

In-class Problem (Chapter 002)

Pastina Company sells various types of pasta to grocery chains as private label brands. The company's fiscal year-end is December 31. The unadjusted trial balance as of December 31, 2018, appears below:

PASTINA COMPANY
Unadjusted Trial Balance
For the year ended December 31, 2018

#	Account Title	Debit	Credit
1	Cash	30,000	
2	Accounts receivable	40,000	
3	Supplies	1,500	
4	Inventory	60,000	
5	Note receivable	20,000	
6	Interest receivable	0	
7	Prepaid rent	2,000	
8	Prepaid insurance	0	
9	Office equipment	80,000	
10	Accumulated depreciation- office equipment		30,000
11	Accounts payable		31,000
12	Salaries and wages payable		0
13	Note payable		50,000
14	Interest payable		0
15	Deferred revenue		0
16	Common Stock		60,000
17	Retained earnings		24,500
18	Sales revenue		148,000
19	Interest revenue		0
20	Cost of goods sold	70,000	
21	Salaries and wages expense	18,900	
22	Rent expense	11,000	
23	Depreciation expense	0	
24	Interest expense	0	
25	Supplies expense	1,100	
26	Insurance expense	6,000	
27	Advertising expense	3,000	
	Total	<u>343,500</u>	<u>343,500</u>

Information necessary to prepare the year-end adjusting entries appears below:

1. Depreciation on the office equipment for the year if \$10,000.
2. Employee salaries and wages are paid twice a month, on the 22nd for salaries and wages earned from the 1st through the 5th, and on the 7th of the following month for salaries and wages earned from the 16th through the end of the month. Salaries and wages earned from December 16 through December 31, 2018, were \$1,500.
3. On October 1, 2018, Pastina borrowed \$50,000 from a local bank and signed a note. The note requires interest to be paid annually on September 30 at 12%. The principal is due in 10 years.
4. On March 1, 2018, the company lent a supplier \$20,000 and note was signed requiring principal and interest at 8% to be paid on February 28, 2019.
5. On April 1, 2018, the company paid an insurance company \$6,000 for two-year fire insurance policy. The entire \$6,000 was debited to insurance expense.
6. \$8,000 of supplies remained on hand at December 31, 2018.
7. A customer paid Pastina \$2,000 in December for 1,500 pounds of spaghetti to be delivered in January 2019. Pastina credited sales revenue.
8. On December 1, 2018, \$2,000 rent was paid to the owner of the building. The payment represented rent for December 2018 and January 2019 at \$1,000 per month.

Required:

1. Prepare necessary adjusting entries.
2. Enter the adjusted balances from the trial balance into T-accounts.
3. Post adjusting entries to the accounts.
4. Prepare an unadjusted trial balance.
5. Prepare an income statement and a statement of shareholders' equity for the year ended December 31, 2018, and a classified balance sheet as of December 31, 2018. Assume that no common stock was issued during the year and that \$4,000 in cash dividends were paid to shareholders during the year. The \$4,000 reduction in cash and in retained earnings is reflected in the unadjusted trial balance amounts. That is, the retained earnings balance at the beginning of the year was \$28,500.
6. Prepare closing entries and post to the accounts.
7. Prepare a post-closing trial balance.

Solution:

Req. 1:

1.	Depreciation expense	10,000	
	Accumulated depreciation		10,000
2.	Salaries and wages expense	1,500	
	Salaries and wages payable.....		1,500
3.	Interest expense ($\$50,000 \times 12\% \times \frac{3}{12}$).....	1,500	
	Interest payable		1,500
4.	Interest receivable ($\$20,000 \times 8\% \times \frac{10}{12}$)	1,333	
	Interest revenue		1,333
5.	Prepaid insurance ($\$6,000 \times \frac{15}{24}$)	3,750	
	Insurance expense		3,750
6.	Supplies expense ($\$1,500 - 800$)	700	
	Supplies.....		700
7.	Sales revenue	2,000	
	Deferred revenue.....		2,000
8.	Rent expense	1,000	
	Prepaid rent		1,000

REQ. 2 AND 3:

BALANCE SHEET ACCOUNTS

Cash		Accounts receivable	
Bal.	30,000	Bal.	40,000
12/31 Bal.	30,000	12/31 Bal.	40,000
Prepaid rent			
Bal.	2,000		
		1,000	8.
12/31 Bal.	1,000		
Prepaid insurance		Supplies	
Bal.	0	Bal.	1,500

5.	3,750	
12/31 Bal.	3,750	

		700	6.
12/31 Bal.	800		

Inventory

Bal.	60,000	
12/31 Bal.	60,000	

Note receivable

Bal.	20,000	
12/31 Bal.	20,000	

Office equipment

Bal.	80,000	
12/31 Bal.	80,000	

Interest receivable

Bal.	0	
4.	1,333	
12/31 Bal.	1,333	

Problem 2–4 (continued)

Accumulated depreciation

	30,000	Bal.
	10,000	1.
	40,000	12/31 Bal.

Accounts payable

	31,000	Bal.
	31,000	12/31 Bal.

Salaries and wages payable

	0	Bal.
	1,500	2.
	1,500	12/31 Bal.

Note payable

	50,000	Bal.
	50,000	12/31 Bal.

Interest payable

	0	Bal.
	1,500	3.
	1,500	12/31 Bal.

Deferred revenue

	0	Bal.
	2,000	7.
	2,000	12/31 Bal.

Common stock

Retained earnings

	60,000	Bal.
	60,000	12/31 Bal.

	24,500	Bal.
	24,500	12/31 Bal.

INCOME STATEMENT ACCOUNTS

Sales revenue

	148,000	Bal.
7.	2,000	
	146,000	12/31 Bal.

Interest revenue

	0	Bal.
	1,333	4.
	1,333	12/31 Bal.

Cost of goods sold

Bal.	70,000	
12/31 Bal.	70,000	

Salaries and wages expense

Bal.	18,900	
2.	1,500	
12/31 Bal.	20,400	

Rent expense

Bal.	11,000	
8.	1,000	
12/31 Bal.	12,000	

Depreciation expense

Bal.	0	
1.	10,000	
12/31 Bal.	10,000	

Interest expense

Bal.	0	
3.	1,500	
12/31 Bal.	1,500	

Supplies expense

Bal.	1,100	
6.	700	
12/31 Bal.	1,800	

Insurance expense

Bal.	6,000	
	3,750	5.
12/31 Bal.	2,250	

Advertising expense

Bal.	3,000	
12/31 Bal.	3,000	

Req. 4

PASTINA COMPANY
Adjusted Trial Balance
Prepared for the year ended December 31, 2018

Account Title	Debits	Credits
Cash	30,000	
Accounts receivable	40,000	
Prepaid rent	1,000	
Prepaid insurance	3,750	
Supplies	800	
Inventory	60,000	
Note receivable	20,000	
Interest receivable	1,333	
Office equipment	80,000	
Accumulated depreciation—office equipment		40,000
Accounts payable		31,000
Salaries and wages payable		1,500
Note payable		50,000
Interest payable		1,500
Deferred revenue		2,000
Common stock		60,000
Retained earnings		24,500
Sales revenue		146,000
Interest revenue		1,333
Cost of goods sold	70,000	
Salaries and wages expense	20,400	
Rent expense	12,000	
Depreciation expense	10,000	
Interest expense	1,500	
Supplies expense	1,800	
Insurance expense	2,250	
Advertising expense	<u>3,000</u>	
Totals	<u>357,833</u>	<u>357,833</u>

Req. 5:

PASTINA COMPANY
Adjusted Trial Balance
Prepared for the year ended December 31, 2018

Sales revenue		\$146,000
Cost of goods sold		<u>70,000</u>
Gross profit		76,000
Operating expenses:		
Salaries and wages	\$20,400	
Rent	12,000	
Depreciation	10,000	
Supplies	1,800	
Insurance	2,250	
Advertising	<u>3,000</u>	
Total operating expenses		<u>49,450</u>
Operating income		26,550
Other income (expense):		
Interest revenue	1,333	
Interest expense	<u>(1,500)</u>	<u>(167)</u>
Net income		<u>\$ 26,383</u>

PASTINA COMPANY
 Statement of Shareholders' Equity
 For the Year Ended December 31, 2018

	Common Stock	Retained Earnings	Total Shareholders' Equity
Balance at January 1, 2018	\$60,000	\$28,500	\$ 88,500
Issue of common stock	- 0 -		- 0 -
Net income for 2018		26,383	26,383
Less: Dividends		<u>(4,000)</u>	<u>(4,000)</u>
Balance at December 31, 2018	<u>\$60,000</u>	<u>\$50,883</u>	<u>\$110,883</u>

Req. 5 (Continued)

PASTINA COMPANY

Balance Sheet
At December 31, 2018

Assets

Current assets:

Cash	\$ 30,000
Accounts receivable	40,000
Supplies	800
Inventory	60,000
Note receivable	20,000
Interest receivable	1,333
Prepaid rent	1,000
Prepaid insurance	<u>3,750</u>
Total current assets	156,883

Office equipment	\$80,000	
Less: Accumulated depreciation	<u>(40,000)</u>	<u>40,000</u>
Total assets		<u>\$196,883</u>

Liabilities and Shareholders' Equity

Current liabilities

Accounts payable	\$ 31,000
Salaries and wages payable	1,500
Note payable	50,000
Interest payable	1,500
Deferred revenue	<u>2,000</u>
Total current liabilities	86,000

Shareholders' equity:

Common stock	\$60,000	
Retained earnings	<u>50,883</u>	
Total shareholders' equity		<u>110,883</u>
Total liabilities and shareholders' equity		<u>\$196,883</u>

Req. 6 [Closing Entries]

December 31, 2018

Sales revenue.....	146,000	
Interest revenue	1,333	
Income summary		147,333
Income summary.....	120,950	
Cost of goods sold.....		70,000
Salaries and wages expense		20,400
Rent expense		12,000
Depreciation expense		10,000
Interest expense.....		1,500
Supplies expense		1,800
Insurance expense		2,250
Advertising expense.....		3,000
Income summary (\$147,333 – 120,950).....	26,383	
Retained earnings.....		26,383

Req. 7:

Sales revenue

		148,000	Bal.
7.	2,000		
Closing	146,000		
		<hr/>	
		0	12/31 Bal.

Interest revenue

		0	Bal.
		1,333	4.
Closing		1,333	
		<hr/>	
		0	12/31 Bal.

Cost of goods sold

Bal.	70,000		
		70,000	Closing
		<hr/>	
12/31 Bal.	0		

Salaries and wages expense

Bal.	18,900		
4.	1,500		
		20,400	Closing
		<hr/>	
12/31 Bal.	0		

Rent expense

Bal.	11,000		
8.	1,000		
		12,000	Closing
		<hr/>	
12/31 Bal.	0		

Depreciation expense

Bal.	0		
1.	10,000		
		10,000	Closing
		<hr/>	
12/31 Bal.	0		

Interest expense

Bal.	0		
3.	1,500		
		1,500	Closing
		<hr/>	
12/31 Bal.	0		

Supplies expense

Bal.	1,100		
6.	700		
		1,800	Closing
		<hr/>	
12/31 Bal.	0		

Insurance expense

Bal.	6,000		
		3,750	5.
		2,250	Closing
		<hr/>	

Advertising expense

Bal.	3,000		
		3,000	Closing
		<hr/>	

12/31 Bal.	0
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12/31 Bal.	0
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Income summary

Bal.	0	
		147,333 Closing
Closing	120,950	
Closing	26,383	
12/31 Bal.	0	

Retained earnings

24,500	Bal.
26,383	Closing
12/31 Bal.	50,883

Req. 7 Post closing trial Balance

Account Title	Debits	Credits
Cash	30,000	
Accounts receivable	40,000	
Prepaid rent	1,000	
Prepaid insurance	3,750	
Supplies	800	
Inventory	60,000	
Note receivable	20,000	
Interest receivable	1,333	
Office equipment	80,000	
Accumulated depreciation—office equipment		40,000
Accounts payable		31,000
Salaries and wages payable		1,500
Note payable		50,000
Interest payable		1,500
Deferred revenue		2,000
Common stock		60,000
Retained earnings		50,883
Totals	<u>236,883</u>	<u>236,883</u>