

## Installment Sales

Realized Gross Profit – 3 methods, if problem is *silent*, use **INSTALLMENT** Method.

$\text{Collection} \times \text{Gross Profit Rate}$ <p style="text-align: center;"><b>OR</b></p> $\text{DGP}_{\text{end}} - \text{DGP}_{\text{beg}}$
--

### Net Income: (Current Year= 20x3)

Gross Profit on Regular Sales			xx
Realized Gross Profit on Installment Sales			
20x1 (DGP to RGP)	xx		
20x2 (Collection-20x3 x GPR-20x2)	xx		
20x3 (Collection-20x3 x GPR-20x3)	xx	xx	
Total Realized Gross Profit			xx
Less: Expenses			
General and Administrative	xx		
Selling	xx		
Loss on Repossession	xx		
Bad Debts	xx	(xx)	
Net Income – 20x3			xxx

  

Dr. Deferred Gross Profit	xx
Cr. Realized Gross Profit	xx

### Loss on Repossession

FV of Repossessed Merch.*			
(Est. SP <b>after</b> RC – RC – NP – CTS)	xx		
Unrecovered Cost			
Installment A/R	xx		
Related DGP	(xx)	(xx)	
Loss on Repossession			xxx

Journal Entry:			
Dr. Repossessed Merch.		xx	
DGP-related		xx	
Loss on Repossession		xx	
Cr. Installment A/R-related			xx

\*Note: if **before** RC, ignore  
if **after** RC, deduct  
if **silent**, deduct RC.

<p><b>For Board Exam Purposes:</b> Gain on Repossession is part of P/L like trading securities. (Guerrero)</p>
--

### Proforma Entries:

#### 1. Writeoff

Dr. Loss on Writeoff	xx
Deferred Gross Profit	xx
Cr. Installment A/R	xx

#### 2. Adjustment for Realized Gross Profit

Dr. Deferred Gross Profit	xx
Cr. Realized Gross Profit	xx

#### 3. Collection

Dr. Cash	xx
Cr. Installment A/R	xx

#### **Take Note!!**

For FV of Traded-in or Repossessed Merch.:  
If **Wholesale Value** is given, the Normal Profit is **IGNORED**.

If **Appraised Value** is given, that is the **Fair Value** of the Merch.

**T-Accounts**

Installment A/R – 20x1	
Beginning	<b>Collections – 20x2</b> <b>Repossessed Accts. – 20x2</b> <b>Writeoffs – 20x2, rel. 20x1</b>
Ending	

Installment A/R – 20x2	
Adjusted Installment Sales, net of overallowance or underallowance	<b>Collections – 20x2</b> <b>Repossessed Accts. – 20x2</b> <b>Write-offs – 20x2, rel. 20x2</b>
Ending	

Deferred Gross Profit – 20x1	
Realized Gross Profit	Beginning
DGP-Repossessed Accts.	
DGP-Writeoffs	
	Ending

Deferred Gross Profit – 20x2	
DGP-Repossessed Accts.	Beginning
DGP-Writeoffs	
	Unadjusted Bal.
Realized Gross Profit	
	Adjusted Bal.

**Trade-in**

Installment Sales	xx	
Overallowance	(xx)	
OR Underallowance	<u>xx</u>	
Adjusted Installment Sales	xx	} Gross Profit Rate (%)
Cost of Sales	(xx)	
Gross Profit	<u>xxx</u>	

***Technique:***

Installment Sales	xx	
Fair Value of Traded-in Merch.	xx	
Trade-in Allowance	(xx)	
Adjusted Installment Sales	xx	} Gross Profit Rate (%)
Cost of Sales	(xx)	
Gross Profit	<u>xxx</u>	

**Take Note!!**  
If there is a given allowance and gross profit rate, **RECOMPUTE GPR!!**

**Computation of Net Income (w/ Trade-in and Repossession)**

Downpayment – Cash	xx
Downpayment – FV of Traded-in	xx
Collections, <b>net</b> of Interest	xx
Total Collections	xx
Gross Profit Rate	x <u>xx%</u>
Realized Gross Profit	xx
Profit on Sale of Repossessed Merch.	<u>xx</u>
Total Realized Gross Profit	xx
Loss on Repossession	(xx)
Net Income	<u>xxx</u>

**Cost of Sales**

Beginning Inventory	xx
Net Purchases	xx
Freight-in	xx
Repossessed Merch. @ FV	<u>xx</u>
Total Goods Available for Sale	xx
Ending Inventory (New + Repossessed)	(xx)
Total Cost of Sales	<u>xxx</u>

COS-Installment ←  
 COS-Regular ←

## Long-term Construction Contracts

- (1) Contract Price = Contract Billings
- (2) Contract Price  
 + Escalation Cost (Increase in Materials)  
 - De-escalation Cost (Decrease in Materials)  
 - Penalty Cost (Late Turnover)  
 + Incentive Payment (Early Turnover)  
+/- Change Orders/Variations  
= Progress Billings (Total)

**Note:**

*Construction in Progress (CIP) offset Progress Billings under PAS 1 & 11*

CIP account – Inventory

PB account – Liability

(3) Proforma Entries

a. Cost Incurred (Actual)

Dr. Construction in Progress    xx  
 Cr. Cash    xx

b. To record Progress Billings

Dr. Accounts Receivable    xx  
 Cr. Progress Billings    xx

c. To record Collections

Dr. Cash    xx  
 Cr. Accounts Receivable    xx

d. Recognition of Profit or Loss

Dr. Cost of Construction (Bal. Fig.)    xx  
 Construction in Progress (Profit)    xx  
 Cr. Cash    xx

	20x1	20x2	20x3
Contract Price	xx	xx	xx
Cost Incurred – to Date	xx	xx	xx
Estimated Cost to Complete	xx	xx	0
Total Cost	xx	xx	xx
Estimated Gross Profit	xx	xx	xx
<i>Percentage of Completion</i> x <u>xx%</u>			
Realized Gross Profit – to Date	xx	xx	xx
Realized Gross Profit – Prior Years	(xx)	(xx)	(xx)
Realized Gross Profit – Current Year	xxx	xxx	xxx

→ Percentage of Completion

**Note:**

If **Estimated Gross Profit** is **NEGATIVE**, recognize it **100%**.

*Under Zero / Cost Recovery Method, Percentage(%) to be used should be either 0% or 100%*

- (4) CP x POC = CIP, if Profit
- (5) (CP x POC) – LTD(1-POC) = CIP, if Loss
- (6) TC x POC – LTD = CIP, if Loss
- (7) 
$$POC = \frac{\text{Cost Incurred – to Date}}{\text{Total Cost}}$$
**OR**

$$\frac{\text{Construction in Progress}}{\text{Contract Price}}$$

**TAKE NOTE of this FORMULA!!**

Cost Incurred – to Date  
 +/- Profit(Loss) – to Date  
 = Construction in Progress – to Date  
 - Progress Billings – to Date  
 = Due from (Due to) Client

Due from Client – Current Asset

Due to Client – Current Liability

**Components of Cost Incurred – to Date**

- + Materials
- + Labor
- + Overhead
- + Depreciation of Construction Equipment
- + Reimbursable Cost
- + Materials/Supplies that are not yet used and do not have alternative use
- Incidental income related to the Construction

**Take Note!! Total Cost should also *include* estimated warranty costs.**

**Proforma Entry to Record Contract Retention**

Dr. Cash	XX	
Contract Retention	XX	
Cr. Accounts Receivable		XX

**Contract Retention does not have an income element.**

**Upon Completion,**

Dr. Cash	XX	
Cr. Contract Retention		XX

- Mobilization Fee* – is a fee that does not have an income element.
- reduces billings since there is a cash advance by the contractor
  - part of collection
  - deduction to Progress Billings

Confidential / JBSA VENDOR

# Franchising

## Criteria to Recognize Initial Franchise Fee (IFF) as Franchise Revenue

Note! **ALL** criteria should be met.

- ✓ 1. Receivable must be **reasonably assured**.  
if **SILENT**, *reasonably assured*.
- ✓ 2. Cash as downpayment must be **non-refundable**.  
if **SILENT**, *non-refundable*.
- ✓ 3. Franchise Services, there should be **substantial performance**.

### Revenue

- business started/commenced
- amount of sales

**Except:** The Downpayment could be considered as Franchise Revenue **if the 2 conditions are met:**

- (1) If the DP, is non-refundable; **AND**
- (2) If the DP, represents fair measure of the services already rendered.

If this is the scenario in the criteria,

- ✓
- ✓
- ✓
- X

**Revenue** = Downpayment; **Unearned Revenue** = Present Value -> Non-interest Bearing

### Notes Receivable

- 1. Not Reasonably Assured
  - **Installment Method,  $\text{Collection} \times \text{GPR} = \text{RGP}$**
- 2. Reasonably Assured
  - **Accrual Method,  $\text{Revenue} - \text{COS} = \text{Gross Profit}$**

**Gross Profit Rate:**

$$\frac{\text{Gross Profit}}{\text{Revenue}}$$

Case 1: Reasonably Assured, Interest Bearing

$$\begin{aligned}
 &\text{Revenue (IFF, 3 conditions are met)} \\
 - &\text{COS (DC for Initial Services)} \\
 \hline
 = &\text{GP} \\
 + &\text{CFF} \\
 + &\text{Int. Income} \\
 - &\text{Expenses} \quad \begin{array}{l} \text{IDC for Initial Services} \\ \text{DC for Continuing Services} \\ \text{IDC for Continuing Services} \end{array} \\
 \hline
 = &\text{Net Income}
 \end{aligned}$$

Case 3: Reasonably Assured, Non-Interest Bearing

- Present Value
- $\text{FC} - \text{PV} = \text{Discount}$
- $\text{Interest} = \text{PV} \times \text{Interest Rate}$

$$\begin{aligned}
 &\text{Revenue (DP + PV of NR)} \\
 - &\text{COS} \\
 \hline
 = &\text{GP} \\
 + &\text{CFF} \\
 + &\text{Int. Income} \\
 - &\text{Expenses (Same in Case 1)} \\
 \hline
 = &\text{Net Income}
 \end{aligned}$$

Case 2: Not Reasonably Assured, Interest Bearing

$$\begin{aligned}
 &\text{Downpayment} \\
 + &\text{Collections during the Year} \\
 \hline
 = &\text{Total Collections} \\
 \times &\text{Gross Profit Rate} \\
 \hline
 = &\text{Realized Gross Profit} \\
 + &\text{CFF} \\
 + &\text{Int. Income} \\
 - &\text{Expenses (Same in Case 1)} \\
 \hline
 = &\text{Net Income}
 \end{aligned}$$

Case 4: Not Reasonably Assured, Non-Interest Bearing

$$\begin{aligned}
 &\text{Downpayment} \\
 + &\text{Collections (net of Interest Income)} \\
 \hline
 = &\text{Total Collections} \\
 \times &\text{Gross Profit Rate [GP/Revenue (Case 3)]} \\
 \hline
 = &\text{Realized Gross Profit} \\
 + &\text{CFF} \\
 + &\text{Int. Income} \\
 - &\text{Expenses (Same in Case 1)} \\
 \hline
 = &\text{Net Income}
 \end{aligned}$$

**Total REVENUE OF THE FRANCHISOR:**

- 1. Downpayment
- 2. Present Value of NR
- 3. Continuing Franchise Fee
- 4. Interest Income

**Total FRANCHISE REVENUE:**

- 1. Downpayment
- 2. Present Value of NR
- 3. Continuing Franchise Fee

# Corporate Liquidation

## Assets

1. Asset Pledged to Fully Secured Liabilities/Creditors [FV of Asset > Liab (Pr.+Int.)]
2. Asset Pledged to Partially Secured Liabilities/Creditors [FV of Asset < Liab (Pr.+Int.)]
3. Free Assets -> assets that are not originally pledged to any liability.

## Liabilities

1. Fully Secured Liabilities (100% or FULL)
2. Partially Secured Liabilities (100% x Asset Pledged + Percentage of Recovery x Unsecured Portion)
3. Liabilities **with** Priority (100%) (ex. Admin. Exp., Taxes, Liquidation Exp., Salaries, Customer Deposit)
4. Liabilities **without** Priority (Percentage of Recovery)

$$\text{Percentage of Recovery} = \frac{\text{NFA}}{\text{TuLI}}$$

### Net Free Assets (NFA)

1. Excess of AFSL	xx	
over FSL	<u>xx</u>	xx
2. Free Assets		<u>xx</u>
Total Free Assets		xx
3. Liab. w/ Priority		<u>(xx)</u>
<b>Net Free Assets</b>		<b><u>xxx</u></b>

### Total Unsecured Liabilities (TuLI)

1. Excess of PSL	xx	
over APSL	<u>xx</u>	xx
2. Unsecured Liabilities		<u>xx</u>
<b>Total Unsec. Liab. (TuLI)</b>		<b><u>xxx</u></b>

\*Prepayments and Goodwill has **ZERO** Value.

\*Estimated Deficiency = TuLI – NFA

### Total Free Assets

→ assets that are available for the payment of secured and unsecured liabilities

### Net Free Assets

→ assets that are available for unsecured.

Note: Gain or Loss on Realization: **FV of Assets vs BS of Assets** does not include cash.

Shareholders Equity, beg	xx
Net (Loss) Gain	xx(xx)
Accrued Interest, net	(xx)
Liquidation Expenses	(xx)
Taxes	<u>(xx)</u>
Estimated Deficiency or Estate Deficit	<b><u>xxx</u></b>

### Realization

Assets TO BE Realized	Assets Realized
Assets Acquired	Assets NOT Realized
Liabilities Liquidated	Liabilities TO BE Liquidated
Liabilities NOT Liquidated	Liabilities Incurred
Supplementary Charges	Supplementary Credits
Net Income	Net Loss

Assets TO BE Realized: Total Assets, beg – Cash or Non-Cash Assets, beg  
Assets Acquired: like Sales on Account or Accrued Interest  
Assets Realized: if Notes Receivable & Accounts Receivable -> Collection  
if Non-Cash Assets -> Proceeds  
if Inventory -> Cost of Sales  
Assets NOT Realized: Non-Cash Assets, end + Cash  
Liabilities TO BE Liquidated: Beginning Balance  
Liabilities NOT Liquidated: Ending Balance  
Supplementary Charges: Expenses + Cost of Sales in the Realized Inventory  
Supplementary Credits: Revenue and Other Income

Confidential / JBSALVADOR

## Business Combinations

IFRS 3 – FV Approach

IFRS 10 – Consolidation

Business Combination is a transaction where control is obtained.

Ownership	Asset	Method
51-100	Investment in Subsidiary	Cost or Equity
20-50	Investment in Associate	Equity
1-19	Trading Securities – FA@FV to P/L	Fair Value or Cost
	Available for Sale – FA@FV to OCI	

### Types of Business Combinations

- a. Asset Acquisition (100%) (Acquirer & Acquiree)
  - a.1. Statutory Merger ( $A + B = A \text{ or } B$ )
  - a.2. Statutory Consolidation ( $A + B = C$ )
- b. Stock Acquisition
  - b.1. Fully-Owned Subsidiary
  - b.2. Partially-Owned Subsidiary

\*Pooling of Interest is PROHIBITED

### Accounting Method – Acquisition Method

1. Determine the Acquirer.
2. Determine the Acquisition Date.
  - Acquisition Date -> Measurement Date
  - The assets can be adjusted to Fair Value within 1 year from the acquisition date.
3. Determine and measure Identifiable Assets and Non-controlling Interest (NCI)
4. Measure and record Goodwill\* or Gain\*\*.

\*Goodwill is presented as Non-current Asset. The pre-existing goodwill of the PARENT is INCLUDED in the Consolidated Financial Statements while the pre-existing goodwill of the SUBSIDIARY is IGNORED.

\*\*Gain is recorded in the Net Income only in the year of acquisition; it does not affect the Net Income next year.

### Goodwill/Gain Computation

<b>Complex Method:</b>		
Total Purchase Price:		
FV of Prev. Held Int. [(Add'l PP / Add'l Contri. Int.) x PHI%]	xx	
FV of Add'l Consideration Given	xx	
FV of Contingent Consideration (Payable)	xx	
FV of NCI	xx	
FV of Subsidiary	xx	
FV of Subsidiary Net Assets	xx	
Goodwill (Gain)	xx(xx)	

	Purchase Price
–	Net Assets @ Fair Value

=	Goodwill (Gain)
---	-----------------

	Purchase Price
-	Net Assets @ Book Value
=	Excess
-	Undervaluation "UVA"
+	Overvaluation "OVA"
=	Goodwill (Gain)

	Purchase Price
+	Non-controlling Interest
=	FV of Subsidiary
-	FV of Net Assets
=	Goodwill (Gain)

	Net Assets @ <b>Book Value</b>
+	Undervaluation "UVA"
-	Overvaluation "OVA"
=	Net Assets @ <b>Fair Value</b>

### **Horizontal Approach**

	Total	Purchase Price	Non-Controlling Interest (NCI)
Fair Value of Subsidiary	xx	xx	xx
- Net Assets @ Fair Value	xx	xx	xx
= Goodwill (Gain)	xx(xx)	xx(xx)	xx(xx)

\*Gain is NEVER allocated. It belongs to the Parent.

\*\*The amount of impairment loss is allocated using the Goodwill Ration between the parent and subsidiary.

### **Measurement of NCI (Optional)**

#### 1. Fair Value of NCI

- If the amount of FV of NCI is NOT Given, Compute for the Implied Fair Value.

○ Formula:  $\frac{\text{Purchase Price} - \text{Control Premium}}{\text{Control Interest}} \times \text{NCI}(\%)$

#### 2. Proportionate Share/Interest on Net Assets of Subsidiary (INAs)

- Formula:  $\frac{\text{FV of Net Assets of Subsidiary}}{\text{INAs / Pr. Sh. / Relevant Share}} \times \text{NCI}$

Note: if the problem is SILENT, use Fair Value.

### **Floor Test**

- The amount of NCI should not be lower than INAs.
- Pick-up whichever is *higher* between the INAs and the Fair Value of the NCI.

### **DATE OF BUSINESS COMBINATION**

### **Consolidated Total Assets**

	Assets – Parent @ BV	
+	Assets – Subs. @ FV	
+	Goodwill	
-	Purchase Price (Cash & NCA)	
-	Direct Costs	] DEDUCT → only if PAID
-	Indirect Costs	
-	CTIR	
=	Total Assets	

CTIR (Cost to Issue and Register):

- “SEC”
- “Stock”
- “Share”
- “Documentary Stamp Tax”

CTIR is deducted to: (in order of Priority)

1. SP – new
2. SP – original
3. Retained Earnings
4. Expense

**Consolidated Total Liabilities**

	Liabilities – Parent @ BV	
+	Liabilities – Subs. @ FV	
+	Contingent Consi. Payable	
+	Purchase Price (Note Payable or Bonds) +/- Premium or Discount	
+	Direct Costs	] ADD only → if NOT PAID
+	Indirect Costs	
+	CTIR	
=	Consolidated Total Liabilities	

**Consolidated Total SHE**

	SHE – Parent @ BV	
+	NCI	
+	Gain*	
+	Purchase Price (Stocks @ FV)	
-	Direct Costs	] DEDUCT whether PAID or UNPAID
-	Indirect Costs	
-	CTIR	
=	Consolidated Total SHE	

Note: SHE of Subsidiary is IGNORED.

- \*Gain composes:
- (1) Gain arising from Business Combinations
  - (2) Gain or Loss on Previously Held Interest (PHI)
  - (3) Gain or Loss on Contingent Consideration Payable (CCP)\*\*

- \*\*CCP -> Info. Existed @ the date of acquisition, the effect is on Goodwill.  
-> Info. NOT Existed @ the date of acquisition, the effect is on P/L.  
-> Inc. (Dec.) -> ex. Market Price (Future) (If, What If)

### **Consolidated Retained Earnings**

	RE – Parent
+/-	Gain / Loss* *includes Gain in SHE
-	Direct Costs
-	Indirect Costs
-	CTIR
=	Consolidated RE

Note: Excess/Goodwill/Gain will be separately computed for each subsidiary.

### **Business Combinations for SMEs**

1. Direct Costs are CAPITALIZABLE.
2. Goodwill is subject to amortization over 10 years.
3. Partial Goodwill Method – used to measure goodwill.
  - NCI is simply the value of INAs.

If there is Tax Rate, compute for DTA/DTL:

**DTAsset** if CA of Asset < Tax Base  
CA of Liability > Tax Base

**DTLiability** if CA of Asset > Tax Base  
CA of Liability < Tax Base

For SMEs:

Purchase Price	xx
Direct Cost	<del>xx</del>
Total	xx
NA @ FV	<del>(xx)</del>
Goodwill(Gain)	<del>x(x)</del>

Confidential / JBSALVADOR

**Bus. Combi. – Subsequent to the Date of Acquisition / Intercompany Sales**

	CNI-P	CNI-NCI	
1. PNI	xx	--	Subsequent to Business Combination
2. Div. received from subs. (Div. of S x %)	(xx)	--	
Income from own operations / Separate Income of Parent	xx	--	
3. SNI	xx	xx	
4. Amort. UVA	(xx)	(xx)	
5. Amort. OVA	xx	xx	
6. Gain	xx	--	
7. Impairment Loss (Allocated)	(xx)	(xx)	Intercompany Sale of <b>Inventory</b>
8. RPBI – down	xx	--	
9. UPEI – down	(xx)	--	
10. RPBI – up	xx	xx	Intercompany Sale of <b>Depreciable Asset</b>
11. UPEI – up	(xx)	(xx)	
12. UG – down	xx	--	
13. RG – down	(xx)	--	
14. UG – up	xx	xx	
15. RG – up	(xx)	(xx)	
16. UL – down	xx	--	
17. RL – down	(xx)	--	Intercompany Sale of <b>Land</b>
18. UL – up	xx	xx	
19. RL – up	(xx)	(xx)	
20. UG – down	xx	--	
21. RG – down*	(xx)	--	
22. UG – up	xx	xx	
23. RG – up*	(xx)	(xx)	
24. UL – down	xx	--	
25. RL – down*	(xx)	--	
26. UL – up	xx	xx	
27. RL – up*	(xx)	(xx)	
Consolidated Income	xxx	xxx	

\*Realized only if sold to third parties.

\*\*UPEI = End. Inv., *Buying* affiliate x GPR(based on Sales), *Selling* affiliate

For UPEI / RPBI:

Sales		Ending Inventory
– Cost of Sales		x GPR of Seller
= Gross Profit		_____
	OR	= UPEI
x Ending Inventory (%)		_____
= UPEI		_____

UPEI:

Downstream		Upstream	
Cost of Sales	xx	Cost of Sales	xx
Inventory	xx	Inventory	xx

RPBI:

Downstream		Upstream	
Retained Earnings – Parent, beg	xx	Retained Earnings – Parent, beg	xx
Cost of Sales	xx	Non-controlling Interest	xx
		Cost of Sales	xx

Sales – Parent	xx
Sales – Subs.	(xx)
Intercompany Sales & Purch. @ Selling Price	(xx)
<b>Consolidated Sales</b>	<b>xx</b>

Cost of Sales – Parent	xx
Cost of Sales – Subs.	xx
Intercompany Sales & Purch. @ Selling Price	(xx)
UPEI	xx
RPBI	(xx)
Amort. of UVA-Inventory	(xx)
Amort. of OVA-Inventory	xx
<b>Consolidated Cost of Sales</b>	<b>xx</b>

Inventory – Parent	xx
Inventory – Subs.	xx
UVA-Inventory	xx
Amort. of UVA-Inventory	(xx)
OVA-Inventory	(xx)
Amort. of OVA-Inventory	xx
UPEI	(xx)
<b>Consolidated Inventory</b>	<b>xx</b>

NCI-beg	xx
NCI-CI	xx
Div. Share (DD-S x %)	(xx)
<b>Consolidated NCI</b>	<b>xx</b>

Retained Earnings – Parent, beg	xx
CNI-P	xx
Dividends - Parent	(xx)
<b>Consolidated Retained Earnings</b>	<b>xx</b>

Valix:

Retained Earnings – Parent, end	xx
CNI-P (excluding NI-P)	xx
<b>Consolidated Retained Earnings</b>	<b>xx</b>

## Partnership Formation

### Valuation

1. Cash – Face Value
2. NCA – Agreed Value
3. Liabilities – if SILENT, assumed.
4. Capital
  - a. Capital measured at Bonus Method, if SILENT
  - b. Investment / Withdrawal

### Bonus Method

1. There is a capital transfer from one partner to another.
2. Total Assets, Total Liabilities, and Total Capital will NOT change.

### Investment / Withdrawal

1. Adjusted Cap. > Unadjusted Cap. – **INVESTMENT**
2. Adjusted Cap. < Unadjusted Cap. – **WITHDRAWAL**

## Partnership Operation

1. If SILENT, Net Income is BEFORE Salaries, Interest, Bonus.
2. Salaries could be Fractional Year.
3. Interest, if SILENT, is per annum and this could also be Fractional Year.
4. Salaries and Interest should be given regardless whether Profit or Loss.
5. Bonus is given only if there is PROFIT.
6. Example: **TECHNIQUE**

Given: NI **before** B

$$B = \left( \frac{\text{NI less deductions required except Bonus}}{1 + \text{Bonus Rate}} \right) \text{Bonus Rate}$$

Given: NI **after** B

$$B = \left( \frac{\text{NI add deductions required except Bonus}}{1 - \text{Bonus Rate}} \right) \text{Bonus Rate}$$

<u>Case</u>	<u>Profit Ratio</u>	<u>Loss Ratio</u>	
1	✓	✓	- based on Agreement
2	✓	X	- based on Profit Ratio
3	X - based on Original Capital Ratio	✓	
4	X	X	- based on Original Capital Ratio

If Interest is based on Average Capital,

1. Weighted Average – FIRST PRIORITY
2. Simple Average

## Partnership Dissolution

- Change in ownership

### Admission

1. By Purchase without Revaluation.

- 1.1. Personal Transaction
- 1.2. No Total Change in Assets, Liabilities, and Capital
- 1.3. The Purchase price (PP) of the new partner is IGNORED.

2. By Purchase with Revaluation.

- 2.1. PP is considered to compute Undervaluation (UVA) or Overvaluation (OVA).
- 2.2. Any UVA/OVA should be allocated between and among the OLD partners using their P/L ratio.
- 2.3. The Adjusted Capital of OLD partners including the allocated UVA/OVA would be reduced by the NEW interest of the NEW partner.
- 2.4. Formula UVA/OVA:

	PP
÷	New interest
	Adjusted Capital of OLD partners
-	Unadjusted Capital of OLD partners
=	UVA (OVA)

3. By Investment

	TCC	TAC	Bonus if O UVA if + OVA if -
A	x	x	x
B	x	x	x
Total	xx	xx	xx
C	x	x	x
Total	xxx	xxx	xxx

**Ending**

TAC = TCC -> BONUS  
 TAC > TCC -> UVA  
 TAC < TCC -> OVA  
*if SILENT, BONUS METHOD*

- The Loan Balance is considered in computation in Retirement & Liquidation.
- Due from/Loan to/Advances to = Receivable, *deducted* to Capital in computing Total Interest.
- Due to/Loan from/Advances from = Payable, *added* to Capital in computing Total Interest.
- Bonus  
 If the problem says "up to the extent of profit" or "in the following priority" -> Prorate the remaining balance using the interest ratio.

**Partnership Liquidation**

1. Lumpsum Liquidation (Total)
2. Installment Liquidation (Piece-meal)

**Lumpsum Liquidation**

1. Asset Realization
2. Payment of Liquidating Expenses & Liabilities
3. Cancellation of Deficiency
4. Distribution to Partners

**Installment Liquidation**

**Cash Priority Program (CPP)**

When to use?

- If it is an "if" question or scenario. Example: "If A received P###. What amount does B receive as xxx? Loss on Realization?"

Steps in CPP

$$1. \text{ Determine Total Interest} \left\{ \begin{array}{l} \text{Capital} \pm \text{Loan from(to)} \pm \text{Undistributed Net Income(Loss)} \\ + \text{Additional Investment} - \text{Withdrawal} + \text{UVA} - \text{OVA} \end{array} \right\}$$

2. Compute LAB (Loss Absorption Balance)

$$LAB = \frac{\text{Total Interest}}{\text{P/L Ratio}}$$

3. Equalize the LAB (*Deduct the 2nd Highest from the Highest until equal balances*)

$$4. \text{ Distribution: } \begin{array}{l} \text{Difference in LAB} \\ \times \text{ P/L Ratio} \\ = \underline{\underline{\text{XXXXXXXX}}} \end{array}$$

**Technique:**

	Cash, beg.			
+	Proceeds @ Selling Price			
-	Total Liabilities	<table border="1" style="display: inline-table; vertical-align: middle;"> <tr><td>paid</td></tr> <tr><td>unpaid</td></tr> </table>	paid	unpaid
paid				
unpaid				
-	Total Liq. Exp.	<table border="1" style="display: inline-table; vertical-align: middle;"> <tr><td>paid</td></tr> <tr><td>unpaid / cash withheld</td></tr> </table>	paid	unpaid / cash withheld
paid				
unpaid / cash withheld				
=	Cash Distributed to Partners			

**OR**

VALIX:

	Capital balances			
+/-	Gain (Loss) on Realization			
-	Liquidation expenses			
-	Max. Pos. Loss	<table border="1" style="display: inline-table; vertical-align: middle;"> <tr><td>BV of unsold NCA</td></tr> <tr><td>Cash Withheld</td></tr> </table>	BV of unsold NCA	Cash Withheld
BV of unsold NCA				
Cash Withheld				
+	Condonation of Debt			
=	Cash Distributed to Partners			

\*In Liquidation, particularly in CPP, the amount of Net Income can be IGNORED to distribute the profit. UNLESS, Net Income is allocated using S,I,B,Rem. and not using P/L ratio only.

Maximum Possible Loss (MPL):

	Unsold NCA
+	Cash Withheld
=	Maximum Possible Loss (MPL)

## Joint Arrangements

### PAS 31 - old

1. JC Entity
2. JC Assets
3. JC Operation

### PFRS 11 - new

1. Joint Venture
2. Jointly Controlled Operation

### Joint Venture (Equity Method)

<ul style="list-style-type: none"> <li>Purchase Price</li> <li>+ Transaction Costs</li> <li>+ Investment Income (can be fractional)</li> <li>- Dividend (Full Year)</li> <li>- Impairment Loss</li> </ul> <hr/> <p>= Investment in Joint Venture/Associate</p>	<ul style="list-style-type: none"> <li>Share in Net Income (fractional)</li> <li>- Amort. of UVA (fractional)</li> <li>+ Amort of OVA (fractional)</li> <li>- UPEI</li> <li>+ RPBI</li> <li>- UG</li> <li>+ RG (fractional)</li> <li>+ UL</li> <li>- RL (fractional)</li> </ul> <hr/> <p>= Total</p> <p>x Ownership Interest (%)</p> <hr/> <p>= Investment Income</p> <p>+ Gain</p> <hr/> <p>= Total Investment Income</p>
--	--

### Joint Operation

- same with Income Summary

#### JCO

Beg. Inv. Purchases Freight-in Expenses	Sales Other Income
	JCO, unadjusted End. Inv.
	Net Income/JCO credit/Adj. JCO credit

## Other Comprehensive Income (OCI)

### FERRER Technique

- F** Foreign exchange translation adjustment (PAS 21)
- E** Effective portion of Cash Flow Hedge (PAS 32-PFRS 7; PAS 39-PFRS 9)
- R** Revaluation Surplus (PAS 16)
- R** Remeasurement Gain (Loss) on Defined Benefit Plan (PAS 19R)
- E** Estimated Unrealized Gain (Loss) on Available-for-Sale securities or FA@FV thru OCI
- R** Risk – Gain(Loss) on Credit Risk for Financial Liability designated as FV thru P/L

### Reclassify to P/L

- F** ✓
- E** ✓
- R** X
- R** X
- E** AFS - ✓      FVOCI - X -> directly to RE
- R** X

Confidential / JBSALVADOR