

CPA REVIEW SCHOOL OF THE PHILIPPINES
Manila

**INSTALLMENT / DEFERRED PAYMENT
METHOD OF REPORTING INCOME**

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1. Which of the following statements is not correct? Those who make a casual sale or disposition of personal property on the installment plan may elect the instalment basis of reporting income if
 - a. The personal property sold is of a kind which would be included in the inventory.
 - b. The selling price exceeds P1,000
 - c. The sale is in instalment
 - d. The initial payments do not exceed 25% of the selling price.
2. Income from a deferred sale of the property may be reported using
 - a. The instalment method only
 - b. Deferred payment method only
 - c. Either the instalment or deferred payment method
 - d. Neither the instalment nor deferred payment method
3. In 2018, A sold a piece of land which had a cost of P1,000,000 for a selling price of P4,000,00. The sale called for an assumption by the buyer of a mortgage on the land of P1,500,000, cash of P500,000 on the date of sale, and installment payments of P500,000 every year thereafter. The land is an ordinary asset. The income to be reported in 2018 under the installment method of operating income is
 - a. P500,000
 - b. P750,000
 - c. P375,000
 - d. P1,000,000
4. A sold his ring, a capital asset, on February 14, 2018. The ring was acquired on January 14, 1980 at a cost of P60,000. The terms of payment are as follows:

Down payment, February 14, 2018	P25,000
Installment payment, February 14, 2019	25,000
Installment payment, February 14, 2020	50,000
Mortgage assumed by the buyer	<u>20,000</u>
Total	P120,000

The taxable gain to be reported by A in 2018 is

- a. P60,000
 - b. P30,000
 - c. P15,000
 - d. P7,500
5. F, sold the following capital assets

	<u>Land 1</u>	<u>Land 2</u>	<u>Land 3</u>	<u>Land 4</u>
Selling Price	P400,000	P600,000	P800,000	P1,200,000
Cost	200,000	250,000	400,000	400,000
Commission paid	30,000	70,000	-	-
Selling expenses incurred	20,000	30,000	40,000	50,000

Terms of sale:

Down payment, Feb. 14, 2018	50,000	P70,000	P50,000	P150,000
Installment payments:				
July 14, 2018	50,000	70,000	50,000	150,000
July 14, 2019	150,000	100,000	200,000	200,000
July 14, 2020	150,000	260,000	-	200,000
Mortgage assumed by the buyer	-	100,000	500,000	500,000

The final tax for 2018 is

- a. P180,000
- b. P112,080
- c. P85,080
- d. P82,080

6. A sold a delivery truck in instalment on February 14, 2018, as follows:
- | | |
|--|---------|
| Down payment, February 14, 2018 | P40,000 |
| Installment payment, February 14, 2019 | 80,000 |
| Installment payment, February 14, 2020 | 80,000 |
| Acquisition cost of delivery truck | 300,000 |
| Accumulated depreciation up to February 14, 2018 | 200,000 |
- The income to be reported in 2018, is
- a. P100,000 b. P40,000 c. P20,000 d. P10,000
7. A, a real estate dealer sold a house and lot for P600,000 on November 20, 2017. The cost of the property is P375,000. Terms are: a) Down payment of P100,000 and b) Balance payable in monthly instalments of P25,000 beginning December 20, 2017. The income to be reported in 2017 is
- a. P225,000 b. P125,000 c. P46,875 d. P37,500
8. Using the preceding number, except that the asset above is a capital asset, the capital gains tax payable in 2017 is
- a. P36,000 b. P7,500 c. P6,000 d. P3,750
9. On December 1, 2017, a real estate dealer sold a residential land for P6M (cost is P3.6M) receiving P2M as down payment and a promissory note for the P4M balance payable at P400,000 a month beginning January 1, 2018. The promissory note has fair market value equal to 75% of its face value. If the income is to be reported under the deferred payment method, the income in 2017 is
- a. P2,400,000 b. P1,400,000 c. P800,000 d. P1,200,000
10. On June 1, 2018, A sold shares of stocks of a resident foreign corporation held as capital assets for 24 months for P500,000 (cost of P300,000), payable as follows: P200,000 on the date of sale and the balance is secured by a promissory note where fair market value is 85% of its face value. Payments on the note were as follows:
- | | |
|------------------|----------|
| January 1, 2019 | P100,000 |
| June 1, 2019 | 100,000 |
| December 1, 2019 | 100,000 |
- The capital gain in 2018 is
- a. P200,000 b. P85,000 c. P77,500 d. P100,000

The End!!!