

FINANCIAL ACCOUNTING AND REPORTING**PROBLEM (1-2)**

Moses Company's research department has an on-going project to develop a new production process. At the end of 2020, Moses had already spent a total 300,000, of which 270,000 was incurred before November 1, 2020. On November 1, 2020, the company's newly developed production process met the criteria for recognition as an intangible asset.

During 2021, Moses incurred an additional expenditure of 600,000. At the end of 2021, the recoverable amount of the intangible asset was estimated to be 570,000, including future cash flows to complete the process before it is available for its intended use.

1. How much impairment loss should be recognized by Moses in 2016 in connection with the new production process?

- a. 300,000
- b. 0
- c. 30,000
- d. 60,000**

Expenditure incurred:

From November 1, 2020 – December 31, 2020 (300,000 – 270,000)	P30,000
During 2021	600,000
Total as of December 31, 2021	<u>P630,000</u>

Carrying amount as of December 31, 2021	P630,000
Recoverable value	570,000
Impairment loss	<u>P60,000</u>

2. At December 31, 2020, the production process should be recognized at a cost of

- a. 300,000
- b. 0
- c. 30,000**
- d. 270,000

Cost of the production process at Dec.31, 2020 (P300,000 - P270,000) = P30,000

PAS 38 provides that the cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. The standards prohibit recognition as part of the cost of an intangible asset at a later date, the expenditure that was initially recognized as an expense when it was incurred.

PROBLEM (3-7)

Judy Corporation expended 510,000 in research and development costs. These activities resulted in a new product called the Oido Organ. It was patented at additional legal and other costs of 54,000. The patent application was filed on October 1, 2017, and the patent was estimated to have a useful life of 10 years.

On June 1, 2019, Judy spent 28,440 to successfully prosecute a patent infringement. Also, the patent's estimated useful life was extended to 12 years from June 1, 2019. At the beginning of 2021, Judy determined that a competitor's product would make the Oido Organ obsolete and the patent worthless by December 31, 2022.

3. Calculate the patent amortization expense for 2017?

- a. 14,100
- b. 12,750

c. 5,400

d. 1,350

Patent amortization for 2017: Oct. 1 - Dec. 31 (54,000/10 x 3/12) = 1,350

4. Calculate the patent amortization expense for 2021

a. 31,875

b. 19,531

c. 39,062

d. 3,750

2021 Patent amortization

Cost of patent

P54,000

Less: Amortization:

2017

P1,350

2018

5,400

2019

4,438

2020

3,750

14,938

Unamortized cost, Jan. 1, 2021

P39,062

Revised remaining life

Two years

Revised annual amortization

P19,531

5. Calculate the patent amortization expense for 2018

a. 51,000

b. 56,400

c. 2,700

d. 5,400

Patent amortization for 2018: Jan. 1 – Dec. 31 (54,000/10) = 5,400

6. Calculate the patent amortization expense for 2019:

a. 4,438

b. 2,188

c. 3,750

d. 5,820

2019 patent amortization

Cost of patent

P54,000

Less: Amortization, Oct. 1, 2017 – June 1, 2019: (54,000/10 x 1 8/12)

9,000

Unamortized cost, June 1, 2019

P45,000

Revised remaining life

12 yrs

Revised annual amortization

3,750

Amortization for 2019

Jan. 1 – June 1 (54,000/10 x 5/12)

2,250

June 1 – Dec. 31 (3,750 x 7/12)

2,188

Total

P4,438

7. Calculate the patent amortization expense for 2020

a. 4,438

b. 6,120

c. 3,750

d. 2,188

2020 Patent amortization : (45,000/12 years) = 3,750

PROBLEM (8-10)

As a member of the audit team for the audit of Agnes Company's financial statements for the year ended December 31, 2016, you have been asked to examine selected accounts. The controller for Agnes mentions that there is only one account (shown below) kept for intangible assets.

		Debit	Balance
Feb 1	Stock issue costs	72,000	72,000
Mar. 15	Research and development costs	1,880,000	1,952,000
April 3	Legal costs to obtain patent	150,000	2,102,000
May 1	Payment of 12 months rent on property leased by Agnes	240,000	2,342,000
June 15	Promotional expenses related to the start-up of business	414,000	2,756,000
Dec. 31	Unamortized bond discount on bonds due Dec. 31, 2030	168,000	2,924,000
Dec. 31	Operating losses for first time	482,000	3,406,000

8. The amount of organization expenses to be reported on Agnes's income statement for the year ended December 31, 2016, is

a. 2,348,000
b. 486,000
c. 582,000
d. 240,000

Stock issue costs	P72,000
Promotional expenses related to the start-up of business	414,000
Total organization expenses	<u>P486,000</u>

9. What is the carrying value of the patent on December 31, 2016, assuming that its useful life is ten years?

a. 150,000
b. 138,750
c. 135,000
d. 0

Legal cost to obtain patent	P150,000
Less: Amortization, April 3 – Dec 31 (150,000/10 x 9/12)	11,250
Balance, Dec 31, 2013	<u>P138,750</u>

10. The prepaid rent to be shown on Agnes's statement of financial position at December 31, 2016, is

a. 160,000
b. 240,000
c. 80,000
d. 0

*Prepaid rent, Dec. 31, 2016 (240,000 x 4 (a/12) = 80,000
(a) Jan. 1, 2017 - May 1, 2017*

PROBLEM (11-12)

Orly Corp. has provided information on intangible assets as follows:

- A patent was purchased from Judy Company for 6,000,000 on January 1, 2015. On the acquisition date, the patent was estimated to have a useful life of 10 years. The patent had a net book value of 6,000,000 when Judy sold it to Alex.

2. On February 1, 2016, a franchise was purchased from the Franchiser Company for 1,440,000. The contract which runs for 20 years provides that 5% of revenue from the franchise must be paid to Franchisor. Revenue from the franchise for 2016 was 7,500,000.

The following research and developments costs were incurred by Alex in 2016:

Materials and equipment	P426,000
Personnel	567,000
Indirect costs	306,000
Total	P1,299,000

Because of recent events, Alex, on January 1, 2016, estimates that the remaining useful life of the patent purchased on January 1, 2015, is only five years from January 1, 2016.

11. On December 31, 2016, the carrying value of the patent should be

a. 4,320,000

b. 6,000,000

c. 1,680,000

d. 0

The acquisition cost of patent purchased Jan. 1, 2015		P6,000,000
Less: Amortization:		
2015 (6,000,000/10 years)	P600,000	
2016 (6,000,000 – 600,000 = 5,400,000/5 years)	1,080,000	1,680,000
Carrying value of a patent, Dec. 31, 2016		<u>P4,320,000</u>

12. The unamortized cost of the franchise on December 31, 2016, should be

a. 999,000

b. 1,356,250

c. 1,440,000

d. 1,374,000

The acquisition cost of franchise purchased Feb 1, 2016	P1,440,000
Less: Amortization (1,440,000/20 years x 11/12)	66,000
Carrying value of franchise, Dec. 31, 2016	<u>P1,374,000</u>

PAS 38 provides that the depreciable amount of an intangible asset that has a finite life should be allocated (amortized) on a systematic basis over its useful life. Amortization begins when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. On the other hand, an intangible asset with an indefinite useful life should not be amortized but should be tested for impairment by comparing its recoverable amount with its carrying amount at least annually and whenever there is an indication that the intangible asset may be impaired.

13. Alex Corp. has provided information on intangible assets as follows:

1. A patent was purchased from Judy Company for 6,000,000 on January 1, 2015. On the acquisition date, the patent was estimated to have a useful life of 10 years. The patent had a net book value of 6,000,000 when Judy sold it to Alex.
2. On February 1, 2016, a franchise was purchased from the Franchiser Company for 1,440,000. The contract which runs for 20 years provides that 5% of revenue from the franchise must be paid to Franchisor. Revenue from the franchise for 2016 was 7,500,000.

Materials and equipment	P426,000
Personnel	567,000
Indirect costs	306,000
Total	<u>P1,299,000</u>

Because of recent events, Alex, on January 1, 2016, estimates that the remaining useful life of the patent purchased on January 1, 2015, is only five years from January 1, 2016.

How much should be charged against Alex's income for the year ended December 31, 2016?

- a. 2,280,000
- b. 2,826,000
- c. 2,820,000**
- d. 1,725,000

Acquisition cost of patent purchased Jan. 1, 2015 P6,000,000

Less: Amortization:

2015 (6,000,000/10 years) P600,000

2016 (6,000,000 – 600,000 = 5,400,000/5 years) 1,080,000 1,680,000

Carrying value of a patent, Dec. 31, 2016 P4,320,000

Charges against 2016 income:

Amortization of patent P1,080,000

Amortization of franchise (see no. 2) 66,000

Payment to franchisor (7,500,000 x 5%) 375,000

Research and development costs 1,299,000

Total P2,820,000

PROBLEM (14-16)

Joel Corp. has its research department. However, the company purchases patents from time to time. The following is a summary of transactions involving patents now owned by the company.

1. During 2010 and 2011, Joel spent a total of 459,000 in developing a new process that was patented (Patent A) on April 1, 2012; additional legal and other costs of 50,000 were incurred.
2. A patent (Patent B) developed by Nonoy Inventor, an inventor, was purchased for 187,500 on December 1, 2013, on which date it had an estimated useful life of 12 1/2 years.
3. During 2012, 2013, and 2014, research and development activities cost 510,000. No additional patents resulted from these activities.
4. A patent infringement suit brought by the company against a competitor because of the manufacture of articles infringing on Patent B was successfully prosecuted at a cost of 42,600. A decision in the case was rendered in June 2014.
5. On July 1, 2015, Patent C was purchased for 172,800. This patent had 16 years yet to run.
6. During 2016, Joel expended 180,000 on patent development. However, the company is still undecided as to how the patent, if approved by the Bureau of Patents, will generate probable future economic benefits.

Assume that the legal life of each patent is also its useful life.

14. What is Patent A's carrying value on December 31, 2016?

- a. 120,888
- b. 497, 125
- c. 38,125**
- d. 388,113

Date	Patent	Cost	Useful life	Annual Amortization
April 1, 2012	A	P50,000	20 (a) years	P2,500
Dec 1, 2012	B	187,500	12.5 years	15,000
July 1, 2015	C	172,800	16 years	10,800
		<u>P410,300</u>		<u>P28,300</u>

(a) By RA 8293, the Intellectual Property Code of the Philippines, the term (legal life) of patent is 20 years from the date of applying.

Cost of Patent A	P50,000
Less: Amortization, April 1, 2012 – Dec 31, 2016 (2,500 x 4 9/12)	11,875
Carrying value, Dec 31, 2016	<u>P38,125</u>

15. What is Patent B 's carrying value on December 31, 2016?

a. 141,250

b. 28,906

c. 32,092

d. 173,342

Cost of Patent B	P187,500
Less: Amortization, Dec. 1, 2013 – Dec. 31, 2016 (15,000 x 3 1/12)	46,250
Carrying value, Dec. 31, 2016	<u>P141,250</u>

16. What is Patent C' s carrying value on December 31, 2016?

a. 162,000

b. 327,000

c. 159,840

d. 156,600

Cost of Patent C	P187,500
Less: Amortization, Dec. 1, 2013 – Dec 31, 2016 (15,000 x 3 1/12)	46,250
Carrying value, Dec 31, 2016	<u>P141,250</u>

17. On January 2, 2019, Cesar Company purchased 200,000 shares (20%) of Celine Company's ordinary share for During 2019, Celine reported the following in its statement of comprehensive income a P4,000,000 net income and a P 500,000 unrealized gain from its investment in available for sale. Celine Company paid cash dividends of P3,000,000 on December 31, 2019. On January 1 , 2020, Cesar Company sold 50,000 shares of Celine Company at the current market value of Celine's shares at P32 per share.

What amount of gain should Cesar recognize from the sale of 50,000 shares?

a. 400,000

b. 425,600

c. 450,000

d. 500,000

Cost of investment	P4,500,000
Share in net income (4,000,000 x 20%)	800,000
Share in unrealized gain (500,000 x 20%)	100,000
Share in the dividends (3,000,000 x 20%)	(600,000)
Carrying value of the investment, December 31, 2019	<u>P4,800,000</u>

50,000 shares / 200,000 shares = 25%

Selling price (50,000 x P32)	P1,600,000
Carrying value of investment sold (P4,800,000 x 25%)	<u>1,200,000</u>
Gain	P400,000
Recycling/Reclassification of unrealized gain (P100,000 x 25%)	25,000
Adjusted gain from the sale	<u>P425,000</u>

18. During 2019 Sean Company purchased equity securities and designated as fair value to other comprehensive income. On December 31, 2019, the balance in the fair value adjustment account was a credit amount of P200,000 and unrealized loss of P130,000 net of deferred tax assets of P70,000. There were no security transactions in 2020. Pertinent data on December 31, 2020 are:

<u>Securities</u>	<u>Historical Cost</u>	<u>Market</u>
B	P1,500,000	P1,600,000
E	1,200,000	1,400,000
C	2,300,000	2,400,000

If securities are to be sold aggregately, the company will have to incur a P150,000 transaction cost. What amount of cumulative unrealized gain should the company report in its shareholder's equity on December 31, 2020?

a. 200,000

b. 260,000

c. 400,000

d. 600,000

Aggregate fair market value, December 31, 2019	P5,400,000
Aggregate historical cost	5,000,000
Total unrealized	P400,000
Less: Deferred tax liability (P400,000 x 35%)	140,000
Unrealized gain, net of tax	P260,000

19. On January 2, 2020, MJ Company, a medium-size entity, purchased 20% of Meanne Corporation's 200,000 ordinary shares for P3,000,000, including a P 50,000 transaction cost. This investment gives power the ability to exercise significant influence over Meanne Corporation. During 2020, Meanne reported net income of P1,750,000 and paid cash dividends of P1,000,000 on its ordinary shares. As of December 31, 2020, the shares of Meanne's Corporation are traded and are currently selling at P81.25 per share. What amount of unrealized gain or loss should MJ Company recognize in its December 31, 2020 statement of comprehensive income?

a. 0

b. 250,000

c. 300,000

d. 350,000

Current fair value (200,000 x 20% x P81.25)	P3,250,000
Historical cost (P3,000,000 – P50,000)	2,950,000
Unrealized gain	P300,000

20. Edwin Company records all transactions on a cash basis. The entity accountant prepared the following income statement at the end of the entity's first year of operations:

Sales		P252,000
Selling and administrative expense		
Salaries expense	78,000	
Rent expense	45,000	
Commission expense	37,000	
Equipment	30,000	
Utilities expense	29,000	
Insurance expense	6,000	
Interest expense	3,000	228,8000
Net Income		P23,200

An income statement should be prepared on an accrual basis. The following information is made available

- a Amounts due from customers at year-end were P28,000. Of this amount, P3,000 will probably not collected.
- b Salaries of P11,000 for December 2012 were paid on January 5, 2013.
- c Edwin rents its building for P3,000 a month, payable quarterly in advance. The contract was signed on January 1, 2012.
- d The bill for December's utility costs P2,700 was paid January 10, 2013.
- e Equipment of P30,000 was purchased on January 1, 2012. The expected life is five years, with no residual value. Straight-line depreciation is used.
- f Commissions of 15% of sales are paid on the same day cash is received from customers.
- g A 1-year insurance policy was issued on entity assets on July 1, 2012. Premiums are paid annually in advance.
- h Edwin borrowed P50,000 for one year on May 1, 2012. Interest payments based on an annual rate of 12% are made quarterly, beginning with the first payment on August 1, 2012.
- i The income tax rate is 30%. No prepayments of income taxes were made during 2012.

What is the adjusting entry for all prepaid expenses on December 31, 2012?

a. Debit prepaid expenses for P12,000 and credit rent expense for P9,000 insurance expense for P3,000.

b. Debit rent expense for P9,000, insurance expense for P3,000 and credit prepaid expenses for P12,000.

c. Debit prepaid expenses for P3,000 and credit insurance expense for P3,000.

d. Debit prepaid expenses for P9,000 and credit rent expense for P9,000.

Prepaid expense	12,000	
Rent expense		9,000
Insurance expense		3,0000

21. Semirara Company has acquired a tract of mineral land for P50 million. Semirara estimates that the acquired property will yield 150,000 tons of ore with sufficient mineral content to make mining and processing profitable. It further estimates that 7,500 tons of ore will be mined the first and last year and 15,000 tons every year in between. Assume 11 years of mining operations. The land will have a residual value of P1,550,000.

Semirara builds necessary structures and sheds on the site at a total cost of P12 million. The company estimates that these structures can be used for 15 years but, because they must be dismantled if they are to be moved, they have no residual value. Semirara does not intend to use the buildings elsewhere.

Semirara installed at the mine was purchased secondhand at a total cost of P3.6 million. The machinery cost the former owner P 9,000,000 and was 50% depreciated when purchased. Semirara estimates that about half of this machinery will still be useful when the present mineral resources have been exhausted but that dismantling and removal costs will just about offset its value at that tune. The company does not intend to use the machinery elsewhere. The remaining machinery will last until about one-half the presently estimated mineral ore has been removed and then be worthless. Cost is to be allocated equally between these two classes of machinery.

What is the estimated depletion charges for the 1st year?

- a. 4,945,000
- b. 4,845,000
- c. 2,422,500**
- d. 2,522,500

	<u>Cost</u>	<u>Estimated Reserves</u>	<u>Depletion/Depreciation</u>
Mineral property	P48,450,000 (a)	150,000	323
Building	12,000,000	150,000	80
Machinery (1/2)	1,800,000	150,000	12
Machinery (1/2)	1,800,000	150,000	24 (b)

(a) P50,000,000 – P1,550,000

(b) (P1,800,000/150,000) x 2

	<u>Depletion</u>	<u>Depreciation</u>
Mineral property (P323 x 7,500)	P2,422,500	
Building (P80 x 7,500)		P600,000
Machinery (1/2) (P12 x 7,500)		90,000
Machinery (1/2) (P24 x 7,500)		180,000
	<u>P2,422,500</u>	<u>P870,000</u>

22. On June 30, 2016, the Oriental Copper Mines purchased a copper mine for P14,580,000. The estimated capacity of the mine was 1,620,000 tons. Oriental Copper Mines expects to extract 15,000 tons of ore a month with an estimated selling price of P50 per ton. Production started immediately after some new machines costing P1800,000 were bought on June 30, 2016. These new machines had an estimated useful life of 15 years with a scrap value of the cost after the ore estimate has been extracted from the property, at which time the machines will already be useless. Oriental's books show the following expenses for 2016:

Depletion expense	P1,215,000
Depreciation - machinery	120,000

Recorded depletion expense was

- a. overstated by P 270,000
- b. understated by 270,000
- c. overstated by P405,000**
- d. understated by P405,000

Depletion rate per ton (14,580,000/1,620,000)	9
Copper ore mined in 2016 (15,000 x 6 months)	90,000
Depletion for 2016	810,000
Depletion per books	<u>1,215,000</u>
Overstatement of depleting expense	<u>P405,000</u>

Recorded depreciation expense was

Depreciable cost of machinery (P1,800,000 x 90%)	P1,620,000
Estimated copper ore reserve	<u>1,620,000</u>
Depreciation rate per ton	P1
Copper ore mined in 2016	90,000
Depreciation expense for 2016	90,000

Depreciation per books	120,000
Overstatement of depreciation expense	<u>P30,000</u>

23. Joel Company purchased dairy cattle at an auction for P300,000 on July 1, 2015. Cost of transporting the cattle back to the company's farm was P3,000, and the company would have to incur cost similar transportation cost if it was to sell the cattle in the auction, also an auctioneer's fee of 2% of sales price. On December 31, 2015, after taking into account and location, the fair value of the biological assets had increased to P500,000 (that is, the market price including the cost of transporting the asset). What amount of loss on initial recognition should the company recognize related to the biological assets?

- a. 0
b. 6,000
c. 9,000
d. 12,000

Auctioners' fee (P300,000 x 2%)	P6,000
Transport costs (P3,000 + P3,000)	<u>6,000</u>
The total loss at initial recognition	<u>12,000</u>

24. On January 2, 2014, Brand Company received a grant of P60,000,000 to compensate it for costs it incurred in planting trees over five years. Brand Company will incur such cost in this manner:

<u>Years</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Costs	P2,000,000	P4,000,000	P6,000,000	P8,000,000	P10,000,000

Actual costs incurred in planting the trees showed P2,000,000 and P4,000,000 in years 2014 and 2015, respectively. However, in 2016 and up to the year 2018, the company has stopped planting trees.

Due to the non-fulfillment of its obligation, the government is demanding immediate repayment of the grant in the amount of P50,000,000 which is considered reasonable.

What amount should be recognized as an expense related to the repayment of the grant?

- a. 0
b. 2,000,000
c. 44,000,000
d. 50,000,000

Total grants received	P60,000,000
Less: recognized as income	
2015	P4,000,000
2016	<u>8,000,000</u>
Deferred income as of December 31, 2016	<u>P48,000,000</u>
Less: Repayment of grant	<u>50,000,000</u>
Excess payment	<u>P2,000,000</u>

25. A herd of 10 four-year-old animals was held on January 1, 2015. On July 1, 2015, two 4.5 years old animal was purchased. The fair value less estimated point of sale costs was as follows: 4-year old animal on January 1, 2015, P15,000; 4.5-year-old animal on July 1, 2015, P15,900; 5-year-old animal at December 31, 2015, P17,250. What amount should the company recognize in its December 31, 2015 statement of comprehensive income related to the animals as a result of the change in their fair market value?

- a. 20,000

b. 25,200

c. 31,800

d. 57,000

The movement in the fair value less estimated point of sale costs of the herd can be reconciled as follows:

At January 1, 2015 (10 x P15,000)	P150,000
Purchased	31,800
Change in fair value (balancing figure)	25,200
At December 31, 2015 (12 x P17,250)	P207,000

26. Joma Company is in the business of cattle farming. A herd of 200 3-year old and 180 4-year old cattle are held on January 1, 2018. On July 1, 2018, 50 calves were born. The only change during the year is the increase in their physical attributes due to aging. The relevant data are as follows:

The fair value of a 3-year old cattle on January 1, 2018	P4,500
The fair value of a 4-year old cattle on January 1, 2018	6,000
The fair value of a 0-month old calf at July 1, 2018	1,000
The fair value of a 0-month old calf at December 31, 2018	1,300
The fair value of a 6-month old calf at December 31, 2018	1,700
The fair value of a 3-month old cattle at December 31, 2018	4,950

The fair value of a 4-year old cattle at December 31, 2018 6,750

The fair value of a 5-year old cattle at December 31, 2018 8,700

How much is the increase in the fair value of the biological asset due to physical change?

a. 731,000

b. 761,000

c. 781,000

d. 791,000

Group of 3-year old (6,750 – 4,950) x 200	P360,000
Group of 4-year old (8,700 – 6,750) x 180	351,000
Group of new born	50,000
(1,700 – 1,300) x 50	20,000
	P781,000

Increase in the fair value of the asset attributable to price change

Group of -year old (P4,950 – 4,500) x 200 = P90,000

27. Mutual Farm has incurred total attributable costs excluding the borrowing costs incurred during the immature stage, P4,000,000 from the time the living plants were planted to the time plants are ready to provide economic benefits through harvest of agricultural produced. The loan has a principal amount of P1,000,000 with a nominal rate of 8%. The loan amount was received nine months before initial commercial harvest, but the term of the loan is one year. The initial; commercial harvest began on January 1, 2018.

As of December 30, 2017, the estimated fair value of the living plants (bearer plants and the fruits they bear) is P3,600,000. The estimated fair value of the fruits bearing on the plants is P500,000. The estimated costs to sell are P120,000 and P30,000 for the plants and fruits, respectively.

If the living plants are considered as bearer plants with a dual purpose, what amount of biological asset should be reported in the statement of financial position as of December 31, 2017?

a. 0

b. 2,980,000

c. 3,100,000

d. 3,450,000

Combined fair value	P3,600,000
The combined cost to sell	(150,000)
The fair value of single biological asset	<u>P3,450,000</u>

If the living plants are considered as bearer plants with a singular purpose, with an estimated life often years and with an estimated salvage value of P20, 000 after 20 years, what amount should be charged against income during 2017 about the bearer plants?

Cost	P4,060,000
Salvage value	(20,000)
Net	<u>P4,040,000</u>
Divide by estimated life	20 years
Depreciation	<u>P202,000</u>

28. Mark Company cultures tiger prawns in one hundred one-acre brackish water ponds in a parcel of mangrove land in Laguna leased from the government. The grow-out of the transformation phase of prawns takes about four months. As of December 31, 2014, the biological assets of the farm consisted of:

<u>Age group attribute</u>	<u>Batch qty by no. of ponds</u>	<u>EST. the fair value per pond culture-point of sale costs</u>
One-month culture	20	P5,000
Two-month culture	25	10,000
Three-month culture	25	15,000
Four-month culture	15	20,000
Just harvested	15	

During the year, three hatches of culture were harvested, and sales of prawns for the year totaled P6,000,000. At December 31, 2015, the biological assets of the farm consisted of:

<u>Age group attribute</u>	<u>Batch qty by no. of ponds</u>	<u>Est. the fair value per pond culture-point of sale costs</u>
Age group attribute	15	P5,000
One-month culture	25	10,000
Two-month culture	205	15,000
Three-month culture	30	20,000
Just harvested	10	

What is the amount of net income in 2015 from the aquaculture operations?

a. 4,775,000

b. 5,800,000

c. 6,000,000

d. 6,200,000

Revenue from sale		P6,000,000
Increase in fair value of aquaculture stocks:		
Opening aquaculture stocks at fair value ((20 x P5,000) + (25x P10,000) + (25 x P15,000) + (15 x 20,000))	P1,205,000	
Closing aquaculture stocks at fair value ((15 x P5,000) + (25 x P10 ,000) + (20 x P15,000) + (30 x P20,000))	1,225,000	200,000
Total net income from aquaculture		<u>P6,200,000</u>

29. The following pertains to Wild Company's biological assets:

Fair value based on unobservable inputs for the asset	P4,900
A quoted price in an active market for similar asset	5,400
A quoted price in an active market for identical asset	5,300
Selling price in a binding contract to sell	5,600
Estimated commissions to brokers and dealers	500
Estimated transport and other costs necessary to get an asset to the market	300

The entity's biological assets should be valued at?

a. 4,800

b. 4,600

c. 4,500

d. 4,400

Fair value based on Level 1 input (P5,300 – P300)	P5,000
Estimated costs to sell (commissions)	(500)
Carrying amount of biological assets	<u>P4,500</u>

30. Jojoy Company has the following information about its biological assets for the year 2017:

A herd of 100, 2-year old animals were held on January 1, 2017. Ten animals aged 2.5 years were purchased on July 1, 2017 for P5,400, and ten animals were born on July 1, 2017. No animals were sold or disposed of during the period, Per unit fair values less estimated point-of-sale costs were as follows:

2.0-year-old animal on January 1, 2017	5,000
Newborn animal on July 1, 2017	3,500
2.5-year old animal on December 31, 2017	5,400
Newborn animal on December 31, 2017	3,600
0.5-year-old animal on December 31, 2017	4,000
2.0-year-old animal on December 31, 2017	5,250
2.5-year-old animal on Decemebr 31, 2017	5,550
3.0-year-old animal on December 31, 2017	6,000

What is the fair value of the biological assets as of December 31, 2017?

a. 554,000

b. 581,500

c. 700,000

d. 735,000

110 (3 year old animals) x 6,000	P660,000
10 (.5 year old animals) x 4,000	40,000
Total fair value as of December 31	<u>P700,000</u>

31. Roger's Sheep purchased 1,000 sheep on January 1, 2020. These sheep will be sheared semiannually and their wool and sold to a specialty clothing manufacturers. The sheep were purchased for P148,000. During 2020 the change in fair value due to growth and price changes is P9,400; the wool harvested but not yet sold is valued at the net realizable value of P18,000, and the change in fair value due to harvest is (P1,150).

What amount of unrealized gain on biological assets will be reported?

a. 8,250

b. 9,400

c. 26,250

d. 27,400

$$P9,400 - P1,150 = P8,250$$

$$P222,000 + P14,100 - P1,700 = P234,350$$

32. Mark Farm purchased 100 beef cattle at an auction for P800,000 on July 1, 2019. Transportation costs were P8,000. Mark Farm would have to incur the same transportation costs if it had sold its cattle in the auction. In addition, there would be a 2% auctioneer's fee on the market price of the cattle payable by the seller. Mark Farm also incurred P4,000 veterinary expenses. On December 31, 2019, the fair value of the cattle in the most relevant market increases to P880,000. On May 2, 2020, Mark Farm sold 18 cattle at auction for P160,000 and incurred transportation charges of P1,200.

On June 15, 2020, the fair value of the remaining cattle was P662,560, but on the same day, 42 cattle were slaughtered with total cost of P33,600. The fair value of the carcasses on that day was P386,400, and the estimated transportation cost to sell the carcasses is P3,360. No other selling costs are expected.

On June 30, 2020, the fair value of the remaining 40 cattle was P358,400. The estimated transportation cost is P3,200.

What are the net proceeds from the sale of cattle on May 2?

a. 155,600

b. 156,800

c. 158,800

d. 160,000

Biological asset initial recognition, July 1, 2019

Fair value in the most relevant market	P800,000
Transportation costs	(8,000)
Auctioneer's fee (800,000 x 2%)	(16,000)
Fair value at point of purchase	<u>P776,000</u>

Biological asset initial recognition, December 31, 2019

Fair value in most relevant market	P880,000
Transportation costs	(8,000)
Auctioneer's fee (880,000 x 2%)	(17,600)
Fair value at point of purchase	<u>P854,400</u>

Gain as a result of a change in value of biological asset, December 31, 2019

Fair value at the point of purchase	P854,400
Fair value at point of purchase	<u>776,000</u>
Change in fair value – to profit or loss	<u>P78,400</u>

The fair value of the inventory (carcasses), June 15

The fair value of the remaining carcasses	P386,400
Less: Transaction costs	<u>3,360</u>
The fair value of inventory	<u>P383,040</u>

Net proceeds from the sale of cattle, May 2

Selling price	P160,000
Less: Selling expenses	

Transportation	1,200
Installation cost	3,200
The fair value of inventory	<u>P155,600</u>

33. Rey Company purchased a machine for P100,000 on January 1, 2011, with the following additional items paid or incurred:

Separation pay for laborer laid off upon acquisition of new machine	P1,200
Loss on sale of machine replaced	1,300
Transportation in	1,000
Installation cost	400

The new machine is estimated to have a useful life of 10 years and a residual value of P4,000.

On January 1, 2014, new parts which cost P12,600 were added to the machine to reduce its fuel consumption, but with no change in its estimated life or residual value.

The annual depreciation charge on the machine for 2014 was

a. 12,150

b. 11,900

c. 11,360

d. None of these

Jan 1, 2011

Cost of machine

Purchase price P100,000

Transportation 1,000

Installation cost 4,000 P105,000

Residual value 4,000

Depreciable cost P101,000

Life of the machine 4

Annual depreciation P10,100

January 1, 2014

Cost of machine P105,000

Depreciation for 3 years (10,100 x 3) 30,300 P74,700

Add: Additional new parts 12,600

Total new cost P87,300

Less: Residual value 4,000

Depreciable cost, new P83,330

Remaining useful life 7

Annual depreciation charge, new P11,900

PROBLEM (34-35)

On an audit engagement for 2014, you handled the audit of fixed assets of DMCI Mines. This mining company bought the exploration rights of A Brown Mining on June 30, 2014 for P7,279,000. Of this purchase price, P4,860,000 was allocated to copper ore, which had remaining reserves estimated at 1,620,000 tons. DMCI Mines expects to extract 15,000 of ore a month with an estimated selling price of P50 per ton. Production started immediately after some new machinery costing P 600,000 was bought on June 30, 2014. This new machinery had an estimated useful life of 15 years with a scrap value of 10% of

cost after the ore estimate has been extracted from the property, at which time the machinery will already be useless. Among the operating expenses of DMCI Mines on December 31, 2014 were:

Depletion expense	405,000
Depreciation, machinery	40,000

34. Recorded depletion expense was

- Overstated by P 90,000
- Understated by P90,000
- Overstated by 135,000**
- Understated by P135,000

Purchase price allocated to the copper core	P4,860,000
Estimated copper ore reserve	1,620,000
Depletion cost per ton	<u>P3</u>

Depletion expense for 2014	P270,000
Depletion expense provided	405,000
Overstatement of depletion expense	<u>P135,000</u>

Cost of machinery purchased	P600,000
Residual value (10%)	60,000
Depreciable value	<u>P540,000</u>
Estimated copper ore reserve	1,620,000
Depreciation allocated per ton of copper ore reserve	P0.33

Depreciation expense for 2014 (15,000 x 6 x .33)	P30,000
Depreciation expense provided	40,000
Overstatement of depreciation expense	<u>P10,000</u>

35. Recorded depreciation expense was

- Overstated by P10,000**
- Understated by P10,000
- Overstated by P20,000
- Understated by P20,000

Purchase price allocated to the copper core	P4,860,000
Estimated copper ore reserve	1,620,000
Depletion cost per ton	<u>P3</u>

Depletion expense for 2014	P270,000
Depletion expense provided	405,000
Overstatement of depletion expense	<u>P135,000</u>

Cost of machinery purchased	P600,000
Residual value (10%)	60,000
Depreciable value	<u>P540,000</u>
Estimated copper ore reserve	1,620,000
Depreciation allocated per ton of copper ore reserve	P0.33

Depreciation expense for 2014 (15,000 x 6 x .33)	P30,000
Depreciation expense provided	<u>40,000</u>

Overstatement of depreciation expense

P10,000

36. Glenn Company leased equipment under a capital lease for seven years, contracting to pay P100,000 rent in advance at the start of the lease term on December 31, 2014, and P100,000 annually on December 31 of each of the next six years. The present value at December 31, 2014, of the seven rent payments over the lease term discounted at 10% was P535,000. Glenn amortizes its liability under capital lease using the effective interest method. In its December 31, 2015 balance sheet, Glenn should report a liability under capital lease of

a. 378,500

b. 391,500

c. 437,350

d. 500,000

Liability under capital lease, 12/31/14		P535,000
Less: Payment at start of a lease	P100,000	
Second payment applicable to a liability account	56,500	156,500
(100,000 – 10% (435,000))		
Liability under capital lease, 12/31/15		<u>P378,500</u>

37. Nori Company leased equipment to Jinggoy, Inc on April 1, 2014. The lease is appropriately recorded as a sale for accounting purposes for Nori. The lease is for eight years, expiring March 1, 2022. The first annual payment of P500,000 was made on April 1, 2014. Nori had purchased the equipment on January 1, 2014 for 2,800,000. The equipment has an estimated useful life of 8 years with no residual value expected. Nori uses straight-line depreciation in the year of purchase. The cash selling price of the equipment is P2,934,000.

Assuming an interest rate of 10%, what amount of interest income should Nori record in 2014 as a result of the lease.

a. 0

b. 182,550

c. 243,400

d. 293, 400

Sales price	P2,934,000
Less: 1 st payment	(1,000)
Balance	<u>P350</u>
Interest income (P2,434,000 x 10% x 9/12)	<u>P182,550</u>

PROBLEM (38-39)

Edward Company leased a machine with a fair value of P2,550,000 for five years. The asset's useful life is six years. The asset will revert to the lessor at the end of the fifth year with unguaranteed residual value of P250,000. The present value of the minimum lease payments using Edward's incremental borrowing rate is P2,700,000. Edward also incurred broker's fee of P20,000.

38. What amount should be debited to the machine?

a. 2,550,000

b. 2,820,000

c. 2,720,000

d. 2,570,000

Machine (2,550,000 + 20,000)	P2,570,000
Lease Liability	2,550,000

39. What amount should be debited and credited to machine and lease liability, respectively?

- a. 2,600,000
- b. 2,800,000
- c. 2,700,000
- d. 2,550,000**

Machine (2,550,000 + 20,000)

P2,570,000

Lease Liability

2,550,000

40. Ricardo Company carried a provision of in its draft financial statements on December 31, 2012 about an unresolved court case. On January 31, 2013, when the financial statements on December 31, 2012 had not yet been authorized for issue, the case was settled, and the court decided the final total damages payable by Doris to be P8,500,000. What amount should be adjusted on December 31, 2012 about this event?

- a. 8,500,000
- b. 6,000,000
- c. 2,500,000**
- d. 0

$P8,500,000 - P6,000,000 = P2,500,000$

41. Jaia Company purchased 800 ordinary shares of Federer Industries as a trading investment for P148,800. During the year, Federer Industries paid a cash dividend of P 32 per share. At year-end, Federer's shares were selling for P174 per share. In the income statement for the current year-end, what net amount of unrealized gain/loss and dividend revenue should be reported by Jaia Company?

- a. 16,000**
- b. 25,600
- c. 9,600
- d. 32,500

Market value (174 x 800)

P139,200

Cost

(148,800)

Unrealized loss

P(9,600)

Dividend revenue (800 x 32)

25,600

Total amount

P16,000

42. Clint Finance granted a 10%, two year P5,000,000 loan to Caloy Company on January 1, 2017. The interest is payable every December 31 for each year during the term of the contract. Clint Finance incurred an origination cost of P328,326 but charge Caloy Company P150,000 as origination fee. The effective rate is now 8% after considering the origination costs and origination fee. After paying the interest that is due on December 31, 2017, Caloy Company informed Clint Finance about their financial difficulty. Clint Finance has now considered that the loan to Caloy Company is now impaired. A reliable estimate shows that the projected cash flows from loan are as follows: P2,000,000 on December 31, 2018 and P3,000,000 on December 31, 2019.

What amount of impairment loss on the load should Clint Finance recognize on December 31, 2017?

- a. None
- b. 373,371

c. 462,963

d. 668,723

January 1, 2017	P5,178,326
December 31, 2017 (500,000 – 414, 266) = 85,734	5,092,592
December 31, 2018 (500,000 – 407,407) = 92,592	5,000,000

Present value	
P2,000,000 x .925926	P1,851,852
P3,000,000 x .857339	2,572,017
Total	<u>P4,423,869</u>

Amortized cost	P5,092,592
Less: Present value	<u>4,423,869</u>
Impairment loss	<u>P668,723</u>

43. Venice Company was organized late in 2013 and began operations on January 1, 2014. Venice is engaged in conducting market research studies on behalf of manufacturers. Before the start of operations, the following costs were incurred:

Attorney's fees in connection with the organization of Venice	P4,000
Improvement to leased offices before occupancy	7,000
Meetings of incorporators, filing fees and other organization expenses	5,000
	<u>16,000</u>

What is the amount of organization costs amortized for 2014?

a. 9,000

b. 400

c. 1,800

d. 3,200

Attorney's fees	P4,000
Meetings of incorporators etc	<u>5,000</u>
Total	<u>P9,000</u>

The total organization costs should be charged off in full as expenses in 2014.

44. Roger Company began operations on January 2, 2007. Shown below is the company's trial balance prepared by its accountant for December 31, 2015.

	<u>Debit</u>	<u>Credit</u>
Cash	P60	
Accounts receivable	150	
Inventory	360	
Equipment	2,400	
Accumulated depreciation – equipment		P750
Buildings	3,600	
Accumulated depreciation – buildings		1,200
Patent	1,650	
Franchise agreement	285	
Organization cost	306	
Goodwill	1,035	
Accounts payable		36

Accrued wages payable		15
Accrued taxes payable		180
Bonds payable		1,500
The premium on bonds payable		105
Preference shares (100 par value)		300
Ordinary shares (P25 par value)		3,300
The premium on share capital		660
Retained earnings as of January 1		1,200
Sales		2,700
Cost of goods sold	1,200	
Selling and administrative expenses	900	

As a member of the audit team for Roger Company, you have been assigned an audit of the company's intangible assets.

Patents

The patents, acquired January 2, 2008, are being amortized over an expected useful life of 14 years. Improvements made to equipment covered by the patents costing P225,000 were debited to the account in January 2012. Amortization in 2012-2014 included amortization on the P225,000 for the remaining life of the relevant patent. It is determined that the P225,000 should have been expensed in 2012. It is further determined on December 31, 2014, that one of the patents have a remaining life of only two years. This patent was originally assigned a cost of P 630,000.

Franchise agreement

A franchise agreement was signed on January 1, 2015. A P150,000 fee was paid, covering five years, at the end of which the company may renew the agreement by paying P150,000. A decision on renewal has not been made as of December 31, 2015. The agreement calls for an annual payment of 5% of revenue. An entry debiting the account for P135,000 was made at the time of the cash payment for 2015.

Organization costs

Organization costs include the unamortized portion of amounts paid to promote for services rendered at the inception of the corporation. These fees have been amortized, since inception, over an estimated 40-year life. The decision is made, as of December 31, 2015, to reduce the total period of amortization of organization costs to 12 years.

Goodwill

The goodwill account includes the following:

P135,000	Legal expenses are relative to incorporation. These were assigned to the account in January 2007.
P600,000	Excess of cost over assigned net asset values of an enterprise acquired in early 2013 expected to be of value for an indefinite period.
P300,000	Paid to an advertising consulting firm in early 2014 for a major advertising effort expected to be beneficial for an indefinite period.

No amortization has been taken on any amount in the goodwill account.

What is the carrying value of the patents on December 31, 2015?

- a. 1,211,786
- b. 1,009,286
- c. 1,166,786

d. 1,256,786

Patents balance per books, December 31, 2015	P1,650,000
The unamortized balance of P225,000 erroneously charged to account in January 2012 (225,000 x 7/10)	(157,500)
Corrected balance before amortization	
2015 amortization:	P1,492,500
Patent with 2 years remaining life ((630,000 x 7/14)/2 years)	(157,500)
Remaining patent ((1,492,500 - 315,000)/7 years)	(168,214)
Carrying value, December 31, 2015	<u>P1,166,786</u>
Franchise agreement, balance per books, December 31, 2015	P285,000
Annual payment charged to the account	(135,000)
Corrected balance before 2015 amortization	<u>P150,000</u>
2015 amortization:	(30,000)
Carrying value, December 31, 2015	<u>P120,000</u>

PROBLEM (45-49)

On January 4, 2014, Jay Company paid P1,296,000 for 40,000 ordinary shares of Nina Company. The investment represented a 30% interest in the net assets of Nina Company and gave Jay Company the ability to exercise significant influence of Nina's operating and financial policy decisions. Jay Company received dividends of P3 per share on December 4, 2014 and Nina reported net income of P640,000 for the year ended December 31, 2014. The market value of Nina's ordinary share on December 31, 2014 was P 32 per share. The book value of Nina's net assets was P 3,200,000.

The fair market value of Nina Company's depreciable assets, with an average of remaining useful life of 8 years, exceeded their book value by P320,000.

The remainder of the excess of the cost of the investment over the book value of net assets purchased was attributed to goodwill.

45. What is the carrying value of the investment in Nina ordinary shares on December 31, 2014? Assume that the 40,000 shares represent a 10% interest in the net assets of Nina Company rather than a 30% interest.

- a. 1,280,000
b. 1,356,000
c. 1,296,000
d. 1,368,000

Acquisition cost	P1,296,000
Share in net income	192,000
Depreciation adjustment	(12,000)
Dividends received (P3 x 40,000)	(120,000)
Carrying value of investment, Dec 31, 2014	<u>P1,356,000</u>

46. What amount of investment revenue should be reported in Jay's income statement for the year ended December 31, 2014?

- a. 120,000
b. 108,000
c. 180,000
d. 192,000

Share in net income (640,000 x 30%)	P192,000
Depreciation adjustment (320,000 x 30% = 96,000/8)	(12,000)
Investment revenue	<u>P180,000</u>

47. What amount of investment cost is attributable to goodwill?

a. 240,000

b. 96,000

c. 336,000

d. 144,000

Acquisition cost	P1,296,000
Fair value of net assets purchased (3,200,000 + 320,000 = 3,520,000 x 30%)	<u>1,056,000</u>
Goodwill	<u>P240,000</u>

48. What amount of the investment revenue should be reported in Jay's income statement for the year ended December 31, 2014?

a. 120,000

b. 64,000

c. 60,000

d. 180,000

Investment revenue	
Dividends received (P3 x 40,000)	120,000

49. What is the carrying value of the investment in Nina ordinary shares on December 31, 2014?

a. 1,296,000

b. 1,356,000

c. 1,280,000

d. 1,236,000

Investment, at fair value (P32 x 40,000 shares)	P1,280,000
---	------------

50. Compton Company purchased 30% of Norton Company's ordinary share capital on January 1, 2012. The following events occurred after the purchase:

- 1 Norton sold goods costing P500,000 for P750,000 to Compton in 2012. At December 31, 2012, the goods remaining unsold by Compton. In 2013, Compton sold such goods to its customers.
- 2 On January 2, 2012, Norton also sold machinery with a carrying amount of P3,000,000 for to Crompton. The machinery's remaining life was six years.
- 3 Norton reported net income in 2012 and 2013, respectively.

What amount of equity in earnings of Norton should Compton report in 2013?

a. 675,000

b. 750,000

c. 825,000

d. 885,000

	2012	2013
Net Income	P3,500,000	P2,500,000
Unrealized profit on the sale of inventory	(250,000)	-
Realized profit on the sale of machinery	-	250,000

Unrealized profit in using machinery	(1,200,000)	
Adjusted net income	200,000	
Adjusted net income	P2,250,000	P2,950,000
Equity in earnings	P675,000	P885,000

51. Hansen Company's assets decreased by P2,000,000, and its liabilities also decreased by P3,500,000 in the current year. Upon review of the accounting records, it was determined that the available for sale securities increased by P100,000, and trading securities decreased by P200,000, all due to changes in fair value. Also, Hansen received equipment valued at P100,000 from a no shareholder as donation with no restrictions attached and corrected a prior period error resulting from an overstatement of ending inventory for P500,000. What is the net income for the current year?

a. 1,900,000

b. 1,800,000

c. 2,100,000

d. 2,000,000

Decrease in asset	P(2,000,000)	
Decrease in liability	3,500,000	
Increase in equity	1,500,000	
UG AFS	(100,000)	
Error	500,000	
Net Income	P1,900,000	

52. Victor Company, an SME, purchased a 30% interest in Lim Company for P600,000. Lim Company has 100,000 P10 par value ordinary shares outstanding. This investment enables Victor to exert significant influence over Lim. During the year, Lim earned a net income of P360,000 and paid dividends of P120,000. At the end of the year, the shares of Lim were trading on an organized exchange for P22 per share and the cost to sell is estimated at P10,000. The Lim shares have a published price quotation. Victor Company has elected to use the equity method. What is the carrying amount of the investment in associate on December 31, 2013?

a. 650,000

b. 660,000

c. 672,000

d. 696,000

CA – 12/31/11 $(600 + 108 - 36)$	P672,000
FV less cost to sell $(100 \times 30\% \times 22 = 660 - 10)$	(650,000)
Impairment loss	P22,000

53. Jun Industries acquired an 80% interest in Jamie Company by purchasing 24,000 of its 30,000 outstanding shares of common stock at a book value of P105,000 on January 1, 2014. Jamie reported net income in 2014 of P45,000 and 2015 of P60,000 earned evenly throughout the respective years. Jun received P12,000 dividends from Jamie in 2014 and P18,000 in 2015. Jun uses the equity method to record its investment.

The balance of Jun's investment in Jamie account on December 31, 2015 is:

a. 105,000

b. 138,600

c. 159,000

d. 165,000

Investment, 1/1/2014	P105,000
Add: Share in net income, 2014 (P45,000 x 80%)	36,000
Less: Dividends received	12,000
Investment, 12/31/2014	<u>P129,000</u>
Add: Share in net income, 2015 (P60,000 x 80%)	48,000
Less: Dividends received	18,000
Investment, 12/31/2015	<u>P159,000</u>

54. Cesar Company buys and sells securities expecting to earn profits on short-term differences in price. During 2015, Cesar Company purchased the following trading securities:

<u>Security</u>	<u>Cost</u>	<u>Fair value Dec. 31, 2015</u>
A	585,000	675,000
B	900,000	486,000
C	1,980,000	2,034,000

Before any adjustments related to these trading securities, Cesar Company had a net income of P2,700,000

What would Cesar's net income be if the fair value of security B were P855,000?

- a. 2,601,000
b. 2,799,000
 c. 2,700,000
 d. 2,655,000

Net income before trading security adjustment	P2,700,000
Unrealized loss (P3,465,000 cost – P3,564,000 fair value)	99,000
Net income, as adjusted	<u>P2,799,000</u>

Cesar's net income after making trading security adjustments

Net income before trading security adjustment	P2,700,000
Unrealized loss (P3,465,000 cost – P3,195,000 fair value)	(270,000)
Net income, as adjusted	<u>P2,430,000</u>

55. Rommel Company's portfolio of trading securities includes the following on December 31, 2015:

	<u>Cost</u>	<u>Fair Value</u>
15,000 ordinary shares of Tower Company	P1,431,000	P1,1251,000
30,000 ordinary shares of Sutherland Company	1,638,000	1,710,000
	<u>P3, 069,000</u>	<u>P2,961,000</u>

All of the above securities were purchased in 2015. In 2016, Rommel Company completed the following securities transactions:

March 1: Sold 15,000 shares of Tower Company ordinary shares at P93, less brokerage commission of P13,500.

April 1; Bought 1,800 ordinary shares of Icon, Inc. at P135 plus commission, taxes, and other transaction costs of P4,950.

The Rommel Company portfolio of trading securities appeared as follows on December 31, 2016:

	<u>Cost</u>	<u>Fair Value</u>
30,000 ordinary shares of Sutherland Company	P1,638,000	P1,740,000 (a)

1,800 ordinary shares of Icon, Inc.	247,950	225,000 (b)
	<u>P1,885,950</u>	<u>P1,965,000</u>

(a) net of P19,500 estimated transaction costs that would be incurred on the sale of securities.

(b) net of estimated transaction costs that would be incurred on the sale of securities.

What amount should be reported as trading securities in Rommel's statement of financial position on December 31, 2016?

a. 1,965,000

b. 1,989,000

c. 1,885,950

d. 1,909,950

Trading securities at fair value = P1,989,000

Unrealized gain on securities reported in the 2016 income statement

	<u>Carrying value</u>	<u>Fair value</u>
Sutherland Company	P1,710,000	P1,795,500
Icon, Inc (P135 x 1,800)	243,000	229,500
	<u>P1,953,000</u>	<u>P1,989,000</u>

Unrealized gain = 1,989,000 – 1,953,000 = P36,000

Gain on sale of Tower Company ordinary shares on March 1, 2016?

Net proceeds ((P93 x 15,000) – 13,500)	P1,381,500
Carrying value	(1,251,000)
Gain on sale	<u>P130,500</u>

56. The following Investment in Trading Securities account appears in the books of Common, Inc.

Date	Explanation	Debit	Credit
2016			
Jan. 1	Balance	P5,349,000	
Jan. 31	Sold Carrier ordinary		P640,920
March 31	Bought Carson ordinary	365,000	
June 30	Dividend on Cannes ordinary	300,000	
July 31	Sold Cannes ordinary		262,500
Aug. 1	Sold Cane bonds		675,000

The audit work papers of the preceding year show that the account balance as of January 1, 2016, consisted of the following:

Carrier Company ordinary:

30,000 shares, purchased in June 2013, P20 per share	P600,000
60,000 shares, purchased in August 2014, P16 per share	960,000
45,000 shares purchased in May 2015, P22 per share	990,000

Carson Company ordinary:

60,000 shares, purchased in January 2015, P33 per share	1,980,000
---	-----------

Cannes Company ordinary

3,000 shares, purchased in August 2014, P73 per share (par P100)	219,000
--	---------

Cane Company 15% bonds

600 bonds, P1,000 each purchased in July 2015, at par (interest dates February 1 and August 1) 600,000
5,349,000

Your examination discloses the following:

1. On January 31, 2016, 30,000 ordinary shares of the Carrier Company purchased in May 2015 were sold for P640,920, net of brokerage fees.
2. On March 31, 2016, 15,000 ordinary shares of Carson Company were purchased at P24.25 per share plus brokerage fee, for P 365,000.
3. In June 2016, the Cannes Company paid a 100% ordinary share dividend on ordinary shares.
4. In July 2016, CAP Inc sold to its president, for P125 per share, 3,000 ordinary shares of Cannes Company for which the president gave his check for P262,500 and a letter in which he agreed to pay the balance upon demand of the treasurer of the company.
5. On August 1, 2016, CAP Inc. sold its Cane Company 5% bonds at 110 plus accrued interest.
6. The total market value of the securities at year-end amounted to P4,500,000.

December 31, 2016, carrying amount (before market adjustment) of CAP, Inc's investment in trading securities is

- a. 4,233,750
- b. 4,343,250**
- c. 4,344,500
- d. 4,500,00

Balance, Jan 1, 2016	P5,349,000
Jan. 31, sale of Carrier	(660,000)
Mar. 31 purchase of Carson (P24.25 x 15,000)	363,750
July 31, sale of Cannes	(109,500)
Aug. 1 sale of Cane	(600,000)
Carrying amount (before market adjustment), Dec. 31, 2016	<u>P4,343,250</u>

Gain on sale of Cannes Company shares

Sales price (P125 x 3,000 shares)	P375,000
Carrying amount (P219,000 x 3,000/6,000)	<u>109,500</u>
Gain on sale of Cannes shares	<u>P265,500</u>

Gain on sale of Cane Company bonds

Sales price (P600,000 x 110%)	660,000
Carrying amount	<u>600,000</u>
Gain on sale of Cane bonds	<u>P60,000</u>

57. On January 1, 2016, Ben Company purchased bonds with a face value of P4,000,000 for P3,500,000 plus transaction costs of P211,618 with the business model of collecting contractual cash flows that are solely payments of principal and interest and to sell financial assets. The entity does not elect the fair value option in measuring financial assets. The bonds mature on December 31, 2020 and pay interest of 10% annually every December 31 with a 12% effective yield. The entity changed its business model for managing financial assets on December 31, 2017 to only collect contractual cash flows. The fair value of the financial asset and effective rate at the end of 2016 and each succeeding year are:

<u>Date</u>	<u>Fair Value</u>	<u>Effective Rate</u>
December 31, 2016	3,875,902	11%

December 31, 2016	4,401,252	9%
December 31, 2018	4,293,343	6%
December 31, 2019	4,112,150	7%
December 31, 2020	4,000,000	10%

What is the carrying amount of the financial asset on December 31, 2018?

- a. 4,293,343
- b. 4,070,364
- c. 3,864,795**
- d. 3,807,853

Date	Interest income	Interest received	Amortization	CA
Jan. 1, 2016	P-	P-	P-	P3,711,618
Dec. 31, 2016	445,394	400,000	45,394	3,757,012
Dec. 31, 2017	450,841	400,000	50,841	3,807,853
Dec. 31, 2018	P456,942	P400,000	P56,942	P3,864,795

2016 unrealized gain on the financial asset

Fair value, Dec. 31, 2016	P3,875,902
Carrying amount per schedule	(3,757,012)
Unrealized gain – OCI, 2016	P118,890

2017 unrealized gain on the financial asset

Fair value, Dec. 31, 2016	P4,101,252
Carrying amount per schedule	(3,807,853)
Cumulative balance	P293,399
Less: Unrealized gain - OCI, 2016	(118,890)
Unrealized gain – OCI, 2017	P174,509
Interest income for 2018 (12% x 3,807,853) = 456,942	

58. Morrie Company acquired 30% of the outstanding ordinary shares of Associate Company for P8,000,000 on January 1, 2016, when the carrying amount of investee's net assets was P22,000,000. All of the assets of Associate Company had fair value that equaled carrying amount except for land, building, and inventory. The fair value of the land, building, and inventory exceeded the carrying amount by P1,000,000, P2,000,000, and P500,000, respectively. The unallocated difference from the acquisition cost of the shares shall be attributed to goodwill. The building was depreciated under the straight-line method using the remaining life of 10 years. During 2016, only half of the inventory was sold to unrelated parties.

Associate Company reported net income of and declared dividends of P 2,000,000 in 2016 and reported net income of P7,000,000 and declared dividends of P2,500,000 in 2017. The remaining inventory from January 1, 2016, was all sold in 2017.

On December 31, 2017, Morrie Company sold half of the investment for P5,640,000. The fair value of the retained investment on the same date was P6,000,000. The retained investment was classified as a financial asset at fair value through profit or loss.

What total amount of income should be recognized for the year ended December 31, 2017?

- a. 3,325,000**
- b. 2,465,000
- c. 2,715,000
- d. 1,360,000

Investment income for 2016	
Cost	P8,000,000
Carrying amount (22,000	(6,600,000)
Excess cost	1,400,000
Land (1,000,000 x 30%)	(300,000)
Building (2,000,000 x 30%)	(600,000)
Inventory (500,000 x 30%)	(150,000)
Goodwill	<u>P350,000</u>

Share in net income (6,000,000 x 30%)	P1,800,000
Amortization – building (600,000/10)	(60,000)
Amortization – inventory (150,000/12)	(75,000)
Investment income for 2017	<u>P1,665,000</u>

Carrying amount of investment on December 31, 2016	
Cost	P8,000,000
Investment income for 2016	1,665,000
Dividend received for 2016 (30% x 2,000,000)	(600,000)
Carrying amount, December 31, 2016	<u>P9,065,000</u>

Investment income for 2017	
Share in net income 2017 (7,000,000 x 30%)	P2,100,000
Amortization – building	(60,000)
Amortization – inventory	(75,000)
Investment income for 2017	<u>P1,965,000</u>

Carrying amount of investment on December 31, 2017, before disposal	
Carrying amount, January 1, 2017	P9,065,000
Investment income for 2017	1,965,000
Dividends received in 2017 (30% x 2,500,000)	(750,000)
Carrying amount before disposal	<u>P10,280,000</u>

Sale price	P5,640,000
Carrying amount sold (10,280,000 x ½)	(5,140,000)
Gain on disposal	<u>P500,000</u>

Fair value of retained investment	P6,000,000
Carrying amount of retained investment	(5,140,000)
Gain on remeasurement	<u>P860,000</u>

Investment income for 2017	P1,965,000
Gain on disposal	500,000
Gain on remeasurement	860,000
Total income for 2017	<u>P3,325,000</u>

59. An investor in Jameson Company asked you for advice on the propriety of Jameson's financial reporting for two of its investments. You obtained the following information related to the investments from Jameson's December 31, 2015 financial statements:

1. 20% ownership interest in Rose Company', represented by 200,000 ordinary shares purchased on January 2, 2015, for P600,000.
2. 20% ownership interest in Butler Company, represented by 20,000 ordinary shares purchased on January 2, 2015, for P300,000.
3. On January 2, 2015, the carrying values of the acquired shares of both investments equaled their purchase price.
4. Rose Company reported earnings of P400,000 for the year ended December 31, 2015, and declared and paid dividends of P100,000 during 2015.
5. Butler Company reported earnings of P350,000 for the year ended December 31, 2015, and declared and paid dividends of P60,000 during 2015.
6. On December 31, 2015, Rose's and Butler's ordinary shares were trading over the counter at P4 and P 20 per share, respectively.
7. The investment in Rose is accounted for using the equity method.
8. The investment in Butler is accounted for as available-for-sale securities.

You recalculated the amounts reported in Bull's December 31, 2015, financial statements, and determined that they were correct. Stressing that the information available in the financial statements was limited, you advised the investor that, assuming Jameson properly applied generally accepted accounting principles, Jameson may have appropriately used two different methods to account for its investments in Rose and Butler, even though the investment represents equal ownership interests.

What is the income on an income statement from Butler's investment?

- a. 58,000
- b. 70,000
- c. 12,000**
- d. 100,000

Income from Butler investment

Dividend received ($P60,000 \times 20\%$) = P12,000

Carrying amount of Rose Company investment

Acquisition cost	P600,000
Share of profit of investee	80,000
Dividends received ($P100,000 \times 20\%$)	(20,000)
Carrying amount of Rose investment, 12/31/2015	<u>P660,000</u>

Carrying amount of Butler Company investment

Fair value (20,000 shares $\times$ P20) = P400,000

Income from Rose Company investment

Share of profit = P80,000

Other comprehensive income

Rose Company = P0

Butler Company ($400,000 - P300,000$) = P100,000

60. On December 28, 2016, Eddie Company committed itself to purchase a financial asset to be classified as held for trading for P500,000, its fair value on commitment (trade) date. This security has a fair value of P505,000 and P510,000 on December 31, 2016 (Eddie's financial year-end), and January 5, 2017 (settlement date), respectively.

If Eddie's applies the settlement date accounting method to account for regular-way purchases of its securities, how much should be recognized as fair value adjustment gain in its 2016 profit or loss?

- a. 15,000
- b. 10,000
- c. 5,000
- d. 0

Fair value, 12/31/2016	P505,000
Fair value, 12/28/2016	(500,000)
Fair value adjustment gain (loss)	<u>P5,000</u>