

1. Lessee Company leases heavy equipment on January 1, 1998, under a capital lease from Lessor Company with the following lease provisions:

The lease is noncancelable and has a term of 10 years. The lease does not contain a renewal or bargain purchase option. The annual rentals are \$27,653.77, payable at the beginning of each year. The Lessee Company agree to pay all executory costs. The interest rate implicit in the lease is 12%, which is known by Lessee Company. The residual value of the property at the end of 10 years is estimated to be zero.

The cost and fair value of the equipment to the lessor is \$175,000. The lessor incurs no material initial direct costs. The collectibility of the rentals is reasonably assured, and there are no important uncertainties surrounding the amount of unreimbursable costs yet to be incurred by the lessor.

Lessee's incremental borrowing rate is 15% and it uses the straight-line method to record depreciation on similar equipment. In 1998 the lessee pays insurance of \$1,900, property taxes of \$1,300, and maintenance of \$600; and in 1999 the lessee pays insurance of \$1,800, property taxes of \$1,200, and maintenance of \$500.

Required:

1. Identify the type of lease involved for the lessee and the lessor, and give reasons for your classifications. ($Pd_{n=10, i=12\%} = 6.328250$) (4分)
2. Prepare all the journal entries related to the lease contract on both the lessee's and the lessor's books for 1998. (16分)

2. On January 1, 1997 Pierce Company establishes a performance-based stock option plan for its 80 top executives. The terms of the plan are that each executive is granted a maximum of 200 options after completing a 3-year service period. The exact number of options granted, however, depends on the percentage increase in sales over the 3-year period. The terms are: (1) if sales increase between 0 and 3%, each executive is granted 90 options; (2) if, instead, sales increase between 4 and 6%, each executive is granted 140 options; and (3) if, instead, sales increase at least 7% each executive is granted the maximum number of options. Each option entitles the executive to acquire one share of the company's \$10 par common stock at a price of \$45. The stock options expire at the end of 4 years.

On the grant date Pierce Company uses an option pricing model to estimate that the fair value of each stock option is \$15.50. Pierce's employee turnover rate has averaged 6% per year and, on the grant date, it expects this rate to continue over the service period. At the end of 1998, because of lower turnover, Pierce revises its estimated annual turnover rate to 4% for the service period. At the end of 1999, stock options vest for 68 executives. On February 3, 2000, fifty executives exercise their stock option when the market price of the company's common stock is \$62 per share. During the remainder of the year, the market price declines so that at the end of 2000 the other 18 executives allow their stock options to expire.

Based on a projection of past trends, on the grant date Pierce Company estimates that its sales will increase about 5% by the end of 1999. This estimate appears accurate through

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1998. however, in the last half of 1999, sales increase so much that at the end of 1999 Pierce determines that its total sales have increased by 7% over the 3-year service period. All inventory is shipped by Pierce to its customers under FOB destination terms.

Required

1. Prepare a schedule of the Pierce Company's compensation expense computations for its compensatory stock option plan for 1997 through 1999 (round all computations to the nearest dollar). (6分)
2. Prepare the journal entries of Pierce Company for 1997 through 2000 in regard to this plan. (12分)
3. Show how the accounts related to the plan is (are) reported in the stockholders' equity section of Pierce Company's December 31, 1998 balance sheet. (2分)

3. The Harper Corporation acquired 80,000 of the 200,000 outstanding shares of the Moore Corporation on April 1, 1998 for \$400,000 and obtained significant influence. The following information concerning the Moore Corporation is available on the date of acquisition:

	<u>Book Value</u>	<u>Fair Value</u>
Depreciable assets (remaining life, 15 years)	\$ 600,000	\$ 700,000
Other assets	<u>500,000</u>	<u>450,000</u>
Total	<u>\$1,100,000</u>	<u>\$1,150,000</u>
Liabilities	\$ 300,000	\$ 300,000
Common stock	250,000	
Retained earnings	<u>550,000</u>	
Total	<u>\$1,100,000</u>	

Subsequently, Moore Corporation paid a cash dividend of \$40,000 on August 31, 1998 and reported annual income from operations of \$125,000 and extraordinary income (earned in the third quarter) of \$ 30,000 on December 31, 1998.

Required

1. Prepare journal entries for Harper to record the preceding information. (Amortize goodwill over 40 years.) (10分)
2. What is the balance in Harper's investment account on December 31, 1998? (Show all computations) (4分)
3. If Harper reports its net cash flow from operating activities under the indirect method, what would it include as an adjustment to net income? (6分)

4. On January 1, 1999, Pro Company purchased an 80% interest in the capital stock of Stone Company for \$900,000. At that time, Stone Company had capital stock of \$500,000 and retained earnings of \$100,000. The difference between implied fair value and book value of the total net assets of Stone was attributed to specific assets of Stone Company as follows:

To equipment with five-year remaining life on 1/1/99 (Using straight-line depreciation method)	\$ 160,000
To land	200,000
To inventory (Stone Company uses the FIFO inventory method)	60,000
To goodwill (amortized over 20 years)	<u>105,000</u>
Total	\$ <u>525,000</u>

The adjusted trial balances of Pro Company and Stone Company follow:

December 31, 2001

Adjusted Trial balances

	Pro Co.	Stone Co.
Cash	\$ 80,000	\$ 50,000
Accounts Receivable	170,000	170,000
12/31 Inventory	230,000	150,000
Investment in Stull Company	922,600	-
Land	-	300,000
Property and Equipment (net)	350,000	250,000
Cost of Goods Sold	850,000	180,000
Other Expense	100,000	70,000
Dividends Declared	<u>100,000</u>	<u>50,000</u>
Total	\$ <u>2,802,600</u>	\$ <u>1,220,000</u>
Accounts Payable	\$ 166,000	\$ 100,000
Notes Payable	50,000	20,000
Capital Stock	1,000,000	500,000
1/1 Retained Earnings	452,400	200,000
Sales	1,044,000	400,000
Equity Income	<u>90,200</u>	<u>-</u>
Total	\$ <u>2,802,600</u>	\$ <u>1,220,000</u>

Required: Determine the amounts of the following accounts that will appear on the consolidated financial statements for the year ended December 31, 2001 for Pro Company and Subsidiary under the economic unit concept and the parent company concept, respectively. (20 分)

- A. Goodwill Amortization
- B. Minority interest income
- C. Property and Equipment (net)
- D. Minority interest

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5. On January 2, 2001, Top Company, a U.S.-based company, acquired for 4,000,000 francs an 80% interest in Sky Company, a French company. On January 2, 2001, Sky Company reported a retained earnings balance of 960,000 francs. Sky's books are maintained in francs and are in conformity with U.S. generally accepted accounting principles. Trial balances of the two companies as of December 31, 2002, are presented here:

	Top Co.	Sky Co.
Debits	(Dollars)	(Francs)
Cash	1,000,400	1,925,000
Accounts Receivable	1,032,800	1,320,000
Inventories (FIFO cost)	1,255,600	2,075,000
Investment in Sky Company	595,612	-
Land	900,000	1,000,000
Buildings (net)	1,220,000	1,100,000
Equipment (net)	580,000	810,000
Dividends Declared	400,000	750,000
Cost of Goods Sold	5,440,000	4,625,000
Depreciation Expense	420,000	250,000
Other Expense	1,828,000	1,637,500
Income Tax Expense	200,000	205,000
Totals	<u>\$ 14,872,412</u>	<u>15,697,500</u>
Credits		
Accounts Payable	1,080,000	1,600,000
Short-Term Notes Payable	600,000	1,301,500
Bonds Payable	1,400,000	1,700,000
Common Stock	1,600,000	1,920,000
Additional Paid-in Capital	600,000	600,000
Retained Earnings, 1/1	1,085,756	1,026,000
Sales	8,400,000	7,550,000
Equity Income	106,656	-
Totals	<u>\$ 14,872,412</u>	<u>15,697,500</u>

Other information related to the subsidiary follows:

- (1). Beginning inventory of 1,660,000 francs was acquired when the exchange rate was \$.165.
- (2). Purchases made uniformly throughout 2002 were 5,040,000 francs.
- (3). The franc is identified as the subsidiary's functional currency.
- (4). The subsidiary's beginning (1/1/02) retained earnings and cumulative translation adjustment (credit) in dollars were \$151,896 and \$72,924, respectively.
- (5). All plant assets were acquired before the parent obtained a controlling interest in the subsidiary.
- (6). Sales are made and all expenses are incurred uniformly throughout the year.

- (7). The ending inventory was acquired during the last quarter.
- (8). The subsidiary declared and paid dividends of 750,000 francs on September 2.
- (9). The following direct exchange rate quotations were available:

Date of subsidiary acquisition	\$.15
Average for 2001	.156
January 1, 2002	.17
September 2, 2002	.18
December 31, 2002	.19
Average for the fourth quarter, 2002	.185
Average for 2002	.176

- (10). At the date of acquisition, the 1,216,000 francs difference between cost and book value interest acquired was allocated to Land 616,000 francs and Building 600,000 francs with a 10-year remaining life using straight-line depreciation method.

Required: Determine the amounts of the following accounts that will appear on the consolidated financial statements for the year ended December 31, 2002 for Top Company and Subsidiary. (20 分)

- A. Cost of Goods Sold
- B. Depreciation Expense
- C. Translation Adjustment
- D. Minority interest