

**Republic of the Philippines**  
**PROFESSIONAL REGULATION COMMISSION**  
**Manila**  
**BOARD CERTIFIED PUBLIC ACCOUNTANT**

**CERTIFIED PUBLIC ACCOUNTANT Licensure Examination**  
**AUDITING PROBLEMS**

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**INSTRUCTIONS:** CHOOSE THE BEST ANSWER FOR EACH OF THE FOLLOWING. FULLY SHADE ONLY ONE BOX FOR EACH ITEM. STRICTLY NO ERASURES ALLOWED.

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**PROBLEM NO. 1**

ANYANG CORP. invested its excess cash in marketable equity securities during 2012. The securities do not qualify as financial asset held for trading. Anyang Corp. has made an irrevocable election to present in other comprehensive income subsequent changes in fair value of its investment securities. As of December 31, 2012, the company's securities portfolio consisted of the following:

<b>Investee Company</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value</b>
Kandong, Inc.	30,000	P 1,350,000	P 1,275,000
Egoy Corp.	60,000	4,500,000	4,830,000
Yoga Enterprises	60,000	6,480,000	6,900,000
Totals		P 12,330,000	P 13,005,000

During the year 2013, Anyang Corp. sold 60,000 shares of Egoy Corp. for P 4,800,000 and purchased 60,000 additional shares of Kandong, Inc. and 30,000 shares of Kongga Company.

On December 31, 2013, Anyang Corp.'s portfolio of securities comprised the following:

<b>Investee Company</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value</b>
Kandong, Inc.	30,000	P 1,350,000	P 1,500,000
Egoy Corp.	60,000	3,900,000	4,350,000
Kongga Company	30,000	1,560,000	1,440,000
Yoga Enterprises	60,000	6,480,000	2,100,000
Totals		P 13,290,000	P 9,395,000

During the year 2014, Anyang Corp. sold all the Kandong, Inc. shares. Also, 15,000 shares of Kongga Company were sold at a loss of P 270,000. The net realized gain on sales of securities in 2014 amounted to P 1,440,000. On December 31, 2014, Anyang Corp.'s portfolio of securities consisted of the following:

Investee Company	Shares	Cost	Fair Value
Yoga Enterprises	60,000	P 6,480,000	P 12,600,000
Kongga Company	15,000	780,000	540,000
Totals		P 7,260,000	P 13,140,000

- For the year ended December 31, 2013, Anyang's Statement of Comprehensive Income should report unrealized loss of
  - P1,300,000
  - P1,190,000
  - P3,915,000
  - P4,245,000**
- What amount of unrealized loss should be reported in Anyang's December 31, 2013 Statement of Changes in Equity?
  - P3,240,000
  - P3,570,000
  - P4,245,000
  - P3,900,000**
- How much was received by Anyang from the sale of its investment in Kandong securities in 2014?
  - P6,960,000
  - P7,560,000**
  - P7,020,000
  - P8,280,000
- Anyang's Statements of Financial Position should report investment in equity securities of

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2012</u>
a.	P12,330,000	P13,290,000	P7,260,000
b.	<b>13,005,000</b>	<b>9,390,000</b>	<b>13,140,000</b>
c.	12,330,000	9,390,000	7,260,000
d.	13,005,000	13,290,000	13,140,000

- What amount should be reported as unrealized gain in Anyang's Statement of Changes in Equity for 2014?
  - P6,420,000
  - P5,880,000**
  - P6,960,000
  - P14,760,000

**PROBLEM No. 2**

DARWIN CORP., a manufacturer of computer shop parts, ha been experiencing growth in the demand for its products over the last several years. This prompted the company to obtain additional manufacturing facility. A real estate firm located an available factory near Darwin's product facility, and Darwin agreed to purchase the factory and used machinery from Quezon Company on October 1, 2011. Renovations were necessary to convert the factory for Darwin's manufacturing use.

The terms of the agreement required Darwin to pay Quezon P4,500,000 when renovations started on January 1, 2012, with the balance to be paid as renovations were completed. The overall purchase price for the factory and machinery was P36,000,000. The building renovations were contracted to Mallbornes Construction Company at P9,000,000. The payments made, as renovations progressed during 2012, are shown below. The factory was placed in service on January 1, 2013.

	<u>Quezon</u>	<u>Mallbornes</u>
January 1	P4,500,000	
April 1	8,100,000	P2,700,000
October 1	9,900,000	2,700,000
December 31	13,500,000	3,600,000
	P36,000,000	P9,00,000

On January 1, 2012, Darwin obtained a 2-year, P9 million loan with 12% interest rate to finance the renovation of the acquired factory. This is Darwin's only outstanding loan during 2012.

Darwin's policy regarding purchase of this nature is to use the appraisal value of the land for book purposes and prorate the balance of the purchase price over the remaining items. The building had originally cost Quezon P27,000,000 and had a net book value of P4,500,000, while the machinery originally cost P11,250,000 and had a net book value of P3,600,000 on the date of sale. The land was recorded on Quezon books at P3,600,000

The following values were determined based on appraisal conducted by independent appraisers at the time of acquisition.

Land	P26,100,000
Building	5,450,000
Machinery	4,050,000

Gino G. Nario, Darwin's chief engineer estimated that the renovated plant would be used for 15 years. With an estimated residual value of P2,700,000. Nario estimated that the productive machinery would have a remaining useful life of 5 years and residual value of P270,000. Darwin's depreciation policy is to apply the 200% declining balance method for machinery and the 150% declining balance method for the plant. One-half year's depreciation is taken in the

year the plant is placed in service and one-half year is allowed when the property is disposed of or retired.

Determine the amounts to be recorded on the books of Darwin Corp. as of December 31, 2012, for each of the following properties.

6. Land
  - a. P23,727,000
  - b. P27,180,000
  - c. **P26,100,000**
  - d. P32,727,000
7. Building
  - a. **P17,010,000**
  - b. P18,670,800
  - c. P9,670,800
  - d. P15,930,000
8. Machinery
  - a. P3,681,900
  - b. P3,294,000
  - c. P4,005,900
  - d. **P2,970,000**

Calculate the December 31, 2014 net book value of the following

9. Building
  - a. P14,312,700
  - b. P15,351,525
  - c. P13,778,100
  - d. **P14,543,550**
10. Machinery
  - a. **P1,425,600**
  - b. P1,069,200
  - c. P1,296,000
  - d. P1,188,000

### **PROBLEM No. 3**

Presented below are three (3) independent cases relating to the audit of shareholders' equity. Answer the question/s at the end of each case.

(1)

KANDABA COMPANY began operations on January 1, 2012, by issuing at P15 per share one-half of the 480,000 ordinary shares (P1 par value) that had been authorized for issue. In addition,

Kandaba has 250,000 6% preference shares (P5 par value) authorized. During 2012, Kandaba reported net income of P735,000 and declared dividends of P112,250.

During 2013, Kandaba completed the following transactions:

Jan. 10 Issued an additional 35,000 ordinary shares for P16,50 per share.

Apr. 2 Issued 80,000 preference shares for P7 per share.

July 21 Authorized the acquisition of a custom-made machine to be delivered in January 2014. Kandaba appropriated P147,500 of retained earnings for the purchase of the machine.

Oct. 25 Issued an additional 20,000 preference shares for P10 per share.

Dec. 31 Reported P732,000 of net income and declared a dividend of P420,000 to shareholders of record on January 31, 2014, to be paid on February 4, 2014.

11. What is the total shareholders' equity on December 31, 2013?

- a. P4,222,750
- b. P5,872,250**
- c. P5,724,750
- d. P6,019,750

12. What is the unappropriated retained earnings balance on December 31, 2013?

- a. P4,807,250
- b. P4,222,750
- c. P4,534,750
- d. P4,387,250**

(2)

BULLDOG CO. is authorized to issue 300,000 of P2 par value ordinary shares. The company has the following transactions:

- a. Issued 60,000 shares at P32 per share; received cash/
- b. Issued 1,000 shares, selling at P36 per share, to lawyers for services in connection with the organization of the corporation. The value of the legal services was P35,000.
- c. Issued 1,500 shares, valued objectively at P23,000, to the employees instead of paying them cash wages.
- d. Issued 137,500 shares in exchange for a building valued at P885,000 and land valued at P240,000. (The building was originally acquired by the one investor for P750,000 and has P300,000 of accumulated depreciation; the land was originally acquired for P90,000.)
- e. Received cash for 29,500 shares issued at P38 per share.

13. The statement of financial position will report share premium of

- a. P3,777,000
- b. P5,675,000
- c. P3,775,000**

d. P3,776,000

(3)

TAGOGO COMPANY has been paying regular quarterly dividends of P1.50 and wants to pay the same amount in the third quarter of 2013. The following information relates to the company's equity:

Jan. 1 Shares outstanding, 500,000; P2 par (900,000 shares authorized)

Feb. 15 Issued 30,000 new shares at P10.50

Mar. 31 Paid quarterly dividends of P1.50 per share

May 12 Converted P1,000,000 of P1,000 bonds to ordinary shares at the rate of 50 shares per P1,000 bond

June 15 Issued a 10% share dividend

June 30 Paid quarterly dividends of P2 per share

14. What is the total amount that Tagoo will have to pay in dividends in the third quarter in order to pay P2 per share?

- a. **P1,276,000**
- b. P1,160,000
- c. P1,260,000
- d. P1,060,000

15. What is the total amount of dividends to be distributed during the year assuming no equity transactions occur after June 30?

- a. P4,640,000
- b. P5,104,000
- c. P4,240,000
- d. **P4,888,000**

#### PROBLEM No. 4

Presented below are the condensed income statements of LAROSA CORPORATION for the years ended December 31, 2013 and 2012.

	<b>2013</b>	<b>2012</b>
Sales	P7,500,000	P7,350,000
Cost of goods sold	5,025,000	4,950,000
Gross income	2,475,000	2,400,000
Operating expenses	1,012,500	975,000
Gain on sale of division	1,462,500	1,425,000
	300,000	
Income tax expense (30%)	1,762,500	1,425,000

Net income	628,750	427,500
	P1,233,750	P997,500

On October 10, 2013, Larosa entered into an agreement to sell the assets of one of its geographical segments. The geographical segment comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the company. The segment was sold on December 31, 2013, for P2,625,000. The book value of the segment's assets was P2,325,000. The segment's contribution to Larosa's operating income before tax for each was as follows:

2013 P170,625 loss

2012 P121,875 Income

16. What amount should be reported as income from continuing operations for 2012?
  - a. **P912,187**
  - b. P997,500
  - c. P937,782
  - d. P1,122,188
17. What amount should be reported as income from continuing operations for 2013?
  - a. P904,312
  - b. P933,188
  - c. **P1,143,187**
  - d. P1,233,750
18. What amount should be reported as income (loss) from discontinued operations for 2013?
  - a. P170,625
  - b. P210,000
  - c. (P119,438)
  - d. **P90,562**
19. Assume that by December 31, 2013, the segment had not yet been sold but was considered held for sale. The fair value of the segment's assets on December 31 was P2,625,000. The post-tax income (loss) from discontinued operations for 2013 should be
  - a. (P90,562)
  - b. P119,438
  - c. P90,562
  - d. **(P119,438)**
20. Assume that by December 31, 2013, the segment had not yet been sold but was considered held for sale. The fair value of the segment's assets on December 31 was P1,875,000. The post-tax income (loss) from discontinued operations for 2013 should be
  - a. P90,562
  - b. **P1,193,062**

- c. (P119,438)
- d. (P434,438)

**PROBLEM No. 5**

ACERO CORP. was incorporated on January 2, 2012. The corporation's financial statements for its first year's operations were not examined by a CPA. You have been engaged to audit the financial statements for the year ended December 31, 2013, and your audit is substantially completed. The corporation's trials balance appears below.

Acero Corp.  
**TRIAL BALACE**  
 December 31, 2013

	Debit	Credit
Cash	P450,000	
Accounts receivable	2,190,000	
Allowance for doubtful accounts		P43,800
Inventories	1,506,000	
Machinery and equipment	3,570,000	
Accumulated depreciation		786,000
Patents	3,846,000	
Leasehold improvements	900,000	
Prepaid expenses	1,350,000	
Goodwill	900,000	
Licensing agreement No. 1	1,800,000	
Licensing agreement No. 2	1,680,000	
Accounts payable		2,190,000
Unearned revenue		518,400
Share capital		9,000,000
Retained earnings, January 1, 2013		4,771,800
Sales		21,600,000
Cost of goods sold	14,250,000	
Selling and administrative expenses	5,583,000	
Interest expense	285,000	
Loss on extinguishments of debt	600,000	
Totals	<u>P38,910,000</u>	<u>P38,910,000</u>

*The following information relates to accounts that may yet require adjustment.*

1. Patents for Acero's manufacturing process acquired January 2, 2013 at a cost of P2,805,000. An additional P1,041,000 was spent on December 29, 2013 to improve machinery covered by the patents and charges to the Patents account. Depreciation on

property, plant, and equipment has been properly recorded for 2013. Acero uses the straight-line method for all depreciation and amortization and the legal on its patents.

2. On January 3, 2012, Acero purchased Licensing agreement No. 1, which was believed to have an indefinite useful life. The balance in the Licensing Agreement No. 1 account includes its purchase price of P1,710,000 and expenses of P90,000 related to the acquisition. On January 1, 2013, Acero purchases Licensing Agreement No. 2, which has life expectancy of 10 years. The balance in the Licensing Agreement No. 2 account includes its P1,620,000 purchase price and P180,000 in acquisition expenses, but it has been reduced by a credit of P120,000 for the advance collection of 2014 revenue from agreement

In late December 2012, an explosion caused a permanent reduction in the expected revenue-producing value of Licensing Agreement No. 1, and in January 2014, a flood caused additional damage that rendered the agreement worthless. The recoverable amount of Licensing Agreement No. 1 was determined to be P720,000 at December 31, 2012.

3. The balance in the Goodwill account represents amount paid on December 30, 2012, for a four-year advertising program, estimated to assist in increasing Acero's sales.
4. The Leasehold improvements account includes (a) the P450,000 cost of improvements with a total estimated useful life of 12 years, which Acero as tenant made to leased premises in January 2012, and movable assembly line equipment costing P450,000 that was installed in the leased premises in December 2013. Acero paid its rent in full during 2013. A 10-year non-renewable lease was signed January 3, 2012, for the leased building that Acero used in manufacturing operations.

21. What is the carrying value of Patents on December 31, 2013?

- a. P3,846,000
- b. P2,664,750**
- c. P3,653,700
- d. P2,805,000

22. What amount of impairment loss should be recognized in 2012?

- a. P0
- b. P1,710,000
- c. P1,080,000**
- d. P990,000

23. What is the carrying value of Licensing Agreement no. 2 on December 31, 2013?

- a. P1,800,000
- b. P1,920,000
- c. P1,728,000
- d. P1,620,000**

24. What is the carrying value of Leasehold Improvements on December 31, 2013?

- a. P375,000
  - b. P405,000
  - c. **P360,000**
  - d. P720,000
25. What is the adjusted balance of the Machinery and Equipment account on December 31, 2013?
- a. P3,570,000
  - b. **P5,061,000**
  - c. P4,275,000
  - d. P4,611,000

**PROBLEM No. 6**

Presented below are two (2) independent situations. Answer the questions at the end of each situation.

On December 31, 2012, BANTAY COMPANY acquired a piece of equipment from Sendong Company by issuing a P600,000 note payable in full on December 31, 2016. Bantay's credit rating permits it to borrow funds from its several lines of credit at 10%. The equipment is expected to have a 5-year life and a P75,000 salvage value.

26. What is the equipment's carrying value on December 31, 2015?
- a. **P208,922**
  - b. P163,922
  - c. P275,884
  - d. P285,000
27. What is the note payable's carrying value on December 31, 2015?
- a. **P545,453**
  - b. P495,666
  - c. P298,749
  - d. P163,922

ONDONG COMPANY purchased machinery on December 31, 2012, paying P120,000 down and agreeing to pay the balance in four equal installments of P90,000 payable each December 31. Implicit in the purchase price is an assumed interest of 12%

28. What is the cost of the machinery purchased on December 31, 2012?
- a. P273,362
  - b. **P393,362**
  - c. P480,000
  - d. P349,624
29. How much interest expense should be reported in Ondong's income statement for the year ended December 31, 2014?
- a. P18,253

- b. P32,803
  - c. P25,940**
  - d. P64,060
30. What is the carrying value of the note at December 31, 2015?
- a. P152,105
  - b. P216,165
  - c. P180,000
  - d. P80,368**

**PROBLEM No. 7**

LYKA COMPANY's net incomes for the past three years are presented below:

**2013** P480,000

**2012** P450,000

**2011** P360,000

During the 2013 year-end audit, the following items come to your attention:

1. Lyka bought a truck on January 1, 2010 for P196,000 with a P16,000 estimated salvage value and a six-year life. The company debited an expense account and credited cash on purchase date for the entire cost of the asset. (Straight-line method)
2. During 2013, Lyka changed from the straight-line method of depreciating its cement plant to the double-declining balance method. The following computations present depreciations on both bases:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Straight-line	36,000	36,000	36,000
Double-declining	46,080	57,600	72,000

The net income for 2013 was computed using the double-declining balance method, on the January 1, 2013 book value, over the useful life remaining at that time. The depreciation recorded in 2013 was P72,000.

3. Lyka, in reviewing its provision for uncollectibles during 2013, has determined that 1% is the appropriate amount of bad debt expense to be charged to operations. The company had used ½ of 1% as its rate in 2012 and 2013 when the expense had been P18,000 and P12,000, respectively. The company recorded bad debt expense under the new rate for 2013. The company would have recorded P6,000 less of bad debt expense on December 31, 2013 under the old rate.
31. What is the entry necessary to correct the books for the transaction in part 1 of the problem, assuming that the books for the current year are still open?

<b>a. Equipment</b>	<b>196,000</b>	
<b>    Depreciation expense</b>	<b>30,00</b>	

<b>Accumulated depreciation</b>		<b>120,000</b>
<b>Retained earnings</b>		<b>106,000</b>
b. Equipment	196,000	
Accumulated depreciation		90,000
Retained earnings		106,000
c. Equipment	166,000	
Accumulated depreciation		30,000
Retained earnings		136,000
d. Equipment	196,000	
Depreciation expense	30,000	
Accumulated depreciation		60,000
Retained earnings		166,000

32. What is the correct net income to be reported in 2011?
- P330,000**
  - P336,000
  - P360,000
  - P294,000
33. What is the correct net income to be reported in 2012?
- P398,400
  - P420,000**
  - P441,600
  - P480,000
34. What is the correct net income to be reported in 2013?
- P510,000
  - P428,400
  - P444,000
  - P450,000**
35. Which of the following is (are) the proper time period(s) to record the effects of a change in accounting estimate?
- Current period and prospectively**
  - Current period and retrospectively
  - Retrospectively
  - Current period only

### PROBLEM No. 8

At the beginning of 2013, an entity grants 50 share options each to 500 employees. The grant is conditional upon the employees remaining in the entity's employ during a vesting period of three years.

The exercise price at grant data is estimated at P60. However, the exercise price drops to P40 if the entity's earnings increase by at least an average of 10% per year over the three-year period.

On grant data, the entity estimates that the fair value of the share options, with an exercise price of P40, is P20 per option. If the exercise price is P60, the entity estimates that the share options have a fair value of P18 per option.

The following actual events occurred:

### **2013**

- 30 employees have left. The entity expects on the basis of a weighted average probability that a further 30 employees will leave during 2014 and 2015, respectively.
- The entity's earnings increased by 12% and the entity expects that earnings will continue to increase at this rate over the next two years. The entity therefore expects that the earnings target will be achieved, and hence, the share options will have an exercise price of P40.

### **2014**

- At year end, a further 35 employees have resigned. The entity expects that a further 30 employees will leave during 2015.
- The entity's earnings increased by 13%, and it continues to expect that the earnings target will be achieved.

### **2015**

- A further 28 employees have by the end the year.
- Due to a general decrease in market demand, the entity's earnings increased by only 3%. Because the earnings target was not achieved, the 50 vested share options for each employee have exercise price of P60.

*Based on the preceding information, determine the following:*

36. Compensation expense for 2013

- a. P135,000
- b. P96,300
- c. **P136,667**

d. P122,100

37. Compensation expense for 2014

a. P96,300

**b. P133,333**

c. P136,667

d. P135,000

38. Compensation expense for 2015

a. P136,667

b. P135,000

c. P133,333

**d. P96,300**

39. Share options outstanding at the end of 2014

**a. P270,000**

b. P405,000

c. P133,333

d. P229,633

40. Share options outstanding at the end of 2015

a. P405,000

b. P0

c. P410,000

**d. P366,300**

#### **PROBLEM No. 9**

In making the first audit of the Delivery Equipment account of DELTA CORPORATION as of December 31, 2013, you encounter the following facts.

### Delivery Equipment

<u>Date</u>	<u>Particulars</u>	<u>Debit</u>	<u>Credit</u>
1/1/11	Trucks 1, 2, 3, and 4	P3,200,000	
3/15/12	Replacement of Truck 3 tires	25,000	
7/1/12	Truck 5	800,000	
7/10/12	Reconditioning of Truck 4, which was damaged in a collision	35,000	
9/1/12	Insurance recovery on Truck 4 accident		P33,000
10/1/12	Sale of Truck 2		600,000
4/1/13	Truck 6	1,000,000	150,000
5/2/13	Repainting of Truck 4	27,000	
6/30/13	Truck 7	720,000	
12/1/13	Cash received on lease on Truck 7		22,000

### Accumulated Depreciation

<u>Date</u>	<u>Particulars</u>	<u>Debit</u>	<u>Credit</u>
12/31/11	Depreciation expense		P300,000
12/31/12	Depreciation expense		300,000
12/31/13	Depreciation expense		300,000

*Additional information:*

1. On July 1, 2012, Truck 3 was traded in for a new truck, Truck 5, costing P850,000; the selling party allowed a P50,000 trade in value for the old truck.
2. On April 1, 2013, Truck 6 was purchased for P1,000,000; Truck 1 and cash of P850,000 being given for the new truck.
3. You are instructed by the senior in-charge of the audit to accept the depreciation rate of 20% by unit basis.
4. Unit cost of Trucks 1 to 4 is at P800,000 each.

41. What is the correct cost of Truck No. 5?

- a. P850,000
- b. P800,000
- c. **P900,000**

d. P560,000

42. What is the correct depreciation expense for 2012?

a. P725,000

b. P305,000

**c. P605,000**

d. P600,000

43. What is the correct depreciation expense for 2013?

a. P552,000

**b. P592,000**

c. P712,000

d. P300,000

44. The entry to correct the depreciation charges for the years 2011 through 2013 should include a credit to Accumulated Depreciation of

a. P645,000

**b. P937,000**

c. P900,000

d. P292,000

45. The balance of the Delivery Equipment account at December 31, 2013 should be

a. P5,770,000

b. P3,320,000

c. P4,170,000

d. P3,370,000

**PROBLEM No. 10**

SUMPAAN CORP. began operations in 2008. On July 15, 2013, a fire broke out in the company's warehouse destroying all inventory and many accounting records. The following information was assembled from the microfilmed records. All sales and purchases are on account.

	Jan. 1, 2013	July 15, 2013
Inventory	P287,700	
Accounts receivable	261,180	P257,780
Accounts payable	176,280	245,700
Collections from customers, Jan. 1, 2013 - July 15, 2013		1,507,600
Payments to suppliers Jan. 1, 2013 - July 15, 2013		975,000
Goods out on consignment on July 15, 2013, at cost		97,500
Goods in transit at July 15, 2013, purchased FOD shipping point (Included in the July 15 accounts payable balance)		34,750

The following is a summary of prior years' sales and gross profit on sales:

	2010	2011	2012
Sales	P1,252,000	P1,410,000	P1,360,000
Gross profit	375,600	366,600	462,400

46. What is the company's average gross profit ratio based on its prior years' sales?
  - a. 26%
  - b. 34%
  - c. **30%**
  - d. 29%
47. What is the company's total sales for the period January 1 through July 15 of the current year?
  - a. **P1,504,200**
  - b. P1,511,000
  - c. P1,765,380
  - d. P1,768,780
48. What is the company's total purchases for the period January 1 through July 15 of the current year?
  - a. P905,580
  - b. P912,170
  - c. **P1,044,420**
  - d. P1,009,670
49. What is the company's estimated inventory on July 15, 2013 before the fire?
  - a. P186,605

- b. P244,430
  - c. P146,930
  - d. **P279,180**
50. What is the inventory fire loss?
- a. **P146,930**
  - b. P186,605
  - c. P132,250
  - d. P112,180

**PROBLEM No. 11**

YANG CO. started operations on October 1, 2008. Its accounts at June 30, 2011 included the following balances:

Machinery (at cost)	P196,000
Accumulated depreciation - machinery	95,772
Vehicles (at cost; purchased February 20, 2009)	320,000
Accumulated depreciation - vehicles	178,880
Land (at cost; purchased March 20, 2011)	150,000
Building (at cost; purchased March 20, 2011)	581,200
Accumulated depreciation - building	6,840
Land improvements (at cost; purchased March 20, 2011)	36,000
Accumulated depreciation - land improvements	600

*Details of machines owned at June 30, 2011 were:*

<u>Machine</u>	<u>Purchase Date</u>	<u>Cost</u>	<u>Useful Life</u>	<u>Residual Value</u>
1	October 2, 2008	P50,000	4 years	P5,000
2	December 27, 2008	84,000	5 years	8,000
3	July 29, 2009	62,000	4 years	6,000

*Additional information:*

- a. Yang calculates depreciation to the nearest month and balances the records at month-end. Recorded amounts are rounded to the nearest peso, and the reporting date is June 30.
- b. Yang uses straight-line depreciation for all depreciable assets except vehicles, which are depreciated on the diminishing balance at 30% p.s.
- c. The vehicles account balance reflects the total paid for four identical delivery vehicles, which cost P80,000 each.
- d. On acquiring the land and building, Yang estimated the building's useful life and residual value at 20 years and P34,000, respectively.

- e. The land improvements account balance reflects a payment of P36,000 made on March 20, 2010 for driveways and a car park. On acquiring these land improvements, Yang estimated their useful life at 15 years with no residual value.

*The following transactions occurred from July 1, 2011:*

Aug. 03, 2011	Purchased a new machine (machine 4) for a cash price of P72,000. Installation costs of P3,600 were also paid. Yang estimated the useful life and residual value at five years and P7,000, respectively.
Nov. 15, 2011	Paid vehicle repairs of P1,200.
Dec. 30, 2011	Exchanged one of the vehicles for items of fixtures that had a fair value of P34,000 at the date of exchange. The fair value of the vehicle at the date of exchange was P32,000. The fixtures originally cost P100,000 and had been depreciated by P62,000 to the date of exchange in the previous owner's books. Yang estimated the fixtures' useful life and residual value at five years and P5,000, respectively.
Mar. 10, 2012	Sold machine 1 for P10,000 cash.
June 30, 2012	Recorded depreciation expense.
Sep. 20, 2012	Traded in machine 3 for a new machine (machine 5). A trade-in allowance of P20,000 was received for machine 3 and P68,000 was paid in cash. Yang estimated machine 5's useful life and residual value at six years and P10,000, respectively.
Dec. 30, 2012	Scrapped machine 2, as it was surplus to requirements and no buyer could be found for it.
Feb. 08, 2013	Paid P16,000 to overhaul machine 4, after which machine 4's useful life was estimated at two remaining years and its residual value was revised to P10,000
June 30, 2013	Recorded depreciation expense

*Based on the preceding information, determine the following:*

51. Depreciation expense on machinery for the year ended June 30, 2012.
- P53,027
  - P50,420
  - P49,277**
  - P41,777
52. Gain on exchange on December 30, 2011.
- P4,012
  - P2,012**
  - P4,000
  - P0
53. Total depreciation expense on all depreciable assets for the year ended June 30, 2012.
- P125,216

- b. P111,281
- c. P113,489
- d. P118,781**

54. Gain on trade in of machine no.3 on September 20, 2012.

- a. P23,667
- b. P2,333**
- c. P7,667
- d. P0

55. Total depreciation expense on all depreciable assets for the year ended June 30, 2013.

- a. P98,951**
- b. P109,451
- c. P106,551
- d. P62,951

**PROBLEM No. 12**

SAM, INC. grants its customers 30 days credit. The company uses the allowance method for its uncollectible accounts receivable. During the year, a monthly bad debt accrual is made by multiplying 2% times the amount of credit sales for the month. At the fiscal year-end of December 31, an aging of accounts receivable schedule is prepared and the allowance for uncollectible accounts is adjusted accordingly.

At the end of 2012, accounts receivable were P3,750,000 and the allowance account had a credit balance of P318,000. Accounts receivable activity for 2013 was as follows:

Credit sales	P11,400,000
Write-offs	246,000
Collections	?

The company's controller prepared the following aging summary of year-end accounts receivable:

<u>Age Group</u>	<u>Amount</u>	<u>Percent Uncollectible</u>
0-60 days	P2,475,000	2%
61-90 days	660,000	10%
91-120 days	150,000	30%
Over 120 days	384,000	40%
Total	<u>P3,669,000</u>	

*Based on the preceding information, determine the following:*

56. Allowance for uncollectible accounts before year-end adjustment

- a. P314,100

- b. P318,000
  - c. P300,000**
  - d. P228,000
57. Required balance in the allowance for uncollectible accounts at December 31, 2013
- a. P314,100**
  - b. P300,000
  - c. P318,000
  - d. P228,000
58. Correct bad debt expense for 2013
- a. P213,900
  - b. P242,100**
  - c. P14,100
  - d. P228,000
59. Net realizable value of accounts receivable at December 31, 2013
- a. P3,426,900
  - b. P3,669,000
  - c. P3,354,900**
  - d. P3,369,000
60. Collections from customers during 2013
- a. P14,823,000
  - b. P11,235,000**
  - c. P14,904,000
  - d. P3,996,000