Q1

(a) Fenner Company (Lessee)

January 1, 2004

Cash ................................................................. 8,000,000
Land ............................................................... 6,720,000
Unearned Profit on Sale-Leaseback ................ 1,280,000

Leased Land Under Capital Leases ................... 8,000,000
Lease Liability .................................................. 8,000,000

Throughout 2004

Executory Costs (Insurance and Taxes) .............. 340,000
Accounts Payable and Cash ............................. 340,000

December 31, 2004

Unearned Profit on Sale-Leaseback .................... 64,000
Revenue from Sale-Leaseback ($1,280,000 ÷ 20) .... 64,000

Interest Expense ................................................ 640,000
Lease Liability .................................................. 174,816
Cash ............................................................. 814,816

Partial Lease Amortization Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Annual Lease Payment</th>
<th>Interest 8%</th>
<th>Reduction of Lease Obligation</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/04</td>
<td>$8,000,000</td>
<td></td>
<td></td>
<td>$8,000,000</td>
</tr>
<tr>
<td>12/31/04</td>
<td>$814,816</td>
<td>$640,000</td>
<td>$174,816</td>
<td>7,825,184</td>
</tr>
</tbody>
</table>

(b) Stone Corporation (Lessor)

January 1, 2004

Land ............................................................. 8,000,000
Cash ............................................................. 8,000,000
Lease Receivable ................................................................. 8,000,000
Land .................................................................................. 8,000,000

December 31, 2004
Cash ................................................................................... 814,816
Lease Receivable ............................................................. 174,816
Interest Revenue .............................................................. 640,000

Q2
(a) Service cost $210,000
   Interest cost (8% × $1,600,000) 128,000
   Actual return on plan assets (78,000)
   Unexpected gain 6,400
   Amortization of transition amount 80,400
   Amortization of net gain (5,400)
   Postretirement expense—2004 $341,400

(b) APBO, January 1, 2004 $1,600,000
   Service cost 210,000
   Interest cost 128,000
   Benefit payments (156,000)
   APBO, December 31, 2004 $1,782,000

Q3
Corridor Test and Gain/Loss Amortization Schedule

<table>
<thead>
<tr>
<th>Beginning of Year</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PBO</td>
</tr>
<tr>
<td>2003</td>
<td>$1,400,000</td>
</tr>
<tr>
<td>2004</td>
<td>1,560,000</td>
</tr>
<tr>
<td>2005</td>
<td>1,960,000</td>
</tr>
</tbody>
</table>

Average Service Years = 2,000 ÷ 200 = 10 years
*$440,000 – $164,000 = $276,000 ÷ 10 = $27,600
**$440,000 – $396,000 – $27,600 = $16,400.