QUIZ #3

NAME: ____________________
**Question 1**

On January 1, 2002, Rye Co. established a stock appreciation rights plan for its executives. They could receive cash at any time during the next four years equal to the difference between the market price of the common stock and a preestablished price of $16 on 240,000 SARs. The market price is as follows:

<table>
<thead>
<tr>
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<th>12/31/02</th>
<th>12/31/03</th>
<th>12/31/04</th>
<th>12/31/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>$21</td>
<td>$18</td>
<td>$19</td>
<td>$20</td>
<td></td>
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</tbody>
</table>

On December 31, 2004, 50,000 SARs are exercised, and the remaining SARs are exercised on December 31, 2005.

**Required:**

(a) Prepare a schedule that shows the amount of compensation expense for each of the four years starting with 2002.
(b) Prepare the journal entry at 12/31/03 to record compensation expense.

(c) Prepare the journal entry at 12/31/05 to record the exercise of the remaining SARs.
Question 2
On January 1, 2004, Fenner Company sells land to Stone Corporation for $8,000,000, and immediately leases the land back. The following information relates to this transaction:

1. The term of the noncancelable lease is 20 years and the title transfers to Fenner Company at the end of the lease term.
2. The land has a cost basis of $6,720,000 to Fenner.
3. The lease agreement calls for equal rental payments of $814,816 at the end of each year.
4. The land has a fair market value of $8,000,000 on January 1, 2004.
5. The incremental borrowing rate of Fenner Company is 10%. Fenner is aware that Stone Corporation set the annual rentals to ensure a rate of return of 8%.
6. Fenner Company pays all executory costs which total $340,000 in 2004.
7. Collectibility of the rentals is reasonably predictable, and there are no important uncertainties surrounding the costs yet to be incurred by the lessor.

Required:
(a) Prepare the journal entries for the entire year 2004 on the books of Fenner Company to reflect the above sale and lease transactions (include a partial amortization schedule and round all amounts to the nearest dollar.)
(b) Prepare the journal entries for the entire year 2004 on the books of Stone Corporation to reflect the above purchase and lease transactions.