I. Multiple Choice: (20%, Choose the best answer.)

1). Due to a curtailment, DCE reduced the projected benefit obligation associated with DCE's defined benefit pension plan by 50 percent. When the curtailment occurred, DCE had the following unrecognized pension amounts: Unrecognized transition gain, $60,000; Unrecognized net loss, $30,000; and Unrecognized prior service cost, $37,500. DCE's projected benefit obligation immediately prior to the curtailment was $600,000. The amount of gain or loss from curtailment is:
a. $251,250 b. $266,250 c. $296,250 d. $300,000 e. None of the above

2). External financial statements, according to FASB Concepts Statement 2, should provide all of the following information except:
a. Information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and other decisions.
b. Information for planning the future of the entity, implementing those plans, and for controlling daily operations.
c. Information that is comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.
d. Information to help present and potential investors and credits and other users in assessing the amounts, timing and uncertainty of prospective cash receipts.
e. Information about the economic resources of an enterprise and the claims to those resources and the effects of transactions, events and circumstances that change resources and claims to those resources.

3). A corporation reported a balance in "Allowance for doubtful accounts" of $4,800 at the end of 19A. At the end of 19B, it estimated the balance needed in the allowance account by aging the accounts receivable. The 19B estimated allowance balance was $5,020. In 19A and 19B, the company wrote off $4,300 and $4,580 in uncollectible accounts, respectively. At the end of 19B, the entry to record the bad debt expense was a debit of $4,560. What amount of bad debts previously written off did the corporation recover in 19B?
a. $420 b. $240 c.$220 d. Zero e. None of the above

4). A company has just completed its second year of operations. It will use the dollar-value LIFO retail method for external reporting. The following information is available (round cost ratio to 3 decimal places):

	Cost	Retail
Beginning inventory, January 1, 19B.........	$ 7,200	$12,000
Sales revenues..............................		35,200
Purchases...................................	31,200	48,000
Net markdowns...............................		12,800
Net markups.................................		4,000

External price indexes: 19A, 100; 19B, 102.

19B cost of goods sold will be:
a. $27,440 b. $28,020 c. $28,207 d. $28,272 e. None of the above

5). GW Company repossessed a machine from WB Company that was sold to WB in 19C for $25,000. At the time of repossession in 19E, WB still owed $8,000 on the machine. GW's purchase cost of the machine was $18,000. GW estimated that with minor repairs of $400, the repossessed machine could be resold for about $15,000. What effect, in any, would the repossession have on GW's 19E statement of income, assuming the used machine is not yet resold?
a. $6,600 gain b. $7,000 gain c. $3,400 loss d. $3,000 loss
e. No effect until the machine is sold

6). IC has a Model B widget-making machine that originally cost $77,000 (accumulated depreciation, $42,000). It has a current market value of $20,000. IC exchanged this machine for a similar widget-making machine (a smaller one, Model A) owned by EC. The Model A originally cost $46,000 (accumulated depreciation to date, $37,400) It has a current market value of $18,000. IC received $10,000 cash on the exchange. IC should record the exchange transaction by recognizing:
a. $1,600 gain b. $7,000 loss c. $16,400 loss d. $17,000 loss e. None of the above

7). Stock issue costs should be accounted for by:
a. Offsetting stock issue costs against the sales price of stock issued or as a deferred charge.
b. Debiting all stock issue costs to organization costs and amortizing them under the "40-year" rule.
c. Crediting all stock issue costs to contributed capital, stock issue costs.
d. Only offsetting stock issue costs against the sales price of stock issued.
e. None of the above.

8). On April 30, 19A, White sold land with a book value of $600,000 to Black for its market value of $800,000. Black gave White a 12%, $800,000 note secured only by the land. At the date of sale, Black was in a very poor financial position and its continuation as a going concern was very questionable. White should:
a. Record a $200,000 gain on the sale of land.
b. Fully reserve the note.
c. Use the cost recovery method of accounting.
d. Record the note at its discounted value.
e. None of the above is correct.

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II. (15%)

The Super Computer Company manufactures computers for sale or rent. On January 2, 19x1, the company completed the manufacture of a computer for a total cost of $190,000. A customer leased the computer on the same day for a five-year period at a monthly rental of $5,000. Although the computer will last longer than five years, it is likely that it will be technologically obsolete by the end of the five-year period. However, it is still possible that the computer will not be obsolete. Super's management estimates that if the computer is obsolete, it can be sold for $20,000 at the end of the lease, and if it is not obsolete, it can be sold for $40,000 because it would probably last for another two years. On the basis of its experience in leasing many computers, management estimates that the expenses associated with the lease of this computer will be as follows:

	Insurance and Property Taxes	Repairs and Maintenance
19x1	$7,000	$3,000
19x2	6,400	4,500
19x3	5,800	6,000
19x4	5,200	7,500
19x5	4,600	9,000

(1). What estimated useful life and estimated residual value do you recommend that Super use for the computer? Explain.

(2). Prepare two schedules that show for each year the lease revenue, expenses, and income before income taxes. Also, show on each schedule for each year the carrying value of the computer at the end of the year, and compute the ratio of income before income taxes to carrying value (return on assets). Round components to one decimal point. The first schedule should compute depreciation by using the straight-line method, and the second schedule should use the sum-of-the-years'-digits method.

(3). Compare the two schedules in (2), and discuss the results. Which of the methods do you feel produces the most realistic pattern of income before taxes, and why?

(4). If you were asked to determine the amount of cash generated each year from this lease (cash received minus cash disbursed), what effect, if any, would the method of depreciation have on your computations?

III. (15%)

The Modern Chemical Corporation plans to build a new plant that will produce liquid fertilizer for the agricultural market. The plant is expected to cost $200,000,000 and will be located in the southwestern part of Taiwan. The company's chief financial officer, Steve Chang, has spent the last several weeks studying different means of financing the plant's construction.

From his talks with bankers and other financiers, he has decided that there are two basic choices. The plant can be financed through the issuance of a long-term bond or a long-term lease. The two options follow:

a). Issuance of a $200,000,000, twenty-five-year, 16 percent bond secured by the new plant. Interest on the bonds would be payable semiannually.

b). Signing of a twenty-five-year lease calling for semiannual lease payments of $16,350,000.

Mr. Chang wants to know what the effect of each choice will be on the company's financial statements. He estimates that the useful life of the plant is twenty-five years, at which time it is expected to have an estimated residual value of $20,000,000.

(1). Prepare the entries to record issuance of the bonds at face value in exchange for the fertilizer plant. Assume that the transaction occurs on the first day of the fiscal year, which is July 1. Also prepare entries to pay the interest expense and interest payable and to record depreciation on the plant during the first year. Assume that the straight-line method is used. Describe the effects that these transactions will have on the balance sheet and income statement.

(2). Prepare the entries required to treat the long-term lease as a capital lease. Assume that the plant is occupied on the first day of the fiscal year, July 1, and that an interest rate of 16 percent applies. Also prepare entries to record the lease payments and to record depreciation during the first year. Describe the effects that these transactions will have on the balance sheet and income statement.

(3). What factors would you consider important in deciding which alternative to choose? Contrast the annual cash requirement of the two alternatives.