

FINANCIAL ACCOUNTING AND REPORTING

- Holding Company invests in bonds of ten listed companies. The investments are classified as held-to-maturity investments and are accounted for using the amortized cost-effective interest method. In the current period, it sells bonds of Sunshine Company, one of the ten listed companies, for funding its working capital requirements. The carrying amount of this investment is P8,000,000 and proceeds from the sale amount to P7,500,000. The carrying amount of the remaining bonds is P92,000,000, and the market value is P96,000,000. If the sale was triggered by a reported fraud that could cause the issuer to go bankrupt, what amount of unrealized gain or loss should Holding Company recognize related to the debt securities?

- 0
- 500,000
- 4,000,000
- 4,500,000

The sale is not considered as a tainting because it is attributable to an isolated and non-recurring event that is beyond the control of the entity. Rather than wait for the eventual outcome of a bankruptcy of the issuer, the entity takes a rational business decision to sell the investment. The loss from sale is recognized in the profit or loss, but the remaining investments are retained as held to maturity and carried at their amortized costs.

- The Chill Company owns three properties, which are classified as investment properties according to PAS 40, Investment Property. Details of the properties are given below:

	<u>Initial cost</u>	<u>Fair value at December</u> <u>31, 2014</u>	<u>Fair value at December</u> <u>31, 2015</u>
Property 1	P275,000	P320,000	P350,000
Property 2	305,000	305,000	285,000
Property 3	385,000	385,000	360,000

Each property was acquired in 2011 with a useful life of 50 years. The company's accounting policy is to use the fair value model for investment properties. What is the gain or loss to be recognized in Chill's profit or loss for the year ending December 31, 2015?

- P15,000 loss
- P18,900 loss
- P30,000 gain
- P45,000 loss

	<u>Fair value at December</u> <u>31, 2015</u>	<u>Fair value at December</u> <u>31, 2014</u>	<u>Difference</u>
Property 1	P350,000	P320,000	P30,000
Property 2	285,000	305,000	(20,000)
Property 3	360,000	385,000	(25,000)
			(15,000)

The correct answer is the sum of the changes in the fair value of each of the properties in 2015.

- The Ian Company has a single investment property which had originally cost P580,000 on January 1, 2012. On December 31, 2014 its fair value was P550,000 and on December 31, 2015 it had a fair value of P510,000. On acquisition the property had a useful life of 40 years. According to PAS 40, Investment Property, what should be the expense recognized in Ian's profit or loss for the year ending December 31, 2015 under each of the fair value and the cost model, respectively.

- a. P40,000 and P12,000
- b. P40,000 and P14,500
- c. P40,000 and P26,500
- d. P40,000 and P14,750

Cost model	
Historical cost	P580,000
Depreciation, 12/2015	(58,000)
Carrying value, 12/31/2015	P522,000
Fair value	510,000
Impairment loss	P12,000
Depreciation/year	14,500
Total expense	P26,500

Fair value model	
Historical cost	P580,000
Unrealized loss	(30,000)
Fair value	P550,000
Fair value	510,000
Unrealized loss	40,000
Depreciation/year	0
Total expense	P40,000

4. On January 2, 2014, Start Company originated a 10-year 7% P4,000,000. The loan carries an annual interest rate of 7% and is repayable at par at the end of year 10 (December 31, 2023). Star Company charges a 1.25% (P50,000) non-refundable loan origination fee to the borrower and also incurs P100,000 indirect origination costs. The contract specifies that the borrower has an option to pre-pay the instrument at approximately equal to instrument's amortized cost at each exercise date and that no penalty will be charged for pre-payment. But at the inception of the contract, Star Company expects the borrower not to pre-pay, the amortization period is equal to the instrument's full term, and for that reason the effective yield rate is determined at 6.823%.

What is the amortized cost of the instrument on December 31, 2015?

- a. 4,050,000
- b. 4,046,331
- c. 4,042,413
- d. 4,038,288

Acquisition date	Interest earned	Interest income	Net premium amortization	Book value
January 1, 2014	P-	P-	P-	P4,050,000
December 31, 2014	280,000	276,331	3,669	4,046,331
December 31, 2015	P280,000	P276,081	P3,919	P4,042,413

Interest earned: $P4,000,000 \times 7\% = P280,000$

Interest income:

December 31, 2014 ($4,050,000 \times 6.823\%$)	P276,331
December 31, 2015 ($4,046,331 \times 6.823\%$)	276,081

5. On May 1, 2014, Golden Company purchased a short-term, P4,000,000 face value 9% debt instruments for P3,720,000 excluding the accrued interest and classified it as a investment to profit or loss which is based on the business model of the entity to buy and sell portfolio of securities and to make profit for shorter movements in the market rate of interest. Golden Company incurred and paid P20,000 transaction cost related to the acquisition of the instrument. The debt instruments mature on January 1, 2017, and pay interest semi-annually on January 1 and July 1. On December 31, the fair market value of the instruments is P3,880,000. On February 2, 2015, Golden Company sold the debt security for P3,960,000.

What amount should Golden Company report for short-term debt securities on December 31, 2014?

- a. 3,600,000
- b. 3,720,000
- c. 3,880,000
- d. 3,960,000

Investment held for trading securities is initially recorded at the fair market value of the securities received which is equal to the market value of the consideration being sacrificed in acquiring the instrument. Any transaction cost incurred about the acquisition of an instrument under the category of held for trading securities is not included as part of the cost on initial recognition.

6. On September 30, 2016, a fire at Stall Company's only warehouse caused severe damage to its entire inventory. Based on recent history, Stall has a gross profit of 30% of net sales. The following information is available from Stall's records for the nine months ended September 30, 2016:

	P600,000
Total purchase received and recorded from January to date of the fire	4,000,000
The total freight cost of goods purchased and received	250,000
Total discounts taken on purchases	90,000
The invoice received for goods purchased but still in transit shipped on September 30, 2016, FOB shipping point excluding the freight cost of P5,000	150,000
Invoice purchased but still in transit, Free alongside the carrier (including the freight and insurance cost from of P15,000)	250,000
Total sales delivered and recorded from January to date of the fire	3,700,000
Unrecorded sales invoice for goods delivered	400,000
Total sales returns accounted and recorded to date of the fire	100,000
Total sales return recorded, but the goods have yet to be received	80,000
Total discounts not taken by customers	60,000

It is the company's policy to record sales and receivables net of a 2% cash discount.

A physical inventory disclosed usable damaged goods, which Stall estimates can be sold to a jobber for P50,000, What is the estimated cost of inventory destroyed by fire?

- a. 1,432,900
- b. 1,490,000
- c. 1,546,900
- d. 1,951,900

Total goods available for sale	P4,745,000
Estimated cost of sale (P4,100,000 – 180,000/98% x 70)	2,800,000
Estimated inventory end	P1,945,000
NRV of damaged inventory	(50,000)
Merchandise in transit	(405,000)
Return in transit (80,000/98% x 70%)	(57,100)

Estimated cost of inventory damaged

P1,432,900

7. Vestle Company uses the periodic inventory system. For January 2018, the beginning inventory consisted of P12,000 units that cost P12 each. During the month, the company made two purchases: 5,000 units at P13 each and 20,000 units at P13.50 each. Vestle sold 21,500 units during the month for P19.50 per unit. Using the average-cost method, what is the amount of cost of goods sold for January 2018?

a. 278,425

b. 489,500

c. 269,750

d. 279,500

Inventory beginning (12,000 x 12)	P144,000
Purchase (5,000 x 13)	65,000
Purchase (20,000 x 13.50)	270,000
Total	<u>P479,000</u>

8. Brocken Company has the following data related to an item of inventory:

Inventory, May 1	1,000 units at P4.20
Purchase, May 7	3,500 units at P4.20
Purchase, May 16	700 units at P4.50
Inventory, May 31	1,300 units

The value assigned to cost of goods if Brocken uses FIFO is

a. 16,900

b. 16,960

c. 17,069

d. 17,082

Inventory beginning (1,000 x 4.20)	P4,200
Purchase (3,500 x 4.40)	15,400
Purchase (700 x 4.50)	3,150
Total goods available for sale	<u>P22,750</u>
Inventory end (700 x P4.50 + (600 x 4.40)	5,790
Total	<u>P16,960</u>

9. On December 31, 2017, Bosan Corporation had 3,500 units of model 63 and 2,500 units of model 64 in its ending inventory. Specific data concerning each product follows:

	<u>Model 63</u>	<u>Model 64</u>
Historical cost	7,800	8,700
Net realizable value	7,700	8,800

What amount will be reported for inventory on Boson's statement of financial position after the company applies LCNRV?

a. 54,250,000

b. 49,300,000

c. 48,950,000

d. 48,700,000

Model 63 (P7,700 x 3,500)

P26,950,000

Model 64 (P8,700 x 2,500)	21,750,000
Total	<u>P48,700,000</u>

10. The accountant at Reber Company had determined that income before income taxes amounted to P6,750 using the FIFO costing assumption. If the income tax rate is 30% and the amount of income taxes paid would be P225 greater if the average-cost assumption were used, what would be the amount of income before taxes under the average-cost assumption?

a. 6,975

b. 7,500

c. 6,090

d. 6,525

Net income before tax (FIFO)	P6,750
Tax rate	30%
Income tax payable (FIFO)	<u>2,025</u>
Increase in tax payable (average)	225
Income tax payable (average)	2,550
Divided by tax rate	<u>30%</u>
Net income before tax (average)	<u>P7,500</u>

11. As a result of a thorough physical inventory, Hastings Company determined that it had inventory worth P540,000 on December 31, 2018. This count did not take into consideration the following facts:

Carlin Consignment store currently has good worth P104,000 on its sales floor that belongs to Hastings but is being sold on consignment by Carlin. The selling price of these goods is P150,000. Hastings purchased P40,000 of goods that were shipped on December 27, FOB destination, which will be received by Hastings on January 3. Determine the correct amount of inventory that Hastings should report

a. 580,000

b. 684,000

c. 644,000

d. 690,000

Per count	P540,000
Merchandise out on consignment	<u>104,000</u>
Total	<u>P644,000</u>

12. On December 15, 2012, Garry purchased goods costing P100,000. The terms were F.O.B. shipping point, Costs incurred by the entity in connection with the purchase and delivery of goods were normal freight charges of P3,000, handling cost of P2,000, insurance on the shipment of P500, and abnormal freight charge for express shipping of P1,200. The goods were received on December 17, 2012. What is the amount that the entity should charge to inventory?

a. 103,000

b. 105,000

c. 105,500

d. 106,700

Purchase price	P100,000
Freight	3,000
Handling costs	2,000

Insurance	500
	<u>P105,000</u>

The P1, 200 is disregarded.

13. Philip Company issued shares as consideration for the purchase of inventory on January 1, 2020. The inventory was eventually sold on December 31, 2020. The value of the inventory on January 1, 2020, was P3,000,000, and this value was unchanged up to the date of sale. The sales proceeds amounted to P5,000,000. The shares issued have a market value of P3,200,000. How much is the gross profit from the sale of the inventory on December 31, 2020?

- a. 5,950,000
- b. 5,750,000
- c. 5,500,000
- d. 5,700,000

$$P5,000,000 - P3,000,000 = P2,000,000$$

14. The physical count of Josef Company on December 31, 2012, revealed merchandise with a total cost of P5,000,000. Goods sold to a customer, which are being held for the customer to call at the customer's convenience with a cost of P200,000 were excluded from the count. A packaging case containing a product costing P500,000 was standing in the shipping room when the physical inventory was taken. This was not included in the inventory because it was marked "hold for shipping instructions." An investigation revealed that the customer's order was dated December 28, 2012, but that that case was shipped and the customer billed on January 4, 2013. A special machine costing P250,000, fabricated to order for a customer, was finished and specifically segregated at the shipping room on December 31, 2012. The customer was billed on that date, and the machine was excluded from the inventory, although it was shipped on January 2, 2013. What is the correct amount of inventory that should be reported on December 31, 2012?

- a. 5,950,000
- b. 5,750,000
- c. 5,500,000
- d. 5,700,000

Inventory per physical count	P5,000,000
Goods marked "hold for shipping instructions"	<u>500,000</u>
Adjusted inventory	<u>P5,500,000</u>

15. Rays Company accumulated the following quarterly cost data for the current year:

Raw materials – beginning an inventory	90,000 units at P7.00	P630,000
Purchases	75,000 units at P8.00	600,000
	120,000 unites at P8.50	1,020,000

The entity transferred 195,000 units of raw materials to work in process during the year.

Work in process – beginning an inventory	50,000 units at P14.00	P700,000
Direct labor		3,100,000
Manufacturing overhead		2,950,000
Work in process – ending inventory	48,000 units at P15.00	720,000

The entity uses the FIFO method for valuing raw materials. What is the cost of goods manufactured for the current year?

- a. 7,535,000
- b. 8,235,000
- c. 7,515,000

d. 8,280,000

Raw materials, 1/1	P630,000
Purchases (600,000 + 1,020,000)	1,620,000
Raw materials available for use	2,250,000
Raw materials – 12/31 (90,000 x 8.50)	(765,000)
RM used	P1,485,000
Direct labor	3,100,000
Overhead	2,950,000
WIP – beg (50,000 x 14)	700,000
WIP – end (48,000 x 15)	(720,000)
Cost of goods manufactured	P7,515,000

16. On May 1, 2021, a flash caused damage to the merchandise stored in the warehouse of Rafael Company. The following data were established:

Net sales for 2020 were P800,000 matched against the cost of P560,000

Merchandise inventory, January 1, 2021, was P200,000, 90% of which was in the warehouse and 10% in downtown showrooms.

From January 1, 2021, to date of flood, the invoice value of purchases (all stored in the warehouse) is ascertained to be P100,000; freight inward, P4,000; and purchase return, P6,000

The cost of merchandise transferred from the warehouse to showrooms was P8,000, and net sales from January 1 to may 1, 2021 (all warehouse stock) amounted to P320,000.

What is the estimated cost of merchandise destroyed by the flood?

a. 46,000

b. 50,000

c. 66,000

d. 80,000

Inventory 1/1/2020 – warehouse (200,000 x 90%)	P180,000
Net purchase (100,000 + 4,000 – 6,000)	98,000
Goods available for sale	P278,000
Less: cost of sales (320,000 x 70%)	(224,000)
Estimated ending inventory in a warehouse	P54,000
Less: goods transferred to the showroom	(8,000)
Flood loss	P46,000

17. Francis Company began operations on January 1, 2020, and uses the FIFO method in costing its inventory. Management is contemplating a change to the average cost method and is interested in determining what effect such a change will have on net income. Accordingly, the following information has been developed:

	<u>2020</u>	<u>2021</u>
FIFO inventory	P3,200,000	P3,600,000
Average cost inventory	2,400,000	3,000,000
Net income (computed under the FIFO method)	P5,000,000	P6,000,000

What is the net income in 2021 using the average cost method?

a. 5,400,000

b. 6,000,000

c. 6,200,000

d. 6,600,000	
Net income (FIFO)	P6,000,000
Overstatement in beginning inventory (3,200,000 – 2,400,000)	800,000
Overstatement in ending inventory (3,600,000 – 3,000,000)	(600,000)
Net income (average)	<u>P6,200,000</u>

18. A portion of the Jonathan Company's statement of financial position appear as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Assets:		
Cash	353,300	100,000
Notes receivable	-	25,000
Inventory	?	199,875
Liabilities:		
Accounts payable	?	75,000

Jonathan Company pays for all operating expenses with cash and purchases all inventory on credit. During 2015, cash totaling P471,700 was paid on accounts payable. Operating expenses for 2015 totaled P220,0000. All sales are cash sales. The inventory was restocked by purchasing 1,500 units per month and valued by using periodic FIFO. The unit cost of inventory was P32.60 during January 2015 and increased P0.10 per month of the year. Jonathan sells only one product. All sales are made for P 50 per unit. The ending inventory for 2014 was valued at P32.50 per unit.

Cost of goods sold for the year ended December 31, 2015

a. 609, 125

b. 609,700

c. 606,915

d. 603,625

Units sold (P920,000/P50) = 18,400

Accounts payable balance, December 31, 2015	
Accounts payable balance, December 31, 2014	P75,000
Purchases ((P32.60 + P33.70/2) x (1,500 x 12)	596,700
Cash payment on accounts payable	(471,700)
Accounts payable balance, December 31, 2015	<u>P200,000</u>

Inventory quantity, December 31, 2015	
Inventory, December 31, 2014 (P199,875/P32.50)	P6,150
Purchases	18,000
Units sold	(18,400)
Inventory, December 31, 2015	<u>P5,750</u>

Cost of inventory, December 31, 2015	
FIFO Cost of inventory, December 31, 2015	P50,550
December purchases (1,500 x P33.70)	50,400
November purchases (1,500 x P33.60)	50,250
October purchases (1,500 x P33.40)	41,750
September purchase (1,250 x P33.40)	<u>P192,950</u>

Cost of goods sold, December 31, 2015	
Inventory, January 1, 2015	P199,875
Purchases	596,700

Goods available for sale	796,575
Inventory, December 31, 2015	(192,950)
Cost of goods sold	<u>P603,625</u>

19. Machine Parts Supply Company is a distributor of various engine parts. In testing the sales and purchases cutoff of the company in connection with your audit of its financial statements for the year ended August 31, 20x1, you find the following information:

The company has ceased operation during the physical count on September 2, except for receiving goods from suppliers and making shipments to essential wholesale customers. On the morning of the physical count, you noted in your working papers the last shipping document (no. 314 and receiving report (no. 682) issued the previous day.

You observed the client's counting procedures and performed test counts of selected inventory items. You found the counts and descriptions to be accurate.

Before leaving the warehouse at the end of the day after all counting is completed, you performed the following:

1. Examined the receiving reports book. The last number used was 686. The receiving clerk informed you that all goods received on September 2 were kept in the receiving department with other goods received during the past two or three days.
2. Examined the shipping documents book. The last number used was 318.
3. I asked the receiving department to identify all goods received on September 1. He told you that receiving reports 680 through 682 are those goods received on September 1.
4. I asked the shipping department to identify all goods shipped or sold over the counter September 1. He informed you goods on shipping documents 311 to 313 were shipped September 1.
5. Examined the client's inventory counts in the receiving department. Inventory had been counted only for receiving reports 674 to 684.
6. Your examination showed that inventory for all shipments made September 2 were included in the counts in the department from which the inventory was taken.

During the year-end audit work, you obtained selling prices, costs, terms, and recording data for each receipt and shipment. They are as shown below:

Purchase of inventory

<u>RR No.</u>	<u>Date Shipped</u>	<u>Date received</u>	<u>Amount</u>	<u>August Purchases Journal</u>	<u>FOB</u>
679	8/29	8/30	25,800	Included	Destination
480	8/27	9/1	36,330	Included	Origin
681	8/20	9/1	5,790	Included	Origin
682	8/27	9/1	140,220	Included	Destination
683	8/30	9/2	13,500	Excluded	Destination
684	8/30	9/2	3,180	Excluded	Origin
685	9/2	9/2	84,000	Excluded	Origin
686	8/30	9/2	20,580	Excluded	Destination

Shipments of inventory

<u>Shipping No.</u>	<u>Date Shipped</u>	<u>Amount</u>	<u>August Sales Journal</u>
310	8/31	23,400	Included

311	9/1	1,680	Included
312	9/1	95,820	Included
313	9/1	19,050	Included
314	9/1	5,790	Included
315	9/2	48,630	Excluded
316	9/2	10,350	Excluded
317	9/2	2,340	Excluded
318	9/2	108,330	Excluded

The gross profit percentage is approximately 30%.

The net adjustment to the client's inventory is

a. P102,126 decrease

b. P41,382 decrease

c. P64,425 decrease

d. P 72,135 decrease

Inventory to be removed from inventory because of purchase cutoff test

RR No. 682	P140, 220
RR No. 683	13,500
Should be removed from the inventory count	<u>P153,720</u>

Inventory to be added to inventory because of sales cutoff test

SI No. 311	P1,680
SI No. 312	95,820
SI No. 313	19,050
Total	<u>P116,550</u>
To be added to inventory at cost (116,550 x 70%)	81,585

Net inventory adjustment

Decrease due to error from receipt of goods	P153,720
Increase due to error from the shipment of goods	<u>(81,585)</u>
Net decrease in inventory	<u>P72,135</u>

20. The accounting staff of Allan Company submitted an inventory list on December 31, 2016 which showed a total of P5,000,000. The following information which may or may not be relevant to the inventory value submitted, are given below:

- Excluded from the inventory were merchandise costing P80,000 because they were transferred to the delivery department for packaging on December 28 to be shipped on January 2, 2017.
- The bill of lading and their import documents on merchandise were delivered by the bank and the trust receipt accepted by the Company on December 26, 2016. Taxes and duties have been paid on this shipment, but the customs brokers have not delivered the merchandise until January 7, 2017. The delivered cost of shipment totaled P800,000. This shipment was not included in the inventory in December 2016.
- A review of the company's purchase orders shows a commitment to buy P100,000 worth of merchandise. This was not included in the inventory because the goods were received on January 3, 2017.
- Supplier's invoice for P30,000 worth of merchandise dated December 28, 2016, was received through the mails on December 20, 2016 although the goods arrived only January

- 4, 2017. The shipment term is FOB, seller. This was included on December 31, 2016 inventory by the company.
- e. Goods valued at P20,000 were received on December 28, 2016, for the approval of Allan Company. The inventory team included this merchandise on the list but did not place value on it. On January 4, 2017, the company informed the supplier by the long distance call of the acceptance of the goods, and the supplier's invoice was received on January 7, 2017.
- f. On December 27, 2016, an order for P25,000 worth of merchandise was placed. This was included in the year-end inventory, although it was received only on January 7, 2017. Seller shipped goods FOB, buyer.
- g. The company performed net realizable value testing. The NRV was correctly determined at P5,880,000.

How much is the adjusted value of inventory on December 31, 2016?

a. 5,855,000

b. 5,055,000

c. 5,825,000

d. 5,880,000

Unadjusted inventory, 12/31/16	P5,000,000
Unshipped goods, excluded	80,000
Goods in the hands of a customs broker	800,000
Goods purchased in transit, FOB destination	(25,000)
Adjusted inventory, 12/31/16 (lower than NRV)	<u>P5,855,000</u>

21. In the course of your examination of December 31, 2014, financial statements of Liza Corporation, you discovered certain errors that had occurred during 2013 and 2014. No errors were corrected in 2013. The errors are summarized below:

1. Beginning merchandise inventory (January 1, 2013) was understated by P259,200.
2. Merchandise costing P72,000 was sold for P120,000 to Naval Company on December 28, 2013, but the sale was recorded in 2014. The merchandise was shipped FOB shipping point and was not included in the ending inventory. Liza Corporation uses the periodic inventory system.
3. A two-year fire insurance policy was purchased on May 1, 2013, for P172,800. The whole amount was charged to Prepaid Insurance. No adjusting entry was prepared in 2013 and 2014.
4. A one-year note receivable of P288,000 was held by Liza Corporation beginning October 1, 2013. Payment of the 10% note and accrued interest was received upon maturity. No adjusting entry was made on December 31, 2013, about the note.
5. Equipment with a ten-year useful life was purchased on January 1, 2013, for P1,176,000. No depreciation expense was recorded during 2013 and 2014. Assume that the equipment has no residual value and that Liza Corporation uses the straight-line method for recording depreciation.
6. The company reported a P1,500,000 net income in 2013 and a P1,750,000 net income in 2014.

What is the adjusted net income in 2014?

a. 1,168,800

b. 1,512,400

c. 1,538,800

d. 1,418,800

	<u>Net Income 2013</u>	<u>Net Income 2014</u>	<u>RE, beginning</u> <u>2014</u>	<u>Working Capital,</u> <u>2014</u>	
Inventory, beginning 2013 understated	P(259,200)	P-	P-	P-	
AR/ Sales under in 2013 (over in 2014)	120,000	(120,000)	120,000		
Insurance expense under in 2013 and 2014	(57,600)	(86,400)	(57,600)	(144,000)	
Accrued interest expense under 2013	7,200	(7,200)	7,200		
Depreciation under in 2013 and 2014	(117,600)	(117,600)	(117,600)		
Net adjustments	P(307,200)	P(331,200)	P(48,000)		
Unadjusted net income	1,500,000	1,750,000			
Adjusted 2014 net income	P1,192,800	P1,418,800			

22. On June 30, 2017, a flash flood damaged the warehouse and factory of Gil Corporation, destroying the work in process inventory. There was no damage to either the raw materials or finished goods inventories. A physical inventory' is taken after the flood revealed the following valuations:

Finished goods	P112,000
Work-in-process	-
Raw materials	52,000

The inventory on January 1, 2017, consisted of the following:

Finished goods	P120,000
Work-in-process	115,000
Raw materials	42,500

A review of the books and records disclosed that the gross profit margin historically approximated 34% of sales. The sales for the first six months of 2017 were P428,000. Raw materials purchases were P96,000. Direct labor costs for this period were P130,000, and the manufacturing overhead has historically been applied at 60% of direct labor.

Compute the value of the work in process inventory lost on June 30, 2017.

- a. 135,020
b. 119,020
c. 271,980
d. 92,220

Raw material, January 1	P42,500
Purchases	96,000
Raw materials available for use	P138,500
Less: Raw materials, June 30	52,000

Raw materials used	P86,500
Direct labor	130,000
Factory overhead (130,000 x .60)	78,000
Total manufacturing cost	P294,500
Work in process, January 1	115,000
Total cost placed in the process	P409,500
Less: Work in process, June 30	135,020
Cost of goods, manufactured	P274,480
Finished goods, January 1	120,000
Total goods available for sales	P394,480
Less: Finished goods, June 30	112,000
Cost of goods sold (P428,000 x .66)	P282,480

23. Carter Corporation acquired two inventory items at a lump-sum cost of P50,000. The acquisition included 3,000 units of product LF and P 7,000 units of product 1B. LF normally sells for P15 per unit, and 1B for P 5 per unit. If Carter sells 1,000 units of LF, what amount of gross profit should it recognize?

a. 1,875
b. 5,625
 c. 10,000
 d. 11,875

LF: $3,000 \times P15 = 45,000$ / $80,000 \times P50,000 = P28,125$

1B: $7,000 \times P5 = 35,000 + 45,000 = P80,000$

$(1,000 \times P15) - (28,125 \times (1,000/3000)) = \mathbf{P5625}$

24. A company does not keep full accounting records. The following details relate to transactions with credit customers and suppliers for the year ended December 31, 2017:

Trade receivables, January 1, 2017	P130,000
Trade payables, January 1, 2017	60,000
Cash received from customers	686,400
Cash paid to suppliers	302,800
Discounts allowed	1,400
Discount received	2,960
Bad debts	4,160
Contra between payables and receivables ledger	2,000
Trade receivables, December 31, 2017	181,000
Trade payables, December 31, 2017	84,000

What figure should appear for purchases in the company's statement of profit or loss for the year ended December 31, 2017?

a. 329,760
 b. 330,200
c. 331,760
 d. 744,960

Trade payables, December 31, 2017	P84,000
Cash paid to suppliers	302,800
Discount received	2,960

Contra between payables and receivables	2,000
Trade payables, December 1, 2017	(60,000)
Purchases	<u>P331,760</u>

25. On July 1, 2016, Mel Corporation sold equipment for P1,000,000. Mel accepted a note receivable for the entire sales price. This note is payable in two equal installments of P500,000 plus accrued interest on December 31, 2016, and December 31, 2017. On July 1, 2017, Mel discounted the note at a bank at an interest rate of 12%. Clipper's proceeds from the discounted note were

- a. 484,000
- b. 503,500
- c. 493,500
- d. 517,000**

Maturity value ($P500,000 \times 1.1$)	P550,000
Discount ($P550,000 \times .12 \times 6/12$)	(33,000)
Proceeds	<u>P517,000</u>

26. Jay Company acquired P9,000,000 property, which is believed to include the mineral deposit. Geological estimates indicate that approximately 1,000,000 tons of mineral may be extracted. It is further estimated that the property can be sold for P2,500,000 following mineral extraction. The entity is legally required to restore the land to a condition appropriate for resale at a discounted amount of P8,000,000. The entity extracted 50,000 tons of the mineral in the current year. After initial acquisition, the following costs were incurred:

Exploration cost	P3,500,000
Development cost related to the drilling of wells	3,200,000
Development cost related to the production of equipment	4,600,000

What amount should be recorded as depletion for the current year?

- a. 825,000
- b. 930,000
- c. 700,000**
- d. 785,000

27. Melvin Company plans to dispose of a group of net assets that form part of the disposal group. The carrying value of the net assets as of December 31, 2019, is as follows:

Goodwill	P6,000,000
PPE	18,000,000
Inventory	10,000,000
Financial assets (unrealized gain recognized in the equity of P2 million)	7,000,000
Financial liabilities	4,000,000

Before the date of reclassification, the property, plant, and equipment had a fair value of P16 million; the inventory has a net realizable value of P 9 million. The fair value less cost to sell of the disposal group is P25 million.

Immediately after reclassification as held for sale, what amount should be presented as the carrying value of the disposal group?

- a. 25,000,000**

- b. 29,000,000
- c. 34,000,000
- d. 37,000,000

	<u>Carrying value after remeasurement</u>	<u>Impairment loss</u>	<u>Fair value</u>
Goodwill	P6,000,000	P(6,000,000)	P-
PPE	16,000,000	(3,000,000)	13,000,000
Inventory	9,000,000	-	9,000,000
FVOCI	7,000,000	-	7,000,000
Liability	(4,000,000)	-	(4,000,000)
Net	<u>P34,000,000</u>	<u>(9,000,000)</u>	<u>P25,000,000</u>

28. These are selected account balances on December 31, 2020:

Land (location of corporation's office building)	P100,000
Land (held for future use)	150,000
Corporate office building	600,000
Inventory	200,000
Equipment	450,000
Office furniture	100,000
Accumulated depreciation	300,000

What is the total amount of property, plant, and equipment that will appear on the statement of financial position?

- a. 1,300,000
- b. 1,100,000
- c. 1,600,000
- d. 950,000**

Land (location of corporation's office building)	P100,000
Corporate office building	600,000
Equipment	450,000
Office furniture	100,000
Accumulated depreciation	<u>(300,000)</u>
PPE, December 31, 2020	<u>P950,000</u>

29. A machine with a marked price of P50,000 was purchased 2/10 net 60, on July 10, 2014. It was fully paid on September 5, 2014. Also, freight charges of P350 and installation cost of P1,020 were incurred. The old machine replaced was sold at a loss of P 500. The Company's accountant recorded the asset at the cost of P49,870.

The auditor, you will propose adjustment as follows:

- a. Decrease the Machinery account by P1,020
- b. Increase the Machinery account by P500**
- c. No adjustment is necessary
- d. None of these

Price of the machine	P50,000
Cash discount	(1,000)
Freight charges	350

Installation cost	1,020
Cost of machine purchased	P50,370
Cost of the machine per records of Company	49,870
Increase in Machinery account	P500

30. Jonathan Company purchased for cash on January 1, 2010, 3 machines, which cost a total of P120,000. Estimated selling prices of the machines were: Machine 1, P40,000, Machine 2, P50,000, and Machine 3, P60,000. The machines were believed to have a useful life of 10 years without residual value. The Company records depreciation annually every month.

On January 1, 2013, Machine 1 was sold for P25,000 cash. The proceeds were credited to the Machinery account.

On July 1, 2014, Machine 3 was traded in for a new machine (no. 4), which had a cash price of P50,000 with Jonathan paying P20,000 for the difference with the trade-in value of the old machine. Machine 4 has estimated service life of 10 years without residual value.

What should be the balance of the Accumulated depreciation - Machinery on December 31, 2014, after adjustment of the books?

a. 53,700

b. 32,100

c. 22,500

d. 293,4022,3200

Accumulated depreciation: P20,000

Machine 2 ($40,000 \times 5/10$)

Machine 4

Book value of machine 3

Cost of machine 3 ($3/15 \times 120,000$) P48,000

Less: Accumulated depreciation ($48,000/10 \times 4.5$) 21,600

Book value of machine 3 P26,400

Add: Trade-in allowance 30,000

Gain on exchange 3,6000

Accumulated depreciation machine 4 ($50,000/10 \times 6/12$) 2,500

Balance of allowance for depreciation machinery P22,500

31. On December 30, 2014, Ricky Company traded in an old machine with a book value of P10,000 for a similar new machine having a list price of P32,000 and paid a cash difference of P19,000. Ricky should record the new machine at

a. 32,000

b. 29,000

c. 22,000

d. 19,000

Machinery- new	32,000	
Cash		19,000
Machinery- old		10,000
Gain		3,000

Garry Company purchased real property for P8,600,000, which included P180,000 of realty tax arrears for prior years. A mortgage of P4,000,000 was assumed by Garry Company on the purchase. Twenty percent of the purchase price should be allocated to the land and the balance to the building.

To make the building suitable for the use of Garry, remodeling costs had to be incurred in the amount of P900,000. This, however, necessitated the demolition of a portion of the building, which resulted in recovery of salvage materials sold for P30,000 cash.

Landscaping and parking lot cost the company a total of P320,000, while repairs in the main hall were P45,000.

32. The cost of the land was

- a. 1,664,000
- b. 1,720,000**
- c. 2,040,000
- d. 2,400,000

	Land	Building
Total purchase price allotted as:		
8,600,000 x 20%	P1,720,000	
8,600,000 x 80%		P6,880,000
Remodeling cost of building		900,000
Salvage materials from demolition		(30,000)
Repairs in the main hall		45,000
Cost to be capitalized	<u>P1,720,000</u>	<u>P7,795,000</u>

33. The cost of the building was

- a. 6,330,000
- b. 7,795,000**
- c. 7,750,000
- d. 7,570,000

	Land	Building
Total purchase price allocated as:		
8,600,000 x 20%	P1,720,000	
8,600,000 x 80%		P6,880,000
Remodeling cost of building		900,000
Salvage materials from demolition		(30,000)
Repairs in the main hall		45,000
Cost to be capitalized	<u>P1,720,000</u>	<u>P7,795,000</u>

Kerr Company made a lumpsum purchase of 3 pieces of machinery for P1,150,000 from an unaffiliated company. At the time of the acquisition, Kerr paid P50,000 to determine the appraisal value of the machinery. The appraisal disclosed the following values:

Machine A	P700,000
Machine B	420,000
Machine C	280,000

34. What cost should be assigned to machine A?

- a. 400,000
- b. 575,000
- c. 600,000**
- d. 700,000

	Appraised value	Allocation	Allocated cost
Machine A	P700,000	70/140 x 1,200,000	P600,000
Machine B	420,000	42/140 x 1,200,000	360,000

Machine C	280,000	$28/140 \times 1,200,000$	240,000
	P1,400,000		P1,200,000

35. What cost should be assigned to machine B?

- a. 400,000
- b. 345,000
- c. 360,000**
- d. 420,000

	Appraised value	Allocation	Allocated cost
Machine A	P700,000	$70/140 \times 1,200,000$	P600,000
Machine B	420,000	$42/140 \times 1,200,000$	360,000
Machine C	280,000	$28/140 \times 1,200,000$	240,000
	P1,400,000		P1,200,000

36. What cost should be assigned to machine C?

- a. 400,000
- b. 230,000
- c. 240,000
- d. 280,000**

	Appraised value	Allocation	Allocated cost
Machine A	P700,000	$70/140 \times 1,200,000$	P600,000
Machine B	420,000	$42/140 \times 1,200,000$	360,000
Machine C	280,000	$28/140 \times 1,200,000$	240,000
	P1,400,000		P1,200,000

37. On December 31, 2018, Paul Company sold a machine to Roan Company in exchange for a noninterest-bearing note requiring ten annual payments of P100,000. Roan made the first payment on December 31, 2018. The market interest rate for similar notes at the date of issuance was 8%. The present value of 1 at 8% is .50 for nine periods and .46 for ten periods. The present value of an ordinary annuity of 1 at 8% is 6.25 for nine periods and 6.71 for ten periods. What is the carrying amount of the note receivable on December 31, 2018?

- a. 450,000
- b. 460,000
- c. 625,000**
- d. 671,000

$$P100,000 \times 6.25 = 625,000$$

38. Dale Company purchased a P20,000, 8%, five-year note that required five equal annual year-end payments of P5,009. The note was discounted to yield 9%. At that date of purchase, the entity recorded the note at its present value of P19,485. The entity does not elect the fair value option. What is the total interest revenue earned over the life of this note?

- a. 5,045
- b. 5,560**
- c. 8,000
- d. 9,000

$$(5009 \times 5) - 19,485 = 5,560$$

39. At the beginning of the current year, David Company purchased for P5,400,000, including appraiser's fee of P50,000, a warehouse building and the land on which it is located. The land has a current appraised value of P2,000,000 and the building P3,000,000. The original cost on the seller's book is P1,400,000 for the land and P2,800,000 for the building. What is the initial measurement of the land?

a. 2,140,000
b. 1,800,000
c. 2,000,000

d. 2,160,000

Appraised Value Land: $(P2,000,000/P5,000) \times P5,400,000 = P2,160,000$

40. Carlo Company assigned P400,000 of accounts receivable to Pio Finance Company as security for a loan of P 335,000. Pio charged a 2% commission on the amount of the loan. The interest rate on the note was 10%. During the first month, Carlo collected P110,000 on assigned accounts after deducting P380 of discounts. Carlo accepts returns worth P1,350 and wrote off assigned accounts totaling P2,980. What is the amount of cash Carlo received from Pio at the time of transfer?

a. 301,500
b. 327,000
c. 328,300
d. 335,000

$P335,000 \times 98\% = P328,300$ net of commission

41. Lorenz Corporation purchased a new machine on October 31, 2020. A P120,000 down payment was made, and three-monthly installments of P360,000 each are to be made beginning on November 30, 2020. The cash price would have been 1,160,000. Lorenz paid no installation charges under the monthly payment plan, but a P20,000 installation charge would have been incurred with a cash purchase. What is the amount to be capitalized as the cost of the machine?

a. 1,220,000
b. 1,200,000
c. 1,180,000
d. 1,160,000

Cash price	P1,160,000
Installation charges	20,000
	P1,180,000

42. Raffy Company exchanged 20,000 shares of its P25 par value ordinary shares held in the treasury for a parcel of land to be held for a future plant site. The treasury shares were acquired by Raffy at the cost of P40 per share, and on the exchange date, the ordinary shares of Raffy had a fair value of P50 per share. Raffy received P60,000 for selling scrap when an existing building on the property was removed from the site. The land should be capitalized at what amount?

a. 1,000,000
b. 800,000
c. 940,000
d. 740,000

$20,000 \text{ shares} \times P50 = P1,000,000$ less P60,000 of scrap sales = P940,000

43. The Rafa Company included the following in its notes receivables as of December 31, 2015:

Note receivable from sale of land	P2,400,000
Note receivable from consultation	3,600,000
Note receivable from sale of equipment	4,800,000

The following transactions during 2015 and other information related to the company's notes receivable:

- On January 1, 2015, Rafa Company sold a tract of land to Triple X Company. The land purchased ten years ago was carried on Rafa's books at P1,500,000. Rafa received a noninterest-bearing note for P2,640,000 from Triple X. The note was due on December 31, 2016. There was no established exchange price for the land. The prevailing interest rate for this note on January 1, 2015 was 10%.
- On January 1, 2015, Rafa Company received a 5% P3,600,000 promissory note in exchange for the consultation services rendered. The note will mature on December 31, 2017, with interest receivable every December 31. The fair value of the services rendered is not readily determinable. The prevailing rate of interest for a note of this type was 10% on January 1, 2015.
- On January 1, 2015, Rafa Company sold old equipment with a carrying amount of P4,800,000, receiving a P7,200,000 note. The note bears an interest rate of 4% and is to be repaid in 3 annual installments of P2,400,000 (plus interest on the outstanding balance). Rafa received the first payment on December 31, 2015. There is no established market value for the equipment. The market interest rate for similar notes was 14% on January 1, 2015.

How much interest income should be recognized in 2015?

- 974,200
- 756,000
- 1,378,700**
- 1,160,500

Consultation service fee

Present value of principal ($P3,600,000 \times 0.7514$)	P2,705,040
Present value of interest ($3,600,000 \times 5\% \times 2.4860$)	447,480
Consultation service fee revenue	P3,152,520

Gain on sale of
equipment

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>	<u>PVF</u>	<u>Present value</u>
12/31/15	P288,000	P2,400,000	P2,688,000	0.8772	P2,357,914
12/31/16	192,000	2,400,000	2,592,000	0.7695	1,994,554
12/31/17	96,000	2,400,000	2,496,000	0.6570	1,684,800
The present value of note					<u>P6,037,258</u>
Carrying amount of equipment					4,800,000
Gain on sale of equipment					<u><u>P1,237,258</u></u>

Note receivable from sale of land

Date	Interest income	Carrying amount
------	-----------------	-----------------

1/1/15	P-	P2.181.960 (a)
12/31/15	218,196	2,400,156
12/31/16	239,844 (b)	2,640,000
(a) P2,640,000 principal x 0.8265 PVF at 10% for 2 periods		
(b) P2,640,000 – P2,400,156		

Note receivable from consultation

<u>Date</u>	<u>Effective interest</u>	<u>Nominal interest</u>	<u>Discount amort</u>	<u>Carrying amount</u>
1/1/15	P-	P-	P-	P3,152,520
12/31/15	315,252	180,000	135,252	3,287,772
12/31/16	328,777	180,000	148,777	3,436,549
12/31/17	343,451 ©	180,000	163,451	3,600,000
(c) P3,600,000 – P3,436,549 = P163,451				
(d) P163,451 + P180,000 = P343,451				

Note receivable from sale of equipment

<u>Date</u>	<u>Effective interest</u>	<u>Nominal interest</u>	<u>Amort</u>	<u>Principal collection</u>	<u>Carrying amount</u>
1/1/15					
12/31/15					
12/31/16					
12/31/17					
(e) P2,400,000 – P2,189,700 = P210,300 + P96,000 = P306,000					

44. Caloy Company purchased a machine for P300,000 on January 1, 2013, with the following additional items paid or incurred:

Separation pays for laborer laid off upon acquisition of new machine	P3,600
Loss on sale of machine replaced	3,900
Transportation in	3,000
Installation cost	12,000

The new machine is estimated to have a useful life of 10 years and a residual value of P12,000.

On January 1, 2016, new parts which cost P37,800 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 2016 was

- a. 34,080
- b. 35,494
- c. 36,450
- d. 35,700**

January 1, 2013	
Total cost of machine (P300,000 + P3,000 + P12,000)	P315,000
Residual value	(12,000)
Depreciable cost	<u>P303,000</u>
Estimated useful life	Ten years
Annual depreciation	P30,300
Depreciable cost	P303,000

Depreciation, 2013 – 2015 ($P30,300 \times 3$ years)	(90,000)
Remaining depreciable cost, Jan 1, 2016	P212,100
Cost of new parts	37,800
Total	P249,900
Remaining useful life (10 years – 3 years)	Seven years
Revised annual depreciation	P35,700

45. An entity has a nuclear power plant and a related decommissioning liability. The nuclear power plant started operating on January 1, 2013. The plant has a useful life of 40 years. Its initial cost was P120 million; this included an amount for decommissioning costs of P10 million, which represented estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5%. The entity's financial year ends on December 31.

The entity adopted the revaluation model on December 31, 2015. A market-based discounted cash flow valuation of P115 million is obtained on December 31, 2015. It includes an allowance of P115 billion for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount.

On December 31, 2016, the decommissioned liability (before any adjustment) was P12.2 million, and the discount rate has not changed. However, on that date, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by P5 million.

The entity decides that a full valuation of the asset is needed on December 31m, 2016, to ensure that the carrying amount does not differ materially from fair value. The asset is now valued at P107 million, which is net of an allowance of P7.2 million for the reduced decommissioning obligation that should be recognized as a separate liability.

The entity does not transfer realized surplus directly to retained earnings.

The entity should report revaluation surplus as of December 31, 2016, at

b. P11.622 million

c. P0.108 million

d. 0

Revaluation surplus, 2015

	In million	
Fair value, 12/31/2015 (P115 million + P11.6 million)	P 126.6	
Less: Carrying amount, 12/31/2013 ($P120 \text{ million} \times 37/40$)	111.0	
Revaluation surplus, 12/31/2015	P15.6	
Revaluation surplus, 12/31/2015		P15.6
The decrease in decommissioning liability		5
Revaluation decrease:		
Fair value, 12/31/2016 ($P126.6 \text{ million} + P7.2 \text{ million}$)	P114.2	
Less: Carrying amount, 12/31/2016 ($P126.6 \text{ million} \times 36/37$)	123.178	(8.978)
Revaluation surplus, 12/31/2016		P11.622

PROBLEM (45-49)

Simulate your exam performance with this practice drill. Answer each question within 3 minutes.

You were able to gather the following in connection with our audit of the Puso Inc. for the year ended December 31, 2016:

December 31, 2015

December 31, 2016

Accounts receivable	P6,400,000	P4,000,000
Notes receivable – trade	1,000,000	2,500,000
Allowance for bad debts	380,000	450,000
Unpaid merchandises invoices	4,632,000	2,621,000
Accrued wages	85,000	125,000
Advertising supplies inventory	35,000	75,000
Accrued advertising expense	14,250	40,000
Prepaid insurance	25,000	0
Unexpired insurance	0	41,000
Merchandise inventory	2,250,000	3,120,000
Equipment – net	11,000,000	15,000,000

During the year:

- 1 Amount collected from customers, P10,000,000, excluding a P100,000 collection from a previously written-off account. Write-off of receivables during the year amounted to P150,000.
- 2 Sales Returns (all before collections) amounted to P125,000, while sales discounts granted to customers amounted to P225,000.
- 3 Total payments to suppliers of merchandise amounted to P8,250,000. Purchase returns (all before payments amounted to P300,000).
- 4 Wages advertising and Insurance payments during the year were at P2,050,000, P300,000, and P125,000, respectively.
- 5 The only transaction apart from the depreciation for the year, affecting equipment net book value was the equipment acquisition at the beginning of the year, costing P4,500,000.

46. Gross sales for 2016 under the accrual basis is

a. 9,500,000

b. 9,600,000

c. 9,700,000

d. 9,800,000

Collections from customers, including recoveries	P10,100,000
Add: Sales discounts	225,000
Sales returns (all prior to collections)	125,000
Write-off account receivable	150,000
Accounts receivable, end	4,000,000
Notes receivable, end	2,500,000
Total	<u>P17,100,000</u>
Less: Accounts receivable, beg.	(6,400,000)
Notes receivable, beg.	(1,000,000)
Recoveries of the previous write-off	<u>(100,000)</u>
Gross sales, accrual basis	<u>P9,600,000</u>

47. Gross purchases for 2016 under accrual basis is

a. 6,239,000

b. 6,539,000

c. 6,839,000

d. 6,589,000

Payments to suppliers of inventories	P8,250,000
Add: Purchase returns (all prior to payments)	300,000

Accounts payable, end	2,621,000
Total	P11,171,000
Less: Accounts payable, beg	(4,632,000)
Gross Purchases, accrual basis	P6,539,000

48. Accrual wages expense for 2016 is

- a. 2,010,000
- b. 1,040,000
- c. 2,090,000
- d. 3,000,000

Payments of wages	P2,050,000
Add: Accrued wages, end	125,000
Less: Accrued wages, beg	(85,000)
Wages expenses, accrual basis	P2,090,000

49. Accrual advertising expense in 2016 is

- a. 325,000
- b. 337,425
- c. 285,750
- d. 258,750

Payments of advertising costs	P300,000
Add: Accrued advertising expense, end	40,000
Advertising supplies unused, beg.	35,000
Total	P375,000
Less: Accrued advertising expense, beg.	(14,250)
Advertising supplies unused, end	(75,000)
Advertising expense, accrual basis	P285,750

50. Accrual basis net income for the 2016 is

- a. 276,250
- b. 1,276,250
- c. 996,250
- d. 776,250

Net Sales (9,600,000 – 225,000 – 125,000)		P9,250,000
Cost of Sales		
Inventory, beg.	P2,250,000	
Net Purchases (6,539,000 – 300,000)	6,239,000	
Inventory, end	(3,120,000)	(5,369,000)
Bad debt expense		(120,000)
Wages expense		(2,090,000)
Advertising expense		(285,000)
Insurance expense (125,000 – 41,000 + 25,000)		(109,000)
Depreciation expense (15,000,000 – 11,000,000 – 4,500,000)		(500,000)
Net Income		P776,250

PROBLEM 50-53

Enrile Inc. had the following unadjusted liability balances as of December 31, 2016:

Accounts payable	P540,000
Premiums payable	140,000
Deferred taxes	(42,000)

10% Bonds payable 5,500,000

Audit notes:

- a. Accounts payable is net of a P50,000 credit balance in one of the company's supplier's accounts due to an overpayment made. The agreement with the supplier calls for the supplier to deliver additional merchandise to Enrile Inc. to offset the overpayment. No deliveries were made as of the balance sheet date.
- b. The company started a promotional program in 2015 where an eco-friendly tote bag shall be given to customers upon presenting 6 product labels plus P5 cash. The following information is deemed relevant about the program:

	2015	2016
Sales	P7,200,000	P8,400,000
The total cost of tote bags purchased (P25 per tote bag)	375,000	500,000
Tote bags actually disturbed	9,000	19,000
Estimated tote bags to be distributed the following year	7,000	5,000

- The balance of the premium's liability account reflects the accrual at the end of the year (2015), no entry had been made during the current year affecting the said account.
- c. Deferred tax balance appearing above is the result of the deferred tax credited tax created by the premiums liability in the previous year, which is tax-deductible upon settlement. Adjustments are yet to be made to the said account to reflect the movement in the account balance during the year. Moreover, another temporary difference arising during the year created by the company's excess tax depreciation over financial depreciation for the period amounted to P150,000. The income tax rate is 30%.
 - d. The balance of the bonds payable account was the total proceeds from its issuance on January 1, 2016. The bonds which shall mature on December 31, 2016, have a total face value of P 5,000,000 and are convertible into ordinary shares at the rate of P1,000 bond to 10, P50 par value ordinary shares. On the issuance date the effective yield rate on similar securities without the convertibility option was at 8% while each ordinary shares were selling at P75 per share. The only other entry made by the client about the bonds was the payment of interest on December 31, as interest is payable annually every December 31.

51. What is the correct premiums expense for 2016?

- a. 320,000
- b. 480,000
- c. 380,000
- d. 340,000**

Estimated premiums expense in 2016:

Premiums distributed in 2016	P19,000	
Premiums distributable, 12/31/2016	(7,000)	
Premiums distributable, 12/31/2016	5,000	P17,000
Multiply by net cost (P25-P5)		20
Estimated premiums expense 2016:		<u>P340,000</u>

52. What is the total deferred tax liability as of December 31, 2016?

- a. 30,000
- b. 15,000
- c. 45,000**
- d. 75,000

Deferred Tax liability from future Taxable Amount:	
Excess tax depreciation over financial depreciation	P150,000
Multiply by rate	30%
Deferred tax liability	<u>P45,000</u>
Deferred tax asset from Future Deductible Amount:	100,000
Premiums payable, 12/31/2016 (5,000 x P20)	30%
Multiply by rate	<u>P45,000</u>

The deferred tax asset is presented separately from deferred tax liability and is not presented as offsetting amounts.

53. What is the total current liability to be reported in the 2016 statement of financial position?

- a. 735,000
- b. 590,000
- c. 890,000
- d. 690,000**

Accounts payable, gross of debit balance	P590,000
Warranties payable (5,000 x P20)	100,000
Current Liabilities	<u>P690,000</u>

54. Assuming that the bonds were converted on January 2, 2018, what is the total credit to share premium as a result of the conversion?

- a. 2,761,439
- b. 2,831,213
- c. 2,931,213
- d. 2,858,439**

Upon assumed conversion; 1/2018:	
Carrying value of bonds up to 12/31/2017	P5,257,710
APIC – Bond Conversion Priv.	100,729
Total par value of shares (5,000 x 10 x 50)	<u>(2,500,000)</u>
Share premium from conversion	<u>P2,858,439</u>

55. The following data were taken from Garay's check register for April. Garay's bank reconciliation for March showed one outstanding check, check No. 178 for P2,150 (written on March 20), and one deposit in transit for P4,350 (made on March 31).

<u>Date</u>	<u>Item</u>	<u>Checks</u>	<u>Deposits</u>	<u>Balance</u>
April 1	Beginning balance			6,150
April 1	Deposit		26,167	32,317
April 1	Check No. 179	250		32,567
April 4	Check No. 180	10,673		21,898
April 27	Deposit		11,774	33,672
April 29	Check No. 181	13,217		20,490

The following is from Garay's bank statement for April:

<u>Date</u>	<u>Item</u>	<u>Checks</u>	<u>Deposits</u>	<u>Balance</u>
April 1	Beginning balance			3,950
April 3	Check No. 179	250		3,700
April 3	Deposit		4,350	8,050
April 5	Check No. 180	10,673		(2,623)
April 5	Automatic Loan		8,150	5,527
April 5	Deposit		26,417	31,944
April 20	NSF check	1,000		30,944

April 20	Service charge	600		30,344
April 30	Interest		82	30,426

Prepare the bank reconciliation. What is the adjusted cash balance as of April 30?

a. 26,833

b. 26,838

c. 30,426

d. 26,872

	<u>Book</u>	<u>Bank</u>
Unadjusted balances	P20,490	P30,426
Outstanding checks:		
Check No. 178	P2,150	
Check No. 181	13,217	(15,367)
Deposit in transit		11,774
Error in recording deposit (P26,417-P26,167)	250	
Automatic loan		
Interest		
NSF check		
Bank service charge		
Arithmetic error for:		
Check no. 179 (P32,567-P32,067)	(500)	
Check no. 180 (P21,898-P21,894)	(4)	
Check no. 181 (P20,490-P20,455)	(35)	
Adjusted balances	<u>P26,833</u>	<u>P26,833</u>

56. The bank reconciliation for December for Donnie Co. included the following information:

Checks and debit memos recorded by the bank in December,, including a December service charge of P1,000	P24,320
November bank service charge recorded on the books in December	2,000
Cash disbursements per books during December	34,658
Customer's NSF check returned by bank in December (no entry on the company's books)	16,000
Customer's NSF check returned by bank in November and redeposited in December (o entry on company books in either November or December)	7,600
Deposit in transit, December 31	5,421
Outstanding checks, December 31	37,450

The outstanding checks at November 30 totaled

a. 12,112

b. 13,112

c. 27,112

d. 10,122

Outstanding checks, November 30 (squeeze)		P12,112
Add: Checks issued during December	P34,658	
Book disbursement during December	<u>2,000</u>	<u>32,658</u>

Less: November bank service charge			
Total			P44,770
Less: Checks paid by the bank during December		P24,320	
Bank disbursements during December	P16,000		
Less: NSH check returned in Dec	1,000	17,000	7,320
Dec. bank service charge			
Outstanding checks, December 31			P37,450

PROBLEM (56-60)

The following information pertains to Flint Corp.

Flint Corp.

Bank Reconciliation

November 30, 2011

Balance per bank statement		435,000
Less: Outstanding checks		
No. 4321	6,000	
No. 4329	15,000	
No. 4340	1,700	
No. 4341	4,675	27,735
Deposit in transit		16,200
Balance per books		423,825

Date	Payee	No.	Vouchers Payable	Discount	Cash
Dec 1	San Beda Inc	4342	P10,000	P500	P9,500
Dec 3	Miriam Corp	4343	4,200	-	4,200
Dec 7	UE Entp.	4344	3,755	-	3,755
Dec 12	PSBA Corp	4345	12,000	120	11,880
Dec 15	Payroll	4346	96,000	-	96,000
Dec 16	BU Inc	4347	6,300	-	6,300
Dec 18	New Era	4348	14,200	142	14,058
Dec 21	UST	4349	7,000	-	7,000
Dec 22	Petty Cash	4350	10,000	-	10,000
Dec 28	Payroll	4351	98,000	-	98,000
			P261,455	P762	P260,693

Bank Statement

Bankable Bank

Period: November 30, 2010 – December 31, 2010

No. 001-43-44

<u>Date</u>	<u>Description</u>	<u>Check No.</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
	Balance last statement				P435,000
Dec 1	Check deposit				451,000
Dec 1	Check issued	4329	P15,000		436,000
Dec 4	Check issued	4342	9,500		426,700
Dec 4	Check issued	4341	4,675		422,025

Dec 5	Check deposit			49,000	471,025
Dec 6	Check issued	4343	4,200		466,825
Dec 8	Check deposit			14,000	480,825
Dec 10	Check issued	4344	3,755		477,070
Dec 15	Encashment	4346	96,000		381,070
Dec 22	Encashment	4350	10,000		371,070
Dec 28	Encashment	4351	98,000		273,070
Dec 29	Debit memo-service charge		1,000		272,070
Dec 29	Credit memo-interest			1,550	273,620

Deposit in transit at December 31 totaled P49,000

57. What is the total book receipts for December?

- a. 113,550
- b. 80,750
- c. 63,000
- d. 112,000**

Dec 5 deposit	P49,000
Dec. 8 deposit	14,000
Dec. 31 deposit in transit	49,000
Total collection/ book receipts	<u>P112,000</u>

58. What is the cash balance per books on December 31, 2010?

- a. 275,132**
- b. 226,132
- c. 291,332
- d. 274,370

Cash balance, November 30	P423,825
December receipts	112,000
Disbursements per check register	(260,693)
Cash balance, December 31	<u>P275,132</u>

59. What is the total outstanding checks on December 31, 2010?

- a. 68,313
- b. 39,238
- c. 46,938**
- d. 40,938

Outstanding checks, December 31	
Check no. 4321	P6,700
Check no. 4340	1,700
Check no. 4345	11,880
Check no. 4347	6,300
Check no. 4348	14,058
Check no. 4349	7,000
Total	<u>P46,938</u>

60. What is the adjusted cash balance on December 31, 2010?

- a. 281,682
- b. 275,682**

- c. 226,682
- d. 274,920

	<u>Book</u>	<u>Bank</u>
Unadjusted balances	P275,132	P273,620
Deposit in transit		49,000
Outstanding checks		(46,938)
Service charge	(1,000)	
Interest	1,550	
Adjusted balances	<u>P275,682</u>	<u>P275,682</u>

61. What is the adjusted cash balance on November 30, 2010?

- a. 446,375
- b. 417,825
- c. 423,825**
- d. 435,000

The balance per books as determined and shown on the November 30 reconciliation is also the adjusted cash balance on that date. Notice that there are no book reconciling items in November.

PROBLEM (61-64)

Pito-Pito Company produces herbal tea and other slimming products that are sold throughout the Philippines. While the company is experiencing a steady growth in sales, it has become noticeable that collections of accounts receivable from customers are no longer as fast as they used to be.

Pito-Pito Company's products are sold on payment terms of 2/10, n/30. In the past, more than 75% of the credit customers have availed of the discount by paying within the discount period. During the year ended, there has been an increase in the number of customers taking the full 30 days to pay. The Company estimates that less than 60% of the customers are taking advantage of the discount. Bad debt losses as a percentage of gross credit sales have increased from 1.5% provided in prior years to about 4% in the current year.

The deterioration of accounts receivable collections has prompted the company's controller to prepare the following report.

Accounts Receivable Collections

December 31, 2010

- A. Normally, some receivables will prove uncollectible. Annual bad debt write-offs had been 1.5% of total credit sales for many years. However, this rate has increased to 4% during the current year.
- B. The accounts receivable balance at December 31, 2010, is The condition of this balance in terms of age and the probability of collection is presented below.

<u>Proportion of total</u>	<u>Age Categories</u>	<u>Probability of collection</u>
64%	1 to 10 days	99%
18%	11 to 30 days	97.5%
8%	Past due 31 to 60 days	95%
5%	Past due 61 to 120 days	80%
3%	Past due 121 to 180 days	65%
2%	Past due over 180 days	20%

- C. The allowance for bad debts had a credit balance of P 54,600 on January 1, 2010.
- D. The P640,000 bad debt expense provided during the year is based on the assumption that 4% of total credit sales will be uncollectible.
- E. Accounts written-off during the year totaled P585,000.

62. What is the required allowance balance based on December 31, 2010?

a. 154,200

b. 109,600

c. 209,200

d. 55,000

<u>Category</u>	<u>Aging Ratio</u>	<u>AR balances</u>	<u>Uncollectible</u>	
			<u>Rate</u>	<u>Amount</u>
1 to 10 days	64%	P1,290,000	1%	P19,200
11 to 30 days	18%	540,000	2.5%	13,500
Past due 31 to 60 days	8%	240,000	5%	12,000
Past due 61 to 180 days	5%	150,000	20%	30,000
Past due 121 to 180 days	3%	90,000	35%	31,500
Past due over 180 days	2%	60,000	80%	48,000
Total		P3,000,000		P154,200

63. What is the net realizable value of Pito-Pito Company's accounts receivable at December 31, 2010?

a. 2,955,400

b. 2,845,800

c. 2,736,200

d. 1,675,800

Accounts receivable	P3,000,000
Allowance for bad debts	154,200
Net realizable value, December 31, 2010	P2,845,800

64. Pito-Pito should report bad debt expenses for 2010?

a. 99,600

b. 595,400

c. 640,000

d. 684,600

Bad debt expenses recorded	P640,000
Adjustment to bring allowance balance to the amount indicated in aging	44,600
Correct bad debt expense for 2010	P684,000

65. Pito-Pito total credit sales for 2010 is?

a. 16,000,000

b. 25,600,000

c. 42,666,667

d. 14,625,000

Total credit sales (640,000/4%) P16,000,000

66. The following amounts are shown on the 2010 and 2009 financial statements of San Francisco Co:

	<u>2010</u>	<u>2009</u>
Accounts receivable	?	470,000
Allowance for bad debts	20,000	10,000
Net sales	2,600,000	2,400,000
Cost of goods sold	1,900,000	1,752,000

San Francisco Co.'s accounts receivable turnover for 2010 is 6.5 times.

What is the accounts receivable balance at December 31, 2010?

- a. 820,000
- b. 340,000
- c. 360,000**
- d. 470,000

$$\begin{aligned} \text{A/R turnover} &= \text{Net sales/Ave. net receivables} \\ 6.5 &= 2,600,000 / (460,000 + x) / 2 \\ 6.5x &= 2,210,000 \\ x &= 340,000 \end{aligned}$$

Net receivables	340,000
Allowance for bad debts	20,000
Accounts receivable	360,000

67. The following information pertains to Acacia, inc. For the year ended December 31, 2010:

Credit sales during 2010	P4,450,000
Collection of accounts written off in prior periods	170,000
Worthless accounts were written off in 2010	191,000
Allowance for doubtful accounts, Jan 1, 2010	155,000

Acacia, Inc. provides for doubtful accounts based on 1 1/2% of credit sales.

What is the balance of the allowance for doubtful accounts at December 31, 2010?

- a. 345,750
- b. 66,750
- c. 200,750**
- d. 242,750

Balance, January 1, 2010	P155,000
Bad debt expense (4,450,000 x 1 1/2%)	66,750
Recovery of accounts written off	170,000
Accounts were written off in 2010	(191,000)
	<u>P200,750</u>

68. Alex, Inc. leases an old building which it intends to improve and use for administrative purposes.

The company pays a bonus of 100,000 to obtain the lease. Annual rental for the 10-year lease period is 160,000. No option to renew the lease or right to purchase the property is given by the lessor.

After obtaining the lease, improvements on the leased building are made, costing 400,000. The building has an estimated remaining useful life of 19 years.

What is the annual cost (excluding depreciation) of this lease to Alex?

- a. 210,000
- b. 200,000
- c. 160,000
- d. 170,000**

Annual rental	P160,000
Amortization of lease bonus	10,000
The annual cost of lease	<u>170,000</u>

69. What is the amount of annual depreciation (straight-line), if any, should Alex, Inc. record?

- a. 40,000**
- b. 30,000

c. 50,000

d. 0

Annual depreciation on Leasehold improvements: $(400,000/10 \text{ years}) = 40,000$

70. The following amounts are included in the general ledger of Bettina Peak Corporation at December 31, 2016:

Organization costs	P72,000
Trademarks	45,000
Patents	225,000
Discounts on bonds payable	105,000
Deposits with an advertising agency for ads to promote goodwill of company	30,000
Costs of equipment acquired for various research and development projects	320,000
Costs of developing a secret formula for a product that is expected to be marketed for at least 20 years.	240,000

What is the total amount of intangible assets to be reported by Bettina Peak on its statement of financial position at December 31, 2016?

a. 342,000

b. 270,000

c. 510,000

d. 830,000

Trademarks	P45,000
Patents	225,000
Total intangible assets	<u>P270,000</u>

Organization costs should be recognized as expense in the period it is incurred.

Discount on bonds payable should be reported as a contra account to bonds payable.

The cost of equipment acquired for various research and development projects should be reported as prepaid advertising in the current assets section. PAS 38 does not preclude recognizing a prepayment as an asset when payment for the delivery of goods or services has been made in advance of the delivery of goods or rendering of the services.