E20-1 *Pension Expense* The Bailey Company has had a defined benefit pension plan for several years. At the end of 2007 the company's actuary provided the following information for 2007 regarding the pension plan: (1) service cost, $115,000; (2) expected return on plan assets, $14,000; (3) amortization of unrecognized net loss, $2,000; (4) interest cost on projected benefit obligation, $16,000; and (5) amortization of unrecognized prior service cost, $4,000. The company decides to fund an amount at the end of 2007 equal to its pension expense.

Required
Compute the amount of Bailey Company's pension expense for 2007 and prepare the related journal entry.

E20-2 *Pension Expense* On December 31, 2007 the Robey Company accumulated the following information for 2007 in regard to its defined benefit pension plan:

Service cost	$105,000
Interest cost on projected benefit obligation	12,000
Expected return on plan assets	11,000
Amortization of unrecognized prior service cost	3,000
Amortization of unrecognized net gain	1,000

On its December 31, 2006 balance sheet, the company had reported a prepaid/accrued pension cost liability of $14,000.

Required
1. Compute the amount of Robey Company's pension expense for 2007.
2. Prepare the journal entry to record Robey's 2007 pension expense if it funds the pension plan in the amount of (a) $108,000, (b) $100,000, and (c) $112,000.

(a) $108,000, (b) $100,000, and (c) ...

E20-3 *Interest Cost and Return on Assets* On December 31, 2007 the Palmer Company determined that the 2007 service cost on its defined benefit pension plan was $120,000. At the beginning of 2007 Palmer Company had pension plan assets of $520,000 and a projected benefit obligation of $600,000. Its discount rate (and expected long-term rate of return on plan assets) for 2007 was 10%. There are no other components of Palmer Company's pension expense; the company had a prepaid/accrued pension cost liability at the end of 2006.

Required
1. Compute the amount of Palmer Company's pension expense for 2007.
2. Prepare the journal entry to record Palmer's 2007 pension expense if it funds the pension plan in the amount of: (a) $128,000, and (b) $120,000.

E20-4 *Pension Expense Different Than Funding: One Year* The Verna Company has had a defined benefit pension plan for several years. At the end of 2007 the company accumulated the following information: (1) service cost for 2007, $127,000; (2) projected benefit obligation, 1/1/2007, $634,000; (3) discount rate, 9%; (4) plan assets, 1/1/2007, $589,000; and (5) expected long-term rate of return on plan assets, 9%. There are no other components of Verna Company's pension expense; the company had a prepaid/accrued pension cost liability at the end of 2006. The company contributed $128,000 to the pension plan at the end of 2007.

Required
Compute the amount of Verna Company's pension expense for 2007 and prepare the related journal entry.

E20-6 *Determination of Projected Benefit Obligation* Several years ago the Lewad Company established a defined benefit pension plan for its employees. The following information is available for 2007 in regard to its pension plan: (1) discount rate, 10%; (2) service cost, $142,000; (3) plan assets (1/1), $659,000; and (4) expected return on plan assets, $65,900. There is no amortization of unrecognized prior service cost and there is no gain or loss. On December 31, 2007, the company contributed $140,000 to the pension plan, resulting in a credit to Prepaid/Accrued Pension Cost of $8,200.

Required
Compute the amount of Lewad Company's projected benefit obligation on January 1, 2007.

E21-1 *Determining Type of Lease and Subsequent Accounting* On January 1, 2007 the Caswell Company signs a 10-year cancelable (at the option of either party) agreement to lease a storage building from the Wake Company. The following information pertains to this lease agreement:

1. The agreement requires rental payments of $100,000 at the end of each year.
2. The cost and fair value of the building on January 1, 2007 is $2 million.
3. The building has an estimated economic life of 50 years, with no residual value. The Caswell Company depreciates similar buildings according to the straight-line method.
4. The lease does not contain a renewable option clause. At the termination of the lease, the building reverts to the lessor.
5. Caswell's incremental borrowing rate is 14% per year. The Wake Company set the annual rental to ensure a 16% rate of return (the loss in service value anticipated for the term of the lease).
6. Executory costs of $7,000 annually, related to taxes on the property, are paid by Wake Company.

Required

1. Determine what type of lease this is for the lessee.
2. Prepare appropriate journal entries on the lessee's books to reflect the signing of the lease agreement and to record the payments and expenses related to this lease for the years 2007 and 2008.

E21-2 *Lessee Accounting Issues* The Sax Company signs a lease agreement dated January 1, 2007 that provides for it to lease computers from the Appleton Company beginning January 1, 2007. The lease terms, provisions, and related events are as follows:

1. The lease term is five years. The lease is noncancelable and requires equal rental payments to be made at the end of each year.
2. The computers have an estimated life of five years, a fair value of $300,000, and a zero estimated residual value.

E21-10 *Comparisons of Operating and Sales-Type Leases* On January 1, 2007 Nelson Company leases certain property to Queens Company at an annual rental of $60,000 payable in advance at the beginning of each year for eight years. The first payment is received immediately. The leased property, which is new, cost $275,000 and has an estimated economic life of eight years and no residual value. The interest rate implicit in the lease is 12% and the lease is noncancelable. Nelson Company had no other costs associated with this lease. It should have accounted for this lease as a sales-type lease but mistakenly treated it as an operating lease.

Required

Compute the effect on income before income taxes during the first year of the lease as a result of Nelson Company's classification of this lease as an operating rather than a sales-type lease.

E21-11 *Lease Income and Expense* Reuben Company retires a machine from active use on January 2, 2007 for the express purpose of leasing it. The machine had a carrying value of $900,000 after 12 years of use and is expected to have 10 more years of economic life. The machine is depreciated on a straight-line basis. On March 2, 2007 Reuben Company leases the machine to Owens Company for $180,000 a year for a five-year period ending February 28, 2012. Under the provisions of the lease, Reuben Company incurs total maintenance and other related costs of $20,000 for the year ended December 31, 2007. Owens Company pays $180,000 to Reuben Company on March 2, 2007. The lease was properly classified as an operating lease.

Required

1. Compute the income before income taxes derived by Reuben Company from this lease for the calendar year ended December 31, 2007.
2. Compute the amount of rent expense incurred by Owens Company from this lease for the calendar year ended December 31, 2007.