FINANCIAL ASSETS

Financial Assets - Cash and Cash Equivalents

1. Under which classification is “cash restricted for plant expansion” reported?
   A. Current Assets
   B. Noncurrent Assets
   C. Current Liabilities
   D. Equity

2. All of the following can be classified as cash and cash equivalents, except?
   A. Equity investments
   B. Bank overdraft
   C. Redeemable preference shares acquired and due in 60 days
   D. Commercial papers held and due for repayment in 90 days

3. Bank overdraft
   A. which cannot be offset is classified as current liability
   B. which cannot be offset is classified as noncurrent liability
   C. is a debit balance in a cash in bank account
   D. is offset against demands deposit account in another bank

4. A compensating balance is best reflected by which of the following?
   A. A savings account maintained at the bank equal to the amount of all outstanding loans
   B. An amount of capital stock held in the company’s treasury equal to outstanding loan commitments
   C. The portion of any demand deposit, time deposit, or certificate of deposit maintained by a corporation which constitute support for existing borrowing arrangements of the corporation with the lending institution
   D. A balance held in a time or demand deposit account that is equal to the interest currently due on a loan

5. You noted the following composition of Santos Company’s “cash account” as of December 31, 2019:

Demand deposit account	P2,000,000
Time deposit – 30 days	1,000,000
NSF check of customer	40,000
Money market placement (due June 30,	1,500,000
Savings deposit in a closed bank	100,000
IOU from employee	20,000
Pension fund	3,000,000
Petty cash fund	10,000
Customer check dated January 1, 2020	50,000
Customer check outstanding for 18 mo.	40,000
Total	P7,760,000

Additional information follows:

a. Check of P200,000 in payment of accounts payable was recorded on December 31, 2019 but mailed to suppliers on January 5, 2020.
b. Check of P100,000 dated January 15, 2020 in payment of accounts payable was recorded and mailed on December 31, 2019.
c. The company uses the calendar year. The cash receipts journal was held open until January 15, 2020, during which time P400,000 was collected and recorded on December 31, 2019.

The cash and cash equivalents to be shown on the December 31, 2019 statement of financial position is

A. P3,310,000
B. P1,910,000
C. P2,910,000
D. P4,410,000

6. On April 1, 2019, Dogman Company established an imprest petty cash fund for P10,000 by writing a check drawn against its checking account. On April 30, 2019, the fund contained the following:

Currency and coins	3,000
Receipts for office supplies	4,000
Receipts for postage still unused	3,000
Receipts for transportation	800

On April 30, 2019, the entity wrote a check to replenish the fund. What is the amount of replenishment under the imprest fund system?

A. 8,200
B. 6,600
C. 7,000
D. 3,000

7. In preparing its bank reconciliation for the month of April 2019, Franklin, Inc. has available the following information.

Balance per bank statement, 4/30/19	P39, 140
NSF check returned with 4/30/19 bank	450
Deposits in transit, 4/30/19	5, 000
Outstanding checks, 4/30/19	5, 200
Bank service charges for April	20

What should be the adjusted cash balance at April 30, 2019?

A. P39, 370.
B. P38, 940.
C. P38, 490.

D. P38, 470.

Financial Assets - Loans and Receivables

1. Which is more theoretically correct about cash discounts related to accounts receivable?
   A. Net approach
   B. Gross approach
   C. Allowance approach
   D. All three approaches are theoretically correct

2. What is the presentation of accounts receivable from officers, employees or affiliated entities?
   A. As offset to equity
   B. By means of footnote only
   C. As trade notes and accounts receivable
   D. As assets but separately from other receivables

3. Long-term notes receivables which nominally bear no interest or an interest which is unreasonably low shall be recognized initially at
   A. Face value
   B. Present value
   C. Maturity value
   D. Current value

4. The ‘’amortized cost” of loan receivable is the amount of which
   A. The loan receivable is measured initially minus principal repayment, plus or minus the cumulative amortization of any difference between the initial amount recognized and the principal maturity amount, minus reduction for impairment.
   B. The loan receivable is measured initially minus principal repayment, plus or minus amortization recognized and the principal maturity amount.
   C. The loan receivable is measured initially.
   D. The loan receivable is measure initially minus principal payment.

5. From inception of operations to December 31, 2019, Mark Company provided for uncollectible accounts expense 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. The usual credit terms are net 30 days.

   The allowance for doubtful accounts was P120,000 on January 1, 2019. During the current year, credit sales totaled P9,000,000, interim provisions for doubtful accounts were made at 2% of credit sales, P90,000 of bad debts were written off, and recoveries of accounts previously written off to P15,000.

   The entity prepared an aging of accounts receivable for the first time on December 31, 2019.

Classification	Balance	Uncollectible

November – December	2,000,000	2%
July – October	600,000	10%
January – June	400,000	25%
Prior to January 1, 2018	200,000	75%
	3,200,000	

Based on the review of collectibility of the account balances in the “prior to January 1, 2019” aging category, additional accounts totaling P60,000 are to be written off on December 31, 2019. Effective with the year ended December 31, 2019, the entity 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. What is the year-end adjustment to the allowance for doubtful accounts on December 31, 2019?

A. 305,000
B. 180,000
C. 320,000
D. 140,000

6. In 2019, the Dugan Co. had net credit sales of P375, 000. On January 1, 2019, Allowance for Doubtful Accounts had a credit balance of P8, 000. During 2019, P15, 000 of uncollectible accounts receivable were written off. Past experience indicates that the allowance should be 10% of the balance in receivables (percentage of receivable basis). If the accounts receivable balance at December 31 was P100, 000, what is the required adjustment to the Allowance for Doubtful Accounts at December 31, 2019?
   A. P10, 000
   B. P17, 000
   C. P18, 000
   D. P15, 000

Use the following information for the next two questions:

On December 31, 2018, Flint Corporation sold for P750, 000 an old machine having an original cost of P1, 350, 000 and a book value of P600, 000. The terms of the sale were as follows: P150,000 down payment; P200, 000 payable on December 31 each of the next three years. The agreement of sale made no mention of interest; however 9% would be a fair rate for this type of transaction.

10. What should be the amount of the notes receivable net of the unamortized discount on December 31, 2019 rounded to the nearest peso?
    A. P150, 000
    B. P183, 486
    C. P351, 822
    D. P506, 259

11. What is the amount of interest income should Flint Company report in the December 31, 2019?
    A. P13, 500

B. P16, 514
C. P31, 664
D. P45, 563

12. Alpha Finance granted a 10%, 2-year P5,000,000 loan to Poseidon Company on January 1, 2019. The interest is payable every December 31 of each year. During the term of the contract. Alpha Finance incurred an origination cost of P328,326 but charge Poseidon Company for P150,000 as an origination fee. The effective rate is now 8% after considering the origination costs and origination fee. Due to financial difficulty, Poseidon was unable to pay the interest on December 31, 2019. Alpha Finance has now considered that the loan to Poseidon Company is now impaired. Reliable estimates show that the projected cash flows from the loan are as follows: P2,000,000 on December 31, 2020; P3,000,000 on December 31, 2021.

    What amount of impairment loss on the loan should Alpha Finance recognize on December 31, 2019?
    a. None
    b. P373,371
    c. P462,963
    d. P668,723

Financial Assets - Investment in Equity Instruments

1. Any investment may be accounted for at fair value through profit or loss when
    A. It is a debt instrument
    B. It is an equity instrument
    C. It is traded in active market
    D. The instrument matures within 2 years

2. Which of the following should be valued at fair value subsequent to initial recognition?
    A. Held-to-maturity investments.
    B. Financial assets and liabilities that are designated as a hedged item or hedging instrument.
    C. Investments in equity instruments with no reliable fair value measurement.
    D. Financial assets acquired or held for the purpose of selling in the short term.

3. The irrevocable election to present subsequent changes in fair value in other comprehensive income is applicable only to
    A. Investment in equity instrument that is not held for trading
    B. Investment in equity instrument that is held for trading
    C. Financial asset measured at amortized cost
    D. Financial asset measured at fair value

4. Ana Company purchased trading equity securities. The cost and market value at December 31, 2018 were:

Security	Cost	Market
A − 20,000 shares	2,000,000	2,500,000
B − 40,000 shares	4,000,000	3,000,000

C – 60,000 shares	6,000,000	5,500,000

Ana sold 60,000 shares of Security C on January 31, 2019, for P5,000,000, incurring P100,000 in brokerage commission and taxes. On the sale, Ana should report a realized loss of

A. 1,100,000
B. 1,000,000
C. 600,000
D. 500,000

Use the following information for the next four questions:
The following transactions occurred in December 2018:

- December 2, 2018: Dogman Company acquired 10,000 Tom Company ordinary shares for a total consideration of P38,000. This amount includes P1,000 for legal fees and taxes. Colt Company has 100,000 ordinary shares outstanding. Dogman Company's principal intention with the Tom Company shares is to sell it in the near term.
- On December 8, 2018, Dogman Company acquired 10,000 Myto Company shares for a total consideration of P52,000. This amount includes P1,500 for commissions, legal fees and taxes. Myto Company has 100,000 ordinary shares outstanding. Dogman Company's principal intention with the Myto Company shares is to not hold it for trading.
- On December 31, 2018 Tom Company shares were quoted at P3.59. The estimated disposal cost was P500. Myto Company shares were quoted at P5.00. The estimated disposal cost was P1,200
- In January 6, 2019, Dogman Company sold all of its Tom Company shares for P37,500. On September 11, 2019 Dogman Company sold half of its investment in Myto Company for P28,000. On December 31, 2019, the fair value of the remaining investment in Myto Company was P24,000

5. The loss reported in the profit or loss section of the 2019 comprehensive income statement is
   A. 3,100
   B. 2,100
   C. 1,600
   D. 1,100

6. The loss reported in the other comprehensive income section of the 2019 comprehensive income statement is
   A. 500
   B. 1,700
   C. 2,000
   D. 3,200

7. The gain reported in the profit or loss section of the 2019 comprehensive income statement is
   A. 4,600
   B. 3,600
   C. 2,500

D. 1,600

8. The net gain (loss) reported in the stockholder's equity section of the 2019 statement of financial position
   A. 1,000
   B. (1,000)
   C. (2,000)
   D. 2,000

9. Data pertaining to dividends from Arlene Company's common stock investments for the year 2019 follow:
   - On October 1, 2019, Arlene received P2,000,000 liquidating dividend from X Company. Arlene owns a 5% interest in X Company.
   - Arlene owns a 10% interest in Y Company which declared a P30,000,000 cash dividend on November 15, 2019 to stockholders of record on December 15, 2019 payable on January 15, 2020.
   - On December 1, 2019, Arlene received from Z Company a dividend in kind of one share of V Company common stock for every 5 Z Company common shares held. Arlene holds 200,000 Z Company shares which have a market price of P50 per share on December 1, 2019. The market price of V Company common is P30 per share.

   What amount should Arlene report as dividend income in its 2019 income statement?
   A. 6,200,000
   B. 4,200,000
   C. 3,000,000
   D. 5,000,000

Financial Assets - Investment in Debt Instruments

1. Under PFRS 9, a financial asset shall be measured subsequently at amortized cost when
   I. The business model of the entity is to hold the financial asset in order to collect contractual cash flows on specified dates.
   II. The contractual cash flows are solely payments of principal and interest on the principal amount outstanding
   A. I only
   B. II only
   C. Either I and II
   D. Neither I nor II

2. The new standard clarifies the existing guidance on the collection of the asset's contractual cash flows. When determining the applicability of this business model, an entity should consider past and future sales information. If an entity holds financial assets for sale then it will fail the business model test for accounting for the financial assets at amortised cost. How are financial assets accounted for where the business model's objective is both collecting contractual cash flows and selling financial assets?
   A. FVTPL
   B. Amortised cost

C. Net realisable value
D. FVTOCI

3. The business model approach refers to how an entity manages its financial assets in order to generate cash flows either by collecting contractual cash flows, selling financial assets or both. How are financial assets accounted for where the business model's objective is to hold assets in order to collect contractual cash flows and not sell those assets?
   A. Net realisable value
   B. Amortised cost
   C. Amortised cost
   D. FVTOCI

4. Bear Co. purchased 500,000 of bonds at par. Bear management has an active trading business model for this investment. At December 31, Bear received annual interest of 20,000, and the fair value of the bonds was 470,400. In Bear Co.'s year-end statement of financial position what amount will be reported for the bond investment and how much total income/loss will be reported on its statement of comprehensive income? SFP, SCI
   A. 500,000, 20,000
   B. 470,400, 20,000
   C. 470,400, (9,600)
   D. 470,400, 49,600

Use the following information for the next two questions:
Major Company revealed the following investments at cost and fair value:

	Cost	Fair value – 12/31/18	Fair value – 12/31/19
Bond investment	2,000,000	1,400,000	1,800,000
Share investment	3,500,000	3,700,000	4,000,000

The business model for the bond investment is to collect contract cash flows composed of principal and interest and to sell the asset. The bonds were purchased at face amount of P2,000,000. The ordinary shares are nontrading and the entity elected to present fair value changes in other comprehensive income. On January 1, 2020, the entity sold the 'bonds and shares for P2,500,000 and P4,500,000 respectively.

5. What amount in OCI is recognized in the statement of comprehensive income for 2019?
   A. 300,000
   B. 400,000
   C. 700,000
   D. 500,000

6. What amount is recognized as gain on disposal included in profit or loss for 2020?
   A. 700,000
   B. 500,000
   C. 1,000,000

D. 1,500,000

7. On January 1, 2018, Enrique Company purchased 9% bonds with a face amount of P4,000,000 for P3,756,000 to yield 10%. The bonds are dated January 1, 2018, mature on December 31, 2027 and pay interest annually on December 31. The interest method of amortizing bond discount is used. What amount should be reported as interest revenue from the bond investment for 2019?
   A. 360,000
   B. 375,600
   C. 377,160
   D. 400,000

8. On January 1, 2019, Tommy Company purchased 12% bonds with face value of P5,000,000 for P5,380,000. The bonds provide an effective yield of 10%. The bonds are dated January 1, 2019, mature on January 1, 2024 and pay interest annually on December 31 of each year. The bonds are quoted at 120 on December 31, 2019. The entity has elected the fair value option for bond investment. What total income should be reported for 2019?
   A. 1,220,000
   B. 1,120,000
   C. 1,138,000
   D. 600,000

IAS 28 - Investment in Associates

1. Under PAS 28, beyond the mere 20% threshold, the existence of significant influence is usually evidenced by
   A. Participation in policy making process
   B. Representation in the board of directors
   C. Material transactions between the investor and the investee
   D. All of these

2. Under the equity method of accounting for investments, an investor recognizes the share of the earnings in the period in which the
   A. Investee pays a dividend
   B. Investor sells the investment
   C. Investee declares a dividend
   D. Earnings are reported by the investee in the financial statements

3. Umingan Company acquired 1 40% interest in Baguio Company for P1,700,000 on January 1, 2019. The shareholders' equity of Baguio Company on January 1 and December 31, 2019 is presented below.

	1/1	12/31
Share capital	3,000,000	3,000,000
Revaluation surplus		1,300,000
Retained earnings	1,000,000	1,500,000

On January 1, 2019, all identifiable assets and liabilities of Baguio Company were recorded at fair value. Baguio Company reported profit of P700,000, after income tax expense of P300,000 and paid dividend of P150,000 to shareholders during the current year.

The revaluation surplus is the result of the revaluation of land recognized by Baguio Company on December 31, 2019. Additionally, depreciation is provided by Baguio Company on the diminishing balance method whereas Umingan Company used the straight line. Had Baguio Company used the straight line, accumulated depreciation would be increased by P200,000. The tax rate is 30%.

What is the carrying amount of the investment in associate on December 31, 2019?

A. 2,440,000
B. 1,700,000
C. 1,920,000
D. 2,230,000

8. On January 1, 2018, Dogman Company acquired 10% of the outstanding ordinary shares of an investee for P4, 000,000. On January 1, 2019, the entity acquired an additional 20% of the investee's outstanding ordinary shares for P10, 000,000. The fair value of the investee's net equalled carrying amount on January 1, 2019, The fair value of 10% interest on January 1, 2019 was P6, 000,000. The investee reported the following:

	2018	2019
Dividend paid	2,000,000	3,000,000
Net income	6,000,000	7,000,000

What is the carrying amount of the investment in associate on December 31, 2019?

A. 15,200,000
B. 17,200,000
C. 16,000,000
D. 17, 600,000

Basic Derivatives (excluding Hedge Accounting)

1. Which statement is incorrect regarding derivatives?
   A. Its value changes in response to the change in an underlying variable such as an interest rate, commodity or security price, or index.
   B. It requires no initial investment, or one that is smaller than would be required for a contract with similar response to changes in market factors.
   C. It is not settled.
   D. None of the above.

2. Contracts to purchase or sell a specific quantity of a financial instrument, a commodity, or a foreign currency at a specified price determined at the outset, with delivery or settlement at a specified future date.
   A. Forwards
   B. Interest rate swap
   C. Options
   D. Caps and floors

3. On November 1, 2019, UPC Company sold some limited edition art prints to CPU Company for ¥47,850,000 t be paid on January 1, 2020. The current exchange rate on November 1, 2019 was ¥110 = $1, so the total payment at the current exchange rate would be equal to $435,000. UPC Company entered into a forward contract with a large bank to guarantee the number of dollars to be received. According to the terms of the contract, if ¥47,850,000 is worth less than $435,000, the bank will pay UPC Company the difference in cash. Likewise, if ¥47,850,000 is worth more than $435,000, UPC Company must pay the bank the difference in cash. The exchange rate on December 31, 2019 is ¥120 = $1.

   What amount in U.S. dollars should be reported as derivative asset or liability on December 31, 2019?
   A. 398,750 asset
   B. 398,750 liability
   C. 36,250 asset
   D. 36,250 liability

4. Rica Company invested P20, 000 in a call option for 1,000 shares of Gin Company P50 par, when the market price was P100 per share. The option expired in three months and had an exercise price of P90 per share. What was the intrinsic value of call option at the time of initial investment?
   A. 5,000
   B. 20,000
   C. 10,000
   D. 90,000

5. On January 1, 2019, Santos Company received a 5-year variable interest rate loan of P10, 000,000 with interest payment at the end of each year and the principal to be paid on December 31, 2023. The interest rate for 2019 is 8% and the rate in each succeeding year is equal to market interest rate on January 1 of each year. Santos Company entered into a "receive variable, pay fixed" interest rate swap agreement. The swap payments are made at the end of the year. This interest rate swap agreement is designated as a cash flow hedge. On January 1, 2020, the market rate of interest is 3 On December 31, 2019, what amount should be reported as derivative asset or liability?
   A. 694,000 asset
   B. 800,000 asset

C. 694,000 liability
D. 800,000 liability

Financial Liabilities – Accounts Payable

1. IAS 39 was felt to work well as regards the accounting for financial liabilities; therefore the IASB felt that there was little need for change. As a result of the lack of change in IFRS 9, how are most financial liabilities likely to be measured?
   A. Amortised cost
   B. Net realisable value
   C. FVTPL
   D. FVTOCI

2. Financial liabilities include
   A. Bank overdraft.
   B. Loans receivable.
   C. Income tax payable.
   D. Cumulative, redeemable preference shares at the option of the issuer.

3. Company A, a listed company, has an obligation to deliver to Company B as many of company A's own ordinary shares as will equal P1,000,000. Company A's financial instrument will be classified as
   A. Financial asset.
   B. Financial liability.
   C. Equity instrument.
   D. Compound financial instrument.

4. Enrique Corporation had accounts payable of P5,000,000 recorded in the general ledger as of December 31, 2019 before consideration of the following unrecorded transactions:

Invoice date	Amount	Date shipped	Date received	FOB terms
1-3-20	P400,000	12-22-19	12-24-19	Destination
1-2-20	650,000	12-28-19	1-2-20	Shipping point
12-26-19	600,000	1-2-20	1-3-20	Shipping point
1-10-20	450,000	12-31-19	1-5-20	Destination

In the December 31, 2019 statement of financial position, the accounts payable should be reported in the amount of

a. P5,000,000
b. P6,050,000

c. P5,400,000
d. P7,100,000

Financial Liabilities – Notes Payable

1. PonyTail Corp. has an outstanding 10% note payable dated October 1, 2017 and is payable in three equal annual payments of P600,000 plus interest. The first interest and principal payment was made on October 1, 2018. In PonyTail 's June 30, 2019 statement of financial position, what amount should be reported as accrued interest payable for this note?
   A. 35,000
   B. 90,000
   C. 45,000
   D. P30,000

2. Math Inc. signed a P200,000 noninterest-bearing note due in five years from a production company eager to do business. Comparable borrowings have carried an 11% interest rate. At what amount should this debt be carried at its inception?
   A. P200,000
   B. P118,690
   C. P178,000
   D. P222,000

3. On December 30, 2019, Jeepney, Inc. purchased a machine from Abiss Corp. in exchange for a noninterest-bearing note requiring eight payments of P20,000. The first payment was made on December 30, 2019, and the others are due annually on December 30. At date of issuance, the prevailing rate of interest for this type of note was 11%. Present value factors are as follows:

Periods	Present value of ordinary annuity of 1 at 11%	Present value of annuity in advance of 1 at 11%
7	4.712	5.231
8	5.146	5.712

   On Jeepney's December 31, 2019 statement of financial position, the note payable to Abiss was
   A. P 94,240
   B. P104,620
   C. P102,920
   D. P114,240

Financial Liabilities – Bonds Payable

1. Which statement is incorrect regarding convertible bonds?
   A. The proceeds from issuance of convertible bonds must be allocated to the liability and equity components pro rata based on fair values.
   B. The equity component is not remeasured until the bond is either converted or redeemed.
   C. If the bond is converted, the remaining liability component is transferred to equity.

D. If the bond is not converted, the equity component remains in equity despite redemption.

2. On January 1, 2019, Watch Company issued 3-year bonds with face value of P5,000,000 at 99. The nominal rate is 10% and the interest is payable annually on December 31. Additionally, the entity aid bond issue cost of P150,000. What is the interest expense for 2019 using the effective interest method?
A. 550,000
B. 576,000
C. 528,000
D. 559,680

3. On January 1, 2019, Philippines Company received P1,077,200 for P1,000,000 face amount 12% bonds. The bonds were sold to yield 10%. Interest is payable semiannually every January 1 and July 1. The entity has elected the fair value option for valuing financial liabilities. On December 31, 2019, the fair value of the bonds is determined to be P1,064,600. On the basis above, compute for the following:

	Carrying amount – 1/1/19	Interest expense – 2019	Gain from change in fair value – 2019	Carrying amount – 12/31/19
A	1,000,000	100,000	64,600 gain	1,077,200
B.	1,077,200	120,000	12,600 gain	1,064,600
C.	500,000	107,720	12,600 loss	1,000,000
D	538,600	129,264	64,600 loss	1,064,920

4. On January 1, 2017, Icar Company issued convertible bonds with a face value of P5,000,000 for P6,000,000. The bonds are convertible into 50,000 shares with P100 par value. the bonds have a 5-year life with 10% stated interest rate payable annually every December 31. The fair value of the convertible bonds without conversion option is computed at P5,399,300 n January 1, 2017. On December 31, 2019, the convertible bonds were not fully converted but fully paid for P5,550,000. On such date, the fair value of the bonds without conversion privilege is P5,400,000 and the carrying amount is P5,178,300. What is the loss on the extinguishment of the convertible bonds on December 31, 2019?
A. 221,700
B. 150,000
C. 371,700
D. 0

5. On January 1, 2019, NinePM Company issued its 10%, 5-year convertible debt instrument with a face amount of P10,000,000 for P10,000,000. Interest is payable every December 31 of each year. The debt instrument is convertible into 90,000 ordinary shares with par value of P100. When the debt instrument was issued, they were selling at 97% without conversion option. NinePM Company incurred P80,000 transaction costs on the issue of the debt instruments. How much of the net proceeds represent the equity component?
A. P 297,600

B. P 9,622,400
C. P 9,920,000
D. P10,000,000

Financial Liabilities – Debt Restructuring

1. On December 31, 2019, Kotse Co. is in financial difficulty and cannot pay a note due that day. It is a 600,000 note with 60,000 accrued interest payable to Piper, Inc. Piper agrees to accept from Kotse a building that has a fair value of 590,000, an original cost of 530,000, and accumulated depreciation of 130,000. Kotse should recognize a gain on the settlement of the debt of
   A. 0.
   B. 10,000
   C. 60,000
   D. 260,000

2. Parker Company is experiencing financial difficulty and is negotiating debt restructuring with its creditor to relieve its financial stress. Parker has a P2,500,000 note payable to Philippine National Bank. The bank accepted an equity interest in Parker Company in the form of 200,000 ordinary shares quoted at P12 per share. The par value is P10 per share. The fair value of the note payable on the date of restructuring is P220,000

   What amount should be recognized as gain from debt extinguishment as a result of the "equity swap" and share premium from the issuance of the shares?
   (Gain from extinguishment, Share premium)
   A. 400,000, 500,000
   B. 500,000, 100,000
   C. 100,000, 400,000
   D. 200,000, 200,000

3. Due to adverse economic circumstances and poor management, Library Company had negotiated a restructuring of its 9% P6,000,000 note payable to Banco de Oro due on January 1, 2019. There is no accrued interest on the note. The bank has reduced the principal obligation from P6,000,000 to P5,000,000 and extend the maturity to 3 years on December 31, 2020. However, the new interest rate is 13% payable annually every December 31. The present value of 1 at 9% for three periods is 0.77 and the present value of an ordinary annuity of 1 at 9% for three periods is 2.53. What is the gain on extinguishment of debt to be recognized for 2019?
   A. 1,000,000
   B. 505,500
   C. 350,000
   D. 0