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Chapter 10 loans and recievables

Accountancy (STI College)



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CHAPTER 10: LOANS AND RECEIVABLES

PROBLEM 10-1 Trade and other receivables

	Trade Receivables	Trade and other receivables	Noncurrent Asset
1	277,000	277,000	-
2	150,000	150,000	-
3	-	10,000	-
4	-	30,000	-
5	-	-	110,000
6	-	15,000	-
7	70,000	70,000	-
8	-	80,000	220,000
9	100,000	100,000	-
Adjusted bal.	**597,000 1. C**	**732,000 2. C**	330,000

PROBLEM 10-2 Different Freight terms

Question No. 1

FOB Destination, freight prepaid	
Invoice price of merchandise sold	300,000
Less: Invoice price of merchandise returned	-
Net invoice price	300,000
Less: Sales discount (300,000 x 2%)	6,000
Collection before freight	294,000
Less: Freight payment - FOB Destination, freight collect	-
Add: Freight payment - FOB shipping point, freight prepaid	-
Total Net Cash Collection **(B)**	**294,000**

Question No. 2

FOB Destination, freight collect	
Invoice price of merchandise sold	300,000
Less: Invoice price of merchandise returned	-
Net invoice price	300,000
Less: Sales discount (300,000 x 2%)	6,000
Net Payment before freight	294,000
Less: Freight payment - FOB Destination, freight collect	5,000
Add: Freight payment - FOB shipping point, freight prepaid	-
Total Net Cash Collection **(A)**	**289,000**

Question No. 3

FOB Shipping point, freight prepaid	
Invoice price of merchandise sold	300,000
Less: Invoice price of merchandise returned	-
Net invoice price	300,000
Less: Sales discount (300,000 x 2%)	6,000

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Net Receipt before freight	294,000
Less: Freight payment - FOB Destination, freight collect	-
Add: Freight payment - FOB shipping point, freight prepaid	5,000
Total Net Cash Collection **(C)**	**299,000**

Question No. 4

FOB Shipping point, freight prepaid	
Invoice price of merchandise sold	300,000
Less: Invoice price of merchandise returned	-
Net invoice price	300,000
Less: Sales discount (300,000 x 2%)	6,000
Collection before freight	294,000
Less: Freight payment - FOB Destination, freight collect	-
Add: Freight payment - FOB shipping point, freight prepaid	-
Total Net Cash Collection **(B)**	**294,000**

SUMMARY OF ANSWERS:

1. **B** 2. **A** 3. **C** 4. **B**

PROBLEM 10-3 Gross method and Net method

List price		P 100,000
Less: Trade discounts		
15%: (100,000 x 15%)	15,000	
20%: (100,000 – 15,000) x 20%	17,000	32,000
Invoice price, **gross** of discount **(C)**		68,000
Less: Sales discount (68,000 x 3%)		2,040
Invoice price, **net** of discount **(D)**		P 65,960

SUMMARY OF ANSWERS:

1. **C** 2. **D**

PROBLEM 10-4 Computation of Percentage of Bad Debts Expense

Note to professor: All the year in the questions should be **2017** instead of **2016**.

CASE 1

	Credit Sales	Accounts written off	Recoveries
2013	₱ 1,500,000	₱ 20,000	₱ 15,000
2014	2,000,000	40,000	20,000
2015	3,500,000	270,000	15,000
	7,000,000	330,000	50,000
2016	2,000,000	65,000	30,000
	9,000,000	395,000	80,000
2017	3,000,000	85,000	40,000

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12,000,000	480,000	120,000

Question No. 1

$$\text{Percentage} = \frac{\text{Accounts written off } \textbf{minus} \text{ Recoveries}}{\text{Total credit sales}}$$

Total years from 2013 to 2017:

$$\text{Percentage} = \frac{₱480{,}000 - ₱120{,}000}{₱12{,}000{,}000}$$

Percentage = **3.00 %**

Question No. 2

Bad debts expense = 3% x ₱3,000,000
= **₱90,000**

Question No. 3

Allowance for Bad debts

Write off	85,000	400,000	Beg. Balance
Balance end **(squeeze)**	**445,000**	90,000	Bad debts exp
		40,000	Recovery
	520,000	520,000	

CASE 2

Question No.4

$$\text{Percentage} = \frac{\text{Accounts written off } \textbf{minus} \text{ Recoveries}}{\text{Total credit sales}}$$

Total years from 2013 to 2015 (years should exclude the last two years):

$$\text{Percentage} = \frac{₱330{,}000 - ₱50{,}000}{₱7{,}000{,}000}$$

Percentage = **4 %**

Question No. 5

Bad debts expense = 4% x P3,000,000
= **₱120,000**

Question No. 6

	Credit Sales	BD exp	Recoveries	Write-off	Net AB
2016	2,000,000	80,000	65,000	30,000	115,000
2017	3,000,000	120,000	85,000	40,000	165,000
			Allowance for BD **(E)**		**280,000**

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CASE 3

Question No. 7

$$\text{Percentage of bad debts to AR} = \frac{\text{Accounts written off } \textbf{minus} \text{ Recoveries}}{\text{Total credit sales}}$$

Total years from 2013 to 2016:

$$\text{Percentage of bad debts to AR} = \frac{₱395{,}000 - ₱80{,}000}{9{,}000{,}000}$$

Percentage = **3.5%**

$$\text{Percentage of bad debts to AR} = \frac{\text{Accounts written off } \textbf{minus} \text{ Recoveries}}{\text{Total credit sales}}$$

Total years from 2013 to 2017:

$$\text{Percentage of bad debts to AR} = \frac{₱480{,}000 - ₱120{,}000}{₱12{,}000{,}000}$$

Percentage = **3 %**

Question Nos. 8 and 9

Allowance for Bad debts

Balance end (3,400,000 x 3%)	102,000	105,000	Beg. Balance (3,000,000 x 3.5%)
Write off	85,000	**(E) 42,000**	Bad debts exp **(squeeze)**
		40,000	Recovery
	187,000	187,000	

SUMMARY OF ANSWERS:

Case 1	Case 2	Case 3
1. **B**	4. **D**	7. **C**
2. **B**	5. **D**	8. **E**
3. **B**	6. **E**	9. **C**

PROBLEM 10-5 Aging Based on Outstanding Receivables

Question No. 1

Categories (No. of Days)	Balance	Uncollectible Percent	Uncollectible Amount
0-30 days	500,000	2%	10,000
31-60 days	600,000	3%	18,000
61-90 days	750,000	5%	37,500
over 91 days	300,000	10%	30,000
Totals	2,150,000		95,500

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Allowance for Bad debts

Balance end (see above table)	95,500	40,000	Beg. balance
Write off		12,000	Recoveries
(23,000+100,000)	123,000	**166,500**	Bad debts exp **(squeeze)**
	218,500	218,500	

Question No. 2

Accounts receivable, end (see above table)	2,150,000
Less: Allowance for doubtful accounts, end	95,500
Net Realizable Value	**2,054,500**

SUMMARY OF ANSWERS:

1. **A** 2. **A**

PROBLEM 10-6 Aging Based On Days Past Due

Question No. 1

Overdue accounts	% uncollectible	Balance	Allowance
For less than 31 days	5.00%	300,000	15,000
From 31-60 days	6.00%	220,000	13,200
From 61-90 days	8.00%	150,000	12,000
From 91-120 days	15.00%	60,000	9,000
For over 121 days	20.00%		-
Required allowance for doubtful accounts			**49,200**

Question No. 2

Allowance for Bad debts

Balance end	49,200	20,000	Beg. balance
		29,200	Bad debts exp **(squeeze)**
	158,000	158,000	

SUMMARY OF ANSWERS:

1. **A** 2. **A**

PROBLEM 10-7 Interest-bearing Note with Realistic Interest Rate

Requirement No. 1

*Selling price		P 100,000
Less: Carrying amount of machinery		
Cost	500,000	
Less: Accumulated depreciation	350,000	150,000
Loss on sale		**(P 50,000)**

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***Note:** The selling price is equal to the face amount, which is likewise equal to the present value of the note since the note bears an annual interest rate that is similar with the market rate.

Requirement No. 2
Interest income = (100,000 x 10%) = **P10,000**

Requirement No. 3
Zero. The principal amount is collectible beyond one year from the reporting date and thus, reported as non-current.

Requirement No. 4
P100,000. The entire principal amount of notes receivable is treated as noncurrent asset since it is collectible beyond one year from the reporting date.

Journal entries are as follows:

01/01/2016	Notes receivable	100,000	
	Accumulated depreciation	350,000	
	Loss on sale	50,000	
	Machinery		500,000
12/31/2016	Cash	10,000	
	Interest income		10,000

PROBLEM 10-8 Interest-bearing Note with Unrealistic Interest Rate, Interest Is Payable Annually, One-Time Collection of Principal

Question No. 1

Present value of principal (2,000,000 x 0.7118)		P 1,423,600
Add: Present value of interest payments		
(2,000,000 x 10% x 2.4018)		480,366
Total present value / Selling price		1,903,966
Less: Carrying amount of machinery		
Cost	1,000,000	
Less: Accumulated depreciation	150,000	850,000
Gain on sale		**P1,053,966**

Question Nos. 2 to 5
Amortization table

Date	Interest Collections	Interest Income	Discount Amortization	Carrying amount
01/01/2016				1,903,960
12/31/2016	200,000	**228,475**	28,475	**1,932,435**
12/31/2017	200,000	231,892	31,892	1,964,327
12/31/2018	200,000	235,704	35,672	2,000,000

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The total amount of 1,932,435 is reported as **noncurrent receivable** since it is due to be collected beyond twelve months from the end of the reporting period.

SUMMARY OF ANSWERS:

1. **B** 2. **B** 3. **A** 4. **A** 5. **C**

PROBLEM 10-9 Interest-bearing Note with Unrealistic Interest Rate, Interest Is Payable Semi-Annually, One-Time Collection of Principal

Question No. 1

Present value of principal (2,000,000 x 0.7050)		P 1,410,000
Add: Present value of interest payments		
(2,000,000 x 5% x 4.9173)		491,730
Total present value / Selling price		1,901,730
Less: Carrying amount of machinery		
Cost	1,000,000	
Less: Accumulated depreciation	150,000	850,000
Gain on sale		**P1,051,730**

Amortization table

Date	Interest Collections	Interest Income	Discount Amortization	Carrying amount
01/01/2016				1,901,730
07/31/2016	100,000	**114,104**	14,104	1,915,834
12/31/2016	100,000	**114,950**	14,950	**1,930,784**
07/31/2017	100,000	115,847	15,815	1,946,599
12/31/2017	100,000	116,796	16,796	1,963,395
07/31/2018	100,000	117,804	17,804	1,981,198
12/31/2018	100,000	118,602	18,802	2,000,000

Question No. 2

Interest income up to 07/31/2016	114,104
Interest income up to 12/31/2016	114,950
Total interest income	**229,054**

Question No. 3

1,930,784. See amortization table above.

Question No.s 4 and 5

The total amount of 1,932,435 is reported as **noncurrent receivable** since it is due to be collected beyond twelve months from the end of the reporting period.

SUMMARY OF ANSWERS:

1. **B** 2. **B** 3. **B** 4. **A** 5. **D**

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PROBLEM 10-10 Interest-bearing Note with Unrealistic Interest Rate, Uniform Collection of Principal

Question No. 1

Computation of present value of all payments:

Present value factor	Principal	Interest collections	Total collections	Total PV
0.8929	600,000	180,000	780,000	696,462
0.7972	600,000	120,000	720,000	573,984
0.7118	600,000	60,000	660,000	469,788
Total present value				1,740,234

Total present value / Selling price		1,740,234
Less: Carrying amount of machinery		
Cost	1,000,000	
Less: Accumulated depreciation	150,000	850,000
Gain on sale		**P890,234**

Amortization table

Date	Interest Collections	Interest Income	Amortization	Principal collections	Carrying amount
01/01/16					1,740,234
12/31/16	180,000	208,828	28,828	600,000	1,169,062
12/31/17	120,000	140,287	20,287	600,000	589,350
12/31/18	60,000	70,651	10,651	600,000	-

Question No. 2

208,828. See amortization table above.

Question No. 3

1,169,062. See amortization table above.

Question No. 4

Principal collections – 2017	600,000
Less: Amortization – 2017	20,287
Current portion – 12/31/2016	**579,713**

Question No. 4

Carrying value – 12/31/2016	1,169,062
Less: Current portion – 12/31/2016	579,713
Non-current portion – 12/31/2016	**589,350**

SUMMARY OF ANSWERS:

1. **B** 2. **B** 3. **A** 4. **B** 5. **A**

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PROBLEM 10-11 Non-interest-bearing Note with Unrealistic Interest Rate, Non-Uniform Collection of Principal

Question No. 1

Computation of present value of all payments:

PV factor	Total collections	Total PV
0.8929	1,000,000	892,900
0.7972	600,000	478,320
0.7118	200,000	142,360
Total present value of the notes		1,513,580

Total present value / Selling price		1,513,580
Less: Carrying amount of machinery		
Cost	1,000,000	
Less: Accumulated depreciation	150,000	850,000
Gain on sale		**P663,580**

Question Nos. 2 to 5

Amortization table

Date	Interest income	Amortization	Principal Collections	Carrying amount
01/01/16				1,513,580
12/31/16	**181,630**	181,630	1,000,000	**695,210**
12/31/17	83,425	83,425	600,000	178,635
12/31/18	21,382	21,365	200,000	-

Question No. 2

181,630. See amortization table above.

Question No. 3

695,210. See amortization table above.

Question No. 4

Principal collections – 2017	600,000
Less: Amortization – 2017	83,425
Current portion – 12/31/2016	**516,575**

Question No. 5

Carrying value – 12/31/2016	695,210
Less: Current portion – 12/31/2016	516,575
Non-current portion – 12/31/2016	**178,635**

SUMMARY OF ANSWERS:

1. **B** 2. **B** 3. **A** 4. **B** 5. **D**

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PROBLEM 10-12 Noninterest-bearing Note, One-Time Collection of Principal

Question No. 1

Total present value (1,800,000 x 0.7118)		1,281,240
Less: Carrying amount of machinery		
Cost	1,000,000	
Less: Accumulated depreciation	150,000	850,000
Gain on sale		**P431,240**

Amortization table

Date	Interest Income	Amortization	Carrying amount
01/01/16			1,281,240
12/31/16	153,749	153,749	1,434,989
12/31/17	172,199	172,199	1,607,187
12/31/18	192,812	192,812	1,800,000

Question No. 2

153,749. See amortization table above.

Question No. 3

1,434,989. See amortization table above.

Question No. 4 and 5

The total amount of **1,434,989** is reported as **noncurrent receivable** since it is due to be collected beyond twelve months from the end of the reporting period.

SUMMARY OF ANSWERS:

1. **B** 2. **B** 3. **A** 4. **B** 5. **A**

PROBLEM 10-13 Computation of Annual Payment or Collection

CASE 1: Based on the original data

Requirement No. 1

$$\text{Annual collection} = \frac{\text{Present value of the notes}}{\text{Present value of ordinary annuity for 3 periods}}$$

$$\text{Annual collection} = \frac{1{,}500{,}000}{2.4018}$$

Annual collection = **P624,532**

Requirement No. 2

Interest income (1,500,000 x 12%) = **P180,000**

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CASE 2

Requirement No. 1

$$\text{Annual collection} = \frac{\text{Present value of the notes}}{\text{Present value of annuity due for 3 periods}}$$

$$\text{Annual collection} = \frac{1{,}500{,}000}{2.6901}$$

Annual collection = **P557,600**

Requirement No. 2

Interest income (1,500,000 – 557,600) x 12% = **P113,088**

PROBLEM 10-14 Impairment of Receivable, Principal is Collectible Every Year

Question No. 1

Principal (unpaid)	960,000	
Add: Accrued interest receivable	96,000	1,056,000
Less: *Present value of expected cash flows		770,528
Loan impairment **(B)**		**285,472**

*Computation of present value of all payments:

PV factor	Total collections	Total PV
0.9091	160,000	145,456
0.8264	320,000	264,448
0.7513	480,000	360,624
Total present value of the notes		770,528

Question Nos. 2 to 3

Amortization table

Date	Collections	Interest Income	Amortization	Carrying amount
12/31/2016				770,528
12/31/2017	160,000	**77,053**	82,947	**687,581**
12/31/2018	320,000	68,758	251,242	436,339
12/31/2019	480,000	43,634	436,339	-

SUMMARY OF ANSWERS:

1. **B** 2. **B** 3. **B**

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PROBLEM 10-15 Impairment of Receivable, One-time Collection of Principal

CASE NO. 1

Question No. 1

Principal	16,000,000	
Add: Accrued interest receivable	1,600,000	17,600,000
Less: *Present value of expected cash flows		7,705,280
Loan impairment **(A)**		**9,894,720**

*Computation of present value of all payments:

PV factor	Total collections	Total PV
0.9091	1,600,000	1,454,560
0.8264	3,200,000	2,644,480
0.7513	4,800,000	3,606,240
Total present value of the notes		7,705,280

Question Nos. 2 to 3

Amortization table

Date	Collections	Interest Income	Amortization	Carrying amount
12/31/2015				7,705,280
12/31/2016	1,600,000	**770,528**	829,472	**6,875,808**
12/31/2017	3,200,000	687,581	2,512,419	4,363,389
12/31/2018	4,800,000	436,339	4,363,389	-

CASE NO. 2

Question No. 4

Carrying value – 12/31/2015 (see table below)		15,458,634
Less: *Present value of expected cash flows		7,705,280
Loan impairment	**(E)**	**9,894,720**

Amortization table

Date	Interest Received Or Accrued	Interest Income	Amortization	Carrying amount
01/01/2013				₱14,846,080
12/31/2013	1,600,000	1,781,530	181,530	15,027,610
12/31/2014	1,600,000	1,803,313	203,313	15,230,923
12/31/2015	1,600,000*	1,827,711	227,710	15,458,634

*Interest **accrued**.

12/31/2015	Accrued interest receivable	1,600,000	
	Interest income		1,600,000
	Unearned interest income	227,710	
	Interest income		227,710

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CASE NO. 3

Question No. 5

Carrying value – 12/31/2015 (see table below)		17,058,634
Less: *Present value of expected cash flows		7,705,280
Loan impairment	**(E)**	**9,353,354**

Amortization table

Date	Interest Received Or Accrued	Interest Income	Amortization	Carrying amount
01/01/2013				₱14,846,080
12/31/2013	1,600,000	1,781,530	181,530	15,027,610
12/31/2014	1,600,000	1,803,313	203,313	15,230,923
12/31/2015		1,827,711	1,827,711	17,058,634

12/31/2015	Unearned interest income	1,827,711	
	Interest income		1,827,711

CASE NO. 4

Question No. 6

Carrying value – 12/31/2015 (see table below)		15,458,634
Less: *Present value of expected cash flows		7,705,280
Loan impairment	**(E)**	**9,894,720**

Amortization table

Date	Interest Received Or Accrued	Interest Income	Amortization	Carrying amount
01/01/2013				₱14,846,080
12/31/2013	1,600,000	1,781,530	181,530	15,027,610
12/31/2014	1,600,000	1,803,313	203,313	15,230,923
12/31/2015	1,600,000	1,827,711	227,710	15,458,634

12/31/2015	Cash	1,600,000	
	Interest income		1,600,000
	Unearned interest income	227,710	
	Interest income		227,710

SUMMARY OF ANSWERS:

1. **A** 2. **B** 3. **B** 4. **E** 5. **E** 6. **E**

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PROBLEM 10-16 Reversal of Impairment Loss
Question No. 1

Present value of expected cash flows	P 654,552
vs. Would have been present value if there was no impairment	600,000
Lower	600,000
Less: Actual amortized cost	396,681
Gain on reversal of impairment loss	**P 203,319**

Question No. 2

Interest income (600,000 x 10%)	**P 60,000**

SUMMARY OF ANSWERS:
1. **A** 2. **B**

PROBLEM 10-17 Pledge of Receivable

Principal amount borrowed	P 900,000
Less: One year interest deducted in advance (900,000 x 10%)	(90,000)
Cash received on December 1 **(B)**	**P810,000**

PROBLEM 10-18 Assignment of Receivable
Entries to record transactions

Date	Accounts	Debit	Credit
10/1/2016	Cash	395,000	
	Finance charge expense	5,000	
	Notes payable		400,000
12/31/2016	Cash	300,000	
	Accounts receivable		300,000
	Interest expense (400,000 x 12% x 3/12)	12,000	
	Notes payable	300,000	
	Cash		312,000

SUMMARY OF ANSWERS:
1. **D** 2. **A**

PROBLEM 10-19 Assignment of Accounts Receivable
Question No. 1

Principal amount borrowed	P 150,000
Less: Finance fee (150,000 x 5%)	(7,500)
Cash received on December 1 **(D)**	**P142,500**

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Question No. 2

Notes payable		P150,000
Less: Principal payment		
Remittance	95,000	
Less: Interest (150,000 x 12% x 3/12)	(1,500)	93,500
Notes payable – December 31 **(C)**		**P 56,500**

Question No. 3

Accounts receivable – assigned (200,000 – 100,000)	P 100,000
Less: Notes payable	(56,500)
Equity in assigned account **(C)**	**P 43,500**

SUMMARY OF ANSWERS:

1. **D** 2. **C** 3. **C**

PROBLEM 10-20 Factoring of Receivables

Entries to record transactions

Option	Accounts	Debit	Credit
One	Cash (400,000 x 90%)	360,000	
	Receivable from factor (25,000 – [5% x 400,000])	5,000	
	Loss on sale of receivables **(squeeze)**	35,000	
	Notes payable		400,000
Two	Cash (400,000 x 90%)	360,000	
	Receivable from factor (25,000 – [4% x 400,000])	9,000	
	Loss on sale of receivables **(squeeze)**	34,000	
	Notes payable		400,000
	Estimated recourse liability		3,000

SUMMARY OF ANSWERS:

1. **B** 2. **C**

PROBLEM 10-21 Factoring

Sales price	P 265,000
Less: Carrying amount of accounts receivable (300,000 – 12,500)	(287,500)
Loss on factoring **(B)**	**P 22,500**

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PROBLEM 10-22 Notes Receivable Discounting and Notes Receivable Dishonored

CASE NO. 1

Question No. 1

Principal	P 600,000.00
Add: Interest over full credit period (600,000 x 9% x 90/360)	13,500.00
Maturity value	613,500.00
Less: Discount (613,500 x 12% x 65/360)	13,292.50
Net proceeds from discounting **(C)**	**P 600,207.50**

Question No. 2

Net proceeds from discounting		P 600,207.50
Less: Carrying amount on date of discounting		
Principal	600,000.00	
Add: Interest (600,000 x 9% x 25/360)	3,750.00	603,750.00
Loss on notes receivable discounting **(A)**		**(P 3,542.50)**

CASE NO. 2

Question No. 3

Loss of P3,524.50. The amount of loss to be recognized is computed in a similar way as to that of discounted note without recourse. **(A)**

Question No. 4

Maturity value of the note	P 613,500
Add: Protest fee and other bank charges	5,000
Cash received on December 1 **(C)**	**P618,500**

CASE NO. 3

Question No. 5

Interest expense of P3,524.50. The amount of interest expense is computed in a similar way as to that of discounted note without recourse or conditional sale. **(A)**

Question No. 6

Maturity value of the note	P 613,500
Add: Protest fee and other bank charges	5,000
Cash received on December 1 **(C)**	**P618,500**

SUMMARY OF ANSWERS:

1. **C** 2. **A** 3. **A** 4. **C** 5. **A** 6. **C**

PROBLEM 10-23 Discounting "Own" Note

Question No. 1

Note payable	P 250,000
Less: Discount on note payable (250,000 x 12%)	(30,000)
Carrying amount – Date of issuance	P 220,000

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Effective interest rate = Discount/Net proceeds
= 30,000/220,000
= **13.60%** **(D)**

Question No. 2
Entry to record transaction

Cash	220,000	
Discount on notes payable	30,000	
Notes payable		250,000

SUMMARY OF ANSWERS:
1. **D** 2. **B**

COMPREHENSIVE PROBLEMS

PROBLEM 10-24
Question No. 1

Allowance for Doubtful accounts

Accounts written off	164,000	212,000	Beg. Balance
Balance end (squeeze)	**200,000**	152,000	DA expense (7.6M x 2%)
Total	364,000	364,000	

Question No. 2

Age Group	Amount	Percent Uncollectible	Allowance
0 - 60 days	P 1,650,000	2%	33,000
61 - 90 days	440,000	10%	44,000
91 - 120 days	100,000	30%	30,000
Over 120 days	256,000	40%	102,400
Total	P 2,446,000		**209,400**

Question No. 3

Allowance for Doubtful accounts

Accounts written off	164,000	212,000	Beg. Balance
Balance end	209,400	**161,400**	DA expense **(squeeze)**
Total	373,400	373,400	

Question No. 4

Accounts receivable, December 31, 2016	2,446,000
Less Allowance for doubtful accounts, December 31, 2016	209,400
Net realizable value	**2,236,600**

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Question No. 5

Accounts receivable trade

Beg. Balance	2,500,000	2,446,000	Balance end
Sales	7,600,000	164,000	Write-off
		7,490,000	Collections **(squeeze)**
Total	10,100,000	10,100,000	

SUMMARY OF ANSWERS:

1. **A** 2. **C** 3. **D** 4. **B** 5. **D**

PROBLEM 10-25

Question No. 1

	Credit Sales	Accounts written off	Recoveries
2013	2,220,000	52,000	4,300
2014	2,450,000	59,000	7,500
2015	2,930,000	60,000	7,200
	7,600,000	171,000	19,000

$$\text{Percentage} = \frac{\text{Accounts written off } \textbf{minus} \text{ Recoveries}}{\text{Total credit sales}}$$

Total years from 2013 to 2015:

$$\text{Percentage} = \frac{171{,}000 - 19{,}000}{7{,}600{,}000}$$

Percentage = **0.02 or 2%**

Question No. 2

Doubtful accounts expense (3,000,000 x 2%) = **P60,000**

Question No. 3

Reported doubtful account expense (bad debts written off)	P 62,000
Less: Correct doubtful account expense (see **No. 2**)	(60,000)
Overstatement in doubtful account expenses	**P 2,000**

Question No. 4

Accounts receivable trade

Beg. Balance	418,000	**645,600**	Balance end
Sales on account	3,000,000	62,000	Write-off
		2,710,400	Collections excluding advance from customers
Total	3,418,000	3,418,000	

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Question No. 5

Allowance for Doubtful accounts

Accounts written off	62,000	15,200	Beg. Balance
Balance end	**21,600**	60,000	Doubtful accounts expense
		8,400	Recoveries
Total	83,600	83,600	

SUMMARY OF ANSWERS:

1. **A** 2. **A** 3. **B** 4. **B** 5. **A**

PROBLEM 10-26

Question No. 1

Unadjusted accounts receivable, Dec. 1 **(squeeze)**		P 21,800
Add: Adjusted net sales		255,000
Total		276,800
Less: Collections, net of discounts		156,800
Estimated uncollectible accounts charged to AR in Dec.		30,000
Unadjusted accounts receivable, Dec. 31		P 90,000
Subsidiary ledger balance, Dec. 1		P 59,000
Less: AR controlling account, Dec. 1 (see above)	21,800	
Add: Estimated uncollectible account charged to AR in Dec.	6,000	27,800
Customers' credit balance **(D)**		**P31,200**

Question No. 2

Collection, net of discount		P 156,800
Divide by: (100%-2%)		98%
Total credit to AR for collection	**(A)**	**P160,000**

Question No. 3

Customer credit balance, Dec. 1		P 31,200
Less: sale to customer with credit balance		10,000
Customer Credit balance, Dec. 31	**(A)**	**P 21,200**

Question No. 4

Unadjusted Sales, balance		P 260,000
b) Sales, FOB shipping pt., not yet recorded		10,000
c) Sales, FOB destination		(15,000)
Adjusted Sales balance	**(A)**	**P 255,000**

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Question No. 5

Subsidiary ledger, balance, 12/1	P 59,000
Add: Adjusted Sales in December	255,000
Freight prepaid by the company	1,000
Total	P 315,000
Less: total credit to AR for coll.	160,000
Adjusted accounts receivable in Dec. **(B)**	**P 155,000**

SUMMARY OF ANSWERS:

1. **D** 2. **A** 3. **A** 4. **A** 5. **B**

PROBLEM 10-27

Question Nos. 1 to 3

	Total	0-31 days	31-60	61-90	91-120	Over 120
Rose	P 87,950	35,000	52,950			
Gerry	52,300				30,000	22,300
Ram	50,000	50,000				
Ria	84,350		57,850	26,500		
Mar	79,000	31,000		48,000		
Sun	43,500				43,500	
West	-					
	P 397,100	**116,000**	110,800	**74,500**	73,500	22,300
		0.01	0.015	0.04	0.10	0.60
		1,160	1,662	2,980	7,350	13,380

Question No. 4

Allowance for doubtful accounts, end:
(P1,160 + P1,662 + P2,980 + P7,350 + P13,380) **P 26,532**

Question No. 5

Allowance for Doubtful accounts

Accounts written off	15,000	22,450	Beg. Balance
Balance end	26,532	**19,082**	Doubtful accounts expense
Total	41,532	41,532	

SUMMARY OF ANSWERS:

1. **A** 2. **C** 3. **C** 4. **C** 5. **C**

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PROBLEM 10-28

Question No. 1

	Balance Dec. 31	Accounts Not due	1-60 days	61-120 days	Over 120
1	12,000	3,000	8,000	1,000	
2	22,000	22,000			
4	20,000			10,000	10,000
5	55,000	2,220	52,780		
6	7,500		7,500		
	116,500	27,220	68,280	11,000	10,000
	Multiply by:	0.50%	2%	5%	50%
		136.10	1,365.60	550	5,000.00

Question Nos. 2 and 3

Required balance (P136.10+P1,365.60+P550+P5,000)	P **7,051.70**
Less: Allowance for doubtful accounts, beginning	5,000.00
Doubtful accounts expense	**P 2,051.70**

Question Nos. 4 and 5

Interest income	**Interest income**	**Accrued interest income**
(120,000 X 6% X 2/12)	P 1,200	P -
(100,000 X 6% X 1/12)	500	500
Interest income	**P 1,700**	**P 500**

SUMMARY OF ANSWERS:

1. **D** 2. **C** 3. **B** 4. **D** 5. **A**

PROBLEM 10-29

Question No. 1

Principal	4,000,000
Origination fees received	(342,100)
Direct origination cost incurred	150,020
Initial Carrying amount of the loan	**3,807,920**

Question No. 2

By trial and error, **12%** interest rate will have a present value equal to the initial carrying amount of the loan.

Present value of Prin. (4,000,000 x .7118)	2,847,200
Present value of Int. (4M x 10% x 2.4018)	960,720
Present value of Loan Receivable	3,807,920

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Question Nos. 3 and 4

Date	Collections	Interest Income	Amortization	Carrying amount
01/01/2016				3,807,920
31/12/2016	400,000	**456,950**	56,950	**3,864,870**
31/12/2017	400,000	463,784	63,784	3,928,655
31/12/2018	400,000	471,439	71,346	4,000,000

Question No. 5

Zero, As of December 31, 2016, the entire loan proceeds will be collectible on December 31, 2018, that is two years from the reporting date.

SUMMARY OF ANSWERS:

1. **A** 2. **C** 3. **B** 4. **A** 5. **A**

PROBLEM 10-30

Question Nos. 1 and 3

Carrying amount of the loan, December 31, 2016	8,277,606
Less Carrying amount of the loan, December 31, 2017	8,145,367
Amortization in 2017	132,239
Less Interest collection in 2017	960,000
Interest income in 2016 (3)	**827,761**
Divide by Carrying amount of the loan, 12/31/2016	8,277,606
Effective interest rate **(1)**	**10%**

Question No. 2

Carrying amount of the loan, January 1, 2016	8,397,824
Multiply by: Effective interest rate	10%
Interest income in 2016	**839,782**

Question No. 3

Carrying amount of the loan, 12/31/2016	8,277,606
Multiply by: Effective interest rate	10%
Interest income in 2016	**827,761**

Question No. 4

Carrying amount of the loan, December 31, 2016	8,277,606
Add: Interest collection (8M x 12%)	960,000
Total	9,237,606
Divide by: 100% plus effective rate	1.10
Carrying amount of the loan, January 1, 2016	**8,397,824**

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Question No. 5

Carrying amount of the loan, January 1, 2016	8,397,824
Direct origination fees received	100,000
Principal	8,000,000
Direct origination cost incurred	**497,824**

Date	Collections	Interest Income	Amortization	Carrying amount
01/01/2016				8,397,824
12/31/2016	960,000	839,782	120,218	8,277,606
12/31/2017	960,000	827,761	132,239	8,145,367
12/31/2018	960,000	814,537	145,367	8,000,000

SUMMARY OF ANSWERS:

1. **B** 2. **B** 3. **C** 4. **D** 5. **D**

PROBLEM 10-31

Question No. 1

Principal	4,000,000
Origination fees received	(282,100)
Direct origination cost incurred	39,020
Initial Carrying amount of the loan	**3,756,920**

Question Nos. 2 and 3

By trial and error, **12%** interest rate will have a present value equal to the initial carrying amount of the loan.

Present value of Prin. (4,000,000 x .6355)	2,542,000
Present value of Int. (4M x 10% x 3.0373)	1,214,920
Present value of Loan Receivable	3,756,920

Amortization table

Date	Collections	Interest Income	Amortization	Carrying amount
01/01/2015				3,756,920
31/12/2015	400,000	**450,830**	50,830	**3,807,750**
31/12/2016	400,000	456,930	56,930	3,864,680
31/12/2017	400,000	463,762	63,762	3,928,442

Question No. 4

Carrying Amount (see above amortization table)	3,864,680
Less: *Present value of expected cash flows	3,201,620
Loan Impairment	**663,060**

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*Computation of present value of expected cash flows

Date	Cash flow	PV factor at 12%	Present value
12/31/2017	1,800,000	0.8929	1,607,220
12/31/2018	2,000,000	0.7972	1,594,400
			3,201,620

Question No. 5

Date	Collections	Interest Income	Amortization	Carrying value
12/31/2016				3.201,620
12/31/2017	1,800,000	384,194	1,415,806	**1,785,814**
12/31/2018	2,000,000	214,298	1,785,814	-

SUMMARY OF ANSWERS:

1. **B** 2. **C** 3. **B** 4. **B** 5. **B**

PROBLEM 10-32

Question No. 1

Date	Annual Cash flows	PV factor	Amount
Dec. 31, 2015	P1,750,000	0.9091	P 1,590,925
Dec. 31, 2016	2,000,000	0.8264	1,652,800
Dec. 31, 2017	1,750,000	0.7513	1,314,775
	Total		**P 4,558,500**

Question No. 2

Carrying amount of the loan	P 5,500,000
Less: Present value of the loan	4,558,500
Impairment loss	**P 941,500**

Question Nos. 3 to 5

Date	Payment	Interest Income	Reduction to Principal	Carrying amount
12/31/2014				P4,558,500
12/31/2015	P1,750,000	**P455,850**	P1,294,150	3,264,350
12/31/2016	2,000,000	**326,435**	1,673,565	**1,590,785**
12/31/2017	1,750,000	159,079	1,590,785	-

SUMMARY OF ANSWERS:

1. **C** 2. **A** 3. **B** 4. **A** 5. **C**

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PROBLEM 10-33
Question Nos. 1 to 4

	Accounts Receivable	Allow for DA	Mdse. Inventory	Net Sales	Cost of Sales
Unadjusted balances	300,000	3,000	400,000	1,000,000	800,000
2) Sale return	(30,000)			(30,000)	
Cost of return Merchandise (30,000 x 80%)			24,000		(24,000)
3)Sales FOB shipping point not recorded as Sale	40,000			40,000	
Cost of mdse sold (40,000 x 80%)			(32,000)		32,000
4) Goods shipped FOB Destination recorded as sale	(50,000)			(50,000)	
Cost of goods (50,000 x 80%)			40,000		(40,000)
6) Doubtful accts exp		(12,000)			
Adjusted bal.	**260,000**	**15,000**	**432,000**	**960,000**	**768,000**

Question No. 5

Accounts receivable	P 260,000
Less: Allowance for doubtful accounts	(15,000)
Net realizable value	**P245,000**

SUMMARY OF ANSWERS:

1. **B** 2. **B** 3. **B** 4. **B** 5. **C**

PROBLEM 10-34
Question No. 1

Classification	Balance	Estimated Percentage	Estimated Amount
1-60 days	P 1,000,000	1%	P 10,000
61-120 days	400,000	5%	20,000
121-180 days	300,000	10%	30,000
181-360 days	200,000	25%	50,000
More than one year	60,000	80%	48,000
Totals	P 1,960,000		**P 158,000**

Question No. 2

Accounts receivable, adjusted (see no. 1)	P 1,960,000
Less: Allowance for doubtful accounts, end (see no. 1)	158,000
Net realizable value	**P1,802,000**

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Question No. 3

Doubtful accounts per books (9,000,000 x 2%)	P 180,000
Less: *Adjusted doubtful accounts expense	188,000
Understatement of doubtful accounts	(P 8,000)

*Adjusted doubtful account expense

Allowance for Doubtful accounts

Write off (100,000+40,000)	140,000	90,000	Beg. Balance
Balance end (required)	158,000	20,00	Recoveries
		188,000	Doubtful account expense
Total	298,000	298,000	

Question No. 4

Total carrying value	P3,000,000
Less: **Present value of the loan	2,790,000
Impairment loss	**P 210,000**

*Computation of present value

Annual Cash flow	PV factor	Total
P1,000,000	1.00	P 1,000,000
1,000,000	0.93	930,000
1,000,000	0.86	860,000
Total Present value of the loan		P 2,790,000

Question No. 5

Date	Collections	Interest Income	Amortization	Carrying amount
01/01/2016				2,790,000
12/31/2016	1,000,000		1,000,000	1,790,000
12/31/2017	1,000,000	**143,200**	856,800	933,200

SUMMARY OF ANSWERS:

1. **A** 2. **B** 3. **D** 4. **B** 5. **B**

PROBLEM 10-35

Question Nos. 1 to 4

	Accounts receivable	Merchandise Inventory	Net Sales	Cost of Sales
Unadjusted bal.	200,000	300,000	1,000,000	600,000
1	(14,800)			
3	(47,400)	32,600	(47,400)	(32,600)
4	(30,000)		(90,000)	

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5	(8,000)		(8,000)	
6	(36,000)	24,000	(36,000)	(24,000)
7	(1,200)		(1,200)	
	62,600	**356,600**	**817,400**	**543,400**

Question No. 5

Original bill (P200 x 100)	P 20,000
Divided by: Selling price per unit	200
Number of units sold	**100**

Question No. 6

Item	Accounts	Debit	Credit
B	Accounts payable	14,800	
	Accounts receivable		14,800
C	Accounts receivable – D	32,400	
	Accounts receivable – C		32,400
E	Sales	47,400	
	Accounts receivable		47,400
	Merchandise inventory	32,600	
	Cost of sales		32,600
F	Sales	90,000	
	Accounts receivable		30,000
	Customers' deposit on orders		60,000
H	Sales	*8,000	
	Accounts receivable		8,000
I	Sales	36,000	
	Accounts receivable		36,000
	Merchandise inventory	24,000	
	Cost of sales		24,000
J	Sales returns and allowances	1,200	
	Accounts receivable		1,200

*Computation of overstatement of sales for item H

Original bill (P200 x 100)	P 20,000
Per audit: (P120 x 100)	12,000
Overstatement	**P 8,000**

SUMMARY OF ANSWERS:

1. **A** 2. **A** 3. **D** 4. **B** 5. **B**

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PROBLEM 10-36

Question No. 1

Accounts receivable, unadjusted balance	
Per subsidiary ledger	P1,660,000
Note receivable included in the AR	(200,000)
Factored Accounts receivable	(160,000)
Sales FOB shipping point	100,000
Adjusted AR balance	**P1,400,000**

Question No. 2

Allowance for doubtful accts, beg.	P 100,000
Add: Doubtful accounts (P15,000,000 + P100,000) x 1%	151,000
Total	P 251,000
Less: Accounts written off	28,000
Allowance for doubtful accts, end	**P 223,000**

Question No. 3

Unadjusted Net Sales	P15,000,000
Add: Sales, FOB shipping point	100,000
Total Sales	P 15,100,000
Multiply by: rate	1%
Doubtful accounts	**P 151,000**

Question No. 4

No effect. The audit adjustments did not result to any changes to inventory account.

Question No. 5

Sales, FOB shipping point	**P 100,000**

SUMMARY OF ANSWERS:

1. **D** 2. **A** 3. **D** 4. **D** 5. **A**

PROBLEM 10-37

Question No. 1

Accounts receivable factored		P 400,000
Less: Service charge (400,000 x 5%)	20,000	
Receivable from factor (400,000 x 20%)	80,000	100,000
Customers' credit balance		**P300,000**

Question No. 2

Principal	P 300,000
Add: Interest over full credit period (300,000 x 12% x 6/12)	18,000
Maturity value	318,000
Less: Discount (318,000 x 12% x 3/12)	11,925
Net proceeds from discounting	**P 306,075**

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Question No. 3

Maturity value of the notes (see item in No. 2)	318,000
Add: Protest fee	12,000
Total cash paid/Amount to be debited to AR	**P 330,000**

Question No. 4

Note payable (80% x P600,000)	480,000	
Less: Service fee (5% x P600,00)	30,000	
Cash received	**P 450,000**	

Question No. 5

Total Cash paid (see No. 3)	330,000
Add: Interest income (P330,000 x 12% x 2/12)	6,600
Cash received	**P 336,600**

Question No. 6

Accounts receivable-unassigned (2,000,000-3000,000-400,000-600,000)	P 700,000
Add: Accounts receivable assigned	600,000
Total	1,300,000
Less: Less: Allowance for doubtful accounts (1,300,000 x 5%)	65,000
Net realizable value	**P1,235,000**

SUMMARY OF ANSWERS:

1. **B** 2. **C** 3. **A** 4. **B** 5. **D** 6. **D**

PROBLEM 10-38

Question No. 1 Noncurrent portion

Note receivable from sale of plant (due beyond 12 months)	2,500,000
Note receivable from officer	2,000,000
Note receivable from Never Quit Co. (826,000 + 61,950)	887,950
Note receivable from Persistent Co. (2,800,000 – 603,320 – 140,000)	2,336,680
Total noncurrent receivables **(D)**	**7,724,630**

Amortization table – Persistent Company

Date	Collections	Interest Income	Amortization	Carrying amount
06/01/2016				4,000,000
06/01/2016	1,200,000		1,200,000	2,800,000
06/01/2017	883,320	280,000	**603,320**	2,196,680

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Question No. 2 Current receivables

Note receivable from sale of plant (due within 12 months)		2,500,000
Note receivable from Persistent Co. (883,320 – 280,000)		603,320
Total current receivables	**(C)**	**3,103,320**

Question No. 3 Accrued interest receivable

Accrued interest receivable – note receivable from sale of plant (5,000,000 x 9% x 8/12)		300,000
Accrued interest from sale of land (2,800,000 x 10% x 6/12)		140,000
Total accrued interest	**(C)**	**440,000**

Question No. 4 Interest income

Interest income from sale of plant [(7,500,000 x 9% x 4/12) + (5,000,000 x 9% x 8/12)]		525,000
Interest income from officer (2,000,000 x 8%)		160,000
Interest income from Never Quit Co. (826,000 x 10% x 9/12)		61,950
Interest income from Persistent Co. [(4,000,000 – 1,200,000) x 10% x 6/12)]		140,000
Total interest income	**(C)**	**886,950**

Question No. 5

Present value of future cash flows (1M x .826)		826,000	
Less: Carrying amount of equipment		380,000	
Gain on sale of equipment			446,000
SP (Cash price equivalent)		4,000,000	
Less: Carrying amount of land		3,000,000	
Gain on sale of land			1,000,000
Total gain	**(D)**		**1,446,000**

SUMMARY OF ANSWERS:

1. **D** 2. **C** 3. **C** 4. **C** 5. **D**

PROBLEM 10-39
Question Nos. 1 to 3

	Total	**60 days and below**	**61 to 90 days**	**Over 90 days**
Unadjusted Balance, 12/31/2016	1,900,000	1,000,000	500,000	400,000
Adjustments:				
Write Off	(40,000)			(40,000)
Unrecorded sale	50,000			50,000
NSF Check	20,000	20,000		
In transit shipment –	(45,000)	(45,000)		

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FOB Destination				
Consignment	(45,000)	(45,000)		
Erroneous unit price	(7,500)	(7,500)		
Adjusted balance, 12/31/2016	**1,832,500**	**930,000**	492,500	410,000
Percentage of Uncollectibility		4%	5%	10%
Required allowance, 12/31/2016	**108,825**	37,200	24,625	41,000

Question No. 4

Allowance for Doubtful accounts

Write off	40,000	100,000	Beg. Balance
Balance end (required)	102,825	-	Recoveries
		42,825	Doubtful account expense (squeeze)
Total	142,825	142,825	

Item	Accounts	Debit	Credit
1	Allowance for bad debts	40,000	
	Accounts receivable		40,000
2	Accounts receivable	50,000	
	Sales		50,000
3	Accounts receivable	20,000	
	Cash in bank		20,000
4	Sales	45,000	
	Accounts receivable		45,000
5	Sales	45,000	
	Accounts receivable		45,000
6	Sales	7,500	
	Accounts receivable		7,500

SUMMARY OF ANSWERS:

1. **C** 2. **D** 3. **D** 4. **D** 5. **C**

PROBLEM 10-40

Question Nos. 1 and 3

Adjusting entries for Accounts receivable

Item	Accounts	Debit	Credit
1	Accounts receivable	20,000	
	Allowance for doubtful accounts		20,000

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2	Sales discount	16,000	
	Accounts receivable		16,000
3	Accounts receivable	120,000	
	Allowance for doubtful accounts		120,000
4	Accounts receivable	30,000	
	Allowance for doubtful accounts		30,000
	Miscellaneous income	30,000	
	Accounts receivable		30,000

Accounts receivable

Beg. Balance (20,000+200,000)	220,000	2,720,000	Balance end
Sales	4,000,000	30,00	Recoveries
Recoveries	30,000	*1,500,000	Collections, gross of discount
Total	4,250,000	4,250,000	

*Collections from customers excluding recoveries

Collections without discount	700,000
Add: Collections with discount	784,000
Cash discount availed (784,000/98% x 2%)	16,000
Total collections excluding recoveries	P 1,500,000

Allowance for Doubtful accounts

		20,000	Beg. Balance
Balance end	170,000	30,000	Recoveries
		120,000	Doubtful account expense
Total	170,000	170,000	

Accounts receivable	2,720,000
Less: Allowance for bad debts	170,000
Net realizable value	**P 2,550,000**

Question Nos. 2, 4 and 5
Adjusting entries for Loans receivable

Item	Accounts	Debit	Credit
1	Loan Receivable	400,000	
	Interest income		400,000
2	Unearned interest income	45,382	
	Interest income		45,382

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Principal	4,000,000
Direct origination cost incurred	11,520
Direct origination fees received	(300,000)
Initial carrying amount	**3,711,520**

Amortization table at 12% Effective Rate

Date	Collections	Interest Income	Amortization	Carrying amount
01/01/2015				3,711,520
12/31/2015	400,000	**445,382**	45,382	**3,756,902**
12/31/2016	400,000	450,828	50,828	3,807,731
12/31/2017	400,000	456,928	56,928	3,864,658
12/31/2018	400,000	463,759	63,759	3,928,417
12/31/2019	400,000	471,410	71,583	4,000,000

SUMMARY OF ANSWERS:

1. **B** 2. **C** 3. **D** 4. **D** 5. **A**

PROBLEM 10-41

Note to professor: The due date of receivable from sale of equipment is **2020**, instead of April 1, **2019**.

Question No. 1

Unrecorded gain on sale of machinery – 2015 (see below)	90,183
Unrecorded interest income – receivable from sale of machinery (240,183 x 12%)	28,822
Unrecorded accrued interest – receivable from sale of plant (1,500,000 x 12% x 9/12)	135,000
Net adjustment to R/E – 01/01/16 **(B)**	**254,005**

Cash consideration	200,000
Add: Present value of future cash flows (2.4018 x 100,000)	240,183
Total selling price	440,183
Less: Carrying value of machine (800,000 – 450,000)	350,000
Gain on sale of machine	**90,183**

Amortization table (receivable from sale of machinery):

Date	Collections	Interest Income	Amortization	Carrying amount
01/01/2015				240,183
12/31/2015	100,000	28,822	71,178	169,005
12/31/2016	100,000	**20,281**	79,719	89,286
12/31/2017	100,000	10,714	89,286	-

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Question No. 2

Interest income from note receivable:		
Sale of machinery (169,005 x 12%)		20,281
Sale of plant [(1,500,000 x 12% 3/12) + (1M x 12% x 9/12)		135,000
Sale of equipment (170,750 x 10% x 9/12)		12,806
Total interest income	**(C)**	**168,087**

Question No. 3

Current portion of note receivable from:		
Sale of machinery (see amortization table above)		89,286
Sale of plant		500,000
Total current portion	**(B)**	**589,286**

Question No. 4

Non-current portion of note receivable from:		
Sale of plant		500,000
Sale of equipment (170,750 + 12,806)		183,556
Total non-current portion	**(D)**	**683,556**

Question No. 5

Interest income from sale of machine		20,281
Interest income from sale of plant (180,000 – 135,000)		(45,000)
Interest income from sale of equipment		12,806
Net overstatement of income	**(E)**	**(11,912)**

SUMMARY OF ANSWERS:

1. **B** 2. **C** 3. **B** 4. **D** 5. **E**

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