

Name: _____

Section: G__ Score: ____ / 100

This quiz is worth 7.5% of the overall course grade and should take up to 75 minutes to complete. The quiz will be graded out of a total of 100 points. Read each question carefully, and do your best to answer it. Make sure to show your work when answering questions, as partial credit will be awarded for work that, while not leading to the correct answer, shows significant progress towards it.

Question 1: Inventory (18 marks)

InTune Wireless is a reseller of a Tristar brand cell phones. They currently carry two phones: The Universe S6 and the Universe S7. They started the year with 100 of each phone – the Universe S7 on hand cost them \$400 per phone, while the Universe S6 on hand cost them \$200 per phone. The company does an inventory check and adjusts their COGS at the end of each month.

- A) The following transactions occurred during the month of January 2016. What should their COGS be if they follow Perpetual FIFO? What should COGS be if they follow Perpetual LIFO? What should their COGS be if they follow Perpetual Average Cost? (6 marks)
- Jan 3: Sold 10 Universe S7; sold 10 Universe S6
 - Jan 4: Sold 15 Universe S7
 - Jan 8: Bought 50 Universe S7 at \$350 each
 - Jan 15: Sold 30 Universe S7; sold 50 Universe S6
 - Jan 20: Sold 30 Universe S7; bought 10 Universe S6 at \$150 each
 - Jan 25: Sold 20 Universe S7; sold 20 Universe S6

FIFO COGS	LIFO COGS	Average Cost COGS
\$	\$	\$

[Question 1 continued]

- B)** In February 2016, InTune Wireless decided to try selling a new phone model, the Jot 7. They acquired 20 phones for a trial run, buying each at \$450. This purchase was made in cash. A few days later, it was discovered that the Jot 7 was predisposed to exploding, so they decided to return the phones for a refund on credit. Record the journal entry for the purchase and the subsequent return. **(8 marks)**

ENTRY	ACCOUNT	DR	CR
PURCHASE			
RETURN			

- C)** In March 2016, a new phone was released: The Universe S8. At the end of the month, InTune Wireless had 30 Universe S7 phones on hand at an inventory value of \$10,500 and 10 Universe S6 phones on hand at an inventory value of \$2,000. Due to the launch of the new phone, the Net Realizable Value of these phones dropped down to \$300 per Universe S7 and \$200 per Universe S6. Consequently, an inventory write-down is needed. Record the journal entry for this write-down. **(4 marks)**

ENTRY	ACCOUNT	DR	CR
WRITE-DOWN			

Question 2: PP&E (24 points; 4 marks per entry)

On March 1, 2013, TriStar purchased a set of battery manufacturing equipment and machinery for \$50,000, as a competitor was looking to sell off its battery division. If TriStar purchased the assets on the market, the machinery would cost \$42,000 and the equipment would cost \$18,000. To set the equipment up, TriStar incurred \$1,000 in shipping costs, and \$3,000 in maintenance costs.

TriStar expects both the machinery and the equipment to last 3 years. The machinery should follow double declining balance depreciation with a salvage value of \$10,000, while the equipment should follow straight line depreciation with no salvage value.

- A) What is the journal entry that TriStar would record for this purchase, including setup costs?
- B) What would the depreciation entry be for each asset in years 1 and 2, assuming Tristar has a February 28 year end?
- C) At the start of the third year, TriStar paid \$10,000 to extend the useful life of the machinery by 1 year. Record this transaction.
- D) Record depreciation for year 3
- E) In February 2016, the batteries produced by the acquired machinery began exploding. Consequently, TriStar decided to scrap the machinery and equipment on March 1, 2016. Record this disposal.

ENTRY	ACCOUNT	DR	CR
A) PURCHASE 1 MAR 2013			
B) DEPR, Y1 28 FEB 2014			
B) DEPR, Y2 28 FEB 2015			
C) EXTEND 1 MAR 2015			
D) DEPR Y3 29 FEB 2016			
E) DISPOSAL 1 MAR 2016			

[Question 2 continued]

(Space for work)

Question 3: PP&E, Notes Payable (20 marks; 4 marks per entry)

Returning to InTune Wireless, in June 2016 the company decided to purchase a small regional rival, Tuned Wireless, for \$20,000.

To finance the acquisition, InTune received a 1 year, 5% note payable to TriStar for \$20,000 on June 1, 2016. Then, using the proceeds from this note payable, InTune acquired a small regional rival, Tuned Wireless, for \$20,000 on June 15, 2016. The company had assets at a net asset value of \$20,000 and no liabilities.

- A) Record the issuance of the note payable from InTune's perspective.
- B) Record the acquisition of Tuned Wireless. Assume all assets acquired were inventory.
- C) Record the adjusting entry needed on December 31, 2016, related to the note payable. [*Round to the nearest integer*]
- D) On December 31, 2016, the inventory received from Tuned Wireless was deemed to have no remaining value, despite InTune still having 10,000 worth of inventory on hand. Record the write-down needed.
- E) On May 31, 2017, InTune paid back the note payable in full. Record this transaction. [*Round to the nearest integer*]

ENTRY	ACCOUNT	DR	CR
A) NOTE 1 JUN 2016			
B) ACQUIRE 15 JUN 2016			
C) ADJUSTMENT 31 DEC 2016			
D) WRITE-DOWN 31 DEC 2016			
E) NOTE 31 MAY 2016			

Question 4: Bonds (38 marks)

After TriStar's battery issues, they decided to purchase a company with battery manufacturing expertise. However, they did not have sufficient cash to purchase the company on hand. Consequently, on June 1, 2016 they chose to issue an 8% coupon (semiannual), \$150M, 10-year bond to raise the necessary capital.

- A) If the bond was issued at par, what would be the journal entry to record this issuance, the first coupon payment (November 30, 2016), the adjusting entry for interest expense on February 28, 2017 (*treat this as the end of the month*), and the coupon payment on May 31, 2017? **(4 marks per entry)**

ENTRY	ACCOUNT	DR	CR
ISSUE 1 JUN 2016			
COUPON 1 30 NOV 2016			
ADJUSTING ENTRY 28 FEB 2017			
COUPON 2 31 MAY 2017			

[Question 4 continued]

- B) Due to the negative news from the battery issues, TriStar had to settle for a 10% yield on the bond issue. What was the bond price at issue (round to the nearest million)? Record the journal entry for this bond issue, the first coupon payment (November 30, 2016), the adjusting entry for interest expense on February 28, 2017 (*treat this as the end of the month*), and the coupon payment on May 31, 2017. Use the effective interest method. [Round to the nearest integer] (3 marks for bond price, 4 marks per journal entry)

Bond Price (Millions)
\$

ENTRY	ACCOUNT	DR	CR
ISSUE 1 JUN 2016			
COUPON 1 30 NOV 2016			
ADJUSTING ENTRY 28 FEB 2017			
COUPON 2 31 MAY 2017			

- C) What is the total amount of extra interest expense that TriStar will incur on the bond issued in part B compared to the bond in part A? [Round to the nearest integer] [Hint: You do not need to calculate interest expense for each period of the bond to answer this question.] (3 marks)

Extra Interest Expense (Millions)
\$