                                                | 500,000   |
| Design of the software                                                        | 1,500,000 |
| Substantial testing of the project's initial stages                           | 750,000   |
| Production and packaging costs for the first month's sales                    | 5,000,000 |
| Costs of producing product masters and technology feasibility was established | 2,000,000 |

The project was not under any contractual arrangement when these expenditures were incurred. What amount should be reported as research and development expense for the current year?

- 2,000,000
  - 2,750,000
  - 5,000,000
  - 9,750,000
4. Jeff Company incurred the following costs during the current year:
- |                                                                           |           |
|---------------------------------------------------------------------------|-----------|
| Routine on-going effort to refine, enrich or improved an existing product | 2,500,000 |
| Design, Construction and testing of preproduction models                  | 2,500,000 |
| Quality control during commercial production                              | 3,000,000 |
| Laboratory research for discovery of new knowledge                        | 3,600,000 |
- What is the total research and development expense?
- 4,700,000
  - 5,500,000
  - 5,800,000

d. 6,600,000

5. Cody Company incurred the following costs during the current year :

|                                                                                                                |         |
|----------------------------------------------------------------------------------------------------------------|---------|
| Design of tools, jigs, molds, and dies involving new technology                                                | 15,000  |
| Modification of the formulation process                                                                        | 160,000 |
| Trouble shooting of breakdowns during commercial production                                                    | 100,000 |
| Adaptation of an existing capability to a particular customer need as part of a continuing commercial activity | 110,000 |

What amount should be recognized as research and development expenses for the current year?

- a. 125,000  
b. 160,000  
c. 235,000  
d. 285,000
6. On January 1, 2019, Jessica Company received a consolidated grant of P12,000,000. There fourths of the grant will be utilized to purchase a college building for students from underdevelopment countries. The balance of the grant is use for subsidizing the tuition cost of those student for four years from date of grant. The building was purchased in January 2019 and is to be depreciated using the straight-line method over 10 years. The tuition costs paid I 2019 amounted to P600,000. What amount of grant income should be recognized for 2019?
- a. 1,050,000  
b. 1,200,000  
c. 1,650,000  
d. 3,000,000
7. Jelline Company had the following liabilities on December 31, 2019
- |                                  |           |
|----------------------------------|-----------|
| Accounts payable                 | 55,000    |
| Unsecured notes, 8% due 7/1/2020 | 400,000   |
| Accrued expenses                 | 35,000    |
| Contingent liability             | 450,000   |
| Deferred tax liability           | 25,000    |
| Senior bonds, 7% due 3/31/2020   | 1,000,000 |
- The contingent liability is an accrual for possible loss on a P1,000,000 lawsuit filed against the entity. The legal counsel expects loss on a P1,000,000 law suit to be settled in 2020 and has estimated that the entity will be liable for damage in the range of P450,000 to P750,000. The deferred tax liability is not related to an asset for financial reporting and is expected to reserve in 2021. What amount should be reported on December 31, 2019 for current liabilities?
- a. 515, 000  
b. 940,000  
c. 1,490,000  
d. 1,515,000
8. Eleysia Company recorded purchase at gross amount but decided to change to recording purchase net of purchase discount. Discount available on purchase record from October 1. 2019 to September 30, 2020 totaled P20,000. Of this amount, P2,000 is still in the accounts payable. The balance in eh accounts as of and for the year ended September 30, 2020 before conversion are:

|                         |           |
|-------------------------|-----------|
| Purchase                | 1,000,000 |
| Purchase discount taken | 8,000     |
| Accounts Payable        | 300,000   |

What amount should be reported as account payable on September 30, 2020?

- a. 282,000
- b. 288,000
- c. 292,000
- d. 298,000

9. Lyle Company is preparing financial statements for the year ended December 31, 2019. Accounts payable amounted to P360,000 before any necessary year-end adjustment related to the following:

- On December 31, 2019, Lyle has a P50,000 debt balance in accounts payable to Ross, a supplier, resulting from a P50,000 advance payment for goods to be manufactured.
- Checks in the amounts of P100,000 were written to vendors and recorded on December 20, 2019. The checks were mailed on January 5, 2020?

What amount should be recorded as accounts payable on December 31, 2019?

- a. 210,000
- b. 310,000
- c. 410,000
- d. 510,000

10. Ashwood Company reported accounts payable on December 31, 2019 at P900,000 before any necessary year-end adjustment relating the following

- Goods were in transit from a vendor to Ashwood on December 31, 2019. The invoice cost was P50,000, and the goods were shipped FOB shipping point on December 29, 2019. The goods were received on January 4, 2020.
- Goods shipped FBO shipping point on December 20, 2019 from a vendor to Ashwood were lost in transit. The voice cost was P25,000. On January 5, 2020 Ashwood filed a P25,000. The invoice cost was P15,000

What amount should be reported as accounts payable o December 31, 2019?

- a. 925,000
- b. 940,000
- c. 950,000
- d. 975,000

11. Fay Company pays outside salespersons fixed monthly salaries and commissions on sales. Sales commission are computed and paid on a monthly basis in the month following the month of sale, and the fixed salaries are treated as advance against commissions. However, if the fixed salaries for sales person exceed commissions earned for a month, such excess is not charge backed to the.

Pertinent data for the month of March for three salespersons are as follow:

| <u>Sales person</u> | <u>Fixed salary</u> | <u>Net sales</u> | <u>Commission</u> |
|---------------------|---------------------|------------------|-------------------|
| A                   | 10,000              | 200,000          | 4%                |
| B                   | 14,000              | 400,000          | 6%                |
| C                   | 18,000              | 600,000          | 6%                |

What amount should be accrued for sales commission on Mach 31?

- a. 26,000
- b. 28,000
- c. 68,000

d. 70,000

12. Jasmine Company sells appliance service contracts agreeing to repair appliances for two-year period. The past experience is that of the total amount spend for repairs o service contracts 4% is incurred evenly during the first contract year and 60% evenly during the second contract year. Received from service contract sales for 2019 and 2020 are P500,000 and P600,000 respectively. Receipts from contracts are credited to unearned service contract revenue. All sales are made evenly during the year. What amount should be reported as unread service contract revenue on December 31, 2020?

- a. 360,000
- b. 47,000
- c. 480,000
- d. 630,000

13. Janelle Video sells on the two-year mail period order subscriptions for video of the month business. Subscription are collected in advance and credited to sales. An analysis of the recorded sales activity revealed the following:

|                         | 2020    | 2021    |
|-------------------------|---------|---------|
| Sales                   | 420,000 | 500,000 |
| Cancellation            | 20,000  | 30,000  |
| Subscription expiration |         |         |
| 2020                    | 120,000 |         |
| 2021                    | 155,000 | 130,000 |
| 2022                    | 155,000 | 200,000 |
| 2022                    |         | 140,000 |

On December 31, 2021, what is the unread subscription revenue?

- a. 340,000
- b. 465,000
- c. 470,000
- d. 495,000

14. Merill Company offers three payments plans in its twelve-month contracts. Information on three plans and the number of children enrolled in each plan for the September 1, 2019 to August 31, 2020 contract year follows:

|        | <u>Initial payment per child</u> | <u>Monthly fee per child</u> | <u>Number of Children</u> |
|--------|----------------------------------|------------------------------|---------------------------|
| Plan A | 50,000                           | ---                          | 15                        |
| Plan B | 20,000                           | 3,000                        | 12                        |
| Plan C |                                  | 5,000                        | 9                         |

The entity received P990,000 of initial payments on September 1, 2019 and P324,000 of monthly fees during the period September 1, 2019 to December 31, 2019. On December 31, 2019, what amount should be reported as deferred revenue?

- a. 330,000
- b. 73,500
- c. 115,500
- d. 311,500

15. Merrill Company offers a cash rebate of P50 on each P200 package of biscuits sold during the year. Historically, 30% of the customers mail in the rebate form. During the year, 7,700 package of biscuits are sold and 1,470 P50 rebates are mailed to customers. What amount of rebate liability should be recognized at year-end?
- 42,000
  - 73,500
  - 115,500
  - 311,500

16. Janine Company sells product in reusable containers. The customer is charge a deposit for each container return within two years after the year of delivery. The entity accounts for the containers not returned within the time limit as being retired by sale at the deposit amount. Information for 2019 is as follows:

Container deposits on December 31, 2018 from deliveries in

|      |         |
|------|---------|
| 2017 | 150,000 |
|------|---------|

|      |         |
|------|---------|
| 2018 | 430,000 |
|------|---------|

Deposit for containers delivered in 2019

Deposit for containers returns in 2019 from deliveries in:

|      |        |
|------|--------|
| 2017 | 90,000 |
|------|--------|

|      |         |
|------|---------|
| 2018 | 250,000 |
|------|---------|

|      |         |         |
|------|---------|---------|
| 2019 | 286,000 | 626,000 |
|------|---------|---------|

On December 31, 2019, what amount should be reported as liability for deposits on returnable containers?

- 494,000
  - 584,000
  - 674,000
  - 734,000
17. Cristy Company acquired a new machine which had a cash price of P2,100,000. The payment terms are down payment P500,000, note payable in 3 equal annual installment of P600,000 each year, and 10,000 ordinary shares with par value of P20 and fair value of P35 per share. Prior to use, the entity incurred installation cost of P80,000. What amount of discount on note payable should be recognized on the date of purchase?
- 0
  - 150,000
  - 550,000
  - 1,250,000
18. On December 31, 2016, Roth Company issued a P1,000,000 face note payable to Wake Company in exchange for services rendered to Roth the note, made at usual trade terms, is due in nine months and bears interest, payable at maturity, at the annual rate of 3%. The market interest rate is 8%. What amount should the note payable be reported on December 31, 2019?
- 671,000
  - 956,2000
  - 1,000,000
  - 1,030,000

19. During the current year, Lake Company issued 3,000 of 9% P1,000 face value bonds at 101. In connection with the sale of these bonds, the entity paid the following expenses:
- |                        |         |
|------------------------|---------|
| Promotional cost       | 20,000  |
| Engraving and printing | 25,000  |
| Underwriter commission | 200,000 |
- What amount should be recorded as bond issue cost to be amortized over the terms of the bonds?
- 0
  - 220,000
  - 225,000
  - 245,000
20. On January 1, 2019, Southern Company received P107,720 for a P100,000 face amount, 12% bond, at a price that yields 10%. The bonds pay interest semi-annually. The entity elects the fair value of the bond is determined to be P106,460. The entity interest expense of P12,000 in the 2016 income statement. What was the gain or loss recognized in the income statement to report this bond at fair value?
- 13,260 loss
  - 12,000 loss
  - 1,260 gain
  - 6,460 gain
21. On January 1, 2019 West Company issued 9% amount of P500,000 which mature on January 1, 2029. These bonds were issued for P469,500 yield 10%. Interest is payable annually on December 31. The entity uses the interest method of amortizing bond discount and does not elect the fair value options for reporting financial liabilities. On June 30, 2019, what amount should be reported as bonds payable?
- 469,000
  - 470,475
  - 471,025
  - 500,000
22. Webb Company has outstanding a 7%, ten-year P100,000 face value bond. The bond was originally sold to yield 6% annual interest. The entity uses the effective method to amortize bond premium and does not elect the fair value option for reporting financial liabilities. On June 30, 2019, the carrying amount of the outstanding bond was P105 amount of unamortized premium on bond should be reported on June 30, 2020?
- 1,050
  - 3,950
  - 4,300
  - 4,500

*Questions 23 & 24 are based on the following information:*

Knob Company provided the following information relating to the transfer of real estate pursuant to a troubled-debt restructuring in full liquidation of liability:

|                                         |         |
|-----------------------------------------|---------|
| Carrying amount of liability liquidated | 150,000 |
|-----------------------------------------|---------|

|                                            |         |
|--------------------------------------------|---------|
| Carrying amount of real estate transferred | 100,000 |
| Fair value of real estate transferred      | 90,000  |

23. What amount should be reported as gain or loss on restructuring of payable?

- a. 10,000 loss
- b. 0
- c. 50,000 gain
- d. 60,000 gain

24. What amount should be reported as a gain or loss on transfer if real estate?

- a. 50,000 loss
- b. 10,000 loss
- c. 0
- d. 50,000 gain

25. Seda Company provided the following information related to pension plan:

|                                                                |         |
|----------------------------------------------------------------|---------|
| Actuarial estimate of projected benefit obligation at 1/1/2019 | 72,0000 |
| Assumed discount rate                                          | 10%     |
| Service cost for 2019                                          | 18,000  |
| Pension benefits paid during 2019                              | 15,000  |

No change in actuarial estimates occurred during 2019. What amount should be reported as projected benefit obligation on December 31, 2019?

- a. 64,200
- b. 75,000
- c. 79,200
- d. 82,200

26. Payne Company implemented a defined benefit plan on January 1, 2019. The following data are provided on December 31, 2019:

|                              |         |
|------------------------------|---------|
| Projected benefit obligation | 103,000 |
| Plan assets fair value       | 78,000  |
| Net periodic pension cost    | 90,000  |
| Employer's contribution      | 70,000  |

What amount should be recorded as pension liability on December 31, 2019?

- a. 0
- b. 20,000
- c. 25,000
- d. 45,000

27. Salve Company reported plan assets at fair value of P2,000,000 and projected benefits obligation of P4,000,000 on December 31, 2019. On January 1, 2019, the prepaid-0 accrued benefit cost account had credit balance of P1,500,000. During the year, the entity recognized contribution of P1,200,000 and re-measurement loss of P600,000. There was no re-measurement gain or loss on January 1, 2019. What amount of employee benefit expense was recognized for 2019?

- a. 500,000
- b. 1,100,000
- c. 1,200,000

d. 1,700,000

28. Joan Company grants all employees two weeks of paid vacation for each full year of employment. Unused vacation time can be accumulated and carried forward to succeeding years and will be paid at the salaries in effects when vacation are taken or when employment is terminated. There was no employee turnover in 2019. Additional information relating to the year ended December 31, 2019 is as follows:

Liability for accumulated vacations on January 1, 2019 350,000

Pre-2019 accrued vacations taken form January 1, 2019 to  
September 30, 2019 (the authorized period for vacations) 200,000

Vacations earned for work in 2019 adjusted to current rate 300,000. The entity granted a 10% salary increase to all employees on October 1, 2019 the annual salary increase date. What amount should be reported as vacations pay expense for 2019?

- a. 300,000  
b. 315,000  
c. 335,000  
d. 450,000
29. On September 1, 2019, Joanna Company offered special termination benefits to employees who had reached the entity the early retirement age. The termination benefits consisted of lump-sum and periodic future payments. Additionally, the employees accepting the offer received the usual early retirement pension benefits. The offer expired on November 30, 2019. Information on December 31, 2019 is as follows"
- Lump-sum payments totaling P475,000 were made January 1, 2020
  - Periodic payments of P60,000 annually for three years will begin January 1, 2021. The present value on December 31, 2019 of these payments was P155,000
  - Reduction of accrued pension costs on December 31, 2019 for the terminating employees was P45,000
- On December 31, 2019, what is the total liability for special termination benefits?
- a. 475,000  
b. 585,000  
c. 630,000  
d. 655,000

30. Boom Company reported current tax expense of P5,000,000 for 2020. The changes is assets and liabilities ae as follows:

|                        | December 31,2020 | December 31, 2019 |
|------------------------|------------------|-------------------|
| Deferred tax asset     | 1,000,000        | 800,000           |
| Deferred tax liability | 450,000          | 600,000           |
| Income tax payable     | 500,000          | 200,000           |

The deferred tax liability was caused by accelerated depreciation and the deferred tax asset is for rentals received in advance. What amount of total tax expense should be recognized in 2020?

- a. 4,560,000  
b. 4,950,000  
c. 5,350,000  
d. 5,650,000



31. Justin Company reported P9,000,000 income before provision for income tax. The following data are provided for the current year:

|                                                                                                                     |           |
|---------------------------------------------------------------------------------------------------------------------|-----------|
| Rent received in advance                                                                                            | 1,600,000 |
| Income from exempt municipal bonds                                                                                  | 2,000,000 |
| Depreciation deduction for income tax purpose<br>in excess of depreciation reported for financial reporting purpose | 1,000,000 |
| Estimated tax payment for current year                                                                              | 500,000   |
| Enacted corporate income tax rate                                                                                   | 30%       |
| What amount of current income tax liability should be reported at year-end?                                         |           |

- a. 1,780,000
- b. 2,280,000
- c. 2,580,000
- d. 2,880,000

32. On January 1, 2020, Warren Company purchased a P600,000 machine, with a five-year useful life and no residual value. The machine was depreciated by an accelerated method for the book and tax purpose. The carrying amount was P240,000 on December 31, 2021. On January 1, 2022, the entity change to the straight-line method for financial reporting purpose. The income tax rate is 30%. On January 1, 2022, what amount should be reported as deferred tax liability as a result of the change?

- a. 0
- b. 6,000
- c. 72,000
- d. 20,000

33. Tower Company began operations on January 1, 2019. For financial reporting, the entity recognized revenue from all sales under the accrual method. However, in the income tax return, the entity reported under the installment method. The gross profit on these installment sales under each method was as follows:

| Year | Accrual method | Installment |
|------|----------------|-------------|
| 2019 | 1,600,000      | 600,000     |
| 2020 | 2,600,000      | 1,400,000   |

The tax income tax rate is 30% for 2019 and the future years. There are no other temporary or permanent differences. On December 31, 2020, what amount should be reported as deferred tax liability?

- a. 360,000
- b. 600,000
- c. 660,000
- d. 840,000

34. On January 1, 2019, Norren Company granted key executives 160,000 share options at an options price of P35 per share. Market prices of the shares were P46 and P51 on December 31, 2019 and 2020, respectively. The options were granted as compensation for service to be rendered over a two-year period beginning January 1, 2019. The Black-Scholes option pricing model determined total compensation expense to be P1,600,000. What amount of compensation expense should be recognized for 2020?

- a. 800,000
- b. 1,600,000

- c. 1,760,000
- d. 2,800,000

35. In connection with a share option plan, Ward Company intends to distribute treasury shares when the options are exercised. These shares were bought in 2019 at P42 per share. On January 1, 2020, the entity granted share options for P10,000 share as additional compensation for services to be rendered over the next three years. The options are exercisable during a four year period beginning January 1, 2020 by grantees still employed. Market price was P47 per share at the grant date. The fair value of a similar share option with the same terms was P12 at the grant date. No share options were terminated during 2020. What amount should be reported as compensation expense pertaining to the options for 2020?

- a. 0
- b. 30,000
- c. 40,000
- d. 90,000

36. On January 1, 2019, Morey Company granted the president, 20,000 share appreciation rights for past service. Those right are exercisable immediately and expire on January 1, 2019. On the, the grantee is immediately and expire on January 1, 2019. On exercise, the grantee is entitle to receive cash for the market price on the exercise date over the market price on the grant date. The grantee did not exercise any of the right during 2019. The market price of share was P30 on January 1, 2019 and P45 on December 31, 2019. What amount should be recognized as compensation expense for 2019?

- a. 0
- b. 100,000
- c. 300,000
- d. 600,000

37. On January 1, 2019. Mae Company issued to employees 10,000 restricted shares. On January 1, 2020, the entity issued to employees an additional 20,000 restricted shares.

| <u>Date</u>       | <u>Fair value of share</u> |
|-------------------|----------------------------|
| January 1, 2019   | 20                         |
| December 31, 2019 | 22                         |
| January 1, 2020   | 25                         |
| December 31, 2020 | 30                         |

The shares vest at the of a four-year period. There are no forfeitures. What amount should be recorded as compensation expense for 2020?

- a. 175,000
- b. 205,000
- c. 225,000
- d. 500,000

38. Cyan Company issued 20,000 ordinary shares of P5 par at P10 per share. On December, 2019, the retained earnings amounted to P300,000. In March 2020, the entity reacquired 5,000 shares to corporate officers for P25 per share. The cost method is used to record treasury shares. Net income for 2020 was P60,000. On December 31, 2020, what amount should be reported as retained earnings?

- a. 360,000
- b. 365,000
- c. 375,000
- d. 380,000

39. On January 1, 2019, Troy Company reported share capital P20 par P2,000,000 share premium P1,000,000 and retained earning P3,500,000. The entity used the cost method of accounting for treasury shares. During 2019, the entity acquired 20,000 treasury shares for P600,000 sold 15,00 treasury shares at P25 per share and declared the remaining treasury shares as dividends when the fair value of the share is P40. Net income for 2019 was as dividends when the fair value of the share ids P40. Net income for 2019 was p1,500,000. What amount should be reported as retained earnings on December 31, 2019?

- a. 4,725,000
- b. 4,775,000
- c. 4,800,000
- d. 4,925,000

40. Lourdes company reported that the decreased by P9,000,000 and liabilities also decreased by P16,000,000 in the current year. It was determined that a financial asset at FVTOCI decreased by P400,000 due to fair value change and an investment in associate increased by P600,000 due to share in the net income of the associate. The entity received equipment valued at P500,000 form a shareholder as donation and correct prior period error resulting from an overstatement of ending inventory for P1,500,000. What is the net income for the current year?

- a. 6,900,000
- b. 7,800,000
- c. 8,000,000
- d. 8,400,000

41. On December 31, 2019, Eagle Company reported P1,750,000 of appropriate retained for the construction of a new office building which was completed in 2020 at a total cost P1,500,000. In 2020, the entity appropriated P1,200,000 of retained earnings for the construction of a new plant. Also P2,000,000 of cash was restricted for the retirement of bonds due in 2021. What amount of appropriated retained earnings should be reported on December 31, 2020?

- a. 1,200,000
- b. 1,450,000
- c. 2,950,000
- d. 3,200,000

42. Meg Company provided to the following information:

- Dividends on 1,000 cumulative preference share, 6%, P10 par value, have not been declared or paid for three years.
- Treasury shares that cost P15,000 were reissued for P8,000

What amount of retained earnings should be appropriated as a result of these items?

- a. 0
- b. 1,800
- c. 7,000
- d. 8,800

43. Andrew Company issued 200,000 shares of P5 par value at P10 per share. On January 1, 2019, the retained earnings amounted to P3,000,000. In March 2019, the entity reacquired 50,000 treasury shares at P20 per share. In June 2019, the entity sold 10,000 of these shares to corporate officers for P25 per share. The entity used the cost method to record treasury shares. Net income for the year ended December 31, 2019 was P4,000,000 and the entity paid cash dividends of P1,000,000 on December 31, 2019, what amount should be reported as unappropriated retained earnings?
- 5,000,000
  - 5,200,000
  - 5,800,000
  - 6,000,000
44. On December 31, 2019, Richard Company had 300,000 ordinary shares and 5%, par value 10,000 cumulative preference shares outstanding. No dividends were declared on either the preference or ordinary shares in 2019 or 2020. On January 30, 2021, prior to the issuance of financial statements for 2020, the entity declared a 100% share dividend on ordinary shares. Net income for 2020 was P950. What amount of basic earnings per share should be reported in the 2020 financial statements?
- 1.50
  - 1.58
  - 3.00
  - 3.17
45. On December 31, 2019, Donne Company had 1,200,000 ordinary shares outstanding. On September 1, 2020, an additional 600,000 shares were issued. The entity issued P12,000,000 of 6% convertible bonds on October 1, 2020, convertible into 800,000 ordinary shares. No bonds were converted in 2020. The income tax rate was 30%. What amount should be reported as diluted earnings per share for 2020?
- 2.10
  - 2.27
  - 2.89
  - 3.21

46. Peter Company reported the following capital structure:

|                               | 2020    | 2021    |
|-------------------------------|---------|---------|
| Outstanding shares            |         |         |
| Ordinary                      | 110,000 | 110,000 |
| Convertible preference shares | 10,000  | 10,000  |

During 2021, the entity paid preference dividends of P3 per share. The preference are convertible into 20,000 ordinary shares. Net income for 2021 was P850,000. The income tax rate is 30%. What amount should be reported as diluted earnings per share for 2021?

- 6.31
- 6.54
- 7.08
- 7.45

47. Hoyt Company reported the following shares holders' equity:

|                                                                                         |         |
|-----------------------------------------------------------------------------------------|---------|
| 5% cumulative preference shares, par value P100,<br>2,500 shares issued and outstanding | 250,000 |
| Ordinary shares, par value P3.50, 100,000 shares issued<br>and outstanding              | 350,000 |
| Share premium                                                                           | 125,000 |
| Retained earnings                                                                       | 300,000 |

Dividends in arrears on the preference shares amount to P25,000. If the entity were to be liquidated, the preference shareholders would receive par value plus a premium of P50,000.

What is the book of value per ordinary share?

- a. 7.00
- b. 7.25
- c. 7.50
- d. 7.75

48. France Company has sales of P1,000,000 during December 2019. Experience has shown that merchandise equaling 7% of sales will be returned within thirty days and an additional 3% will be returned within ninety days. Returned merchandise is readily resalable. In addition, merchandise equaling 15% of sales will be exchange for merchandise of equal or greater value. What amount should be reported for net sales for the month of December 2019?

- a. 750,000
- b. 780,000
- c. 850,000
- d. 900,000

49. Zoe Company, a distributor of machinery, bought a machine from the manufacturer in November 2019 for P10,000. On December 30, 2019, the entity sold this machine for P15,000 under the following terms. 2% discount if paid within thirty days, 1% discount if paid after thirty days but within sixty days, or payable in full within ninety days if not paid within the discount periods. However, the customer had the right to return this machine if it was unable to resell the machine before expiration of the ninety-day payment period, in which case the obligation would be cancel. In the net sales for new sales during the month?

- a. 185,000
- b. 190,000
- c. 195,000
- d. 200,000

50. Belgica Company allows customers to return within 90 days of purchase. The entity that 5% of sales will be returned within the 90-day period. During the month, the entity has sales of P200,000 and returns of sales made in prior months of P5,000. What amount should be recorded as net recorded as net sales revenue for new sales made during the month?

- a. 185,000
- b. 190,000
- c. 195,000
- d. 200,000

51. Charlene Farms produce 50,000 kilos of tobacco for another entity which HS agreed to purchase the entire production at the prevailing market price. Recent legislation assured that the market price will not fall below P70 per kilo during the next two year. The cost of selling and distributing the tobacco are immaterial and can be reasonably estimated. The entity reported its inventory at expected exit value. During 2019, the entity Sold and delivered to the buyer 40,000 kilos at the market price of P70. The entity sold the remaining 10,000 kilos during 2020 at the market price of P72. What amount of revenue should be recognized in 2019?
- 2,800,000
  - 2,880,000
  - 3,500,000
  - 3,600,000
52. On October 20, 2019, Grimm Co. consigned forty freezers to a consignee for sale at P10,000 each and paid P8,000 in transportation cost. On December 30 2019, the consignee reported the sale of ten freezer and remitted P85,000. The remittance was net of the agreed 15% commission. What amount should be recognized as consignment sales revenue for 2019?
- 77,000
  - 85,000
  - 98,000
  - 100,000
53. On December 31, 2019, Alt Company received 505 sweaters on consignment from a consignor. The cost for the sweaters was P 800 each and were priced to sell at P1,000. The commission on consigned goods is 10%. On December 31 2019, five sweaters remained. On December 31, 2019, what amount should be reported as payable for consigned goods?
- 404,000
  - 450,000
  - 454,400
  - 490,000
54. Clark Company reported advertising expense of P146,000 on on December 31, 2019 before any necessary year- end adjustment relating the following :
- Included in the P146,000 is the P15,000 of printing catalogs for a sales promotional campaign in January 2020
  - Radio advertisement broadcast during December 2016 were billed to Clark on January 2, 2020. Clark paid the P 9,000 invoice on January 11, 2020
- What amount should be reported as advertising expense for 2019?
- 122,000
  - 131,000
  - 140,000
  - 155,000
55. On December 31, 2019, Alvin Company had a P4, 950,000 balance in the advertising expense account before any yearend adjustments
- Radio and television advertising spots broadcast during December 2019 were billed to Alvin on January 4, 2020. The invoice cost of P 250,000 was paid on January 15, 2020

- Included in the P 4, 950 is P 300,00 for newspaper advertising for a January 2020 sales promotional campaign.

What amount should be reported as advertising expense for 2019?

- a. 4,650,000
- b. 4,900,000
- c. 5,000,000
- d. 5,200,000

56. Rea Company had a balance of P 4, 100,000 in the professional fees expense account on December 31, 2019, before considering year end adjustment relating to the following:

- Consultant were hired for a special project at a total fee not to exceed P3, 250. The entity had recorded P 2,750,000 of this fee based on billing for work performed in 2019
- The attorney's letter request by the auditors dated January 31 2020, indicated that legal fees of P 300,000 were billed on January 15, 2020 for work performed in November 2019, and unbilled fees for December 2019 were P350,000

What amount should be reported for professional fees expense for 2019?

- a. 4,100,000
- b. 4,400,000
- c. 4,750,000
- d. 5,250,000

57. Jeric Company purchase machinery on January 1, 2020 for P 6,300,000. The entity used the sum of years digits method with no residual value to depreciate the asset for the first two years of the estimated six year life. In 2022, the entity change to the straight-line depreciation method. The depreciation recorded under sum of years digits method totaled P 1,800,000 for 2020 and P 1, 500,000 for 2021. The depreciation under straight-line method would have been P 1,050,000 each for 2020 and 2021. The tax rate is 30%. What is the cumulative effect of this change as an adjustment of retained earnings on January 1, 2022?

- a. 0
- b. 80,000
- c. 1,200,000
- d. 1,350,000

58. On January 31, 2019 Air Company agreed to pay the former president P300,000 under a deferred compensation arrangement. Air should have recorded this expense in 2018 but did not so. The income tax expense would have been P70,000 lower in 2016 had it properly accrued this deferred compensation. What is the adjustment of retained earnings on January 1, 2019?

- a. 230,000 debit
- b. 30,000 debit
- c. 230,000 credit
- d. 30,000 credit

59. Rowelma Company reported the following during the year ended December 31, 2019

- It was decided write off P 1,000,000 from inventory as it was absolute
- Sales of P 1, 500,000 had been reported as prior period error in the financial statements for 2018

What amount should be reported as prior error in the financial statements for 2019?

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

60. Greg Company reported of P 1, 250,000 in the accrual basis income statement for the year ended June 30, 2021

|                                                           |         |
|-----------------------------------------------------------|---------|
| Account receivable, June 30 2020                          | 400,000 |
| Account receivable, June 30 2021                          | 530,000 |
| Uncollectible accounts written off during the fiscal year | 15,000  |

Under the cash basis, what amount should be reported as revenue?

- a. 835,000
- b. 850,000
- c. 1,105,000
- d. 1,135,000

61. Czarina Company provided the following information during the first year of operations:

|                     |           |
|---------------------|-----------|
| Purchase on account | 6,200,000 |
| Ending inventory    | 2,200,000 |
| Sales on account    | 5,600,000 |

Accounts receivable and accounts payable have ending balances at year end of P 1,400,000 and P 1, 200,000 respectively. Other expense paid amounted to P 1,000,000 during the year and equipment with a 5 year useful life was purchase for P 600,000 during the year. The accounting policy is full year depreciation in the year of purchase using a straight line. What is the net income under cash basis of accounting?

- a. 280,000
- b. 340,000
- c. 400,000
- d. 480,000

62. In the 2019 financial statements, Cris Company reported interest expense of P 85,000 in the income statement and cash paid for interest of P 68,000 in the statement of cash flows. There was no prepaid interest or interest capitalization either at the beginning or end of 2019. Accrued interest on December 31, 2018 was P 15,000. What amount should be reported as accrued interest payable on December 31, 2019?

- a. 2,000
- b. 15,000
- c. 17,000
- d. 32,000



1. On January 1, 2019, Arlyn Company had capitalized cost of P6,000,000 for a new computer software with an economic life of 4 years. Sales for 2019 amounted to P3,000,000. The total sales of software over the economic life are expected to be P10,000,000. The pattern of future sales cannot be measured reliably. On December 31, 2019, the software had a fair value less cost of disposal of P4,400,000. What net amount of the capitalized software cost should be reported on December 31, 2019?
- a. 4,200,000
  - b. 4,400,000**
  - c. 4,500,000
  - d. 6,000,000

2. On January 1, 2019, Alpha Company signed an annual maintenance agreement with a software provider for P15,000 and the maintenance period begins on March 1, 2019. Alpha also incurred P5,000 on January 1, 2019 related to software modification request that will increase the functionality of the software asset five-years using the straight-line-method. What is the total expense that should be recognized as a result of the maintenance agreement and the software modification for 2019?
- a. 5,000
  - b. 13,500**
  - c. 16,000
  - d. 20,000

3. Flip Company incurred the following computer software costs for the development and sale of software programs during the current year:

|                                                                               |           |
|-------------------------------------------------------------------------------|-----------|
| Planning costs                                                                | 500,000   |
| Design of the software                                                        | 1,500,000 |
| Substantial testing of the project's initial stages                           | 750,000   |
| Production and packaging costs for the first month's sales                    | 5,000,000 |
| Costs of producing product masters and technology feasibility was established | 2,000,000 |

The project was not under any contractual arrangement when these expenditures were incurred. What amount should be reported as research and development expense for the current year?

- a. 2,000,000
  - b. 2,750,000**
  - c. 5,000,000
  - d. 9,750,000
4. Jeff Company incurred the following costs during the current year:
- |                                                                           |           |
|---------------------------------------------------------------------------|-----------|
| Routine on-going effort to refine, enrich or improved an existing product | 2,500,000 |
| Design, Construction and testing of preproduction models                  | 2,500,000 |
| Quality control during commercial production                              | 3,000,000 |
| Laboratory research for discovery of new knowledge                        | 3,600,000 |
- What is the total research and development expense?
- a. 4,700,000
  - b. 5,500,000
  - c. 5,800,000**

d. 6,600,000

5. Cody Company incurred the following costs during the current year :

|                                                                                                                |         |
|----------------------------------------------------------------------------------------------------------------|---------|
| Design of tools, jigs, molds, and dies involving new technology                                                | 15,000  |
| Modification of the formulation process                                                                        | 160,000 |
| Trouble shooting of breakdowns during commercial production                                                    | 100,000 |
| Adaptation of an existing capability to a particular customer need as part of a continuing commercial activity | 110,000 |

What amount should be recognized as research and development expenses for the current year?

- a. 125,000
- b. 160,000
- c. 235,000
- d. 285,000

6. On January 1, 2019, Jessica Company received a consolidated grant of P12,000,000. Three-fourths of the grant will be utilized to purchase a college building for students from underdevelopment countries. The balance of the grant is used for subsidizing the tuition cost of those students for four years from date of grant. The building was purchased in January 2019 and is to be depreciated using the straight-line method over 10 years. The tuition costs paid in 2019 amounted to P600,000. What amount of grant income should be recognized for 2019?

- a. 1,050,000
- b. 1,200,000
- c. 1,650,000
- d. 3,000,000

7. Jelline Company had the following liabilities on December 31, 2019

|                                  |           |
|----------------------------------|-----------|
| Accounts payable                 | 55,000    |
| Unsecured notes, 8% due 7/1/2020 | 400,000   |
| Accrued expenses                 | 35,000    |
| Contingent liability             | 450,000   |
| Deferred tax liability           | 25,000    |
| Senior bonds, 7% due 3/31/2020   | 1,000,000 |

The contingent liability is an accrual for possible loss on a P1,000,000 lawsuit filed against the entity. The legal counsel expects loss on a P1,000,000 law suit to be settled in 2020 and has estimated that the entity will be liable for damage in the range of P450,000 to P750,000. The deferred tax liability is not related to an asset for financial reporting and is expected to reverse in 2021. What amount should be reported on December 31, 2019 for current liabilities?

- a. 515,000
- b. 940,000
- c. 1,490,000
- d. 1,515,000

8. Eleysia Company recorded purchase at gross amount but decided to change to recording purchase net of purchase discount. Discount available on purchase record from October 1, 2019 to September 30, 2020 totaled P20,000. Of this amount, P2,000 is still in the accounts payable. The balance in the accounts as of and for the year ended September 30, 2020 before conversion are:

|                         |           |
|-------------------------|-----------|
| Purchase                | 1,000,000 |
| Purchase discount taken | 8,000     |
| Accounts Payable        | 300,000   |

What amount should be reported as account payable on September 30, 2020?

- a. 282,000
- b. 288,000
- c. 292,000
- d. 298,000

9. Lyle Company is preparing financial statements for the year ended December 31, 2019. Accounts payable amounted to P360,000 before any necessary year-end adjustment related to the following:

- On December 31, 2019, Lyle has a P50,000 debt balance in accounts payable to Ross, a supplier, resulting from a P50,000 advance payment for goods to be manufactured.
- Checks in the amounts of P100,000 were written to vendors and recorded on December 20, 2019. The checks were mailed on January 5, 2020?

What amount should be recorded as accounts payable on December 31, 2019?

- a. 210,000
- b. 310,000
- c. 410,000
- d. 510,000

10. Ashwood Company reported accounts payable on December 31, 2019 at P900,000 before any necessary year-end adjustment relating the following

- Goods were in transit from a vendor to Ashwood on December 31, 2019. The invoice cost was P50,000, and the goods were shipped FOB shipping point on December 29, 2019. The goods were received on January 4, 2020.
- Goods shipped FBO shipping point on December 20, 2019 from a vendor to Ashwood were lost in transit. The voice cost was P25,000. On January 5, 2020 Ashwood filed a P25,000. The invoice cost was P15,000

What amount should be reported as accounts payable o December 31, 2019?

- a. 925,000
- b. 940,000
- c. 950,000
- d. 975,000

11. Fay Company pays outside salespersons fixed monthly salaries and commissions on sales. Sales commission are computed and paid on a monthly basis in the month following the month of sale, and the fixed salaries are treated as advance against commissions. However, if the fixed salaries for sales person exceed commissions earned for a month, such excess is not charge backed to the.

Pertinent data for the month of March for three salespersons are as follow:

| <u>Sales person</u> | <u>Fixed salary</u> | <u>Net sales</u> | <u>Commission</u> |
|---------------------|---------------------|------------------|-------------------|
| A                   | 10,000              | 200,000          | 4%                |
| B                   | 14,000              | 400,000          | 6%                |
| C                   | 18,000              | 600,000          | 6%                |

What amount should be accrued for sales commission on Mach 31?

- a. 26,000
- b. 28,000
- c. 68,000

d. 70,000

12. Jasmine Company sells appliance service contracts agreeing to repair appliances for two-year period. The past experience is that of the total amount spend for repairs o service contracts 4% is incurred evenly during the first contract year and 60% evenly during the second contract year. Received from service contract sales for 2019 and 2020 are P500,000 and P600,000 respectively. Receipts from contracts are credited to unearned service contract revenue. All sales are made evenly during the year. What amount should be reported as unread service contract revenue on December 31, 2020?

a. 360,000  
b. 47,000  
c. 480,000  
d. 630,000

13. Janelle Video sells on the two-year mail period order subscriptions for video of the month business. Subscription are collected in advance and credited to sales. An analysis of the recorded sales activity revealed the following:

|                         | 2020    | 2021    |
|-------------------------|---------|---------|
| Sales                   | 420,000 | 500,000 |
| Cancellation            | 20,000  | 30,000  |
| Subscription expiration |         |         |
| 2020                    | 120,000 |         |
| 2021                    | 155,000 | 130,000 |
| 2022                    | 155,000 | 200,000 |
| 2022                    |         | 140,000 |

On December 31, 2021, what is the unread subscription revenue?

a. 340,000  
b. 465,000  
c. 470,000  
d. 495,000

14. Merill Company offers three payments plans in its twelve-month contracts. Information on three plans and the number of children enrolled in each plan for the September 1, 2019 to August 31, 2020 contract year follows:

|        | <u>Initial payment per child</u> | <u>Monthly fee per child</u> | <u>Number of Children</u> |
|--------|----------------------------------|------------------------------|---------------------------|
| Plan A | 50,000                           | ---                          | 15                        |
| Plan B | 20,000                           | 3,000                        | 12                        |
| Plan C |                                  | 5,000                        | 9                         |

The entity received P990,000 of initial payments on September 1, 2019 and P324,000 of monthly fees during the period September 1, 2019 to December 31, 2019. On December 31, 2019, what amount should be reported as deferred revenue?

a. 330,000  
b. 73,500  
c. 115,500  
d. 311,500

15. Merrill Company offers a cash rebate of P50 on each P200 package of biscuits sold during the year. Historically, 30% of the customers mail in the rebate form. During the year, 7,700 package of biscuits are sold and 1,470 P50 rebates are mailed to customers. What amount of rebate liability should be recognized at year-end?

a. 42,000  
b. 7 3,500  
c. 115,500  
d. 3 11,500

16. Janine Company sells product in reusable containers. The customer is charge a deposit for each container return within two years after the year of delivery. The entity accounts for the containers not returned within the time limit as being retired by sale at the deposit amount. Information for 2022 is as follows: Container deposits on December 31, 2018 from deliveries in

|      |         |
|------|---------|
| 2020 | 150,000 |
| 2021 | 430,000 |

Deposit for containers delivered in 2022

Deposit for containers returns in 2022 from deliveries in:

|      |         |         |
|------|---------|---------|
| 2020 | 90,000  |         |
| 2021 | 250,000 |         |
| 2022 | 286,000 | 626,000 |

On December 31, 2022, what amount should be reported as liability for deposits on returnable containers?

a. 494,000  
b. 5 84,000  
c. 674,000  
d. 7 34,000

17. Cristy Company acquired a new machine which had a cash price of P2,100,000. The payment terms are down payment P500,000, note payable in 3 equal annual installment of P600,000 each year, and 10,000 ordinary shares with par value of P20 and fair value of P35 per share. Prior to use, the entity incurred installation cost of P80,000. What amount of discount on note payable should be recognized on the date of purchase?

a. 0  
b. 1 50,000  
c. 550,000  
d. 1 ,250,000

18. On December 31, 2020, Roth Company issued a P1,000,000 face note payable to Wake Company in exchange for services rendered to Roth the note, made at usual trade terms, is due in nine months and bears interest, payable at maturity, at the annual rate of 3%. The market interest rate is 8%. What amount should the note payable be reported on December 31, 2023?

a. 671,000  
b. 9 56,2000  
c. 1,000,000  
d. 1 ,030,000

19. During the current year, Lake Company issued 3,000 of 9% P1,000 face value bonds at 101. In connection with the sale of these bonds, the entity paid the following expenses:

|                        |         |
|------------------------|---------|
| Promotional cost       | 20,000  |
| Engraving and printing | 25,000  |
| Underwriter commission | 200,000 |

What amount should be recorded as bond issue cost to be amortized over the terms of the bonds?

- a. 0
- b. 20,000
- c. 225,000
- d. 245,000

20. On January 1, 2019, Southern Company received P107,720 for a P100,000 face amount, 12% bond, at a price that yields 10%. The bonds pay interest semi-annually. The entity elects the fair value of the bond is determined to be P106,460. The entity's interest expense of P12,000 in the 2016 income statement. What was the gain or loss recognized in the income statement to report this bond at fair value?

- a. 13,260 loss
- b. 2,000 loss
- c. 1,260 gain
- d. 6,460 gain

21. On January 1, 2019, West Company issued 9% amount of P500,000 which mature on January 1, 2019. The bonds were issued for P469,500 yield 10%. Interest is payable annually on December 31. The entity uses the interest method of amortizing bond discount and does not elect the fair value options for reporting financial liabilities. On June 30, 2019, what amount should be reported as bonds payable?

- a. 469,000
- b. 470,475
- c. 471,025
- d. 500,000

22. Webb Company has outstanding a 7%, ten-year P100,000 face value bond. The bond was originally sold to yield 6% annual interest. The entity uses the effective method to amortize bond premium and does not elect the fair value option for reporting financial liabilities. On June 30, 2019, the carrying amount of the outstanding bond was P105 amount of unamortized premium on bond should be reported on June 30, 2020?

- a. 1,050
- b. 3,950
- c. 4,300
- d. 4,500

*Questions 23 & 24 are based on the following information:*

Knob Company provided the following information relating to the transfer of real estate pursuant to a troubled-debt restructuring in full liquidation of liability:

|                                         |         |
|-----------------------------------------|---------|
| Carrying amount of liability liquidated | 150,000 |
|-----------------------------------------|---------|

|                                            |         |
|--------------------------------------------|---------|
| Carrying amount of real estate transferred | 100,000 |
| Fair value of real estate transferred      | 90,000  |

23. What amount should be reported as gain or loss on restructuring of payable?

- a. 10,000 loss
- b. 0
- c. 50,000 gain
- d. 60,000 gain

24. What amount should be reported as a gain or loss on transfer if real estate?

- a. 50,000 loss
- b. 10,000 loss
- c. 0
- d. 50,000 gain

25. Seda Company provided the following information related to pension plan:

|                                                                |         |
|----------------------------------------------------------------|---------|
| Actuarial estimate of projected benefit obligation at 1/1/2019 | 72,0000 |
| Assumed discount rate                                          | 10%     |
| Service cost for 2019                                          | 18,000  |
| Pension benefits paid during 2019                              | 15,000  |

No change in actuarial estimates occurred during 2019. What amount should be reported as projected benefit obligation on December 31, 2019?

- a. 64,200
- b. 75,000
- c. 79,200
- d. 82,200

26. Payne Company implemented a defined benefit plan on January 1, 2019. The following data are provided on December 31, 2019:

|                              |         |
|------------------------------|---------|
| Projected benefit obligation | 103,000 |
| Plan assets fair value       | 78,000  |
| Net periodic pension cost    | 90,000  |
| Employer's contribution      | 70,000  |

What amount should be recorded as pension liability on December 31, 2019?

- a. 0
- b. 20,000
- c. 25,000
- d. 45,000

27. Salve Company reported plan assets at fair value of P2,000,000 and projected benefits obligation of P4,000,000 on December 31, 2019. On January 1, 2019, the prepaid-0 accrued benefit cost account had credit balance of P1,500,000. During the year, the entity recognized contribution of P1,200,000 and re-measurement loss of P600,000. There was no re-measurement gain or loss on January 1, 2019. What amount of employee benefit expense was recognized for 2019?

- a. 500,000
- b. 1,100,000
- c. 1,200,000

d. 1,700,000

28. Joan Company grants all employees two weeks of paid vacation for each full year of employment. Unused vacation time can be accumulated and carried forward to succeeding years and will be paid at the salaries in effects when vacation are taken or when employment is terminated. There was no employee turnover in 2019. Additional information relating to the year ended December 31, 2019 is as follows:

Liability for accumulated vacations on January 1, 2019 350,000

Pre-2019 accrued vacations taken form January 1, 2019 to  
September 30, 2019 (the authorized period for vacations) 200,000

Vacations earned for work in 2019 adjusted to current rate 300,000. The entity granted a 10% salary increase to all employees on October 1, 2019 the annual salary increase date. What amount should be reported as vacations pay expense for 2019?

a. 300,000

b. 315,000

c. 335,000

d. 450,000

29. On September 1, 2019, Joanna Company offered special termination benefits to employees who had reached the entity the early retirement age. The termination benefits consisted of lump-sum and periodic future payments. Additionally, the employees accepting the offer received the usual early retirement pension benefits. The offer expired on November 30, 2019. Information on December 31, 2019 is as follows"

- Lump-sum payments totaling P475,000 were made January 1, 2020
- Periodic payments of P60,000 annually for three years will begin January 1, 2021. The present value on December 31, 2019 of these payments was P155,000
- Reduction of accrued pension costs on December 31, 2019 for the terminating employees was P45,000

On December 31, 2019, what is the total liability for special termination benefits?

a. 475,000

b. 585,000

c. 630,000

d. 655,000

30. Boom Company reported current tax expense of P5,000,000 for 2020. The changes is assets and liabilities ae as follows:

|                        | December 31,2020 | December 31, 2019 |
|------------------------|------------------|-------------------|
| Deferred tax asset     | 1,000,000        | 800,000           |
| Deferred tax liability | 450,000          | 600,000           |
| Income tax payable     | 500,000          | 200,000           |

The deferred tax liability was caused by accelerated depreciation and the deferred tax asset is for rentals received in advance. What amount of total tax expense should be recognized in 2020?

a. 4,560,000

b. 4,950,000

c. 5,350,000

d. 5,650,000



31. Justin Company reported P9,000,000 income before provision for income tax. The following data are provided for the current year:

|                                                                    |           |
|--------------------------------------------------------------------|-----------|
| Rent received in advance                                           | 1,600,000 |
| Income from exempt municipal bonds                                 | 2,000,000 |
| Depreciation deduction for income tax purpose                      |           |
| in excess of depreciation reported for financial reporting purpose | 1,000,000 |
| Estimated tax payment for current year                             | 500,000   |
| Enacted corporate income tax rate                                  | 30%       |

What amount of current income tax liability should be reported at year-end?

- a. 1,780,000
- b. 2,280,000
- c. 2,580,000
- d. 2,880,000

32. On January 1, 2020, Warren Company purchased a P600,000 machine, with a five-year useful life and no residual value. The machine was depreciated by an accelerated method for the book and tax purpose. The carrying amount was P240,000 on December 31, 2021. On January 1, 2022, the entity change to the straight-line method for financial reporting purpose. The income tax rate is 30%. On January 1, 2022, what amount should be reported as deferred tax liability as a result of the change?

- a. 0
- b. 6,000
- c. 72,000
- d. 20,000

33. Tower Company began operations on January 1, 2019. For financial reporting, the entity recognized revenue from all sales under the accrual method. However, in the income tax return, the entity reported under the installment method. The gross profit on these installment sales under each method was as follows:

| Year | Accrual method | Installment |
|------|----------------|-------------|
| 2019 | 1,600,000      | 600,000     |
| 2020 | 2,600,000      | 1,400,000   |

The tax income tax rate is 30% for 2019 and the future years. There are no other temporary or permanent differences. On December 31, 2020, what amount should be reported as deferred tax liability?

- a. 360,000
- b. 600,000
- c. 660,000
- d. 840,000

34. On January 1, 2019, Norren Company granted key executives 160,000 share options at an options price of P35 per share. Market prices of the shares were P46 and P51 on December 31, 2019 and 2020, respectively. The options were granted as compensation for service to be rendered over a two-year period beginning January 1, 2019. The Black-Scholes option pricing model determined total compensation expense to be P1,600,000. What amount of compensation expense should be recognized for 2020?

- a. 800,000
- b. 1,600,000

- c. 1,760,000
- d. 2,800,000

35. In connection with a share option plan, Ward Company intends to distribute treasury shares when the options are exercised. These shares were bought in 2019 at P42 per share. On January 1, 2020, the entity granted share options for P10,000 share as additional compensation for services to be rendered over the next three years. The options are exercisable during a four year period beginning January 1, 2020 by grantees still employed. Market price was P47 per share at the grant date. The fair value of a similar share option with the same terms was P12 at the grant date. No share options were terminated during 2020. What amount should be reported as compensation expense pertaining to the options for 2020?

- a. 0
- b. 30,000
- c. 40,000
- d. 90,000

36. On January 1, 2019, Morey Company granted the president, 20,000 share appreciation rights for past service. Those right are exercisable immediately and expire on January 1, 2019. On the, the grantee is immediately and expire on January 1, 2019. On exercise, the grantee is entitle to receive cash for the market price on the exercise date over the market price on the grant date. The grantee did not exercise any of the right during 2019. The market price of share was P30 on January 1, 2019 and P45 on December 31, 2019. What amount should be recognized as compensation expense for 2019?

- a. 0
- b. 100,000
- c. 300,000
- d. 600,000

37. On January 1, 2019. Mae Company issued to employees 10,000 restricted shares. On January 1, 2020, the entity issued to employees an additional 20,000 restricted shares.

| <u>Date</u>       | <u>Fair value of share</u> |
|-------------------|----------------------------|
| January 1, 2019   | 20                         |
| December 31, 2019 | 22                         |
| January 1, 2020   | 25                         |
| December 31, 2020 | 30                         |

The shares vest at the of a four-year period. There are no forfeitures. What amount should be recorded as compensation expense for 2020?

- a. 175,000
- b. 205,000
- c. 225,000
- d. 500,000

38. Cyan Company issued 20,000 ordinary shares of P5 par at P10 per share. On December, 2019, the retained earnings amounted to P300,000. In March 2020, the entity reacquired 5,000 shares to corporate officers for P25 per share. The cost method is used to record treasury shares. Net income for 2020 was P60,000. On December 31, 2020, what amount should be reported as retained earnings?

- a. 360,000
- b. 365,000
- c. 375,000
- d. 380,000

39. On January 1, 2019, Troy Company reported share capital P20 par P2,000,000 share premium P1,000,000 and retained earning P3,500,000. The entity used the cost method of accounting for treasury shares. During 2019, the entity acquired 20,000 treasury shares for P600,000 sold 15,00 treasury shares at P25 per share and declared the remaining treasury shares as dividends when the fair value of the share is P40. Net income for 2019 was as dividends when the fair value of the share is P40. Net income for 2019 was p1,500,000. What amount should be reported as retained earnings on December 31, 2019?

- a. 4,725,000
- b. 4,775,000
- c. 4,800,000
- d. 4,925,000

40. Lourdes company reported that the decreased by P9,000,000 and liabilities also decreased by P16,000,000 in the current year. It was determined that a financial asset at FVTOCI decreased by P400,000 due to fair value change and an investment in associate increased by P600,000 due to share in the net income of the associate. The entity received equipment valued at P500,000 from a shareholder as donation and correct prior period error resulting from an overstatement of ending inventory for P1,500,000. What is the net income for the current year?

- a. 6,900,000
- b. 7,800,000
- c. 8,000,000
- d. 8,400,000

41. On December 31, 2019, Eagle Company reported P1,750,000 of appropriate retained for the construction of a new office building which was completed in 2020 at a total cost P1,500,000. In 2020, the entity appropriated P1,200,000 of retained earnings for the construction of a new plant. Also P2,000,000 of cash was restricted for the retirement of bonds due in 2021. What amount of appropriated retained earnings should be reported on December 31, 2020?

- a. 1,200,000
- b. 1,450,000
- c. 2,950,000
- d. 3,200,000

42. Meg Company provided to the following information:

- Dividends on 1,000 cumulative preference share, 6%, P10 par value, have not been declared or paid for three years.
- Treasury shares that cost P15,000 were reissued for P8,000

What amount of retained earnings should be appropriated as a result of these items?

- a. 0
- b. 1,800
- c. 7,000
- d. 8,800

43. Andrew Company issued 200,000 shares of P5 par value at P10 per share. On January 1, 2019, the retained earnings amounted to P3,000,000. In March 2019, the entity reacquired 50,000 treasury shares at P20 per share. In June 2019, the entity sold 10,000 of these shares to corporate officers for P25 per share. The entity used the cost method to record treasury shares. Net income for the year ended December 31, 2019 was P4,000,000 and the entity paid cash dividends of P1,000,000 on December 31, 2019, what amount should be reported as unappropriated retained earnings?

- a. 5,000,000
- b. 5,200,000**
- c. 5,800,000
- d. 6,000,000

44. On December 31, 2019, Richard Company had 300,000 ordinary shares and 5%, par value 10,000 cumulative preference shares outstanding. No dividends were declared on either the preference or ordinary shares in 2019 or 2020. On January 30, 2021, prior to the issuance of financial statements for 2020, the entity declared a 100% share dividend on ordinary shares. Net income for 2020 was P950. What amount of basic earnings per share should be reported in the 2020 financial statements?

- a. 1.50**
- b. 1.58
- c. 3.00
- d. 3.17

45. On December 31, 2019, Donne Company had 1,200,000 ordinary shares outstanding. On September 1, 2020, an additional 600,000 shares were issued. The entity issued P12,000,000 of 6% convertible bonds on October 1, 2020, convertible into 800,000 ordinary shares. No bonds were converted in 2020. The income tax rate was 30%. What amount should be reported as diluted earnings per share for 2020?

- a. 2.10
- b. 2.27
- c. 2.89**
- d. 3.21

46. Peter Company reported the following capital structure:

|                               | 2020    | 2021    |
|-------------------------------|---------|---------|
| Outstanding shares            |         |         |
| Ordinary                      | 110,000 | 110,000 |
| Convertible preference shares | 10,000  | 10,000  |

During 2021, the entity paid preference dividends of P3 per share. The preference are convertible into 20,000 ordinary shares. Net income for 2021 was P850,000. The income tax rate is 30%. What amount should be reported as diluted earnings per share for 2021?

- a. 6.31
- b. 6.54**
- c. 7.08
- d. 7.45

47. Hoyt Company reported the following shares holders' equity:

|                                                                                         |         |
|-----------------------------------------------------------------------------------------|---------|
| 5% cumulative preference shares, par value P100,<br>2,500 shares issued and outstanding | 250,000 |
| Ordinary shares, par value P3.50, 100,000 shares issued<br>and outstanding              | 350,000 |
| Share premium                                                                           | 125,000 |
| Retained earnings                                                                       | 300,000 |

Dividends in arrears on the preference shares amount to P25,000. If the entity were to be liquidated, the preference shareholders would receive par value plus a premium of P50,000. What is the book of value per ordinary share?

- a. 7.00
- b. 7.25
- c. 7.50
- d. 7.75

48. France Company has sales of P1,000,000 during December 2019. Experience has shown that merchandise equaling 7% of sales will be returned within thirty days and an additional 3% will be returned within ninety days. Returned merchandise is readily resalable. In addition, merchandise equaling 15% of sales will be exchange for merchandise of equal or greater value. What amount should be reported for net sales for the month of December 2019?

- a. 750,000
- b. 780,000
- c. 850,000
- d. 900,000

49. Zoe Company, a distributor of machinery, bought a machine from the manufacturer in November 2019 for P10,000. On December 30, 2019, the entity sold this machine for P15,000 under the following terms. 2% discount if paid within thirty days, 1% discount if paid after thirty days but within sixty days, or payable in full within ninety days if not paid within the discount periods. However, the customer had the right to return this machine if it was unable to resell the machine before expiration of the ninety-day payment period, in which case the obligation would be cancel. In the net sales for new sales during the month?

- a. 185,000
- b. 190,000
- c. 195,000
- d. 200,000

50. Belgica Company allows customers to return within 90 days of purchase. The entity that 5% of sales will be returned within the 90-day period. During the month, the entity has sales of P200,000 and returns of sales made in prior months of P5,000. What amount should be recorded as net recorded as net sales revenue for new sales made during the month?

- a. 185,000
- b. 190,000
- c. 195,000
- d. 200,000

51. Charlene Farms produce 50,000 kilos of tobacco for another entity which HS agreed to purchase the entire production at the prevailing market price. Recent legislation assured that the market price will not fall below P70 per kilo during the next two year. The cost of selling and distributing the tobacco are immaterial and can be reasonably estimated. The entity reported its inventory at expected exit value. During 2019, the entity Sold and delivered to the buyer 40,000 kilos at the market price of P70. The entity sold the remaining 10,000 kilos during 2020 at the market price of P72. What amount of revenue should be recognized in 2019?
- 2,800,000
  - 2,880,000
  - 3,500,000**
  - 3,600,000
52. On October 20, 2019, Grimm Co. consigned forty freezers to a consignee for sale at P10,000 each and paid P8,000 in transportation cost. On December 30 2019, the consignee reported the sale of ten freezer and remitted P85,000. The remittance was net of the agreed 15% commission. What amount should be recognized as consignment sales revenue for 2019?
- 77,000
  - 85,000
  - 98,000
  - 100,000**
53. On December 31, 2019, Alt Company received 505 sweaters on consignment from a consignor. The cost for the sweaters was P 800 each and were priced to sell at P1,000. The commission on consigned goods is 10%. On December 31 2019, five sweaters remained. On December 31, 2019, what amount should be reported as payable for consigned goods?
- 404,000
  - 450,000**
  - 454,400
  - 490,000
54. Clark Company reported advertising expense of P146,000 on on December 31, 2019 before any necessary year- end adjustment relating the following :
- Included in the P146,000 is the P15,000 of printing catalogs for a sales promotional campaign in January 2020
  - Radio advertisement broadcast during December 2016 were billed to Clark on January 2, 2020. Clark paid the P 9,000 invoice on January 11, 2020
- What amount should be reported as advertising expense for 2019?
- 122,000
  - 131,000
  - 140,000**
  - 155,000
55. On December 31, 2019, Alvin Company had a P4, 950,000 balance in the advertising expense account before any yearend adjustments
- Radio and television advertising spots broadcast during December 2019 were billed to Alvin on January 4, 2020. The invoice cost of P 250,000 was paid on January 15, 2020

- Included in the P 4, 950 is P 300,00 for newspaper advertising for a January 2020 sales promotional campaign.

What amount should be reported as advertising expense for 2019?

- a. 4,650,000
- b. 4,900,000
- c. 5,000,000
- d. 5,200,000

56. Rea Company had a balance of P 4, 100,000 in the professional fees expense account on December 31, 2019, before considering year end adjustment relating to the following:

- Consultant were hired for a special project at a total fee not to exceed P3, 250. The entity had recorded P 2,750,000 of this fee based on billing for work performed in 2019
- The attorney's letter request by the auditors dated January 31 2020, indicated that legal fees of P 300,000 were billed on January 15, 2020 for work performed in November 2019, and unbilled fees for December 2019 were P350,000

What amount should be reported for professional fees expense for 2019?

- a. 4,100,000
- b. 4,400,000
- c. 4,750,000
- d. 5,250,000

57. Jeric Company purchase machinery on January 1, 2020 for P 6,300,000. The entity used the sum of years digits method with no residual value to depreciate the asset for the first two years of the estimated six year life. In 2022, the entity change to the straight-line depreciation method. The depreciation recorded under sum of years digits method totaled P 1,800,000 for 2020 and P 1, 500,000 for 2021. The depreciation under straight-line method would have been P 1,050,000 each for 2020 and 2021. The tax rate is 30%. What is the cumulative effect of this change as an adjustment of retained earnings on January 1, 2022?

- a. 0
- b. 80,000
- c. 1,200,000
- d. 1,350,000

58. On January 31, 2019 Air Company agreed to pay the former president P300,000 under a deferred compensation arrangement. Air should have recorded this expense in 2018 but did not so. The income tax expense would have been P70,000 lower in 2018 had it properly accrued this deferred compensation. What is the adjustment of retained earnings on January 1, 2019?

- a. 230,000 debit
- b. 30,000 debit
- c. 230,000 credit
- d. 30,000 credit

59. Rowelma Company reported the following during the year ended December 31, 2019

- It was decided write off P 1,000,000 from inventory as it was absolute
- Sales of P 1, 500,000 had been reported as prior period error in the financial statements for 2018

What amount should be reported as prior error in the financial statements for 2019?

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

60. Greg Company reported of P 1, 250,000 in the accrual basis income statement for the year ended June 30, 2019

|                                                           |         |
|-----------------------------------------------------------|---------|
| Account receivable, June 30 2018                          | 400,000 |
| Account receivable, June 30 2019                          | 530,000 |
| Uncollectible accounts written off during the fiscal year | 15,000  |

Under the cash basis, what amount should be reported as revenue?

- a. 835,000
- b. 850,000
- c. 1,105,000
- d. 1,135,000

61. Czarina Company provided the following information during the first year of operations:

|                     |           |
|---------------------|-----------|
| Purchase on account | 6,200,000 |
| Ending inventory    | 2,200,000 |
| Sales on account    | 5,600,000 |

Accounts receivable and accounts payable have ending balances at year end of P 1,400,000 and P 1, 200,000 respectively. Other expense paid amounted to P 1,000,000 during the year and equipment with a 5 year useful life was purchase for P 600,000 during the year. The accounting policy is full year depreciation in the year of purchase using a straight line. What is the net income under cash basis of accounting?

- a. 280,000
- b. 340,000
- c. 400,000
- d. 480,000

62. In the 2019 financial statements, Cris Company reported interest expense of P 85,000 in the income statement and cash paid for interest of P 68,000 in the statement of cash flows. There was no prepaid interest or interest capitalization either at the beginning or end of 2019. Accrued interest on December 31, 2018 was P 15,000. What amount should be reported as accrued interest payable on December 31, 2019?

- a. 2,000
- b. 15,000
- c. 17,000
- d. 32,000