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Problem 1 (30 points)

Donelly, Inc. has prepared the following comparative balance sheets for 2007 and 2008:

	2008	2007
Cash	$ 297,000	$ 153,000
Receivables	159,000	117,000
Inventory	150,000	180,000
Prepaid expenses	18,000	27,000
Plant assets	1,260,000	1,050,000
Accumulated depreciation	(450,000)	(375,000)
Patent	153,000	174,000
	$1,587,000	$1,326,000
Accounts payable	$ 153,000	$ 168,000
Accrued liabilities	60,000	42,000
Mortgage payable	—	450,000
Preferred stock	525,000	—
Additional paid-in capital—preferred	120,000	—
Common stock	600,000	600,000
Retained earnings	129,000	66,000
	$1,587,000	$1,326,000

1. The Accumulated Depreciation account has been credited only for the depreciation expense for the period.
2. The Retained Earnings account has been charged for dividends of $138,000 and credited for the net income for the year.

   The income statement for 2008 is as follows:

Sales	$1,980,000
Cost of sales	1,089,000
Gross profit	891,000
Operating expenses	690,000
Net income	$ 201,000

Instructions

(a) From the information above, prepare a statement of cash flows (indirect method) for Donelly, Inc. for the year ended December 31, 2008.

(b) From the information above, prepare a schedule of cash provided by operating activities using the direct method.

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Problem 2 (30 points)

Eckert, Inc. on January 1, 2008 initiated a noncontributory, defined-benefit pension plan that grants benefits to its 100 employees for services rendered in years prior to the adoption of the pension plan. The total expected service-years of the 100 employees who are expected to receive benefits under the plan is 1,200. An actuarial consulting firm has indicated that the present value of the projected benefit obligation on January 1, 2008 was $5,040,000. On December 31, 2008 the following information was provided concerning the pension plan's operations for its first year.

Employer's contribution at end of year	$1,600,000
Service cost	600,000
Accumulated benefit obligation	5,090,000
Projected benefit obligation	6,000,000
Plan assets (at fair value)	1,600,000
Market-related asset value	1,600,000
Expected return on plan assets	9%
Settlement rate	8%

Instructions

(a) What is the prior service cost at January 1, 2008?

(b) Compute the pension expense recognized in 2008. Assume the prior service cost is amortized over the average remaining service life of the employees.

(c) Prepare the journal entries to reflect accounting for the company's pension plan for the year ended December 31, 2008.

(d) Indicate the amounts that are reported on the income statement and the balance sheet for 2008.

Problem 3 (15 points)

A truck was acquired on July 1, 2004, at a cost of $216,000. The truck had a six-year useful life and an estimated salvage value of $24,000. The straight-line method of depreciation was used. On January 1, 2007, the truck was overhauled at a cost of $20,000, which extended the useful life of the truck for an additional two years beyond that originally estimated (salvage value is still estimated at $24,000). In computing depreciation for annual adjustment purposes, expense is calculated for each month the asset is owned.

Instructions

Prepare the appropriate entries for January 1, 2007 and December 31, 2007.

Problem 4 (25 points)

The records of Irvin Stores included the following data:

Inventory, May 1, at retail, $14,500; at cost, $10,440
Purchases during May, at retail, $42,900; at cost, $31,550
Freight-in, $2,000; purchase discounts, $250
Additional markups, $3,800; markup cancellations, $400; net markdowns, $1,300
Sales during May, $46,500

Instructions

Calculate the estimated inventory at May 31 on a LIFO basis. Show your calculations in good form and label all amounts.