

Question 1

Beckman (Lessee)*

1/1/04	Cash	2,100,000	
	Computer.....		1,500,000
	Unearned Profit on Sale- Leaseback.....		600,000
	Leased Computer	2,100,000	
	Lease Liability.....		2,100,000
12/31/04	Unearned Profit on Sale-Leaseback	200,000	
	Depreciation Expense**		200,000
	(\$600,000 ÷ 3)		
12/31/04	Depreciation Expense	700,000	
	Accumulated Depreciation.....		700,000
	(\$2,100,000 ÷ 3)		
	Interest Expense	168,000	
	Lease Liability.....	647,000	
	Cash.....		815,000

*Lease should be treated as a capital lease because present value of minimum lease payments is greater than 90% of the fair value of the computer. Also, the lease term is greater than 75% of the economic life of the asset, and title transfers at the end of the lease.

**The credit could also be to a revenue account.

Partial Lease Amortization Schedule

Date	Annual Lease Payment	Interest (8%)	Amortization	Balance
1/1/04				\$2,100,000
12/31/04	\$815,000	\$168,000	\$647,000	1,453,000

Dell Finance Co. (Lessor)*

1/1/04	Computer.....	2,100,000
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	Cash.....	2,100,000
	Lease Receivable.....	2,100,000
	Computer.....	2,100,000
12/31/04	Cash	815,000
	Lease Receivable.....	647,000
	Interest Revenue.....	168,000

*Lease should be treated as a direct financing lease because the lease meets one of the criteria in Group I and both of the criteria in Group II.

Question 2

1/1/03	No entry	
12/31/03	Compensation Expense.....	200,000
	Paid-in Capital—Stock Options.....	200,000
	(\$400,000 X 1/2)	
12/31/04	Compensation Expense.....	200,000
	Paid-in Capital—Stock Options.....	200,000
5/1/05	Cash (8,000 X \$20)	160,000
	Paid-in Capital—Stock Options.....	320,000*
	Common Stock (8,000 X \$5)	40,000
	Paid-in Capital in Excess of Par.....	440,000
	*($\$400,000 \times 8,000/10,000$)	
1/1/07	Paid-in Capital—Stock Options.....	80,000
	Paid-in Capital from Expired Stock Options ($\$400,000 - \$320,000$)	80,000