

Inventory Question

A small-scale t-shirt manufacturer is currently trying to figure out the value of their inventory. It started the year with 90 regular t-shirts on hand that cost \$10 each and no other inventory, and it made the following purchases and sales throughout the year:

Date	
January 5 <sup>th</sup>	Bought 60 t-shirts at \$15 each
March 23 <sup>rd</sup>	Sold 50 t-shirts for \$20 each
April 5 <sup>th</sup>	Sold 80 t-shirts for \$20 each
April 15 <sup>th</sup>	Bought 40 t-shirts at \$18 each.
August 25 <sup>th</sup>	Sold 20 t-shirts for \$20 each
December 15 <sup>th</sup>	Sold 5 t-shirts for \$20 each

1. What is the cost of goods sold for the year, assuming the company uses perpetual LIFO?
2. What is the value of inventory at the end of the year, assuming the company uses perpetual FIFO?
3. What is the gross profit for the year, assuming the company uses perpetual average cost?

Non-current Assets Question

On March 5<sup>th</sup>, the t-shirt company decided to acquire their rival for a lump sum cash payment of \$1000. In the acquisition, they acquired a printing press (machinery) worth \$1,080 and a standard printer (equipment) worth \$120. Given that they only acquired PP&E, they would like to book this acquisition as a basket purchase of assets.

1. What is the journal entry for this acquisition, assuming they use a basket purchase method to record it?

After acquiring the PP&E, the company decided that the machinery should use double declining balance depreciation over 3 years. They do not expect to receive any compensation on disposal.

2. How much depreciation should they book over the first year? Second year? Third (final) year?
3. If they decide to sell the machinery for \$400 right after recording depreciation for the first year, what would the journal entry be?

Liabilities

In the previous acquisition, the company did not have \$1,000 on hand. Instead, they received financing from a supplier via a 2 year, 5% interest note payable of \$1,000. All interest is due at maturity. They recorded the initial receipt of the financing as follows:

		DR	CR
Jan 1, 2017	Cash	1,000	
	Notes payable		1,000

1. At the end of 2017, they need to recognize interest expense on the note payable. Write out the adjusting entry for this.
2. At the end of 2018, they will need to pay off the note. Write out the entry for this.

Bond Question

On February 9, 2009, Apple issued a 15-year 3% corporate bond worth \$1.8B. As is standard, the bond uses a 30/360 date basis and has semiannual interest payments. The bond was, on February 9, 2018, trading at a yield of 3.10%. Assume the bond was initially issued at par.

1. Was this bond trading at a premium or a discount as of February 9, 2018?
2. What is the price the bond was trading at on February 9, 2018, in millions of dollars? [*Round to two decimal places.*]
3. What is the accrued interest payable on the bond as of March 2, 2018? [*Round to two decimal places.*]
  
4. Let's assume that Apple decided they want to buy back the bond in the open market on February 10th, 2018. If they could buy the bond for the trading price, what would the journal entry look like? [*Round to two decimal places.*]
  
5. Let's assume that they issue a new bond in place of the old bond. This time, they issue \$2B of par worth of a 10 year, 1% bond that pays interest *annually*. Due to market instability, however, Apple is forced to sell the bond at a discount, with a 2% yield. What is the carrying value of the bond at issue? In exactly 1 year? In exactly 2 years? [*Round to two decimal places.*]