Exercise #1
Spencer Company leases equipment to its customers under direct-financing leases. Typically the equipment has no residual value at the end of the lease and the contract call for payments at the beginning of each year. Spencer’s target rate of return is 10%. On a ten-year lease of equipment with a fair value of $1,351,805, the annual payments would be how much? How much interest will Spencer Company earn over the life of the lease?

Exercise #2
Spencer Manufacturing leased equipment to Sophia Company on September 1, 2001. Spencer recorded the lease as a sales-type lease at $405,391, the present value of the minimum lease payments discounted at 5%. The lease called for 10 annual lease payments of $50,000 due at the beginning of each year. The first payment was received on September 1, 2001. Spencer had manufactured the equipment at a cost of $182,425. The total pretax earnings in 2001 to Spencer as a result of this lease contract would be:
Exercise #3
Spencer Company had taxable income of $100,000 in the current year. The amount of MACRS depreciation was $50,000 while the amount of depreciation reported on the income statement was $5,000. Assuming no other temporary differences What would Spencer Company’s pretax accounting income be?

Exercise #4
The following is a reconciliation of pretax financial statement income to taxable income for Spencer Company for the year ended December 31, 2004, its first year of operations.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pretax accounting income</td>
<td>$900,000</td>
</tr>
<tr>
<td>Interest revenue on municipal securities</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Warranty expense in excess of deductible amount</td>
<td>25,000</td>
</tr>
<tr>
<td>Depreciation in excess of financial statement amount</td>
<td>(200,000)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$715,000</td>
</tr>
</tbody>
</table>

The company’s effective income tax rate is 25%.

Prepare a schedule of deferred tax assets and liabilities at December 31, 2004.

Prepare a t-account analysis of Spencer Company’s deferred tax asset as of December 31, 2004.
Prepare a t-account analysis of Spencer Company’s deferred tax liability as of December 31, 2004.

Prepare a schedule of net deferred tax expense (benefit) for Spencer Company for the year.

Prepare a schedule of Spencer Company’s income tax payable.

Prepare a schedule of Spencer Company’s income tax expense.

Prepare the year end journal entry to record income tax expense.
Exercise #5
Spencer Company reported the following pretax accounting income and taxable income for its first three years of operations.

<table>
<thead>
<tr>
<th>Year</th>
<th>Pretax and Taxable Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$100,000</td>
</tr>
<tr>
<td>2003</td>
<td>(500,000)</td>
</tr>
<tr>
<td>2004</td>
<td>600,000</td>
</tr>
</tbody>
</table>

The enacted tax for all years was 35%. Spencer Company elected to carryback the original loss to 2002 and then carryforward the excess to 2004.

Prepare a schedule of NOL carryback and NOL carryforward.

Prepare an analysis of the deferred tax asset.

Prepare a partial balance sheet for Spencer Company at December 31, 2003 demonstrating how the effects of the NOL will be reported.

Prepare a partial income statement for Spencer Company for the year ended December 31, 2003 demonstrating how the effects of the NOL carryback and carryforward would be reported.
Prepare a partial income statement for Spencer Company for the year ended December 31, 2004 demonstrating how the effects of the NOL carryforward would be reported.

Exercise #6
Spencer Company reports bad debt expense using the allowance method. For tax purposes the direct write-off method is used. At the end of the current year, Spencer Company has accounts receivable and an allowance for uncollectible accounts of $200,000 and $16,000 respectively, and taxable income for the year is $15,000. At the beginning of the current year, Spencer Company reported a deferred tax asset of $7,000 related to the difference in reporting bad debts, its only temporary difference. The enacted tax rate is 25% each year.

Prepare an analysis of the deferred tax asset or deferred tax liability related to this temporary difference.

Prepare a t-account analysis of the deferred tax asset and/or deferred tax liability account as of the end of year.
Calculate income tax payable

Calculate income tax expense

Prepare the year-end journal entry to record income tax expense.

Exercise #7
Spencer Company leased a machine on December 31, 2004, for a five-year period. The lease agreement calls for annual payments in the amount of $25,000 on December 31 of each year beginning on December 31, 2004. Spencer Company has the option to purchase the machine on December 31, 2009, for $5,000 when its fair value is expected to be $15,000. The machine's estimated useful life is expected to be 10 years with no residual value. Spencer Company uses straight-line depreciation for this type of machinery. The appropriate interest rate for this lease is 8%.
Calculate the amount to be recorded as a leased asset and the associated lease liability.

In the space prepare the amortization schedule of 2004 and 2005.

Prepare all of the necessary journal entries associated with this lease for 2004 and 2005.