EXERCISE 21-2 (10-15 minutes)

Computation of pension expense:
- Service cost: $90,000
- Interest cost ($800,000 X 10%): 80,000
- Actual (and expected) return on plan assets: (64,000)
- Unrecognized prior service cost amortization: 10,000

Pension expense for 2002: $116,000

EXERCISE 21-12 (20-30 minutes)

(a) Pension expense for 2001 comprised the following:
- Service cost: $56,000
- Interest on projected benefit obligation: 90,000
  (9% X $1,000,000)
- Actual and expected return on plan assets: (54,000)
- Amortization of unrecognized gain or loss: 0
- Amortization of unrecognized prior service cost: 40,000

Pension expense: $132,000

(b) Pension Expense: 132,000
Prepaid/Accrued Pension Cost: 13,000*
Cash: 145,000
(To record pension expense and employer’s contribution)

*$145,000 – $132,000
EXERCISE 21-12 (Continued)

(c) Income Statement:
   Pension expense $132,000

Balance Sheet:
   Assets
      Intangible asset—deferred pension cost $44,000
   Liabilities
      Accrued pension cost $31,000

Minimum liability computation: 12/31/01
   Accumulated benefit obligation $(830,000)
   Plan assets at fair value 799,000a
   Minimum liability $ (31,000)
   Prepaid/accrued pension cost (an asset) 13,000
   Additional liability (44,000)
   Unrecognized prior service cost 360,000b
   Contra equity charge $ 0

   a $799,000 = $600,000 + $145,000 + $54,000
   b $360,000 = $400,000 – $40,000