

FINANCIAL ACCOUNTING AND REPORTING

1. On December 31, 2019, Missouri Company has a manufacturing plant costing P10,000,000. Accumulated depreciation at that date is P4,000,000 and was tested for impairment. The recoverable amount was the estimated fair value less-cost to sell of P5,000,000. The plant had an original useful life of 10 years. On December 31, 2022m there are indications that the impairment loss recognized in 2019 may be reversed. The value in use is estimated at P3,200,000 while the fair value less costs to sell is estimated at P3,000,000.

What is the gain on reversal of impairment to be recognized in 2022, assuming the company will adopt the revaluation model?

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

$$(6,000,000 \times 3/6) - (5,000,000 \times 3/6) = 500,000$$

2. What is the depreciation expense for the year 2023 assuming the company will adopt the cost model?

- a. 1,066,667
- b. 833,333
- c. 1,000,000
- d. 500,000

$$3,000,000/3\text{yrs.} = 1,000,000$$

3. Montana Company purchased a machine for P600,000 on January 1, 2020. The estimated salvage value of the machine was P50,000 and Montana estimated that the machine would have a useful life of 10 years, with depreciation being computed using the SYD method.

On January 1, 2022, the company spent P90,000 repairs. The repairs will not extend the useful life of the machine but will eventually increase the company's production.

How much is the depreciation expense for the year 2022?

- a. 100,000
- b. 111,111
- c. 122,222
- d. 65,455

$$\text{Revised Cost. } 1/1/22 = (550,000 \times 36/55 + 50,000) + 90,000 = 500,000$$

$$DE \text{ for } 2022 = 500,000 - 50,000 \times 8/36 = 100,000$$

4. Nebraska Company purchased a machinery January 1, 2019, at a cost of P5,000,000. It is being depreciated using the straight-line method over its projected useful life of 8 years. At December 31, 2021, the asset's net replacement cost was P2,500,000. Accordingly, an entry was made on that date to recognized the revaluation.

How much is the revaluation surplus on December 31, 2021?

- a. 1,000,000
- b. 625,000
- c. 375,000
- d. 0

None because the result is a revaluation decrease of 625,000

5. How much is the machinery account balance after recording the revaluation?

a. **4,000,000**

b. 1,500,000

c. 2,500,000

d. 3,125,000

$$2,500,000/62.5\% = 4,000,000$$

6. Nevada Company had the following bank reconciliation at March 31, 2022:

Balance per bank statement, 03/31		P490,000
Add: Deposit in transit	P100,000	
Debit memo	10,000	110,000
Total		
Less: Outstanding checks	P125,000	
Credit memo	60,000	185,000
Balance per book, 03/31		<u>P415,000</u>

All reconciliation items at March 31, 2022 cleared through the bank in April. Outstanding checks at April 30, 2022, totaled P75,000; deposits it transits amounted to P150,000; Credit memo for April-P80,000; Debit memo for April P15,000, Bank receipts for April-P600,000 including erroneous bank credit of P100,000 corrected by the bank in April and Bank disbursements for April – P500,000 including erroneous bank charge of P50,000 corrected by the bank in May.

What is the amount of adjusted cash receipts in April?

a. 600,000

b. 500,000

c. **550,000**

d. 650,000

BANK	March	Receipts	Dibs	April
Unadjusted	490,000	600,000	500,000	590,000
	100,000	(100,000)		
	(125,000)		(125,000)	
			75,000	(75,000)
		150,000		150,000
		(100,000)	(100,000)	
			(50,000)	50,000
Adjusted	465,000	550,000	300,000	715,000

7. What in the amount of adjusted cash disbursements in April?

a. **300,000**

b. 450,000

c. 400,000

d. 600,000

The following relates to an exchange transaction that lacks commercial substance:

	New Company	Hampshire Company
Equipment	P500,000	P600,000
Accumulated depreciation	120,000	200,000
Fair value	400,000	350,000
Cash involved	?	?

BANK	March	Receipts	Dibs	April
Unadjusted	490,000	600,000	500,000	590,000
	100,000	(100,000)		
	(125,000)		(125,000)	
		150,000	75,000	(75,000)
		(100,000)	(100,000)	150,000
			(50,000)	50,000
Adjusted	465,000	550,000	300,000	715,000

8. At what amount should New Company record the asset received from Hampshire Company and what amount should be taken to profit or loss in the books of Hampshire record from this exchange?

- a. 330,000 and 0, respectively
b. 330,000 and 50,000, respectively
c. 430,000 and 0, respectively
d. 430,000 and 50,000, respectively

$$\text{New Asset} = 380,000 - 50,000 = 330,000$$

$$\text{P/L item} = 400,000 - 350,000 = 50,000 \text{ impairment loss}$$

9. On April 1, 2020, New Jersey Mining Company purchased a mineral mine for P5,000,000 with removal ore estimates by geographical surveys at 3,000,000 tons. New Jersey expects to extract 20,000 tons on quarterly basis. The property has an estimated value of P500,000 after the ore has been extracted. New Jersey Company incurred P900,000 of development costs and P300,000 exploration cost in preparing the property for extraction of ore.

New Jersey Company also purchased a new equipment on the same date costing P2,500,000 with a useful life of 12 years. After all the resources are removed, the equipment will be used in the future mining activities. The residual value of the equipment is P100,000. During 2020, 100,000 tons were extracted and 30,000 tons were sold. The company is using the straight-line method.

What is the amount of cost of goods sold for the year 2020?

- a. 190,000
b. 57,000
c. 102,000
d. 124,000

$$30,000 \times 3.40 \text{ per unit} = 102,000$$

10. What is the amount of depreciation expense for the year 2020?

- a. 150,000**
b. 200,000
c. 80,000
d. 24,000

$$2,500,000 - 100,000 / 12 \times 9 / 12 = 150,000$$

11. On January 1, 2021, New Mexico signed an agreement to operate as franchisee of Santa Fe Company for an initial franchise fee of P680,000. Of this amount, P200,000 was paid when the agreement was signed and the balance was payable in four annual payments of P120,000 each, beginning January 1, 2022. The agreement provides that the down payment is not refundable and no future services are required of the franchisor. The implicit rate for the loan of this type is 14%.

The agreement also provides the 5% of the revenue from the franchise for 2021 was P8,000,000. New Mexico Company estimates the useful life of the franchise to be ten years.

Total expenses related to franchise in 2021

- a. 503,914
- b. 535,200
- c. 448,950
- d. 454,964

	<u>Book Value</u>	<u>Appraised Value</u>
Assets, excluding goodwill	P30,000,000	P39,000,000
Liabilities	10,500,000	10,500,000
Down payment		200,000
PV of installment (120,000 x 2.9137)		349,656
Total cost		<u>549,656</u>
Amortization (549,656/10)		54,966
Interest expense (349,656 x 14%)		48,952
Continuing franchise fee (8M x 5%)		<u>400,000</u>
Total expenses		<u>503,917</u>

12. New York Company is negotiating to acquire the net assets Albany Company. Under the plan, New York is willing to pay for the goodwill computed by capitalizing at 25% Albany's average earnings in excess of the 10% normal return based on appraised value of net assets. This is the same level of income experienced by companies similar to New York line of business. New York's income for the past three years averaged P3,000,000. New York's assets and liabilities are:

What is the amount of goodwill?

- a. P600,000
- b. P420,000
- c. P150,000
- d. P105,000

Purchase price	3,000,000
FV of net assets (39M – 10.5M) x 10%	(2,850,000)
	<u>150,000</u>
Excess annual earnings	
Divided by capitalization rate	<u>25%</u>
Goodwill	<u>600,000</u>

13. North Carolina purchased a Patent on January 2, 2019 costing 192,000 at which date the remaining legal life was 12 years. On January 2, 2022, North Carolina determined that the total remaining useful life of the patent was only 8 years.

On July 31, 2022, North Carolina won against an infringement lawsuit by North Dakota Company in same year. North Carolina paid P85,000 in legal fees for the successful defense of the Patent.

How much is the carrying value of the Patent on December 31, 2022?

- a. 144,000
- b. 126,000
- c. 168,000

d. 115,200

Revised cost = 192,000 x 9/12 = 144,000

CV = 144,000 x 7/8 = 126,000

14. Entries to record the replenishment of petty cash fund result in a debit to various expense accounts and a credit to cash bank. This accounting procedure typically exemplifies the
- Imprest petty cash system**
 - Fluctuating petty cash system
 - Internal control
 - Administrative control
15. The journal entries for a bank reconciliation
- Are taken from the balance per bank only
 - May include a debit to office expense for a bank service charges**
 - May include a credit to accounts receivable for an NSF check
 - May include a debit to accounts payable for an NSF check
16. A 60-day, 6% interest-bearing note was immediately discounted at a bank at 8%. The proceeds received from the bank upon discounting would be:
- Maturity value less the discount at 8%**
 - Maturity value less the discount at 6%
 - Maturity value plus the discount at 8%
 - Face value less the discount at 8%
17. Which of the following is reported as cash for financial reporting purposes?
- Petty cash funds and change funds
 - Money orders, traveler's checks, and personal checks
 - Coin, currency, and available funds for current operations
 - Postdated checks and IOUs
 - Savings account for employee's travels
 - Savings account for acquisition of equipment
 - Savings account for acquisition of inventory
- I, II, III, IV, V, VI and VII
 - I, II, III, V, VI and VII
 - I, II, III, IV, V and VI
 - I, II, III, IV, V and VII**
18. The following statements relate to cash. Which statement is true?
- The term "cash equivalent" refers to demand credit instruments such as money order and bank drafts.
 - The purpose of establishing a petty cash fund is to keep enough cash on hand to cover all normal operating expenses for a period of time.
 - Classification of restricted cash balance as current or non-current should parallel the classification of the related obligation for which the cash was restricted.**
 - Compensating balances required by a bank should always be excluded from "cash and cash equivalent"

19. Which of the following is not true?
- a. The Petty Cash account is debited when the fund is replenished
 - b. The imprest petty cash system in effect adheres to the rule of disbursement by check
 - c. Entries are made to the Petty Cash account only to increase or decrease the size of the fund or to adjust the balance if not replenished at year-end.
 - d. All of these answer choices are not true
20. A Proof of Cash is used to:
- a. Conduct a physical count of cash as proof of the amount presented in the financial statements
 - b. State the total amount of receipts of the company and as well as the bank
 - c. Used to reconcile the receipts and payments within the 2-month period
 - d. Is used to reconcile the previous month and current month balances and as well as the reconciliation of cash receipts and disbursements of the current month.
21. Which of the following items is not matched correctly with its basis of valuation for purposes of reporting in the Statement of Financial Position?
- a. Cash → Face value
 - b. Long-term interest-bearing note with unrealistic rate → Face value
 - c. Long-term non-interest-bearing note → Present value
 - d. Accounts receivable → Amortized cost
22. Which of the following is true when accounts receivable are factored without recourse?
- a. The transaction may be accounted for either as a secured borrowing
 - b. The receivables are used as collateral for a promissory note issued to the factor by the owner of the receivables.
 - c. The factor assumes the risk of collectability and absorbs any credit losses in collecting the receivables
 - d. The financing cost (interest expense) should be recognized ratably over the collection period of the receivables
23. If the present value of a note received is less than its face value, the difference should be
- a. Treated initially as a premium on notes receivable
 - b. Amortized as interest income over the life of the note
 - c. Amortized as interest expense over the life of the asset
 - d. Included in interest income in the year of issuance
24. When the allowance method of recognizing uncollectible accounts, expense is used, the entries at the time of collection of an account previously written off would
- a. Decrease profit
 - b. Increase the amortized cost of accounts receivable
 - c. Increase profit
 - d. Increase the allowance for uncollectible accounts
25. Trade receivables are classified as current assets if they are to be collected within 12 months or within the normal operating cycle whichever is
- a. Longer

- b. Shorter
 - c. Stronger
 - d. Hotter
26. On October 1 of the current year, an entity received a one-year note receivable bearing interest at the market rate. The face amount of the note receivable and the entire amount of the interest are due on September 30 of next year. The interest receivable on December 31 of the current year would consist of an amount representing.
- a. Three months of accrued interest income
 - b. Nine months of accrued interest income
 - c. Twelve months of accrued interest income
 - d. The excess on October 1 of the present value of the note receivable over its fact amount
27. The account title “Inventories” as shown an entities financial statements include
- a. Goods sold with a buyback arrangement
 - b. Goods held on consignment
 - c. Unused supplies for administrative purposes
 - d. Goods in transit, purchased FOB buyer
28. Which of the following shall NOT be presented as Property, Plant and Equipment?
- a. A living plant used in the production or supply of agricultural produce with a remote likelihood of being sold as agricultural produce
 - b. Land held for lease providing the entity with significant rental revenue
 - c. Equipment used in the production process
 - d. Owner-occupied building
29. Evaluate whether each of the following two statements is true or false.
- I. The retail inventory method is allowed for external reporting purposes as an alternative method is to measure the cost of inventory
 - II. The gross profit method may be used to measure inventory and related expense for interim reporting purposes, but not for annual reporting purposes
- a. True, true
 - b. True, false
 - c. False, true
 - d. False, false
30. An item of property, plant and equipment acquired In an exchange transaction where the configuration of the asset received is significantly different from the configuration of the asset given up, shall be initially recorded at
- a. Fair value of the non-cash asset given up, plus cash paid or minus cash received
 - b. Fair value of the item of property, plant and equipment received, plus cash paid or minus cash received
 - c. Carrying value of the asset given up
 - d. Amount established by the Board of Directors
31. How shall the decline in net realizable value of inventories be presented in the entity’s statement of comprehensive income?

- a. As expense in profit or loss (cost of goods sold or separate expense) in the period the decline occurs.
 - b. As expense in other comprehensive income, because the decline may be recovered in subsequent reporting period
 - c. Not separately shown in any case, but absorbed by cost of goods sold
 - d. Presented as a separate line item on the face of the statement of comprehensive income
32. In addition to the purchase price, what constitutes the initial cost assigned to an item of property, plant and equipment?
- I. Costs directly attributes to bringing the asset to the location and condition for use intended by the management
 - II. Costs of day-to-day servicing of items of property, plant and equipment to maintain good condition
 - III. Initial estimate of costs of dismantling and removing or restoring the site on which the asset is located
 - IV. Initial estimate of costs of dismantling and removing or restoring the site on which the asset is located
- a. I, II, III and IV
 - b. I, II and III
 - c. II, III and IV
 - d. I and III
33. Which of the following shall be disclosed as part of accounting policies relating to inventories?
- I. Costing procedure used
 - II. Measurement of inventories at the lower of cost and net realizable value
 - III. Carrying number of inventories pledged as securities for existing loans
- a. I, II and III
 - b. I and II
 - c. II and III
 - d. I and III
34. Which of the following statements concerning non-interest-bearing notes receivable is generally a false statement?
- a. Discounted on notes receivable should be deducted to arrive at the carrying value of notes receivable
 - b. Amortizing the premium causes the carrying amount of the notes receivable of gradually increase over the life of the note
 - c. Amortizing the premium causes the carrying amount of the notes receivable to gradually decrease over the life of the note
 - d. None of the above choices
35. Which of the following statements concerning interest-bearing notes receivable is generally a false statement?
- a. Discount on notes receivable should be deducted to arrive at the carrying value of notes receivable

- b. Amortizing the discount causes the carrying amount of the notes receivable to gradually increase over the life of the note
- c. Amortizing the premium causes the carrying amount of the notes receivable to gradually decrease over the life of the note
- d. None of the above choices

36. Alabama Company provided the following information with respect to the Cash and Cash Equivalents on July 31, 2022:

Checking Account at A Bank	(P100,000)
Checking Account at B Bank	(2,750,000)
Checking Account at C Bank	500,000
Payroll fund	850,000
VAT fund	200,000
Foreign Bank Account in Pesos	400,000
IOU from Vice President	40,000
Traveler's Check	150,000
NSF Check	75,000
PCF (P10,000 in currency, P15,000 expense vouchers)	25,000
Money Orders	180,000

What total amount should be presented as Cash and Cash Equivalents on July 31, 2022?

a. 2,290,000

b. 2,345,000

c. (1,355,000)

d. 2,165,000

$$500,000 + 850,000 + 200,000 + 400,000 + 150,000 + 10,000 + 180,000 = 2,290,000$$

37. Alaska company reported the following information at the end of the current year:

- Investment Securities of P1,000,000. These securities are share investments in entities that are traded in the PSE. As a result, the shares are very actively traded in the market.
- Investment Securities of P2,000,000. These securities are government treasury bills. The treasury bills have a 10-year term and purchased on December 31 at which time they had two months until they mature.
- Cash of P3,400,000 in the form of currencies and coins, saving account and checking account.
- Investment Securities of P1,500,000. These securities are commercial papers or money market placements. The term of commercial papers is 9 months and they were purchased on December 31, at which time they had 3 months until they mature.

What amount should be presented as Cash and Cash Equivalents at the end of the current year?

a. 7,900,000

b. 4,900,000

c. 3,400,000

d. 6,900,000

$$2,000,000 + 3,400,000 + 1,500,000 = 6,900,000$$

38. On March 31, 2021, Arizona company received its bank statement. However, the closing balance of the account was unreadable. Attempts to contact the bank after hour did not secure the desired information. The following data are available in preparing a bank reconciliation:

February 28 book balance	2,190,000
Note collected by the bank	150,000
Interest earned on note	15,000
NSF check of customer	195,000
Bank service charge on NSF check	3,000
Other bank service charges	4,500
Outstanding checks	303,000
Deposit of February 28 placed in night depository	127,500
Check issued by Arrozcaldo Company charged by the bank to Arizona account in error	30,000

What is the unadjusted cash balance per bank statement?

- a. 2,152,500
- b. 2,298,000**
- c. 2,007,000
- d. 2,335,500

$$(2,190,00 + 150,000 + 15,000 - 195,000 - 3,000 - 4,500) + 303,000 - 127,500 - 30,000 = 2,298,000$$

39. The controller for Arkansas Company is attempting to determine the amount of cash to be reported on the December 31, 2022 balance sheet. The following items are included in the Cash in Bank items of Arkansas Company:

BDO special checking used for payroll payments	P850,000
BPI special account used as a bond sinking fund	400,000
MBTC checking account (per ledger), checks of P80,000 are outstanding as of December 31,2020	300,000
DBP, checking account (per bank statement) of P50,000 are outstanding as of December 31,2021	600,000
EWB, includes a P100,000 compensating balance maintained in relation to a short loan	1,000,000
PNB, includes a P200,000 compensating balance maintained in relation to a long-term loan	1,000,000
EBC, (bank under liquidation) realizable value was P0.75 of every P1.00 deposit	200,000
ILM, current account	(50,000)
1-year treasury note, maturity date January 31, 2023	600,000
1-year treasury note, maturity data on January 31, 2023 (acquired November 28,2020)	800,000
90-day Central Bank treasury bills	450,000
ABC, US dollar denominated deposit (opened in October 17); Exchange rate on October 17 was P40; average (October 17 to December 31) was P50; December 31 was P45	\$20,000

How much should be reported as Cash and Cash Equivalents on December 31, 2022?

- a. 5,450,000
- b. 5,470,000
- c. 5,550,000**
- d. 5,850,000

$$850,000 + 300,000 + 550,000 + 900,000 + 800,000 + 800,000 + 450,000 + 900,000 = 5,550,000$$

40. The petty cash fund of California Company was counted on December 31, 2022. The following items were found.

Total bills and coins	2,737.50
	0
Certified check of general manager dated December 15, 2022	2,250
Petty cash vouchers not yet replenished:	
Postage stamps	420
Supplies	975
IOU of employee	750
Company check representing replenishment of petty cash fund	7,725
Unused postage stamps	
An envelope containing contributions of employees for the death of a fellow employee (contents intact)	4,500

The petty cash fund was established at P15,000.

What is the correct amount of the petty cash fund on December 31, 2022?

- a. 14,857.50
- b. 12,712.50**
- c. 10,462.50
- d. 2,737.50

Solution: $2,737.50 + 2,250 + 7,725 = 12,712.50$

41. What is the amount of shortage or overage?

- a. 142.50 short**
- b. 37.50 short
- c. 322.50 short
- d. 0

(15,000 – 420 – 975 – 750 = 12,855) – 12,712.50 = 142.50 shortage

42. The books of Colorado Company disclosed a cash balance of P687,570 on December 31, 2021. The bank statement as of December 31 showed a balance of P547,800. Additional information that might be useful in reconciling the two balances follows:

- Check number 74B for P30,000 was erroneously recorded on the books as P45,000.
- A customer not was dishonored on December 29 (maturity date). The bank charged Colorado's account for P142,650, including a protest fee of P2,650.
- The deposit of December 24 was recorded on the books as P28,950, but it was actually a deposit of P27,000.
- Outstanding checks totaled P98,850 as of December 31.
- There were bank service charges for December of P2,100 not yet recorded on the books.
- Colorado's account had been charged on December 26 for a customer's NSF check for P12,960.
- Colorado properly deposited P6,000 on December 31 that were not yet reflected in the bank statement.
- Receipts of December 31 for P134,250 were recorded by the bank on January 2.

- A tank memo stated that a customer's note for P45,000 and interest of P1,650 had been collected on December 27, and the bank charged a P360 collection fee.

How much is the adjusted Cash in Bank on December 31, 2021?

- a. P583,200
- b. P577,200
- c. P589,200
- d. P512,400

$$547,800 - 98,850 + 6,000 + 134,250 = 589,200$$

43. How much is the net adjustment to cash in bank account on December 31, 2021?

- a. P104,370
- b. P110,370
- c. P98,370
- d. P175,170

$$687,570 - 589,200 = 98,370$$

44. On January 1, 2021, Connecticut Corporation received from a customer an 8-month, P6,000,000 not bearing an annual interest rate of 10%. The principal and the interest are payable on September 1, 2021. To obtain cash quickly, Connecticut discounted the note with BDO on March 1, 2021. BDO charged a discount rate of 12%.

What is the loss on note receivable discounting to be recognized by Connecticut?

- a. P84,000
- b. P100,000
- c. P384,000
- d. P0

Face value		P6,000,000
Interest Jan. & Feb. (6M x 10% x 3/12)		100,000
Total CV as of Mar. 1		6,100,000
Less: Proceeds		
Maturity value (principal)	P6,000,000	
Interest (6M x 10% x 8/12)	400,000	
Discount (6,400,000 x 12% x 6/12)	(384,000)	(6,016,000)
Loss on discounting		P84,000

45. Delaware Company factored accounts receivable without recourse for P5,300,000. The entity received P5,000,000 cash immediately from the factor. The remaining P300,000 will be received once the factor verifies that none of the accounts receivable is in dispute. The accounts receivable had a face amount of P6,000,000. The entity had previously established an allowance for bad debts of P250,000 in connection with such accounts.

What amount of loss on factoring should be recognized?

- a. P700,000
- b. P450,000
- c. P750,000
- d. P0

$$5,300,000 - (6,000,000 - 250,000) = 450,000$$

46. On April 1, 2020, Florida Company sold equipment and received a four-year non-interest bearing P3,200,000 note. The note is payable in annual installments of P800,000 with the first installment due on March 31, 2021. The present value of the note is P2,591,760. Effective interest on this note was computed at 9%.

What amount relating to the note should Florida present as non-current at December 31, 2020?

- a. 625,057
- b. 1,407,270
- c. **2,025,018**
- d. 2,591,760

$$2,591,760 \times 1.09 - 800,000 = 2,025,018$$

47. Georgia Company uses the net method of accounting for cash discounts. In one of its transactions on December 15, 2021, Georgia sold merchandise with a list price of P500,000 to Atlanta Company who was given a trade discount 15% and 20%. Credit terms were 2/10, n/30. The goods were shipped FOB destination, freight collect. Total freight charges amounted to P75,000. On December 20, 2021, the customer returned damage goods originally billed at P60,000. The customer paid on January 2, 2022.

What is the total receivable to be reported on December 31, 2021?

- a. P199,400
- b. P274,400
- c. P280,000
- d. **P205,000**

$$(500,000 \times .85\% \times .80\%) - 60,000 - 75,000 = 205,000$$

48. The accounting records of Hawaii Corporation included the following:

	December 31, 2021	December 31, 2022
Accounts receivable	735,000	
Allowance for uncollectible accounts	16,200	
Sales on account		P4,500,000
Cash collected from credit customers		4,200,000

Among the cash collections was the full recovery of a P16,000 receivable from Honolulu Company whose account had been written of worthless late in 2021. During 2022, it was necessary to write-off uncollectible customers' accounts totaling P20,200. On December 1, 2022, a customer settled his account amounting to P260,000 by a 6%, six-month notes.

On December 31, 2022, the accounts receivable included P100,800 past due accounts. After careful study of all past-due accounts, the management estimated that the probable loss contained therein was 10%. In addition, 2% of the current accounts receivable might prove uncollectible.

How much is the Accounts Receivable ledger balance as of December 31, 2022?

- a. **P770,800**
- b. P743,320
- c. P11,480
- d. P23,480

$$735,000 + 4,500,000 - 4,200,000 + 16,000 - 20,200 - 260,000 = 770,800$$

49. How much is the bad debts expense for the year ended December 31, 2022?

- b. P770,800

c. P743,320

d. P11,480

e. P23,480

$$(16,200 + 16,000 - 20,200) - 23,480 = 11,480$$

50. How much is the balance of the allowance for uncollectible accounts after all the necessary adjusting entries on December 31, 2022?

a. P770,800

b. P743,320

c. P11,480

d. P23,480

$$(670,000 \times 2\%) + (100,800 \times 10\%) = 23,480$$

51. On January 1, 2022, Idaho Company had a balance in the Allowance for Doubtful Accounts of P10,000. During 2022, it wrote off P13,500 of accounts and collected P2,000 on accounts previously written off. The balance in Accounts Receivable was P200,000 at January 1 and P250,000 at December 31. At December 31, 2022, Idaho Company estimated that 5% of accounts receivable will prove to be uncollectible.

What is the Bad Debts Expense for the year 2022?

a. P14,000

b. P11,000

c. P2,500

d. P12,500

$$(10,000 + 2,000 - 13,500) + (250,000 \times 5\%) = 14,000$$

52. Illinois Company reported the following notes receivable balances as of December 31, 2019:

Notes receivable from sale of goods	P2,000,000
	0
Notes receivable from sale of equipment	3,000,000
Notes receivable from services rendered	1,000,000

Additional information:

- The notes receivable from sale of goods has a coupon rate of 12% per annum dated July 1, 2019. The note is payable in two equal annual installments of P1,000,000 plus interest on the unpaid balance every July 1. The initial principal and interest payments were made on July 1, 2020.
- The notes receivable from sale of equipment is dated January 1, 2019, has a stated rate of 12%. The principal and compounded interests are to be received on maturity date. The note matures on January 1, 2021.
- The notes receivable from services rendered dated December 31, 2019 has a stated rate of 12% payable annually every December 31. The note matures on December 31, 2021.

Present value of P1 at 12% for two periods is 0.797. Present value of P1 at 12% for one period is 0.893. The present value of an ordinary annuity of 1 at 12% for two periods is 1.690.

How much is the interest receivable on December 31, 2020 related to notes receivable from sale of goods:

- a. P60,000
- b. P120,000
- c. P180,000
- d. 0

$$(2,000,000 - 1,000,000) \times 12\% \times 6/12 = 60,000$$

53. How much is the interest income for the year 2020 related to notes receivable from sale of equipment's?

- a. P360,000
- b. P403,000
- c. P286,920
- d. P763,200

$$[3,000,000 + (3,000,000 \times 12\%)] \times 12\% = 403,200$$

54. How much is the carrying value of notes receivable on December 31, 2020 related to notes receivable from services rendered?

- a. P893,000
- b. P1,120,000
- c. P1,000,000
- d. P797,000

$$\text{Face value balance on Dec. 31, 2020} = 1,000,000$$

55. On January 1, 2020, Indiana Company sold an old building for P700,000 to Jones Company. Jones Company paid P100,000 down and signed a non-interest-bearing note for the balance which is payable in 3 equal annual installments every December 31 of each year. The carrying value of the old building on the date of sale was P400,000.

On January 1, 2020, Indiana Company also sold a piece of Land to Polis Company. Polis Company signed a non-interest-bearing note of P1,000,000 due on January 1, 2023. The carrying value of the Land on the date of sale was P500,000.

The prevailing rate of interest for the above type of notes was 12%. The present value of P1 at 12% for three periods is 0.712. Present value of P1 at 12% for two periods is 0.797. Present value of P1 at 12% for one period is 0.893. The present value of an ordinary annuity of 1 for two periods is 1.690. The present value of an ordinary annuity of 1 for three periods is 2.402.

How much is the total income to be reported in the profit or loss for the year 2020?

- a. P57,648
- b. P85,440
- c. P143,088
- d. P535,488

Gain on sale:

$$\text{Building} - (100,000 + 480,400) - 400,000 = 180,400$$

$$\text{Land} - 712,000 - 500,000 = 212,000$$

Interest income:

$$\text{Building} - 480,400 \times 12\% = 57,648$$

$$\text{Land} - 712,000 \times 12\% = 85,440$$

$$\text{Total Income} = 180,400 + 212,000 + 57,648 + 85,440 = 535,488$$

56. On December 31, 2021, Iowa Bank has a 3-year loan receivable with a face value of P5,000,000 dated January 1, 2019 from Des Moines Corporation that is already due on December 31, 2021. Interest on the loan is payable at 12% every December 31. The borrower paid the interests that were due on December 31, 2019 and 2020 but failed to pay the interest and principal on due date. Iowa Bank agreed the following: Condonation of accrued interest extension of maturity date on December 31, 2023 and payment of principal and interest for a total amount of P2,500,000 payable in 2 equal annual installments on December 31, 2022 and 2023. The effective rate is 10%. Since Iowa Bank applies the ECL model on its loan receivable, Iowa Bank has an allowance for credit losses balance on January 1, 2021 amounting to P2,000,000 discounted at 12%. What is the impairment loss to be recognized on December 31, 2021 assuming PS Banl treated the loan as credit-impaired on that date?

- a. 1,190,000
- b. 3,430,000
- c. 1,430,000
- d. None of the choices

Carrying value of loan receivable		
Principal		P5,000,000
Accrued interest for 2021		600,000
Present value of the loan:		
(1,250,000 x 1.736)		(2,170,000)
Required allowance		P3,430,000
<i>Impairment loss = (2,000,000 x 1.12) – 3,430,000 = 1,190,000</i>		

57. You were furnished the following data of Kansas Company:

January 1 inventory	4,000 units @ P25
Purchases: Jan. 4	3,000 units @ 26
Jan 12	3,500 units @ 28
Jan. 25	500 units @ 26.60
Sales: Jan. 3	3,000 units @ 35
Jan. 16	3,500 units @ 36
Jan. 28	2,000 units @ 38

The company does not maintain perpetual inventory records.

How much is Kansas's cost of goods sold for the month of January?

- a. 65,750
- b. 222,360
- c. 223,550
- d. 235,500

$$WAUC = 289,300 / 11,000 = 26.30$$

$$\text{Cost of Ending Inventory} = 26.30 \times 2,500 \text{ units} = 65,750$$

$$COGS = 289,300 - 65,750 = 223,550$$

58. The Kentucky Manufacturing Company inventory list at December 31, 2020 shows a total of P1,760,000. Included in such list are the following items: goods held on consignment P180,000 at cost; goods tagged awaiting customer's instructions for delivery (manufactured according to customer's specifications) P200,000 cost, unused store supplies P50,000, and foods sold with buyback arrangement at cost of 150,000. The following in transit goods were excluded from the

list (al at cost): goods sold FOB shipping point P40,000; goods sold FOB destination, P32,000, goods purchased FOB shipping point P70,000, and goods purchased, FOB destination, P90,000. How much is the cost of Kentucky Manufacturing Company's inventory at December 31, 2020?

- a. 1,282,000
- b. 1,302,000
- c. 1,432,000
- d. 1,632,000

$$1,760,000 - 180,000 - 200,000 - 50,000 + 32,000 + 70,000 = 1,432,000$$

59. You were retained by Lousiana Corporation on April 1, 2020 to estimate the inventory destroyed in a recent fire. The company's markup on cost is 40%. The following information is obtained from available records: Inventory, January 1, P600,000; Gross purchases from January 1 to March 31 were P1,500,000, freight-in, P50,000, purchase returns and allowances, P20,000. Gross sales for the same period were P2,280,000, sales returns were P40,000, while sales discounts were P15,000. Undamaged goods before the fire cost P100,000. Damaged goods costing P80,000 were sold for P65,000.

How much is the inventory fire loss?

- a. 530,000
- b. 375,714
- c. 365,000
- d. 350,000

$$2,130,000 - 92,40,000/1.40) = 530,000 - 100,000 - 65,000 = 365,000$$

60. Maine Company acquired land by issuing 50,000 shares of its own P100 par ordinary share and issuing a two-year non-interest-bearing note with face amount of P5,000,000. The ordinary shares trade for 120 per share while the land has a fair value of P10,200,000 based on an independent appraisal.

Immediately after the acquisition, the following additional items were paid by Maine: Legal fees to acquire title P150,000; Taxes in arrears assumed from the buyer. P200,000; additional realty taxes for the next two years, P140,000, land survey P150,00, cost of shrubs and trees and labor for landscaping, P520,000; fences and walkaways P1,000,000.

Maines has the policy of setting up separately as land improvements these costs with limited period of economic benefits.

What is the total cost of the land?

- a. 10,700,000
- b. 10,840,000
- c. 11,500,000
- d. 12,222,000

$$10,200,000 + 150,000 + 200,000 + 150,000 = 10,700,000$$

61. Maryland Company purchased a land with a dilapidated building for a total purchase price of P10,000,000. The following costs were incurred relating to the purchase and construction: Title clearance fees, P250,000; surveying, P100,00; cost of leveling ground P150,000, construction materials P5,000,000; direct labor costs of construction P2,400,000, cost of tearing down the old dilapidated building P300,000, architects' fees P450,000, construction permit P200,000, cost of centralized building cooling system, 1,000,000.

Maryland received P80,000 from the sale of salvaged materials from the old building.

What is the total cost of the building?

- a. 9,050,000
- b. 9,270,000**
- c. 9,350,000
- d. 9,520,000

$$5,000,000 + 2,400,000 + 300,000 + 450,000 + 200,000 + 1,000,000 - 80,000 = 9,270,000$$

62. On January 1, 2021, Massachusetts Company obtained a loan of P2,000,000 at an interest rate of 10% specifically to finance the construction of its new building. Funds not yet needed during the construction were temporarily invested in a short-term debt security yielding a P20,000 interest revenue. The construction began on April 30, 2021 and the building was completed on December 31, 2021.

Cost incurred during the year as follows:

April 30 – P200,000

October 1 – P500,000

August 1 – P480,000

December 1 – P180,000

What is the capitalized interest added to the cost of the self-constructed asset?

- a. 180,000
- b. 133,333
- c. 130,000
- d. 113,333**

$$\text{Solution: } (2,000,000 \times 10\% \times 8/12) - 20,000 = 113,333$$

$$(2,000,000 \times 10\% \times 8/12) - 20,000 = 113,333$$

63. How much is the initial cost of the building?

- a. 1,540,000
- b. 1,473,333**
- c. 823,333
- d. 890,000

$$200,000 + 480,000 + 500,000 + 180,000 + 113,333 = 1,473,333$$

64. How much is the total interest expense taken to profit or loss for the year 2021?

- a. 0
- b. 152,667
- c. 50,000
- d. 66,667**

$$2,000,000 \times 10\% \times 4/12 = 66,667$$

65. The following information relate to an item of RAW MATERIALS of Michigan Company as of August 31, 2022:

Replacement cost of raw materials B103	635,000
Historical cost of raw materials	650,000
Conversion cost of B103	200,000

How much is the value of the closing raw material B103 if the finished product B103 to be produced is expected to be sold at P720,000?

- a. 650,000**
- b. 635,000

c. 720,000

d. 850,000

*Cost = 650,000**Cost of FG = 650,000 + 250,000 = 850,000 vs NRV of FG = 720,000. FG is impaired, therefore, RM maybe impaired, since NRV is bet measured at its Replacement cost.*

66. How much is the value of the closing raw material B103 if the finished product B103 to be produced is expected to be sold at P720,000?

a. 650,000

b. 635,000

c. 720,000

d. 850,000

*NRV (Replacement cost) = 635,000**Cost of FG = 650,000 + 200,000 = 850,000 vs. NRV of FG = 720,000. FG is impaired, therefore, RM maybe impaired, since NRV is best measured at its Replacement cost.*

67. The December 31, 2020 inventories of Minnesota Company consisted of three product categories, for which the following information is provided:

Product	Number of Units	Estimated SP per unit	Estimated CTS per unit	Cost per Unit
1	1,000	40	6.000	25
2	2,000	48	12.000	42
3	3,000	190	25.00	120

Minnesota uses the allowance method and shows separately the loss from decline in net realizable value of its inventories.

How much is the inventories that should be reported in the Statement of Financial Position on December 31, 2020?

a. 457,000

b. 469,000

c. 601,000

d. 450,000

*Product 1 = 25,000**Product 2 = 72,000**Product 3 = 360,000**Total = 457,000*

68. How much is the loss from the write-down of inventories that should be reported for the year ended December 31, 2020?

a. 12, 000

b. 132,000

c. 144,000

d. 0

469,000 – 457,000 = 12,000

69. The operations of a department of Mississippi Company that uses FIFO retail inventory method are presented below:

Beginning inventory-sales price

2,500,000

Beginning inventory-cost	1,400,000
Purchases-cost	3,600,000
Purchases-sales price	4,800,000
Freight-in	200,000
Departmental transfer-credit-cost	150,000
Departmental transfer-credit-sales price	320,000
Net Markup	180,000
Net Markdown	90,000
Sales	4,000,000
Employee discount	100,000
Sales returns	50,000
Abnormal loss from breakage-sales price	70,000
Abnormal loss from breakage-cost	50,000

How much is the estimated cost of ending inventory?

- a. 2,107,185
- b. 2,080,340
- c. 2,950,000
- d. 2,360,000

Est. EI at Retail = 7,000,000 – 4,050,000 = 2,950,000

Cost ration = 3,600,000/4,500,000 = 80%

Est. EI at Cost = 2,950,000 x 80% = 2,360,000

70. How much is the estimated cost of goods sold?

- a. 2,892,815
- b. 2,919,660
- c. 2,640,000
- d. 2,050,000

5,000,000 – 2,360,000 = 2,640,000