

Abra Company had the following selected balances in the liability portion of its balance sheet as of December 31, 2014:

Accrued compensated absences	P238,000
Accrued bonus	113,490

The Accrued compensated absences refer to the balance of the liability accrued in the prior year for un-availed sick leave and vacation leaves of the company's employees. Company records shows the following information:

Sick leaves Vacation leaves

2013 leaves carried forward to 2014 500 days 350 days

2013 leaves used/availed in 2014 300 days 250 days

2014 leaves to be carried forward to 2015 300 days 200 days

Additional information:

- Employees are entitled to accumulate unused sick and vacation leave up to 2 years from the date of grant.
- Prior year leaves availed during the current year were charged to current year salaries and wages.
- Average daily salaries in 2014 and 2015 amounted to P350 and P400, respectively.
- Past experience indicates that 20% of the unused leaves ultimately expires.

The balance in the accrued bonus account is based on the accountants estimate on the unadjusted net income. The company provides incentive bonus to its key officers based on the net income after bonus and after tax. The company's unadjusted net income amounted to P1,277,500.

Additional information:

- Bonus rate is at 15%.
- Income tax rate is 35%.

REQUIRED: (20 marks)

1. What is the correct balance of the accrued compensated absences account?
2. What is the correct balance of the accrued bonus account?

1. What is the correct balance of the accrued compensated absences accounts?

Unused leaves from 2013 by the end of 2014	300
Unused leaves from 2014 and by the end of 2014	500
Total unused leaves by the end of 2014	800
Multiply by probable exercise rate	80%
Leaves that will probably materialize	640
Multiply by salary rate as of 2014	400
Accrued compensated absences account	256,000

2. What is the correct balance of the accrued bonus account?

Unadjusted net income	1,277,500
Unadjusted in accrued comp. abs/salaries expense	(18,000)
Adjusted net income	1,259,500

$$\text{Tax} = 35\% (\text{NI} - \text{B})$$

$$\text{B} = 15\% (\text{NI} - \text{B} - (35\% [1,259,500 - \text{B}]))$$

$$\text{B} = 15\% (\text{NI} - \text{B} - [440,825 - .35\text{B}])$$

$$\text{B} = 15\% (\text{NI} - \text{B} - 440,825 + .35\text{B})$$

$$\text{B} = 188,925 - .15\text{B} - 66,123.75 + 0.0525\text{B}$$

$$.15\text{B} - 0.0525 + \text{B} = 18,925 - 66,123.75$$

$$1.0975\text{B} = 122,801.25$$

$$\mathbf{B = 111,891.80}$$