National Federation of Junior Philippine Institute of Accountants

2011 NATIONAL CPA MOCK BOARD EXAMINATION

In partnership with the Professional Review & Training Center, Inc. and Isla Lipana & Co.

PRACTICAL ACCOUNTING 1

INSTRUCTIONS: Select the best answer for each of the following questions. Mark only one answer for each item on the answer sheet provided. AVOID ERASURES. Answers with erasures may render your examination answer sheet INVALID. Use PENCIL NO.2 only. GOODLUCK!

1. The general ledger trial balance of Central Corporation includes the following statement of financial position accounts at December 31, 2010:

Inventory (including inventory expected in the ordinary course of operations to be sold beyond 12 months amounting to P70,000)	P110,000
Trade receivables	120,000
Prepaid insurance	8,000
Listed investments held for trading purposes at fair value	20,000
Available for sale investments	80,000
Cash and cash equivalents	30,000
Deferred tax asset	15,000
Bank overdraft	25,000

The amount that should be reported as current assets on Central's statement of financial position is

a. P218,000
b. P368,000
c. P288,000
d. P298,000

2. On 1 January 2010, Adventure Company signs a four-year fixed-price contract to provide services for a customer. The contract value is P550,000. At 31 December 2010 the contract is thought to be 30% complete. Costs to complete the contract cannot be reliably estimated and costs incurred to date of P152,000 are recoverable from the customer. What is the revenue to be recognized in profit or loss for the year ended 31 December 2010?

a. P 13,000
b. P152,000
c. P137,500
d. P165,000

3. On 1 July 2010, Zen Company handed over to a client a new computer system. The contract price for the supply of the system and after-sales support for 12 months was P800,000. Zen estimates the cost of the after-sales support at P120,000 and it normally marks up such costs by 50% when tendering for support contracts. The revenue Zen should recognize in its financial year ended 31 December 2010 is

a. P620,000
b. P800,000
c. P710,000
d. Nil

4. Ovation Company asks you to review its December 31, 2010, inventory values and prepare the necessary adjustments to the books. The following information is given to you.
   a. Ovation uses the periodic method of recording inventory. A physical count reveals P2,348,900 inventory on hand at December 31, 2010.
   b. Not included in the physical count of inventory is P134,200 of merchandise purchased on December 15 from Standing. This merchandise was shipped f.o.b. shipping point on December 29 and arrived in January. The invoice arrived and was recorded on December 31.
   c. Included in inventory is merchandise sold to Oval on December 30, f.o.b. destination. This merchandise was shipped after it was counted. The invoice was prepared and recorded as a sale on account for P128,000 on December 31. The merchandise cost P73,500, and Oval received it on January 3.
   d. Included in inventory was merchandise received from Owl on December 31 with an invoice price of P156,300. The merchandise was shipped f.o.b destination. The invoice, which has not yet arrived, has not been recorded.
   e. Not included in inventory is P85,400 of merchandise purchased from Oxygen Industries. The merchandise was received on December 31 after the inventory had been counted. The invoice was received and recorded on December 30.
   f. Included in inventory was P104,380 of inventory held by Ovation on consignment from Ovoid Industries.
   g. Included in inventory is merchandise sold to Kemp f.o.b. shipping point. This merchandise was shipped after it was counted. The invoice was prepared and recorded as a sale for P189,000 on December 31. The cost of this merchandise was P105,200, and Kemp received the merchandise on January 5.
   h. Excluded from inventory was carton labeled "Please accept for credit." This carton contains merchandise costing P15,000 which had been sold to a customer for P25,000. No entry had been made to the books to reflect the return, but none of the returned merchandise seemed damaged.

The adjusted inventory cost of Ovation Company at December 31, 2010 should be

a. P2,217,620
b. P2,396,320
c. P2,411,320
d. P2,373,920

5. Buyer Co. regularly buys shirts from Vendor Company and is allowed trade discounts of 20% and 10% from the list price. Buyer purchased shirts from Vendor on May 27, 2010 and received an invoice with a list price of P100,000 and payment terms 2/10, n/30. If Buyer uses the net method of recording purchases, the journal entry to record the payment on June 8, 2010 will include
   a. A debit to Accounts payable of P72,000.
   b. A debit to Purchase Discounts Lost of P1,440.
   c. A credit to Purchase Discounts of P1,440.
   d. A credit to Cash of P70,560.

6. A physical inventory taken on December 31, 2010 resulted in an ending inventory of P1,440,000. Banak Company suspects some inventory may have been taken by employees. To estimate the cost of missing inventory, the following were gathered:

Inventory, Dec. 31, 2009	P1,280,000
Purchases during 2010	5,640,000
Cash sales during 2010	1,400,000
Shipment received on December 26, 2010, included in physical inventory, but not recorded as purchases	40,000
Deposits made with suppliers, entered as purchases. Goods were not	

received in 2010	80,000
Collections on accounts receivable, 2010	7,200,000
Accounts receivable, January 1, 2010	1,000,000
Accounts receivable, Dec. 31, 2010	1,200,000
Gross profit percentage on sales	40%

At December 31, 2010 what is the estimated cost of missing inventory?

a. P200,000 c. P240,000
b. P160,000 d. P320,000

7. The records of Binmaley's Department Store report the following data for the month of January 2010:

Sales	P7,100,000
Sales allowance	100,000
Sales returns	500,000
Employee discounts	200,000
Theft and other losses	100,000
Initial markup on purchases	2,900,000
Additional mark up	250,000
Mark up cancellations	100,000
Mark down	600,000
Mark down cancellations	100,000
Freight on purchases	100,000
Purchases at cost	4,500,000
Purchase returns at cost	240,000
Purchase returns at sales price	350,000
Beginning inventory at cost	440,000
Beginning inventory at sales price	800,000

Using the average retail inventory method, Binmaley's ending inventory is

a. P360,000 c. P420,000
b. P384,000 d. P448,000

8. The following pertains to Smile Company's biological assets:

Price of the asset in the market	P5,000
Estimated commissions to brokers and dealers	500
Estimated transport and other costs necessary to get asset to the market	300
Selling price in a binding contract to sell	5,200

The entity's biological assets should be valued at

a. P4,700 c. P4,400
b. P4,500 d. P4,200

9. A public limited company, Cromwell Dairy Products, produces milk on its farms. As of January 1, 2010 Cromwell has a stock of 1,050 cows (average age, 2 years old) and 150 heifers (average age, 1 year old). Cromwell purchased 375 heifers, average age 1 year old, on July 1, 2010. No animals were born or sold during the year. The unit values less estimated costs to sell were

1 - year old animal at December 31, 2010	P3,200
2 - year old animal at December 31, 2010	4,500
1.5 - year old animal at December 31, 2010	3,600
3 - year old animal at December 31, 2010	5,000
1 - year old animal at Jan. 1, 2010 and July 1, 2010	3,000
2 - year old animal at January 1, 2010	4,000

The increase in value of biological assets in 2010 due to price changes is

a. P1,500,000 c. P555,000
b. P 630,000 d. P460,000

10. Extra Corporation is installing a new plant at its production facility. It has incurred these costs:

Cost of plant (cost per supplier's invoice plus taxes)	P2,500,000
Initial delivery and handling costs	200,000
Cost of site preparation	600,000
Consultants used for advice on the acquisition of the plant	700,000
Interest charges paid to supplier of plant for deferred credit	200,000
Estimated dismantling costs to be incurred after 7 years	300,000
Operating losses before commercial production	400,000

The total costs that can be capitalized in accordance with PAS 16 is

a. P4,900,000 c. P4,300,000
b. P4,500,000 d. P3,600,000

11. Citimart Inc. was granted a parcel of land by a local government authority. The condition attached to this grant was that Citimart Inc. should clean up this land and lay roads by employing laborers from the village in which the land is located. The entire operation will take three years and is estimated to cost P100 million. This amount will be spent in this way: P20 million each in the first and second years and P60 million in the third year. The fair value of this land is currently P120 million. How much should be recognized as income from government grant at the end of the first year?

a. P20,000,000 c. P40,000,000
b. P24,000,000 d. P 0

12. On 1 January 2010 Imp Company borrowed P6 million at an annual interest rate of 10% to finance the costs of building an electricity generating plant. Construction commenced on 1 January 2010 and cost P6 million. Not all the cash borrowed was used immediately, so interest income of P80,000 was generated by temporarily investing some of the borrowed funds prior to use. The project was completed on 30 November 2010. What is the carrying amount of the plant at 30 November 2010?

a. P6,000,000 c. P6,520,000
b. P6,470,000 d. P6,420,000

13. During 2010, Grant Industries, Inc. constructed a new manufacturing facility at a cost of P12,000,000. The weighted average accumulated expenditures for 2010 were calculated to be P5,400,000. The company had the following debt outstanding at December 31, 2010:

- 10 percent, five-year note to finance construction of the manufacturing facility, dated January 1, 2010, P3,600,000.
- 12 percent, 20-year bonds issued at par on April 30, 2006, P8,400,000.
- 8 percent, six-year note payable, dated March 1, 2009, P1,800,000.

Determine the amount of interest to be capitalized by Grant Industries for 2010.

a. P360,000 c. P557,280
b. P563,220 d. P591,840

14. Bongabon Corporation acquired a machine in the first week of July 2009 and paid the following bills:

Invoice price	P5,000,000
Freight in	50,000
Installation cost	150,000

Cost of removing the old machine
100,000

The estimated life of the machine is 8 years or a total of 100,000 working hours with no salvage value. The operating hours of the machine totaled: 2009, 5,000 hours; 2010, 12,000 hours. The company follows the working hours method of depreciation. On December 31, 2010, the carrying amount of the machine is

a. P3,900,000 c. P4,940,000
b. P4,299,000 d. P4,316,000

15. Guimba Co. purchased equipment on January 2, 2008 for P50,000. The equipment had an estimated 5-year service life. Guimba's policy for 5-year assets is to use the 200% double-declining balance depreciation method for the first two years of the asset's life and then switch to the straight-line depreciation method. In its December 31, 2010 balance sheet, what amount should Guimba report as accumulated depreciation for equipment?

a. P30,000 c. P39,200
b. P38,000 d. P42,000

16. On January 1, 2010, Major Company purchased a uranium mine for P800,000. On that date, Major estimated that the mine contained 1,000 tons of ore. At the end of the productive years of the mine, Major Company will be required to spend P4,200,000 to clean up the mine site. The appropriate discount rate is 8%, and it is estimated that it will take approximately 14 years to mine all of the ore. Major uses the productive-output method of depreciation. During 2010, Major extracted 100 tons of ore from the mine. Compute the amount of depletion for 2010.

a. P114,408 c. P223,000
b. P 80,000 d. P500,000

17. On January 1, 2010, the historical balances of the land and building of Twang Company are:

	Cost	Accumulated depreciation
Land	P 50,000,000	P 0
Building	300,000,000	90,000,000

The land and building were appraised on same date and the revaluation revealed the following:

	Fair value
Land	P 80,000,000
Building	350,000,000

There were no additions or disposals during 2010. Depreciation is computed on the straight line. The estimated life of the building is 20 years. The depreciation of the building for the year ended December 31, 2010 should be

a. P25,000,000 c. P10,000,000
b. P15,000,000 d. P17,500,000

18. Quirino, Inc. and its subsidiaries have provided you, their PFRS specialist, with a list of the properties they own:
- Land held by Quirino, Inc. for undetermined future use, P5,000,000.
- A vacant building owned by Quirino, Inc. and to be leased out under an operating lease, P20,000,000.
- Property held by a subsidiary of Quirino, Inc., a real estate firm, in the ordinary course of its business, P30,000,000.
- Property held by Quirino, Inc. for use in production, P1,000,000.
- A hotel owned by Sugo, Inc., a subsidiary of Quirino, Inc., and for which Sugo, Inc. provides security services for its guests' belongings, P50,000,000.
- A building owned by Quirino, Inc. being leased out to Status, Inc, a subsidiary of Quirino, Inc., P20,000,000.

How much will be reported as investment properties in Quirino, Inc. and its subsidiaries consolidated financial statements?

a. P75,000,000 c. P95,000,000
b. P25,000,000 d. P45,000,000

19. Nasugbu Company incurred the following costs during 2010:

Quality control during commercial production, including routine testing of products	P58,000
Laboratory research aimed at discovery of new knowledge	68,000
Testing for evaluation of new products	24,000
Modification of the formulation of a plastic product	26,000
Engineering follow-through in an early phase of commercial production	15,000
Adaptation of an existing capability to a particular requirement or customer's need as a part of continuing commercial activity	13,000
Trouble-shooting in connection with breakdowns during commercial production	29,000
Searching for applications of new research findings	19,000

What is the total amount Nasugbu should report as research and development expense for 2010?

a. P137,000 c P198,000
b. P169,000 d. P213,000

20. UR Company purchased a customer database and a formula for a new fuel substitute for diesel fuel for a total of P100,000. UR Company uses the expected cash flow approach for estimating the fair value of these two intangibles. The appropriate interest rate is 5%. The potential future cash flows from the two intangibles, and their associated probabilities, are as follows:

Customer Database:
Outcome 1 - 20% probability of cash flows of P10,000 at the end of each year for 5 years.
Outcome 2 - 30% probability of cash flows of P2,000 at the end of each year for 4 years.
Outcome 3 - 50% probability of cash flows of P200 at the end of each year for 3 years.

Formula:
Outcome 1 - 10% probability of cash flows of P50,000 at the end of each year for 10 years.
Outcome 2 - 30% probability of cash flows of P30,000 at the end of each year for 4 years.
Outcome 3 - 60% probability of cash flows of P10,000 at the end of each year for 3 years.

How much should be recognized as customer database?

a. P11,060 c. P11,295
b. P13,137 d. P 0

21. On October 1, 2010, Wan acquired Yang, a small company that specializes in pharmaceutical drug research and development. The purchase consideration was by way of a share exchange and valued at P35 million. The fair value of Yang's net assets was P15 million (excluding any items referred to below).

    Yang owns a patent for an established successful drug that has a remaining life of 8 years. A firm of specialist advisors, Tantsahan, has estimated the current value of this patent to be P10 million; however, the company is awaiting the outcome of clinical trials where the drug has been tested to treat a different illness. If the trials are successful, the value of the drug is then estimated to be P15 million. Also included in the company's balance sheet is P2 million for medical research that has been conducted on behalf of a client.

    Compute the amount of goodwill from this acquisition.
    a. P8,000,000 c. P 3,000,000
    b. P5,000,000 d. P20,000,000

22. On January 1, 2006, the Twine Corporation purchased machinery for P650,000 which it installed in a rented factory. It is depreciating the machinery over 12 years by the straight-line method to a residual value of P50,000. Late in 2010, because of increasing competition in the industry, the company believes that its asset may be impaired and will have a remaining useful life of 5 years, over which it estimates the asset will produce total cash inflows of P1,000,000 and will incur total cash outflows of P825,000. The cash flows are independent of the company's other activities and will occur evenly each year. The company is not able to determine the fair value based on a current selling price of the machinery. The company's discount rate is 10%. The impairment loss to be recognized in 2010 profit or loss is
    a. P267,322 c. P246,490
    b. P317,322 d. P 0

Use the following information for the next two questions:

One of the cash-generating units of Tweak Corporation is that associated with the manufacture of wine barrels. At 31 December 2009, Tweak Corporation believed, based on an analysis of economic indicators, that the assets of the unit were impaired. The carrying amounts the assets of the unit at 31 December 2009 were:

Buildings	P420,000
Accumulated depreciation - buildings (Depreciated at P60,000 per annum)	(180,000)
Factory machinery	220,000
Accumulated depreciation – machinery (Depreciated at P45,000 per annum)	(40,000)
Goodwill	15,000
Inventory	80,000
Receivables	40,000
Allowance for doubtful debts	(5,000)
Cash	20,000

Tweak Corporation determined the value in use of the unit to be P535,000. The receivables were considered to be collectible, except those considered doubtful.

During 2010, Tweak Corporation increased the depreciation charge on buildings to P65,000 per annum, and to P50,000 per annum for factory machinery. The inventory on hand at 31 December 2009 was sold by the end of 2010. At 31 December 2010, Tweak Corporation, due to a return in the market to the use of traditional barrels for wines and an increase in wine production, assessed the recoverable amount of the cash-generating to be P20,000 greater than the carrying amount of the unit.

23. How much is the carrying amount of buildings at 31 December 2009 after allocating impairment loss?
    a. P230,400 c. P231,028
    b. P224,300 d. P228,571

24. How much is the carrying amount of factory machinery at 31 December 2010 after the reversal of impairment loss?

    a. P135,000 c. P131,322
    b. P131,793 d. P123,271

25. Cash in bank balance of William Co. on January 1, 2010 was P70,000 representing 35% paid-up Capital of its authorized share capital of P200,000. During the year you ascertained the following postings to some accounts, as follows:

	Debit	Credit
Petty cash fund	P 2,000	
Accounts receivable trade	450,000	P290,000
Subscription receivable	60,000	50,000
Delivery equipment	50,000	
Accounts payable trade	280,000	430,000
Bank loan	35,000	80,000
Accrued expenses		1,500
Subscribed share capital		60,000
Unissued share capital	130,000	
Authorized share capital		200,000
Sales		450,000
Purchases	430,000	
Expenses (including depreciation of P5,000 and accrued expenses of P1,500)	90,000	

    Cash in bank balance at December 31, 2010 was
    a. P41,500 c. P34,500
    b. P33,000 d. P39,500

26. The cash in bank account of S-mart, Inc. for April 2010 showed an ending balance of P129,298. Deposits in transit on April 30 was P18,200. Outstanding checks as of April 30, were P59,435, including a P5,000 check which the bank had certified on April 27. During the month of April, the bank charged back NSF checks in the amount of P3,435 of which P1,835 had been redeposited by April 20. On April 23, the bank charged S-Mart's account for a P2,200 items which should have been charged against K-mart, Inc., the error was not detected by the bank. During April, the proceeds from notes collected by the bank for S-Mart, Inc. was P7,548 and bank charges for this services was P18.

    How much is the unadjusted balance per bank on April 30?
    a. P95,263 c. P173,663
    b. P88,333 d. P169,263

27. The Pacifier Company uses the net price method of accounting for cash discounts. In one of its transactions on December 15, 2010, Pacifier sold

merchandise with a list price of P500,000 to a client who was given a trade discount of 20% and 15%. Credit terms were 2/10, n/30. The goods were shipped FOB destination, freight collect. Total freight charges paid by the client amounted to P7,500. On December 20, 2010, the client returned damaged goods originally billed at P60,000.

What is the net realizable value of this receivable on December 31, 2010?

a. P272,500
b. P274,400
c. P280,000
d. P333,200

28. On January 1, 2010, Comforter Company sold equipment with a carrying amount of P800,000 to Cold Company. As payment, Cold gave Comforter Company a P1,200,000 note. The note bears an interest rate of 5% and is to be repaid in three annual installments of P400,000 (plus interest on the outstanding balance). The first payment was received on December 31, 2010. The market price of the equipment is not reliably determinable. The prevailing rate of interest for notes of this type is 10%.

The interest income to be recognized in 2011 is

a. P 40,000
b. P 69,587
c. P 74,708
d. P109,735

29. Avent Company sells a financial asset with a carrying amount of P500,000 for P600,000 and simultaneously enters into a total return swap with the buyer under which the buyer will return any increases in value to Avent and Avent will pay the buyer interest plus compensation for any decreases in the value of the investment. Avent expects the fair value of the financial asset to decrease by P40,000. How much should Avent recognize as gain on sale of financial asset?

a. P600,000
b. P100,000
c. P60,000
d. P 0

30. On November 30, 2010, accounts receivable in the amount of P900,000 were assigned to Kaban Finance Co. by Kalan as security for a loan of P750,000. Kaban charged a 3% commission on the accounts; the interest rate on the note is 12%. During the December 2010, Kalan collected P350,000 on assigned accounts after deducting P560 of discounts. Kalan wrote off a P530 assigned account. On December 31, 2010, Kalan remitted to Kaban the amount collected plus one month's interest on the note.

How much is Kalan's equity in the assigned accounts receivable as of December 31, 2010?

a. P149,470
b. P141,970
c. P141,410
d. P148,910

31. On December 31, 2010, Entity X acquired an investment for P100,000 plus a purchase commission of P2,000. The investment is classified as available-for-sale. On December 31, 2010, quoted market price of the investment is P100,000. If the investment were sold, a commission of P3,000 would be paid. On December 31, 2010, the entity should recognize loss in other comprehensive income of

a. P2,000
b. P3,000
c. P5,000
d. P 0

32. On January 2, 2010, Gamu Company purchased as a long term investment 10,000 ordinary shares of Ilagan Corporation for P70 per share, which represents a 1% interest. On July 1, Ilagan Corporation declared its annual dividend on its ordinary shares of P5 per share payable on August 1 to shareholder's of record at July 25, 2010. On July 20, 2010 Gamu needed additional cash for operations and sold all 10,000 shares Ilagan for P100 per share. For the year ended December 31, 2010, Gamu should report on its income statement a gain on disposal of

a. P300,000
b. P210,000
c. P175,000
d. P250,000

33. On July 1, 2006, Cleopatra Corporation acquired 25% of the shares of Marcus, Inc. for P1,000,000. At that date, the equity of Marcus was P4,000,000, with all the identifiable assets and liabilities being measured at amounts equal to fair value. The table below shows the profits and losses made by Marcus during 2006 to 2010:

Year	Profit (Loss)
2006	P 200,000
2007	(2,000,000)
2008	(2,500,000)
2009	160,000
2010	300,000

What is the carrying amount of the investment in Marcus, Inc. as of December 31, 2010?

a. P40,000
b. P15,000
c. P75,000
d. P 0

34. On December 28, 2010, Cross Company commits itself to purchase a financial asset to be classified as held to maturity for P1,000,000, its fair value on commitment (trade) date. This security has a fair value of P1,002,000 and P1,005,000 on December 31, 2010 (Cross' financial year-end), and January 5, 2011 (settlement date), respectively. If Cross applies the settlement date accounting method to account for regular-way purchases of its securities, the financial asset should be recognized on January 5, 2011 at

a. P1,000,000
b. P1,002,000
c. P1,005,000
d. P 0

35. On January 1, 2009, YOU TOO Corporation purchased P1,000,000 10% bonds designated as held-to-maturity. The bonds were purchased to yield 12%. Interest is payable annually every December 31. The bonds mature on December 31, 2013. On December 31, 2009 the bonds were selling at 99. On December 31, 2010, YOU TOO sold P500,000 face value bonds at 101. The bonds were selling at 103 on December 31, 2011. *(Round off present value factors to four decimal places*

How much is the realized gain on sale of the investment in bonds in 2010?

a. P41,060
b. P29,034
c. P35,387
d. P10,000

36. On January 1, 2010, CDO Corporation created a special building fund by depositing a single sum of P100,000 with an independent trustee. The purpose of the fund is to provide resources to build an addition to the older office building during the latter part of 2014. The company anticipates a total construction cost of P500,000 and completion by January 1, 2015. The company plans to make equal annual deposit from December 31, 2010 through 2014, to accumulate the P500,000. The independent trustee will increase the fund each December 31 at an interest rate of 10%. The accounting periods of the company and the fund end on December 31.

How much is the fund balance as of December 31, 2010? *(Round off future value factors to five decimal places)*

a. P165,519 c. P110,000
b. P155,519 d. P100,000

37. On January 1, 2005, Ball, Inc. purchased a P1,000,000 ordinary life insurance policy on its president. The policy year and Ball's accounting year coincide. Additional data are available for the year ended December 31, 2010:

Annual premium paid on 1/1/2010	P20,000
Dividend received 7/1/2010	3,000
Cash surrender value, 1/1/2010	43,500
Cash surrender value, 12/31/2010	54,000

Ball, Inc., is the beneficiary under the life insurance policy. How much should Ball report as life insurance expense for 2010?

a. P6,500 c. P17,000
b. P9,500 d. P20,000

38. The Premier National Bank has a note receivable of P200,000 from the Marvelous Company that it is carrying at face value and is due on December 31, 2014. Interest on the note payable at 9% each December 31. The Marvelous Company paid the interest due on December 31, 2010, but informed the bank that it would probably miss the next two years' interest payments because of its financial difficulties. After that, it expected to resume its annual interest payments, but it would make the principal payment one year late, with interest paid for that additional year at the time of the principal payments. How much should be recognized as loan impairment loss in 2010? *(Round off present value factors to four decimal places.)*

a. P12,752 c. P19,965
b. P31,669 d. P32,812

39. On January 1, 2009, Cyrus Company purchased 20,000 ordinary shares of The Great Corporation at P100 per share. The shares are classified as available-for-sale. The following table sets out the changes in the fair value of the shares and the nature of the change in each year:

Year	Fair value change	Nature of change
2009	(P20,000)	No objective evidence of impairment
2010	(40,000)	Objective evidence of impairment
2011	50,000	Objective evidence of reversal of impairment

How much should be recognized in the 2011 profit or loss as a result of the fair value changes?

a. P60,000 c. P10,000
b. P40,000 d. P 0

40. Case Corporation had accounts payable of P5,000,000 recorded in the general ledger as of December 31, 2010 before consideration of the following unrecorded transactions:

Invoice date	Amount	Date shipped	Date received	FOB terms
1-3-11	P400,000	12-22-10	12-24-10	Destination
1-2-11	650,000	12-28-10	1-2-11	Shipping point
12-26-10	600,000	1-2-11	1-3-11	Shipping point
1-10-11	450,000	12-31-10	1-5-11	Destination

In the December 31, 2010 statement of financial position, the accounts payable should be reported in the amount of

a. P5,000,000 c. P6,050,000
b. P5,400,000 d. P7,100,000

41. House Publishers offered a contest in which the winner would receive P1 million payable over 20 years. On December 31, 2010, House announced the winner of the contest and signed a note payable to the winner for P1 million, payable in P50,000 installments every January 2. Also on December 31, 2010, House purchased an annuity for P418,250 to provide the P950,000 prize monies remaining after the first P50,000 installment, which was paid on January 2, 2011. In its 2010 profit or loss, what should House report as contest prize expense?

a. P 0 c. P 468,250
b. P418,250 d. P1,000,000

42. On March 1, 2010, Pyne Furniture Co. issued P700,000 of 10 percent bonds to yield 8 percent. Interest is payable semiannually on February 28 and August 31. The bonds mature in ten years. Pyne Furniture Co. is a calendar-year corporation.

Compute the interest expense to be reported in 2010.

a. P52,925 c. P58,933
b. P53,000 d. P58,333

43. On December 31, 2009, Sawyer Co. leased a machine from Bass, Inc. for its entire economic life of five years. Equal annual payments under the lease are P525,000 (including P25,000 annual executory costs) and are due on December 31 of each year. The first payment was made on December 31, 2009, and the second payment was made on December 31, 2010. The interest rate implicit in the lease is 10%. Sawyer learned that a third party guaranteed to pay Bass, Inc. a residual value of P200,000 at the end of the lease term. In its December 31, 2010 statement of financial position, Sawyer should report in the non-current liability section a lease liability of

a. P1,243,445 c. P867,790
b. P1,018,047 d. P375,655

44. On 1 July 2010, Jenny Ltd leases a machine with a fair value of P109,445 to Rose Ltd for five years at an annual rental (in advance) of P25,000, and Rose Ltd guarantees in full the estimated residual value of P15,000 on return of the asset. What would be the interest rate implicit in the lease?

a. 14% c. 10%
b. 12% d. 9%

45. On January 1, 2010 the memorandum records of Anne Company's defined benefit plan showed the following:

Fair value of plan assets	P7,500,000
Unamortized past service cost	500,000
Unrecognized actuarial loss	1,000,000
Projected benefit obligation	(8,500,000)
Prepaid/accrued benefit cost-debit	P 500,000

During 2010, the enterprise determined that its current service cost was P1,000,000 and the interest cost is 10%. The expected return on plan assets was 12% but the actual return during the year was 10%. Past service cost and any actuarial gain or loss should be amortized over 10 years. Other related information is as follows:

Contribution to the plan	P1,200,000
Benefits paid to retirees during 2009	1,500,000
Decrease in accrued benefit obligation due to changes in actuarial assumptions	200,000

Anne Company should report 2010 benefit expense at

a. P 900,000 c. P1,150,000
b. P1,015,000 d. P 950,000

46. At the beginning of year 1, an entity grants 100 share options to each of its 200 employees. Each grant is conditional upon the employee remaining in service over the next three years. The entity estimates that the fair value of each option is P21. On the basis of a weighted average probability, the entity estimates that 60 employees will leave during the three-year period and therefore forfeit their rights to the share options.

Suppose that 15 employees leave during year 1. Also suppose that by the end of year 1, the entity's share price has dropped, and the entity reprices its share options, and that the repriced share options vest at the end of year 3. The entity estimates that a further 35 employees will leave during years 2 and 3. During year 2, a further 10 employees leave, and the entity estimates that a further 10 employees will leave during year 3. During year 3, a total of 8 employees leave.

The entity estimates that, at the date of repricing, the fair value of each of the original share options granted (ie before taking into account the repricing) is P10 and that the fair value of each repriced share option is P13.

The amount to be recognized as expense in year 2 is

a. P159,000 c. P150,750
b. P105,000 d. P135,750

47. Included in the sales revenue of Imbiah Company for the year 2010 is an amount of P3 million relating to sales made under a special promotion in December 2010. These goods were sold with an accompanying voucher equal to the selling price. Five years after the sale, these vouchers will be exchanged for goods of the customer's choice. The profit margin on these goods is expected to be 30% of the selling price, and market research estimates that 50% of the vouchers will be redeemed. The present value (at December 31, 2010) of P1 at the time the vouchers will be exchanged can be taken as 0.60. The provision for voucher scheme as of December 31, 2010 is

a. P1,050,000 c. P900,000
b. P 692,300 d. P630,000

48. The current liabilities of an entity include fines and penalties for environmental damage. The fines and penalties are stated at P10 million. The fines and penalties are not deductible for tax purposes. What is the tax base of the fines and penalties?

a. P10 million c. P13 million
b. P 3 million d. P 0

49. The following facts relate to Whammy Corporation for the year 2010:

- Deferred tax liability, January 1, P48,000.
- Deferred tax asset, January 1, P16,000.
- Taxable income for the year, P430,000.
- Cumulative temporary difference at December 31, giving rise to future taxable amounts, P230,000.
- Cumulative temporary difference at December 31, giving rise to the future deductible amounts, P95,000.
- Tax rate for all years, 35%.

No permanent differences exist. The company is expected to operate profitably in the future. What is the total tax expense?

a. P150,500 c. P165,750
b. P103,250 d. P135,250

50. Maria Lourdes, controller at Garcia Pharmaceutical Industries, a public company, is currently preparing the calculation for basic and diluted earnings per share and the related disclosure for Garcia's external financial statements. Below is selected financial information for the year ended December 31, 2010.

Long-term debt	
Notes payable, 10%	P 1,000,000
7% convertible bonds payable	5,000,000
10% bonds payable	6,000,000
Total long-term debt	P12,000,000
Shareholders' equity	
Preference share capital, 8.5% cumulative, P50 par value, 100,000 shares authorized, 25,000 shares issued and outstanding	P 1,250,000
Ordinary share capital, P1 par, 2,000,000 shares authorized, 1,000,000 shares issued and outstanding	1,000,000
Share premium	4,000,000
Retained earnings	6,000,000
Total shareholders' equity	P12,250,000

The following transactions have also occurred at Garcia.

a. Options were granted in 2008 to purchase 100,000 shares at P15 per share. Although no options were exercised during 2010, the average price per ordinary share during year 2010 was P20 per share. The market price per ordinary share on December 31, 2010 was P25.
b. Each bond was issued at face value. The 7% convertible debenture will convert into 50 ordinary shares per P1,000 bond. It is exercisable after 5 years and was issued in 2009.
c. The 8.5% preference shares were issued in 2008.
d. No preference share dividends were declared in 2009 and 2010.
e. The 1,000,000 ordinary shares were outstanding for the during 2010.
f. Profit for the year 2010 was P1,500,000, and the average income tax rate is 40%.

For the year ended December 31, 2010, calculate the diluted earnings per share for Garcia Pharmaceutical Industries.

a. P1.37 c. P1.26
b. P1.32 d. P1.24

End of Examination

Thank you for participating in the 2011 National Mock CPA Board Examinations!