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AUDITING PROBLEMS

Audit of Receivables

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GAAP ON RECEIVABLES

DEFINITION:

Receivables refer to claims against others for money, goods or services arising from sale of merchandise or money lent or the performance of services. For accounting purposes however, the term is employed to mean claims expected to be settled by the receipts of cash.

RECOGNITION:

Receivables are recognized when title to the goods passes to the buyer or when transfer of resources take place. The point at which title passes may vary with the terms of the sales.

MEASUREMENT:

1. At face value
2. At discounted amount (present value)

VALUATION:

1. Receivable are valued at their net realizable value or their expected cash value.

   Determination of NRV requires estimation of uncollectible receivables, as such, an allowance account should be set up for doubtful accounts and for any anticipated adjustments which in the normal course of the business will reduce the amount receivable.

   Net realizable value - is the estimated amount of cash that will be collected or realized from receivables.
2. Long term note receivables should be valued at an amount representing the present value of the expected future cash receipts.
3. Receivable denominated in foreign currency should be translated to local currency at the exchange rate on balance sheet date.

CLASSIFICATION:

1. Current Assets vs. Non Current

Current - receivables which are expected to be realized cash within the normal operating cycle or one year, whichever is longer.

Non current - receivables which are expected to be realized beyond one year or those receivables which are not currently collectible.

2. Trade vs. Non-trade

Trade receivable - refers to claims arising from credit sale of merchandise or services in the ordinary course of the business. The usual type of trade receivables are:

a. Accounts receivable - short term, unsecured and informal credit arrangements (open accounts).

b. Notes receivable - evidenced by a formal instrument which is the promissory note.

Non trade receivables - represent claims arising from sources other than the sale of merchandise or services in the ordinary course of the business.

BALANCE SHEET PRESENTATION:

Receivables whether trade or non trade which are currently collectible should be presented on the balance sheet as one line item called Trade and Other receivables.

AUDIT OBJECTIVES:

1. Existence - to determine whether receivables actually exist.

   Audit Procedure: Obtain a schedule of aged trade accounts receivable and notes receivable schedules and reconcile them to the general ledger.

2. Rights and Obligations - to determine whether receivables represent bona fide obligations owed to the company as of balance sheet date.

   Audit Procedures:

   a. Confirm receivables with debtors
   b. Inspect notes on hand
   c. Perform analytical review procedures

3. Completeness - to determine that all transactions relative to receivables have been recorded in the proper accounting period.

   Audit Procedure: Test cutoff of sales and sales returns to determine whether receivables are recorded in the proper accounting period.

4. Valuation - to determine whether receivables are recorded at proper amounts in accordance with GAAP.

   Audit Procedure: Review collectibility of receivables and determine the adequacy of allowance for doubtful accounts.

5. Presentation and Disclosure - to determine whether receivables are properly presented and classified in the balance sheet.

   Audit Procedure: Evaluate financial statement presentation and disclosure of receivables.

OTHER ITEMS:

1. Methods of Receivable Confirmation

a. Positive confirmation
   - used when individual account balances are relatively large.
   - there is a reason to believe that there may be a substantial number of accounts in dispute or with inaccuracies or irregularities.
   - internal substantiating evidences are not adequate
   - internal control system is weak

b. Negative confirmation
   - internal control procedures regarding receivables are considered effective.
   - a large number of small balances are involved
   - the auditor has no reason to believe that persons receiving the requests are unlikely to give them consideration.

2. Trade discounts vs. Cash discounts

Trade discounts- this also known as volume discount or quantity discount. It is a means of adjusting the list price for different buyers or varying quantities. Accounts receivables should be recorded net of trade discounts.

Cash discounts - this is a reduction from the invoice price by reason or prompt payment.

3. Customer's credit balances - credit balances in Accounts receivables resulting from overpayments, returns and allowances and advance payments from customer. This account should be classified as current liabilities and must not be offset against the debit balances in other customers' account.

3. Terms related to freight charges

a. **FOB Destination** - means that ownership to the merchandise is transferred to the buyer only upon reaching the point of destination or upon the buyer's receipt of merchandise.

b. **FOB Shipping point** - means that ownership to the merchandise is transferred to the buyer upon shipment thereof.

c. **Freight collect** - means that the freight charges on the merchandise shipped is to be paid by the buyer.

d. **Freight prepaid** - means that the freight charges on the merchandise shipped was already paid by the seller.

4. Accounting for bad debts expense

a. **Allowance method** - this requires the recognition of bad debt loss if the accounts are doubtful of collection.

b. **Direct write off method** - this requires the recognition of bad debt loss only when the account proved to be worthless or uncollectible.

5. Methods of estimating bad debts expense

a). Percentage of sales (Income statement approach) - bad debts expense is calculated by applying a percentage to credit sales for the period. This process results in an adjusting entry that debits bad debts expense and credits allowance for doubtful accounts without regard to the existing balance in the allowance account. A proper matching of cost and revenue is achieved because bad debt loss is directly related to sales and reported in the year of sales

b). Percentage of Receivables (Balance sheet approach) - results in a more accurate valuation of receivables on the balance sheet since this method attempts to value accounts receivables at their future collectible amounts.

a. Composite percentage - a single rate is applied to Accounts receivable at the end of the period to obtain the desired ending balance of the allowance. The amount of bad debts expenses recognized is the difference between the existing balance in the allowance account and the desired ending balance.

b. Aging - accounts receivable are classified by age and a different percentage is applied to each age group. The allowance is then determined by multiplying the total of each classification by the rate or percent of loss depending on the experience of the company for each category.

6. NOTES RECEIVABLES

a. Definition -these are claims supported by formal promises to pay, which are in the form of notes.

b. Recognition

1. Short term notes are generally recorded at face value because the interest implicit in the maturity value is immaterial.
2. Long term notes should be recorded at present value.
   a. Interest bearing notes - the PV of the note is the same as the face amount of the note.
   b. Non interest bearing notes

	Present Value
note exchanged solely for cash	equal to the amount of cash proceeds
note exchanged for property, goods	Present value is according to the ff. order of priority: 1. FMV of the property, goods or services 2. FMV of the note received 3. Discounted amount of note using appropriate rate of interest.

The difference between the face amount of the note and its PV is recorded as discount or premium and amortized to Interest income account over the life of the note using the effective interest method.

c. Valuation and reporting
   1. Short term notes are reported at their net realizable value.
   2. Long term notes are reported at present value.

7. ACCOUNTS AND NOTES RECEIVABLE FINANCING:

a. **Pledging** - receivables are used as collateral or security for a loan and not reflected in the accounts although a disclosure should be made in the financial statements either in a note or parenthetically.

b. **Assignment** - a more formal borrowing arrangement in which the receivables are used as security . The assignor or borrower transfers its rights in some of its accounts receivables to a lender or assignee in consideration for a loan

1. The loan is at a specified percentage of the face value of the collateral and interest and service fees are charged to the assignor (borrower).
2. The debtors are occasionally notified to make payments to the assignee (lender) but most assignments are not on a notification basis.
3. Assigned accounts are segregated from other accounts. The Notes payable should be deducted from the balance of A/R assigned to determine the equity in assigned accounts receivable.

c. **Factoring** - it is similar to a sale of receivables because it is generally on a without recourse-notification basis. The factor or buyer assumes the risk of collectivity and generally handles the billing and collection function. A gain or loss is recognized for the difference between the proceeds received and the net carrying amount of the receivables factored.

d. **Discounting** - this is a sale of the note to a third party, usually a bank. The sales is usually on a with recourse basis which means that upon the default of the debtor, the seller of the note becomes liable for its maturity value. Proceeds from discounting is computed as follows:

1. Interest to maturity (P x R x T)
2. Maturity value (P + I)

3. Discount (MV x DR x DP)
4. Net Proceeds (MV - Discount)

If the face value of the note is > proceeds, the difference is interest expense.
If the face value of the note is < proceeds, the difference is interest income.

END

Problem 1

The Accounts Receivable control account balance of James Company. was P861,200 as of December 31, 2004. The subsidiary ledger accounts of the company are summarized below. Credit terms are 60 days net.

CUSTOMER	DATE		DEBIT	CREDIT	BALANCE
1	May	31	20,000		20,000
	July	01		12,000	8,000
		07	20,000		28,000
	Sept	01		12,000	16,000
		25	32,000		48,000
	Nov	01		12,000	36,000
	Dec	10	12,000		48,000
2	Aug	08	33.600		33,600
	Oct	04		33,600	-
	Nov	25	88,000		88,000
3-2month 6%	Jan	01	480,000		480,000
	Mar	01		484,800	(4,800)
2month 6%	Dec	01	400,000		395,200
4	Feb	03	40,000		40,000
	Aug	03	40,000		80,000
5	Feb	10	120,000		120,000
	Apr	09		120,000	-
	May	04	160,000		160,000
	July	02		160,000	-
	Sept	06	211,120		211,120
	Nov	25	8,880		220,000
6	July	17	20,000		20,000
	Aug	16	17,760		37,760
	Sept	30	30,000		67,760
	Oct.	15		37,760	30,000

	18	24,000		54,000
Dec	20		24,000	30,000

The Allowance for Doubtful Accounts before audit has a credit balance of P20,000. The Allowance for Doubtful Accounts is to be adjusted to a balance determined as follows:

Accounts not due	1/2 of 1%
Accounts 1-60 days past due	2%
Accounts 61-120 past due	5%
Accounts over 120 days past due	50%

The provision is to be based only on the trade accounts. Except where payments are earmarked, the oldest items are paid first.

REQUIREMENTS:

1. Prepare a schedule for aging of accounts receivable.
2. Adjusting journal entries.

Problem 2

The following transactions affecting the Accounts receivable account of Astoria Company for the year ended December 31, 2004 were gathered in the course of your audit:

Sales (Cash and credit)	P 118,210
Cash received from cash customers	41,035
Cash received from credit customers (P62,080 was received from customers who took advantage of the discount, 3/10, n/30)	64,160
Accounts receivable written off as worthless	990
Credit memoranda issued to credit customers for sales returns	5,255
Cash refunds given to cash customers for sales returns & allowances	3,395
Recoveries on accounts receivable written off as uncollectible in prior periods (not included in the cash collections stated above)	1,323

An aging of the receivables indicate that P3,460 of the accounts receivable balance are deemed uncollectible. The following balances were taken from the December 31, 2003 balance sheet:

Accounts receivable	P 19,170
Allowance for doubtful accounts	1,948 credit

REQUIREMENTS:

Compute for the balances of the following as of December 31, 2004:

1. Accounts receivable
2. Allowance for doubtful accounts
3. Doubtful accounts expense

Problem 3

You are engaged to perform an audit of the accounts of the SCOT CO. for the year ended December 31, 2004 and have observed the taking of the physical inventory of the company on December 30, 2004. Only merchandise shipped by the SCOT CO. to customers up to and including December 30, 2004 have been eliminated from inventory. The inventory as determined by physical inventory count has been recorded on the books by the company's controller. No perpetual inventory records are maintained. All sales are made on an FOB shipping point basis. You are to assume that all purchase invoices have been correctly recorded.

The following lists of sales invoices are entered in the sales books for the months of December 2004 and January 2005 respectively:

	Sales Inv. Amount	Sales Inv. Date	Cost of Mdse Sold	Date Shipped
Dec 2004				
a)	150,000	Dec 21	100,000	Dec. 31, 2004
b)	100,000	Dec 31	40,000	Nov. 03, 2004
c)	50,000	Dec 29	30,000	Dec. 30, 2004
d)	200,000	Dec 31	120,000	Jan. 03, 2005
e)	500,000	Dec 30	280,000	Dec. 29, 2004 (shipped to consignee)
Jan 2004				
f)	300,000	Dec 31	200,000	Dec. 30, 2004
g)	200,000	Jan 02	115,000	Jan. 02, 2005
h)	400,000	Jan 03	275,000	Dec. 31, 2004

REQUIREMENT: Prepare the necessary adjusting journal entries at December 31, 2004 in connection with the foregoing data.

Problem 4

During December 2004, the Accounts receivable controlling account on the books of Jones Inc. showed one debit posting and two credit postings. The debit represents receivable from December sales, P260,000. One credit was for P156,800, made as a result of cash collections on November and December receivables; the second credit was an adjustment for estimated uncollectibles of P30,000. The December 31, balance was P90,000.

When receivables were collected, the bookkeeper credited Accounts receivable for the cash collected. All customers who paid their accounts during December took advantage of the 2% discount.

As of December 01, debit balance in customers' subsidiary accounts totaled P59,000. an adjustment for estimated doubtful accounts of P6,000 had been posted to the Accounts receivable controlling account at the end of 2003, and no write offs were recorded during 2004. In addition, a number of customers had overpaid their accounts and as a result, some of the customers' subsidiary accounts had credit balances on December 01. No overpayments were made during December nor were any credit balances in customers' accounts reduced during December.

Requirements: Adjusting journal entries as of December 31, 2004

Problem 5

You are examining the financial statements of Jacklemon Inc. for the year ended December 31, 2004. During the audit of accounts receivable and other related accounts, certain information was obtained. From this information you are to prepare audit adjustments and compute for the correct balances of the Accounts receivable and the Allowance for doubtful accounts as of December 31, 2004.

The December 31, 2004 debit balance in the Accounts receivable control account is P98,500. The only entries in the Bad debts expense account were; a credit for P162 on December 01, 2004 because Company A remitted in full for the accounts charged off on October 31, 2004 and a debit on December 31 for the amount of the credit to the Allowance for Doubtful accounts.

The Allowance for doubtful accounts schedule is presented below:

		DEBIT	CREDIT	BALANCE
January 2004				
1,829				
October 31, 2003, Uncollectible:				
Company A	P 162			
Company B	410			
Company C	282	754		
December 31, 2003, 5% of A/R			4,925	6,000

An aging schedule of the accounts receivable as of December 31, 2004 and the decision are shown in the table below:

AGE	AMOUNT	% OF UNCOLLECTIBILITY
0-1 month	46,620	1%
1-3 months	38,410	2%
3-6 months	11,090	3%
over 6 months	3,000	Definitely uncollectible, P 500; P1,000 is considered 50% uncollectible Balance is 80% collectible

There is a credit balance in one account receivable (0-1 month) of P1,000. It represents an advance on a sales contract. Also, there is a credit balance in one of the 1-3 months account receivable of P250 for which merchandise will be accepted by the customer.

The ledger accounts have not been closed as of December 31, 2004. The Accounts receivable control account is not in agreement with the subsidiary ledger. The difference cannot be located and the auditor decides to adjust the control to the sum of the subsidiaries after corrections are made.

REQUIREMENTS:

1. Working paper that will show the adjustments and aging of the accounts receivable account.
2. Adjusting journal entries
3. How much is the doubtful accounts expense to be reported in the 2004 Income Statement?

Problem 6

From inception of operations to December 31, 2004, Troy Corporation provided for uncollectible accounts receivable under the allowance method. Provisions were made monthly at 2% of credit sales; bad debts written off were charged to the allowance account; recoveries of bad debts previously written off were credited to the allowance account and no year end adjustments to the allowance account were made. Troy Corp.'s usual credit terms are net 30 days.

The balance in the Allowance for Doubtful Accounts was P65,000 at January 01, 2004. During 2004 credit sales totaled P4,500,000, interim provisions for doubtful accounts were made at 2% of credit sales, P45,000 of bad debts were written off and recoveries of accounts previously written off amounted of P7,500. Troy Corporation installed a computer facility in November 2004 and an aging of accounts receivable was prepared for the first time as of December 31, 2004.

A summary of the aging is as follows:

CLASSIFICATION By Month of Sale	AMOUNT	% OF UNCOLLECTIBILITY
Nov-Dec	P 570,000	2%
July-Oct	300,000	10%

Jan-June	200,000	25%
Prior to Jan 1,2004	65,000	75%

Based on the review of collectibility of the account balances in the over "prior to Jan 1, 2004 " category, additional receivables totaling P30,000 was written off as of December 31, 2004. Effective with the year ended December 31, 2004, Troy Corp. adopted a new accounting method for estimating the allowance for doubtful accounts at the amount indicated by the year end aging analysis of accounts receivable.

Requirements:

1. Prepare and analysis of the Allowance account.
2. Adjusting journal entry

Problem 7

Assad Co. has the following data relating to accounts receivable for the year ended December 31, 2004:

Accounts receivables, January 01, 2004	P	720,000
Allowance for doubtful accounts, January 01, 2004		28,800
Sales during the year (all on accounts, terms,2/10, 1/15, n/60)		3,600,000
Cash received from customers during the year		3,990,000
Accounts written off during the year		26,400

An analysis of cash received from customers during the year revealed that the P2,116,800 was received from customers availing the 10 day discount period; P1,188,000 from customers availing the 15 day discount period; P7,200 represented recovery of accounts written off and the balance was received from customers paying beyond the discount period. Assad Co.'s year end balance of Allowance for doubtful accounts was estimated to be 5% of the outstanding accounts receivable as of December 31, 2004.

REQUIREMENTS: Compute for the balances of the following:

1. Accounts receivable as of December 31, 2004
2. Bad debts expense
3. Net realizable value

Problem 8

You are engaged in your fifth annual examination of the financial statements of Lain Corporation. Your examination is for the year ended December 31, 2004. The client prepared the following schedules of Trade Notes Receivables and Interest Receivables for you at December 31, 2004. You have checked the opening balances to your prior year's audit working papers.

Your examination reveals the following information:

Interest is computed on a 360 day basis. In computing the interest, it is the Corporation's practice to exclude the first day of the note's term and to include the due date.

1. The Marcos' Company's 90 day note was discounted on May 16 at 10% and the proceeds were credited to the Trade Notes Receivable account. The note was paid at maturity.
2. Aquino Industries became bankrupt on August 31 and the Corporation will recover P0.75 for every peso. All of Lain Corporation's Note Receivable provide for interest at the legal rate of 12% on the maturity value of a dishonored noted.
3. J. Lain, President of Lain Corporation confirmed that he owed the Corporation P75,000 and that he expects to pay the note within six months. You are satisfied that the note is collectible.
4. Roxas Corporation's 60 day note was discounted on November 01 at 8% and the proceeds were credited to the Trade Notes Receivable and Interest Receivable accounts. On December 02, Lain Corporation received notice from the bank that Roxas Corporation's note was not paid at maturity and that it had been charged against Lain's checking account by the bank. Upon

receiving the notice from the bank, the bookkeeper recorded the note and accrued interest thereon in the Trade Noted Receivable and Interest Receivable accounts. Roxas Corporation paid Lain Corporation the full amount due in January 2005.

5. The Pelaez Inc. 90 day note was pledged as collateral for P175,000, 60 day 6% loan from the Philippine National Bank on December 01.

6. On November 1, the Corporation received four P40,000 90 day notes from Recto Company. On December 01, the Corporation received payment from Recto Company for one of the P40,000 notes with accrued interest. Prepayment of the notes is allowed without penalty. The bookkeeper credited Accounts Receivable account for cash received.

Lain Corporation

TRADE NOTES RECEIVABLE AND RELATED INTERST RECEIVABLE

Maker	Issue Date	Terms	Interest Rate	Balance 12.31.03	2004 Debits	2004 Credits	Balance
Lawton Co.	04.01.03	One year	12%	P300,000		P300,000	-
Marcos Co.	05.01.04	90 days after date	-		150,000	146,875	3,125
Aquino	07.01.04	60 days	12%		30,000	30,000	
Lain	08.03.04	Demand	12%		75,000		75,000
Roxas Corp.	10.02.04	60 days after date	12%		250,000	250,000	-
					250,000		250,000
Pelaez Inc,	11.01.04	90 days after date	8%		210,000	175,000	35,000
Recto Co.	11.01.04	90 days after date	12%		160,000		160,000
				P300,000	1,125,000	871,875	553,125
				=====	=====	======	=======

INTEREST RECEIVABLES

	BALANCE 2.31.03	DEBIT	CREDIT	BALANCE 12.31.04
Lawton Co.	P 27,000	P 9,000	P 36,000	
Aquino Ind.		600		P 600
Lain		2,000		2,000
Roxas Corp		5,000	3,300	1,700
Pelaez Inc.		2,800		2,800
Recto Co.		3,200		3,200
	P 27,000	P 22,600	P 39,300	P 10,300
	=======	=======	=======	======

REQUIREMENT: Prepared the adjusting journal entries that you would suggest at December 31, 2004 for the above transaction. Disregard income tax implications.

Problem 9

Determine the cash proceeds from the following discounted notes (Use 360 days)

a. A 2 month 11% note for P750,000 dated September 01, 2004, discounted on October 01, 2004 at the bank at 12%.

b. A one year, 5% note for P1,500,000 discounted at the bank at 10% after holding the note for 3 months.

c. A 60 day non interest bearing note for P500,000 dated November 16, 2004 discounted at the bank on December 1, 2004 at 9%.

d. A P1,000,000 note bearing interest of 10% dated July 01, 2003. The note is payable in two installments of P100,000 plus accrued interest on December 31, 2003 and December 31, 2004. The note was discounted on July 01, 2004 at 12%.

e. On June 01, 2003, Frat Corp. sold merchandise with a list price of P25,000 to Jerry Co. on account. Frat allowed trade discounts of 30% and 20%. Credit terms were 2/15 and 4/30 and the sale was made FOB shipping point. Frat prepaid P200 delivery costs for Jerry Co. as an accommodation. On June 12, 2004, how much did Frat received as full payment of the account of Jerry Co.?

f. On December 21, the following notes are discounted by the bank at 15%. Determine the cash proceeds rounded to the nearest pesos from discounting each note.

a. 30 day, P 4,500 non interest bearing note dated December 15
b. 60 day, P 3,380, 9% note dated December 01.
c. 60 day, P 15,000, 13% note dated November 16
d. 90 day, P 6,775, 10% note dated November 24

Problem 10

From inception of operation 1n 2000, Peter Co. carried no allowance for doubtful accounts. Uncollectible receivables were expenses as written off and recoveries were credited to income as collected, On March 01, 2004 (after the 2003 financial statements were issued), management recognized that Peter's accounting policy with respect to doubtful accounts was not correct and determined that an allowance for doubtful accounts was necessary. A policy was established to maintain al allowance for doubtful accounts based on Peter's historical bad debt loss percentage applied to year end accounts receivable. The historical bad debt loss percentage is to be recomputed each year based on the relationship of net write offs to credit sales for all available past years up to a maximum of five years.

Information from Peter's records for five years is as follows:

YEAR	CREDIT SALES	ACCTS. WRITTEN OFF	RECOVERIES
2000	P 750,000	P 7,500	P 0
2001	1,125,000	19,000	1,350
2002	1,475,000	26,000	1,250
2003	1,650,000	32,500	2,400
2004	2,000,000	41,500	2,500

Accounts receivable balances were P625,000 and P700,000 at December 31, 2003 and December 31, 2004 respectively.

REQUIREMENTS:

1. Prepared journal entry to set up the Allowance for Doubtful accounts as of January 01, 2004. Disregard income tax. Show supporting computations

QUIZZER:

1. NEWTOWN Corporation decided that the allowance for bad debts should be adjusted to equal the estimated amount required based on aging the accounts as of December 31. The following data were gathered:

Allowance for bad debts, Jan. 01, 2004	P 120,000	
Provision for bad debts during 2004 (2% of P3,000,000 sales)		60,000
Bad debts written off in 2004		75,000
Estimated bad debts per aging of accounts on December 31, 2004		80,000

The bad debts provision should be adjusted by:

	DEBIT		CREDIT	
a.	Bad debts expense	15,000	Allowance for bad debts	15,000

b. Allowance for bad debts 45,000 Accounts receivable 22,500
c Allowance for bad debts 25,000. Bad debts expense 25,000
d. Bad debts expense 25,000 Allowance for bad debts 25,000

2. BART Company started operations on January 01, 2004. The following are available as of June 30, 2004:

Purchase of merchandise P 450,000
Inventory, June 30, 2004 75,000
Goods were sold at 50% above cost; 75% of sales were on account
Estimated bad debts 1% of credit sales
Collections from charge customers 315,000
Allowance for doubtful accounts, June 30,2004 after write off of uncollectible accounts 3,903.75

The outstanding accounts receivable as of June 30, 2004 were:
a. P 110,000
b. P 106,875
c. P 106,560
d. not given

3. PALE Inc. sells to wholesalers on terms of 2/15, net 30. PALE INC. has no cash sales but 50% of its customers take advantage of the discount. PALE Inc. uses the gross method of recording sales and trade receivable. An analysis of PALE INC.'s trade receivables balances at December 31, 2004 revealed the following:

AGE	AMOUNT	UNCOLLECTIBLE
0-15 days	P 100,000	none
16-30 days	60,000	5%
31-60 days	5,000	10%
over 60 days	2,500	P2,000
	P 167,500	

In its December 31, 2004 balance sheet, what amount should PALE Inc. report as allowance for discounts?
a. P 1,000
b. P 1,620
c. P 1,676
d. P 2,000

Items 4, 5 & 6 are based on the following

You are engaged to perform an audit of the accounts of the KOUTS Corp. For the year ended December 31, 2004, and have observed the taking of the physical inventory of the company on December 27, 2004. Only merchandise shipped by the KOUTS Corp. to customers up to and including December 27, 2004 have been removed or excluded from inventory. The inventory as determined by physical inventory count has been recorded on the books by the company's controller. No perpetual inventory records are maintained. All sales are made on an FOB shipping point basis.

The following lists of sales invoice are entered in the sales books for the months of December 2004 and January 2005.

SALES INVOICES

		Date	Amount	Date Shipped
December 2004	a.	12.23.04	P 12,500	12.31.04
	b.	12.27.04	9,000	12.27.04

c.	12.30.04	15,000	01.05.05
d.	12.22.04	6,000	01.18.05
e.	12.28.04	8,000	12.29.04
f.	12.03.04	4,000	12.05.04
g.	12.31.04	10,000	01.07.05
h.	12.31.04	7,000	12.31.04

January 2005 i. 12.31.04 3,750
12.29.04

j.	12.27.04	5,500	01.04.05
k.	01.08.05	4,500	01.09.05
l.	01.10.05	2,500	12.31.04

4. How much sales for the month of December 2004 were erroneously recorded on January 2005?
   a. P 6,250
   b. P 9,250
   c. P 3,750
   d. P 10,000

5. How much sales for the month of January 2005 were erroneously recorded in December 2004?
   a. P 0
   b. P 31,000
   c. P 6,500
   d. P 10,000

6. How much is the correct amount of sales for the month ended December 31, 2004?
   a. P 71,500
   b. P 46,750
   c. P 40,500
   d. P 77,750

7. HARE Inc. received from a customer a one year, P500,000 note, bearing annual interest of 8%. After holding the note for 6 months, HARE Inc. discounted the note in Philtrust Bank. The proceeds of P513,000 were credited by the bank to HARE's account. What was the discount rate charged by the bank?
   a. 8%
   b. 10%
   c. 5%
   d. 3%

8. The following information relates to LADY Co.'s accounts receivable for 2004.

Accounts receivable, Jan 01, 2004	P 650,000
Credit sales for 2004	2,700,000
Sales returns for 2004	75,000
Accounts written off during 2004	40,000
Collections from customers during 2004 (including Recovery of P8,000 written off in prior years)	2,150,000
Estimated future sales returns at December 31, 2004	50,000
Estimated uncollectible accounts at December 31, 2004	110,000

What amount should LADY Co. report for Accounts receivable before allowances for sales returns and uncollectible accounts at December 31, 2004?
   a. P 925,000
   b. P 1,085,000
   c. P 1,093,000
   d. P 933,000

9. In your examination of the books and accounts of PLUM Company for the year 2004, you have noted that the entire past due accounts of the company amounting to P200,000 should be set up as Allowance for Doubtful accounts. On these past due accounts, management with proper recommendation from the

company's legal counsel, has decided to write off accounts with balance totaling P40,000. As of December 31, 2004, the balance of Allowance for Doubtful Accounts was P125,000.

The additional provision required for the company's doubtful accounts is:

a. P 35,000
b. P 75,000
c. P 160,000
d. P 200,000

10. The Allowance for Bad debts in the books of STEAM Co. had a credit balance of P8,900 at the close of calendar year 2003. During 2004, uncollectible accounts P7,250 were written off against the allowance. The provision for doubtful accounts is computed at 3% of the net sales for the year. The credit balance in the Allowance account at December 31, 2004 amounted to P14,775. The net sales for 2004 is:

a. P 492,500
b. P 437,500
c. P 296,667
d. P not given

11. WILCON Company has an 8% note receivable dated June 30, 2002 in the original amount of P150,000. Payments of P50,000 in principal plus accrued interest are due annually on July 01, 2003 , 2004 and 2005. How much is the interest revenue that should be recognized by WILCON for the year ended December 31, 2004?

a. P 2,000
b. P 4,000
c. P 6,000
d. P 8,000

12. MASTER Co. purchased from Royal Co. a P 20,000, 8%, 5 year note that required five annual year end payments of P 5,009. The note was discounted to yield a 9% rate to MASTER. At the date of the purchase, MASTER recorded the note at its present value of P19,485.
How much is the total interest revenue earned by MASTER over the life of this note?

a. P 9,000
b. P 8,000
c. P 5,560
d. P 5,045

13. On July 01, 2004, UNION Co. sold goods in exchange for a P200,000, 8 month non interest bearing note receivable. At the time of the sale, the note's market rate of interest was 12%. On September 01, 2004. UNION discounted the note with the bank at 10%.
How much was the amount received by UNION from the discounting of the note?

a. P 188,000
b. P 190,000
c. P 193,800
d. P 194,000

14. PRIME Co. received from a customer a one year, P500,000 note bearing annual interest of 8%. After holding the note for six months, PRIME discounted the note at Asian Bank at an effective interest rate of 10%
At the date of discounting, PRIME should recognize

a. P 40,000 interest revenue
b. P23,810 interest revenue
c. P13,000 interest revenue
d. P 4,762 interest expense

15. AYALA Corporation entered into an assignment agreement with a finance company whereby it would advanced 80% of all accounts assigned less a P2,000 service charge. During the current year, P400,000 of accounts receivable were assigned. P250,000 collections were made on outstanding assigned accounts and P230,000 was remitted to the finance company. The remittance included interest charges of P2,300. Sales returns and allowances on assigned accounts amounted to P5,000.

How much is the equity of AYALA Corporation in the assigned account receivable at the end of the year?

a. P 60,000
b. P 57,700
c. P 55,000
d. P 82,700

16. Reviewing the accounts receivable of DARE Corp. as at December 31, 2004, you obtained the following information:

a. DARE Corp. estimated the required allowance for doubtful accounts using the year end aging of account receivable.
b. Allowance for doubtful account, January 01, 2004, P32,500.
c. Provisions made during the year 2003 for doubtful accounts (2% of credit sales of P3,000,000).
d. Uncollectible accounts written off on October 31, 2004 , P40,000.
e. Estimated doubtful accounts per aging on December 31, 2004, P57,500.

After year end adjustments, the doubtful accounts expenses of DARE Corp. for the year 2004 should be:

a. P 65,000
b. P 52,500
c. P 57,500
d. P 60,000

Items 17, 18 & 19 are based on the following information:

Presented below are unaudited balances of selected accounts of LAZY Co. as of December 31, 2004:

Accounts	Unaudited Balances, 12.31.04 Debit	Credit
Cash	P 250,000	
Accounts receivable	650,000	
Allowance for Doubtful accounts	4,000	
Net sales		P3,375,000

Additional information:

a. Goods amounting to P25,000 were invoiced for the accounts of Vase Co., recorded on January 02, 2005 with terms of net 60 days, FOB Shipping point. The goods were shipped to Vase Co. on December 30, 2004.

b. The bank returned on December 29, 2004 a customer’s check for P2,500 marked “No sufficient Funds” but no entry was made.

c. LAZY Co. estimated that allowance fore uncollectible accounts should be one and one half percent (1 ½%) of the accounts receivable balance as of year end. No provision has yet been made for 2004.

17. What is the adjusted balance of the accounts receivable on December 31, 2004?

a. P 650,000
b. P 675,000
c. P 652,500

d. P 677,500

18. What is the adjusted balance of the Allowance for Doubtful accounts on December 32, 2004?
    a. P 4,000.00
    b. P 14,162.50
    c. P 18,162.50
    d. P 10,162.50

19. What is the adjusted balance of the Bad Debts expenses account?
    a. P 6,162.50
    b. P 10,162.50
    c. P 14,162.50
    d. P 18,162.50

20. On July 01, 2004, LEAD Co. sold goods in exchange for a P800,000, 8 month, non interest bearing note receivable. At the time of the sale, the note's market rate was 12%. LEAD Co. received P760,000 when it discounted the note at 10%. When did LEAD Co. discount the note?
    a. July 01, 2004
    b. August 01, 2004
    c. October 01, 2004
    d. September 01, 2004

21. LILLY Co.'s allowance for uncollectible accounts was P200,000 at the end of 2004 and P360,000 at the end of 2003. The account was debited in 2004 to write off worthless accounts of P12,000. How much did LILLY Co. report as bad debts expenses in its income statement for the year ended December 31, 2004?
    a. P 64,000
    b. P 24,000
    c. P 40,000
    d. P 16,000

22. On June 01, 2004, JAL corp. sold merchandise with a list price of P100,000 to Star Co. on account. JAL allowed trade discounts of 30% and 20%. Credit terms were 2/10, n/60 and sale was made FOB Shipping Point. JAL Corp. prepaid P4,000 of delivery costs for Star Co. as an accommodation. On June 12, 2004, JAL received from Star Co. a remittance in full payment amounting to
    a. P 58,880
    b. P 60,000
    c. P 50,880
    d. P 52,000

23. On July 01, 2004, a company obtained a two year note receivable for services rendered. The face amount of the note and the entire amount of the interest are due on June 30, 2006. Interest receivable at December 31, 2004 was 8% of the face value of the note. What is the note's interest rate?
    a. 32%
    b. 4%
    c. 8%
    d. 16%

END