1. In accounting for a pension plan, any difference between the pension cost charged to expense and the payments into the fund should be reported as
   a. an offset to the liability for prior service cost.
   b. accrued or prepaid pension cost.
   c. an accrued actuarial liability.
   d. a charge or credit to unrealized appreciation and depreciation.

2. When a company amends a pension plan, for accounting purposes, prior service cost should be
   a. treated as a prior period adjustment because no future periods are benefited.
   b. amortized in accordance with procedures used for income tax purposes.
   c. amortized under accrual accounting to current and future periods benefited.
   d. treated as an expense of the period during which the funding occurs.

3. Unrecognized gains and losses that relate to the computation of pension expense should be
   a. recorded currently as an adjustment to pension expense in the period incurred.
   b. recorded currently and in the future by applying the corridor method which provides the amount to be amortized.
   c. amortized over a 15-year period.
   d. recorded only if a loss is determined.

4. A minimum liability for pension expense is reported when
   a. the projected benefit obligation exceeds the fair value of pension plan assets.
   b. the accumulated benefit obligation exceeds the fair value of pension plan assets.
   c. the pension expense reported for the period is greater than the funding amount for the same period.
   d. vested benefits exceed the fair value of pension plan assets.

5. Presented below is pension information related to Tyler, Inc. for the year 2001:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$72,000</td>
</tr>
<tr>
<td>Interest on projected benefit obligation</td>
<td>54,000</td>
</tr>
<tr>
<td>Interest on vested benefits</td>
<td>24,000</td>
</tr>
<tr>
<td>Amortization of prior service cost due to increase in benefits</td>
<td>12,000</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>18,000</td>
</tr>
</tbody>
</table>

   The amount of pension expense to be reported for 2001 is
   a. $108,000.
   b. $144,000.
   c. $162,000.
   d. $120,000.
6. Randel, Inc. received the following information from its pension plan trustee concerning the operation of the company's defined benefit pension plan for the year ended December 31, 2001.

<table>
<thead>
<tr>
<th></th>
<th>January 1, 2001</th>
<th>December 31, 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market-related asset value</td>
<td>$2,100,000</td>
<td>$2,250,000</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>2,400,000</td>
<td>2,580,000</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>420,000</td>
<td>510,000</td>
</tr>
<tr>
<td>Unrecognized net (gains) and losses</td>
<td>-0-</td>
<td>(45,000)</td>
</tr>
</tbody>
</table>

The service cost component of pension expense for 2001 is $180,000 and the amortization of unrecognized prior service cost is $30,000. The settlement rate is 10% and the expected rate of return is 9%.

What is the amount of pension expense for 2001?

a. $180,000.
b. $261,000.
c. $265,500.
d. $216,000.

The following information for Marsh Enterprises is given below:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan assets (at fair value)</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Market-related asset value</td>
<td>1,740,000</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>1,920,000</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>2,760,000</td>
</tr>
</tbody>
</table>

Amounts to be Recognized

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid/(accrued) pension cost at beginning of year</td>
<td>(48,000)</td>
</tr>
<tr>
<td>Pension expense</td>
<td>(360,000)</td>
</tr>
<tr>
<td>Contribution</td>
<td>324,000</td>
</tr>
</tbody>
</table>

Prepaid/(accrued) pension cost at end of year $ (84,000)

Unrecognized prior service costs $ 412,500
Unrecognized gains (net) (210,000)

7. What is the amount that Marsh Enterprises should report as Intangible Asset-Deferred Pension Cost as of December 31, 2001?

a. $36,000.
b. $120,000.
c. $72,000.
d. $ -0-.
8. Carrey, Inc. has a defined benefit pension plan covering its 50 employees. Carrey agrees to amend its pension benefits. As a result, the projected benefit obligation increased by $300,000. Carrey determined that all its employees are expected to receive benefits under the plan over the next 5 years. In addition, 20% are expected to retire or quit each year. Assuming that Carrey uses the years-of-service method of amortization for prior service cost, the amount reported as amortization of prior service cost in year one after the amendment is
   a. $60,000.
   b. $100,000.
   c. $30,000.
   d. $80,000.

9. Jensen, Inc. maintains a defined benefit pension plan for its employees. As of December 31, 2001, the market value of the plan assets is less than the accumulated benefit obligation. The projected benefit obligation exceeds the accumulated benefit obligation. In its balance sheet as of December 31, 2001, Jensen should report a minimum liability in the amount of the
   a. excess of the projected benefit obligation over the value of the plan assets.
   b. excess of the accumulated benefit obligation over the value of the plan assets.
   c. projected benefit obligation.
   d. accumulated benefit obligation.

-----------------------------

Gorman Co. provides retirement benefits to employees through a funded defined benefit pension plan. The company administering the plan provided the following information for the year ended December 31, 2001:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan assets at fair value</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>1,335,000</td>
</tr>
<tr>
<td>Pension expense</td>
<td>300,000</td>
</tr>
<tr>
<td>Employer's contribution, 12/1/01</td>
<td>360,000</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>30,000</td>
</tr>
</tbody>
</table>

On December 31, 2000, the accrued/prepaid pension cost account had a debit balance of $45,000. Assume that the fair value of the plan assets is equal to the market-related asset value. Prior to 2001, the fair value of plan assets exceeded the accumulated benefit obligation.

10. In Gorman's December 31, 2001 balance sheet, what is the amount of the minimum pension liability?
    a. $30,000.
    b. $60,000.
    c. $135,000.
    d. $240,000.
11. For calendar year 2001, Lank Corp. reported depreciation of $800,000 in its income statement. On its 2001 income tax return, Lank reported depreciation of $1,200,000. Lank's income statement also included $150,000 accrued warranty expense that will be deducted for tax purposes when paid. Lank's enacted tax rates are 30% for 2001 and 2002, and 24% for 2003 and 2004. The depreciation difference and warranty expense will reverse over the next three years as follows:

<table>
<thead>
<tr>
<th></th>
<th>Depreciation Difference</th>
<th>Warranty Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$160,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>2003</td>
<td>140,000</td>
<td>50,000</td>
</tr>
<tr>
<td>2004</td>
<td>100,000</td>
<td>70,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$400,000</strong></td>
<td><strong>$150,000</strong></td>
</tr>
</tbody>
</table>

These were Lank's only temporary differences. In Lank's 2001 income statement, the deferred portion of its provision for income taxes should be
a. $133,800.
b. $75,000.
c. $67,800.
d. $73,200.

12. On January 1, 2001, Hill, Inc. purchased a machine for $270,000 which will be depreciated $27,000 per year for financial statement reporting purposes. For income tax reporting, Hill elected to expense $30,000 and to use straight-line depreciation which will allow a cost recovery deduction of $24,000 for 2001. Assume a present and future enacted income tax rate of 30%. What amount should be added to Hill's deferred income tax liability for this temporary difference at December 31, 2001?

a. $16,200.
b. $9,000.
c. $8,100.
d. $7,200.
13. Lang, Inc. uses the accrual method of accounting for financial reporting purposes and appropriately uses the installment method of accounting for income tax purposes. Installment income of $600,000 will be collected in the following years when the enacted tax rates are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Collection of Income</th>
<th>Enacted Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$60,000</td>
<td>35%</td>
</tr>
<tr>
<td>2002</td>
<td>120,000</td>
<td>30%</td>
</tr>
<tr>
<td>2003</td>
<td>180,000</td>
<td>30%</td>
</tr>
<tr>
<td>2004</td>
<td>240,000</td>
<td>25%</td>
</tr>
</tbody>
</table>

The installment income is Lang's only temporary difference. What amount should be included in the deferred income tax liability in Lang's December 31, 2001 balance sheet?

a. $150,000.
b. $171,000.
c. $189,000.
d. $210,000.

14. In its 2001 income statement, Roark Corp. reported depreciation of $555,000 and interest revenue on municipal obligations of $105,000. Roark reported depreciation of $825,000 on its 2001 income tax return. The difference in depreciation is the only temporary difference, and it will reverse equally over the next three years. Roark's enacted income tax rates are 35% for 2001, 30% for 2002, and 25% for 2003 and 2004. What amount should be included in the deferred income tax liability in Roark's December 31, 2001 balance sheet?

a. $72,000.
b. $93,000.
c. $112,500.
d. $131,250.
15. Marx Corp. prepared the following reconciliation of income per books with income per tax return for the year ended December 31, 2001:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book income before income taxes</td>
<td>$750,000</td>
</tr>
<tr>
<td>Add temporary difference</td>
<td></td>
</tr>
<tr>
<td>Construction contract revenue which will reverse in 2002</td>
<td>$100,000</td>
</tr>
<tr>
<td>Deduct temporary difference</td>
<td></td>
</tr>
<tr>
<td>Depreciation expense which will reverse in equal amounts in each of the next four years</td>
<td>$(400,000)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$450,000</td>
</tr>
</tbody>
</table>

Marx's effective income tax rate is 34% for 2001. What amount should Marx report in its 2001 income statement as the current provision for income taxes?

a. $34,000.  
b. $153,000.  
c. $255,000.  
d. $289,000.

16. In a troubled debt restructuring in which the debt is continued with modified terms and the carrying amount of the debt is less than the total future cash flows,

a. an extraordinary gain should be recognized by the debtor.  
b. a gain should be recognized by the debtor.  
c. a new effective interest rate must be computed.  
d. no interest expense of revenue should be recognized in the future.

17. A troubled debt restructuring will generally result in a

a. loss by the debtor and a gain by the creditor.  
b. loss by both the debtor and the creditor.  
c. gain by both the debtor and the creditor.  
d. gain by the debtor and a loss by the creditor.

18. On January 1, 2001, Amy Riley loaned $15,026 to Joe Grant. A zero-interest-bearing note (face amount, $20,000) was exchanged solely for cash; no other rights or privileges were exchanged. The note is to be repaid on December 31, 2003. The prevailing rate of interest for a loan of this type is 10%. The present value of $20,000 at 10% for three years is $15,026. What amount of interest income should Ms. Riley recognize in 2001?

a. $1,503.  
b. $2,000.  
c. $6,000.  
d. $4,508.
On December 31, 2000, Pace Co. is in financial difficulty and cannot pay a note due that day. It is a $900,000 note with $90,000 accrued interest payable to Stevens, Inc. Stevens agrees to accept from Pace equipment that has a fair value of $435,000, an original cost of $720,000, and accumulated depreciation of $345,000. Stevens also forgives the accrued interest, extends the maturity date to December 31, 2003, reduces the face amount of the note to $375,000, and reduces the interest rate to 6%, with interest payable at the end of each year.

19. Pace should recognize an extraordinary gain on the partial settlement and restructure of the debt of
   a. $0.
   b. $22,500.
   c. $82,500.
   d. $112,500.

20. A liability for compensated absences such as vacations, for which it is expected that employees will be paid, should
   a. be accrued during the period when the compensated time is expected to be used by employees.
   b. be accrued during the period following vesting.
   c. be accrued during the period when earned.
   d. not be accrued unless a written contractual obligation exists.

21. Which of the following sets of conditions would give rise to the accrual of a contingency under current generally accepted accounting principles?
   a. Amount of loss is reasonably estimable and event occurs infrequently.
   b. Amount of loss is reasonably estimable and occurrence of event is probable.
   c. Event is unusual in nature and occurrence of event is probable.
   d. Event is unusual in nature and event occurs infrequently.

22. A contingency can be accrued when
   a. it is certain that funds are available to settle the disputed amount.
   b. an asset may have been impaired.
   c. the amount of the loss can be reasonably estimated and it is probable that an asset has been impaired or a liability incurred.
   d. it is probable that an asset has been impaired or a liability incurred even though the amount of the loss cannot be reasonably estimated.
23. Which of the following is the proper way to report a gain contingency?
   a. As an accrued amount
   b. As deferred revenue
   c. As an account receivable with additional disclosure explaining the nature of the contingency
   d. As a disclosure only

24. On December 31, 2001, Gant Co. has $4,000,000 of short-term notes payable due on February 14, 2002. On January 10, 2002, Gant arranged a line of credit with County Bank which allows Gant to borrow up to $3,000,000 at one percent above the prime rate for three years. On February 2, 2002, Gant borrowed $2,400,000 from County Bank and used $1,000,000 additional cash to liquidate $3,400,000 of the short-term notes payable. The amount of the short-term notes payable that should be reported as current liabilities on the December 31, 2001 balance sheet which is issued on March 5, 2002 is
   a. $0.
   b. $600,000.
   c. $1,000,000.
   d. $1,600,000.

25. Operating losses incurred during the start-up years of a new business should be
   a. accounted for and reported like the operating losses of any other business.
   b. written off directly against retained earnings.
   c. capitalized as a deferred charge and amortized over five years.
   d. capitalized as an intangible asset and amortized over a period not to exceed 40 years.