

## Case Assignment

### Ricardo Pasta Company

Ricardo Pasta Company manufactures and sells various types of pasta to grocery chains as private labels. The company reported the following balance sheet at the end of 2008:

<b>Ricardo Pasta Company</b>			
<b>Balance Sheet</b>			
<b>As of December 31, 2008</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 5,000	Accounts payable	
Accounts receivable	\$ 2,000	Other liabilities	
Inventories:		Total current liabilities	
Raw materials	\$ 5,350		
Work in process	850		
Finished goods	9,550		
	<u>\$ 15,750</u>		
Prepaid insurance	\$ 600		
Equipment	11,000		
Less accum. Depreciation	<u>3,500</u>		
	<u>\$ 7,500</u>		
<b>Total Assets</b>	<u><u>30,850</u></u>	<b>Total Liabilities and Equity</b>	

The following items summarize the business activities of the company during 2009:

1. Borrowed \$10,000 on March 1, 2009, signing a 5 year, 6% note payable.
2. Made \$4,500 of cash sales to customers.
3. Received a \$150 invoice for an advertisement in the Spaghetti Times February 2010 issue.
4. Made \$5,500 of sales on account.
5. Purchased on account flour for use in manufacturing the company's signature pasta, \$6,500.
6. Received \$6,000 from customers on account.
7. Paid \$800 for Directors and Officers liability insurance coverage for 2010.
8. Paid a cash dividend of \$1,000 to shareholders.
9. Purchased equipment for \$5,500 cash.
10. Paid trade vendors \$2,500 of the balance due.
11. Paid \$3,000 on direct manufacturing-related overhead (e.g. utilities, wages, and other operating expenses of Ricardo's manufacturing plant). An additional \$1,750 was spent on corporate salaries and corporate expenses.
12. Paid \$2,300 of other current liabilities.

Information for year-end adjusting entries is as follows:

- a. A physical count of inventory at December 31, 2009 indicated a remaining balance of \$5,000 in materials, \$3,900 in work in process, and \$12,550 in finished goods.
- b. Depreciation on equipment, \$600.
- c. Insurance coverage purchased in 2008 expired in 2009.
- d. Interest on the note is payable annually on March 1.
- e. Income tax expense, \$400, payable in June 2010.

***Required:***

- 1. Analyze and record the transactions.
- 2. Prepare the Income Statement, Balance Sheet, and Statement of Cash Flows (using both the direct and indirect methods).

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