

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:

Ricardo Pasta Company			
Balance Sheet			
As of December 31, 2008			
Assets		Liabilities	
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>		
Total Assets	<u><u>30,850</u></u>	Total Liabilities and Equity	

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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3,000
9,550
12,550

10,600
7,700
30,850

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re direct

Cash		
0	5,000	800 7
1	10,000	1,000 8
2	4,500	5,500 9
6	6,000	2,500 10
		3,000 11
		1,750 11
		2,300 12
8,650		

Accounts receivable		
0	2,000	6,000 6
4	5,500	
1,500		

Raw Materials		
0	5,350	6,850 a
5	6,500	
5,000		

Work in Process		
0	850	3,800 a
a	6,850	
3,900		

Finished Goods		
0	9,550	800
a	3,800	
12,550		

Prepaid Insurance		
0	600	600 c
7	800	
800		

Equipment		
0	11,000	
9	5,500	
16,500		

Accum. Depreciation		
		3,500
		600

Accounts Payable		
10	2,500	3,000 0
		150 3
		6,500 5
		400 e
7,550		

Other Current Liab.		
12	2,300	9,550 0
7,250		

Notes Payable		
		10,000
		500

Common Stock		
		10,600 0

Retained earnings		
8	1,000	7,700 0

Sales revenue		
		4,500 2
		5,500 4

Cost of Goods Sold		
a	800	

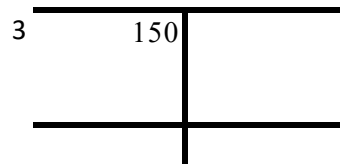
Depreciation Expense		
b	600	

Corporate Overhead		
11	3,000	
11	1,750	
c	600	
5,350		

Interest Expense		
d	500	

Income Tax Expense		
e	400	

Prepaid Advertising		
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a

0

b

1

d

Ricardo Pasta Company
Income Statement
For the Year Ended December 31, 2009

Sales Revenue	\$	10,000
Cost of goods sold	\$	(800)
<hr/>		
Gross Profit	\$	9,200

Operating Exp

Depreciation Expenses	\$	(600)
Corporate Overhead	\$	(5,350)
Income Tax Expense	\$	(400)
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Operating Income	\$	2,850

Interest Expenses

Interest Expense	\$	(500)
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Net Income	\$	2,350

Ricardo Pasta Company
Balance Sheet
As of December 31, 2009

Assets			Liabilities	
Cash		\$ 8,650	Accounts payable	
Accounts receivable		\$ 1,500	Other liabilities	
Inventories:			Total current liabilities	
Raw materials	\$ 5,000			
Work in process	\$ 3,900			
Finished goods	\$ 12,550	\$21,450		
Prepaid insurance		\$ 800		
Prepaid Advertising		\$ 150		
Equipment	\$ 16,500			
Less accum. Depreciation	\$ 4,100	\$12,400		
Total Assets		<u><u>\$44,950</u></u>		
			Long Term Liabilities	
			LTD	
			Equity	
			Common stock	
			Retained earnings	
			Total Liabilities and Equity	

\$ 7,550

\$ 7,250

\$14,800

\$10,500

\$10,600

\$ 9,050 (2350 increase from net income)

\$44,950

Ricardo Pasta Company
Statement of Cash Flows

For the Year Ended December 31, 2009

Operating Activities	CF	
Revenue	4500	
COGS	0	
Depreciation Expenses	0	
Corporate Overhead	-4750	
Income Tax Expense	0	
Intereset Expense	0	
Prepaid Insurance	-800	
Account Payable	-2500	
Other Current Liabilities	-2300	
CFO	-5850	
Investing		
Notes Receivable	6000	
Equipment Purchase	-5500	
CFI	500	
Financing		
Note Borrow	10000	
Dividend Payments	-1000	
CFF	9000	
Cahnge in Cash	3650	