1. The December 31, 2009 balance sheet of MBI Company included the following:

Common stock: 20 million shares outstanding at $1 par $20,000,000
Paid-in capital - excess of par 109,000,000
Retained earnings 14,000,000

MBI completed the following transactions in 2009 relating to treasury stock:

March 17: Reacquired 2 million shares at $10.
May 17: Reacquired 2 million shares at $9.
August 10: Issued 3 million shares at $12.

Required:
Assuming MBI uses the cost method, prepare journal entries to record the foregoing transactions on a weighted average basis.

```
3/17/09  Treasury Stock (2,000,000) @ $10
           Cash
```

```
5/17/09  Treasury Stock (2,000,000) @ $9
           Cash
```

```
8/10/09  Cash (3,000,000)
           Paid-in capital in excess of par
           Treasury Stock
```

2. During its first year of operations, Criswell Inc. completed the following transactions relating to shareholders' equity.

Jan. 5: Issued 300,000 of its common shares for $8 per share and 3,000 preferred shares at $11 per share.
Feb. 12: Issued 50,000 shares of common stock in exchange for equipment with a known market value of $310,000.

The articles of incorporation authorize 5,000,000 shares with a par value of $1 per share of common and 1,000,000 preferred shares with a par value of $100 per share.

Required:
Record the above transactions in general journal form.

```
1/5 Cash  (3,000,000 x $8) + (3,000 x $11)
         Common stock
         Preferred stock
         Paid-in capital in excess of par
2/12 Equipment  (50,000 x $310,000)
         Common stock
         Paid-in capital
```
3. On January 1, 2009, Bishop Company issued 10% bonds dated January 1, 2009, with a face amount of $20 million. The bonds mature in 2019 (10 years). For bonds of similar risk and maturity, the market yield is 12%. Interest is paid semiannually on June 30 and December 31.

**Required:**
1. Determine the price of the bonds at January 1, 2009.
2. Prepare the journal entry to record the bond issuance by Bishop on January 1, 2009.
3. Prepare the journal entry to record interest on June 30, 2009, using the effective interest method.
4. Prepare the journal entry to record interest on December 31, 2009, using the effective interest method.

### Principal Stated Value
- Cash: (Not specified)
- Discount: 17,864
- B/F: 192,136

### Interest Expense Calculation
- Interest Expense = Discount / B/F
- Interest Expense = 17,864 / 192,136
- Interest Expense ≈ 0.09

### Other Information:
- Lease term: 3 years
- Annual payments: $40,000 on January 1 each year
- Life of asset: 3 years
- Implicit interest rate: 8%
- Incremental rate: 8%
- PV, annuity due, 3 periods, 8%: 2.7833
- PV, ordinary annuity, 3 periods, 8%: 2.5771

There is no expected residual value.

**Required:**
Prepare appropriate journal entries for Hi-Tech Leasing for 2009 and 2010. Assume a December 31 year-end.
5. Prior to 1993, postretirement benefits other than pensions generally were accounted for on the
(A) Accrual basis.
(B) Cash basis.
(C) Modified accrual basis.
(D) Hybrid basis.

6. On January 1 of the current reporting year, Code Company's projected benefit obligation was $30 million. During the year, pension benefits paid by the trustee were $4 million. Service cost was $10 million. Pension plan assets earned $5 million as expected. At the end of the year, there was no net gain or loss and no prior service cost. The actuary's discount rate was 10%.

Required:
Determine the amount of the projected benefit obligation at December 31.

\[
\begin{align*}
\text{PBO} & = \text{PBO at the beginning of the year} + \text{Benefits paid by the trustee} + \text{Service cost} - \text{Gain (loss)} + \text{Retiree benefits} \\
& = 30 + (-4) + 10 + 5 + 0 \\
& = 41
\end{align*}
\]

\[
\text{PBO} = \$39 \text{ million}
\]

7. The following information relates to Schmidt Sausage Co.'s defined benefit pension plan during the current reporting year:

<table>
<thead>
<tr>
<th>($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan assets beginning of the year</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
</tr>
<tr>
<td>Cash contributions</td>
</tr>
<tr>
<td>Amortization of net loss</td>
</tr>
<tr>
<td>Retiree benefits</td>
</tr>
</tbody>
</table>

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

\[
\begin{align*}
\text{Beginning Plan Assets} & = 400 \\
\text{Actual Return on Plan Assets} & = 32 \\
\text{Cash Contributions} & = 60 \\
\text{Retiree Benefits} & = 9 \\
\text{Ending Plan Assets} & = 485 \text{ million}
\end{align*}
\]
Pension data for Goldman Company included the following for the current calendar year:

Service cost $100,000
PBO, January 1 750,000
Plan assets, January 1 800,000
Amortization of prior service cost 6,000
Amortization of net loss 2,000
Discount rate, 8%
Expected return on plan assets, 10%
Actual return on plan assets, 12%

Required:
Determine pension expense for the year.

\[
\text{Service cost} \quad 100,000
\]
\[
\text{Interest cost} \quad 750,000 \times 0.08 = 60,000
\]
\[
(\text{Expected return on plan asset}) \quad (800,000 \times 0.10) - 8,000 = 8,000
\]
\[
\text{Prior service cost} \quad 6,000
\]
\[
\text{Net loss} \quad 2,000
\]

\[\text{Pension expense} = 68,000\]

9. Vrable Corporation 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>Net loss (gain), Jan. 1</td>
<td>$240,000</td>
<td>$(230,000)</td>
</tr>
<tr>
<td>Loss (gain) on plan assets</td>
<td>(8,000)</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Loss (gain) on PBO</td>
<td>(17,000)</td>
<td>12,000</td>
</tr>
<tr>
<td>ABO, Jan. 1</td>
<td>(1,900,000)</td>
<td>(1,500,000)</td>
</tr>
<tr>
<td>PBO, Jan. 1</td>
<td>(2,500,000)</td>
<td>(1,700,000)</td>
</tr>
<tr>
<td>Plan assets, Jan. 1</td>
<td>2,100,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Average remaining service period of active employees (years)</td>
<td>10</td>
<td>12</td>
</tr>
</tbody>
</table>

Required:
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.

\[
\text{Unrecognized net (gain) loss}
\]
\[
\text{Corridor rate}
\]
\[
\text{Excess}
\]
\[
\text{Avg. rem. service period}
\]
\[
\text{Amortization of net loss (gain)}
\]

10. Goosen Company bought a copyright for $90,000 on January 1, 2006, at which time the copyright had an estimated useful life of 15 years. On January 5, 2009, the company determined that the copyright would expire at the end of 2014. How much should Goosen record retrospectively as the effect of change?

A. $0.
B. $12,000.
C. $8,000.
D. $14,400.
11. During 2009, P Company discovered that the ending inventories reported on its financial statements were incorrect by the following amounts:

2007: $120,000 understated
2008: 150,000 overstated

P uses the periodic inventory system to ascertain year-end quantities that are converted to dollar amounts using the FIFO cost method. Prior to any adjustments for these errors and ignoring income taxes, P's retained earnings at January 1, 2009 would be

A. Correct
B. $30,000 overstated.
C. $150,000 overstated.
D. $270,000 overstated.

12. Powell Company had the following errors over the last two years:

2007: Ending inventory was overstated by $30,000 while depreciation expense was overstated by $24,000.
2008: Ending inventory was understated by $5,000 while depreciation expense was understated by $4,000.

By how much should retained earnings be adjusted on January 1, 2009? (Ignore taxes)

A. Increase by $15,000.
B. Decrease by $25,000.
C. Decrease by $6,000.
D. Increase by $25,000.