1. Tapei Corporation follows a policy of a 10% depreciation charge per year on all machinery and a 5% depreciation charge per year on buildings. The following transactions occurred in 2012:

March 31, 2012— Negotiations which began in 2011 were completed and a warehouse purchased 1/1/03 (depreciation has been properly charged through December 31, 2011) at a cost of $3,200,000 with a fair value of $2,000,000 was exchanged for a second warehouse which also had a fair value of $2,000,000. The exchange had no commercial substance. Both parcels of land on which the warehouses were located were equal in value, and had a fair value equal to book value.

June 30, 2012— Machinery with a cost of $240,000 and accumulated depreciation through January 1 of $180,000 was exchanged with $150,000 cash for a parcel of land with a fair value of $230,000. The exchange had commercial substance.

Questions：(12%)

Prepare all appropriate journal entries for Tapei Corporation for the above dates.

2. Presented below are the components related to an office building that Lockard Company is considering purchasing for $10,000,000.

Component	Useful Life	Value
Building structure	60-year life	5,400,000
Building engineering	30-year life	2,400,000
Building external works	30-year life	900,000

Questions：(10%)

(1) Compute depreciation expense for 2013, assuming that Lockard uses component depreciation.

(2) Assume that the building engineering was replaced in 20 years at a cost of $2,600,000. Prepare the entry to record the replacement of the old component with the new component.

3. The following situations relate to Washburn Company.

(1) Washburn provides a warranty with all its products it sells. It estimates that it will sell 1,200,000 units of its product for the year ended December 31, 2012, and that its total revenue for the product will be $100,000,000. It also estimates that 65% of the product will have no defects, 30% will have major defects, and 5% will have minor defects. The cost of a minor defect is estimated to be $5 for each product sold, and the cost for a major defect cost is $15. The company also estimates that the minimum amount of warranty expense will be $2,500,000 and the maximum will be $12,000,000.

(2) Washburn is involved in a tax dispute with the tax authorities. The most likely outcome of this dispute is that Washburn will lose and have to pay $500,000. The minimum it will lose is $30,000 and the maximum is $3,600,000.

(3) Washburn has a policy of refunding purchases to dissatisfied customers, even though it is under no obligation to do so. However, it has created a valid expectation with its customers to continue this practice. These refunds can range from 5% of sales to 9% of sales, with any amount in between a reasonable possibility. In 2012, Washburn has $50,000,000 of sales subject to possible refund. The average cost of any refund item is $12.

Questions：(15%)

Prepare the journal entry to record provisions, if any, for Washburn at December 31, 2012.

4. Kifer Corp. owes $450,000 to First Trust. The debt is a 10-year, 12% note due December 31, 2011. Because Kifer Corp. is in financial trouble, First Trust agrees to extend the maturity date to December 31, 2013, reduce the principal to $370,000, and reduce the interest rate of 5%, payable annually on December 31. Kifer's, market rate of interest is 8%.

Questions: (13%)

Prepare the journal entries on Kifer's books on December 31, 2011, 2012, and 2013.

5. The following information pertains to Parsons Co.:

Preference shares, cumulative:	
Par per share	$100
Dividend rate	8%
Shares outstanding	5,000
Dividends in arrears	none
Ordinary shares:	
Par per share	$10
Shares issued	60,000
Dividends paid per share	$2.70
Market price per share	$48.00
Share premium—ordinary	$200,000
Unappropriated retained earnings (after closing)	$145,000
Retained earnings appropriated for contingencies	$150,000
Ordinary treasury shares:	
Number of shares	5,000
Total cost	$130,000
Net income	$397,500

Questions: **(10%)**

Compute (assume no changes in balances during the past year):

(1) Total amount of equity in the statement of financial position

(2) Earnings per share

(3) Book value per ordinary share

(4) Payout ratio

(5) Return on ordinary share equity

6. Corporation issues 3,000 convertible bonds at January 1, 2013. The bonds have a three year life, and are issued at par with a face value of $1,000 per bond, giving total proceeds of $3,000,000. Interest is payable annually at 6 percent. Each bond is convertible into 250 ordinary shares (par value of $1). When the bonds are issued, the market rate of interest for similar debt without the conversion option is 8%.

Questions : (15%)

(1) Compute the liability and equity component of the convertible bond on January 1, 2012. (4%)

(2) Prepare the journal entry to record the issuance of the convertible bond on January 1, 2012. (3%)

(3) Prepare the journal entry to record the conversion on January 1, 2013. (4%)

(4) Assume that the bonds were repurchased on January 1, 2013, for $2,910,000 cash instead of being converted. The net present value of the liability component of the convertible bonds on January 1, 2013, is $2,850,000. Prepare the journal entry to record the repurchase on January 1, 2013. (4%)

7. The records for Cosch Co. show this data for 2013:

- Gross profit on installment sales recorded on the books was $360,000. Gross profit for tax purposes from collections of installment receivables was $270,000.
- Machinery was acquired in January for $300,000. Straight-line depreciation over a ten-year life (no residual value) is used. For tax purposes, Accelerated depreciation is used and Cosch may deduct 20% for 2013.
- The estimated warranty liability related to 2013 sales was $19,600. Repair costs under warranties during 2013 were $13,600. The remainder will be incurred in 2014.
- Pretax financial income is $660,000. The tax rate is 30%.

Questions: (10%)

(1) Prepare a schedule starting with pretax financial income and compute taxable income.

(2) Prepare the journal entry to record income taxes for 2013.

8. The following information is for the pension plan for the employees of Bayne, Inc.

	12/31/12	12/31/13
Defined benefit obligation	$3,040,000	$4,000,000
Fair value of plan assets	3,080,000	3,520,000
Unrecognized net (gain) or loss	(425,000)	(480,000)
Discount rate	8%	8%
Expected rate of return	7%	6%

Bayne estimates that the average remaining service life is 15 years. Bayne's contribution was $520,000 in 2013 and benefits paid were $280,000.

Questions : (15%)

(1) Calculate the interest cost for 2013. (2%)

(2) Calculate the actual return on plan assets in 2013. (5%)

(3) Calculate the unexpected gain or loss in 2013. (3%)

(4) Calculate the corridor for 2013 and the amortization of the net gain for 2013. (5%)