200. Differentiate between a defined contribution pension plan and a defined benefit pension plan.

A contribution pension

- Employee invests & takes liability (pays amount each yr)
- Accounting is easy specific formula

Defined benefit pension plan

- Employer contributes & takes liability
- Must be estimated (harder accounting)
- Vesting options
- Pay out after retirement

WOW!

163. The following information relates to Schmidt Sausage Co.'s defined benefit pension plan during 2006:

- Plan assets at fair value, January 1: $400,000,000
- Expected return on plan assets: 40,000,000
- Actual return on plan assets: 32,000,000
- Contributions to the pension fund (end of year): 60,000,000
- Amortization of unrecognized loss: 8,000,000
- Pension benefits paid (end of year): 9,000,000
- Pension expense: 54,000,000

Required:
Determine the amount of pension plan assets at fair value on December 31, 2006.

\[
\text{Plan Assets (FV)} = 400,000,000 \\
\text{Actual return contributions} = 32,000,000 \\
\text{Benefits paid} = 60,000,000 \\
\text{Pension plan assets} = 483,000,000
\]
169. Pension data for the Ben Franklin Company include the following for the current calendar year:

Discount rate, 8%
Expected return on plan assets, 10%
Actual return on plan assets, 9%
Service cost $200,000

January 1:
PBO $1,400,000
ABO 1,000,000
Plan assets 1,500,000
Amortization of prior service cost 20,000
Amortization of net gain 4,000

December 31:
Cash contributions to pension fund $220,000
Benefit payments to retirees 240,000

Required:
(1.) Determine pension expense for the year.
(2.) Prepare the journal entry to record pension expense and funding for the year.

Pension Expense 178,000
Prepaid/Accrued Pension Cost 42,000
Cash 220,000

174. Hall of Fame Co. has a defined benefit pension plan. Two alternative possibilities for pension-related data for the current calendar year are shown below:

<table>
<thead>
<tr>
<th></th>
<th>Case 1</th>
<th>Case 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrecognized net loss (gain), Jan. 1</td>
<td>$(230,000)</td>
<td>$210,000</td>
</tr>
<tr>
<td>Loss (gain) on plan assets</td>
<td>(6,000)</td>
<td>2,000</td>
</tr>
<tr>
<td>Loss (gain) on PBO</td>
<td>12,000</td>
<td>(220,000)</td>
</tr>
<tr>
<td>ABO, Jan. 1</td>
<td>(1,500,000)</td>
<td>(1,350,000)</td>
</tr>
<tr>
<td>PBO, Jan. 1</td>
<td>(1,700,000)</td>
<td>(1,500,000)</td>
</tr>
<tr>
<td>Plan assets, Jan. 1</td>
<td>2,000,000</td>
<td>1,450,000</td>
</tr>
<tr>
<td>Average remaining service period of active employees (years)</td>
<td>12</td>
<td>10</td>
</tr>
</tbody>
</table>

Required:
(1.) For each independent case, calculate amortization of the net loss or gain that should be included as a component of pension expense for the current year.
(2.) Determine the unamortized net loss or gain as of December 31 of the current year.
Terms:
A. Appropriation of retained earnings
B. Cost method
C. Cumulative
D. Earnings-price ratio
E. Limited liability company
F. Par value
G. Retained earnings
H. Return on shareholders' equity
I. Reverse stock split
J. Share issue cost

Phrases:
41. Designed to increase the market value of stock.
42. Reduces the net proceeds from selling shares.
43. Feature designed to favor preferred shareholders.
44. Has no relationship to market value.
45. May be reduced when shares are retired.

4. Bulls Corporation amends its pension plan on 1/1/06. The following information is available:

<table>
<thead>
<tr>
<th></th>
<th>1/1/06</th>
<th>1/1/06 after amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated benefit obligation</td>
<td>$950,000</td>
<td>$1,425,000</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>1,300,000</td>
<td>1,900,000</td>
</tr>
</tbody>
</table>

The total amount of unrecognized prior service cost to be amortized over future periods as a result of this amendment is

- a. $950,000
- b. $600,000
- c. $475,000
- d. $125,000

13. The following information pertains to Seda Co.'s pension plan:

Actuarial estimate of projected benefit obligation at 1/1/06: $72,000 +
Assumed discount rate: 10%
Service costs for 2006: 18,000
Pension benefits paid during 2006: 15,000 +

If no change in actuarial estimates occurred during 2006, Seda's projected benefit obligation at December 31, 2006 was

- a. $64,200
- b. $75,000
- c. $79,200
- d. $82,200

22. In 2005, Fogg, Inc. issued $10 par value common stock for $25 per share. No other common stock transactions occurred until March 31, 2007, when Fogg acquired some of the issued shares for $20 per share and retired them. Which of the following statements correctly states an effect of this acquisition and retirement?

- a. 2007 net income is decreased.
- b. 2007 net income is increased.
- c. Additional paid-in capital is decreased.
- d. Retained earnings is increased.

23. Plack Co. purchased 10,000 shares (2% ownership) of Ty Corp. on February 14, 2006. Plack received a stock dividend of 2,000 shares on April 30, 2006, when the market value per share was $35. Ty paid a cash dividend of $2 per share on December 15, 2006. In its 2006 income statement, what amount should Plack report as dividend income?

- a. $20,000
- b. $24,000
- c. $90,000
- d. $94,000
3. Tack, Inc. reported a retained earnings balance of $150,000 at December 31, 2005. In June 2006, Tack discovered that merchandise costing $40,000 had not been included in inventory in its 2005 financial statements. Tack has a 30% tax rate. What amount should Tack report as adjusted beginning retained earnings in its statement of retained earnings at December 31, 2006?

a. $190,000  
b. $178,000  
c. $150,000  
d. $122,000

\[
\begin{align*}
150,000 \\
\downarrow\text{ COGS} \\
40,000 \times 3 = 120,000 \\
\downarrow\text{ Net} \\
28,000
\end{align*}
\]

36. How would total stockholders' equity be affected by the declaration of each of the following?

<table>
<thead>
<tr>
<th>Stock dividend</th>
<th>Stock split</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. No effect</td>
<td>Increase</td>
</tr>
<tr>
<td>b. Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>c. Decrease</td>
<td>No effect</td>
</tr>
<tr>
<td>d. No effect</td>
<td>No effect</td>
</tr>
</tbody>
</table>

35. Ray Corp. declared a 5\% stock dividend on its 10,000 issued and outstanding shares of $2 par value common stock, which had a fair value of $5 per share before the stock dividend was declared. This stock dividend was distributed sixty days after the declaration date. By what amount did Ray's current liabilities increase as a result of the stock dividend declaration?

a. $0  
b. $500  
c. $1,000  
d. $2,500

\[
10,000 \times 0.05 = 500
\]

29. On December 1, 2006, Nilo Corp. declared a property dividend of marketable securities to be distributed on December 31, 2006, to stockholders of record on December 15, 2006. On December 1, 2006, the trading securities had a carrying amount of $60,000 and a fair value of $78,000. What is the effect of this property dividend on Nilo's 2006 retained earnings, after all nominal accounts are closed?

a. $0.  
b. $18,000 increase.  
c. $60,000 decrease.  
d. $78,000 decrease.

30. Long Co. had 100,000 shares of common stock issued and outstanding at January 1, 2006. During 2006, Long took the following actions:

- March 15 — Declared a 2-for-1 stock split, when the fair value of the stock was $80 per share.
- December 15 — Declared a $0.50 per share cash dividend.

In Long's statement of stockholders' equity for 2006, what amount should Long report as dividends?

a. $50,000  
b. $100,000  
c. $850,000  
d. $950,000

\[
100,000 \times 0.50 = 50,000
\]
Tack, Inc. reported a retained earnings balance of $0,000 at December 31, 2005. In June 2006, Tack discovered that merchandise costing $40,000 had not been included in inventory in its 2005 financial statements. Tack has a 30% tax rate. What amount should Tack report as adjusted beginning retained earnings in its statement of retained earnings at December 31, 2006?

a. $190,000
b. $178,000
c. $180,000
d. $122,000

7. On January 2, 2006, Air, Inc. agreed to pay its former president $300,000 under a deferred compensation arrangement. Air should have recorded this expense in 2005 but did not do so. Air's reported income tax expense would have been $70,000 lower in 2005 had it properly accrued this deferred compensation. In its December 31, 2006 financial statements, Air should adjust the beginning balance of its retained earnings by a

a. $230,000 credit.
b. $230,000 debit.
c. $300,000 credit.
d. $370,000 debit.

25. At December 31, 2005 and 2006, Apex Co. had 3,000 shares of $100 par, 5% cumulative preferred stock outstanding. No dividends were in arrears as of December 31, 2004. Apex did not declare a dividend during 2005. During 2006, Apex paid a cash dividend of $10,000 on its preferred stock. Apex should report dividends in arrears in its 2006 financial statements as a(n)

a. Accrued liability of $15,000.
b. Disclosure of $15,000.
c. Accrued liability of $20,000.
d. Disclosure of $20,000.

104. Albatross Company purchased a piece of machinery for $60,000 on January 1, 2004, and has been depreciating the machine using the sum-of-the-years'-digits method based on a five-year estimated useful life and no salvage value. On January 1, 2006, Albatross decided to switch to the straight-line method of depreciation. The salvage value is still zero and the estimated useful life did not change. Ignore income taxes.

Required:
1. Prepare the appropriate journal entry, if any, to record the accounting change.
2. Prepare the journal entry to record depreciation for 2006.