



Phần B: Lập kế hoạch, lập ngân sách và dự báo

(Section B: Planning, Budgeting and Forecasting)

1. The management of a food-processing company is analyzing its internal strengths and weaknesses as part of its strategic planning process. Which one of the following is **most** likely considered a strategic internal factor for the company?
 - a. Changes in the legal code for food processors.
 - b. The economic forces that regulate the local labor supply.
 - c. Technological changes in food-processing methods.
 - d. The culture at the company's food-processing plant.
2. A company is in the process of developing its mission statement. Which one of the following is **least** appropriate for a company's mission statement?
 - a. Defining the purpose of the company.
 - b. Identifying what product or service the company is providing.
 - c. Promoting a common shared goal on the part of employees.
 - d. Explaining the tactics for increasing market share in a specific region.
3. A company sells a product that is aimed at the broad mass market but is perceived as unique throughout its industry. The company is earning above-average returns on the product. Which one of the following is the **most** appropriate term for the competitive strategy followed by the company?
 - a. Market focus.
 - b. Financial leadership.
 - c. Cost focus.
 - d. Differentiation.
4. The concurrent action of basic competitive forces as defined by Porter's 5 forces model determines the
 - a. strategy that a firm should follow to achieve its objectives.
 - b. rivalry inside the industry.
 - c. entrance barriers that potential players must face to get into the industry.
 - d. long-term profitability and the competitive intensity of the industry.
5. After leading the market for the past decade, the growth of product ABC is slowing down. In this stage of its life cycle, the product is still generating significant amounts of cash flows that cover the company's investment into new product innovations. According to the BCG Growth-Share Matrix, product ABC is **most** likely an example of a
 - a. star.
 - b. cash cow.
 - c. question mark.
 - d. dog.



6. The major objectives of budgeting are to
 - a. foster the planning of operations, provide a framework for performance evaluation, and promote communication and coordination among the organization's segments.
 - b. foster the planning of operations, facilitate the identification of blame for missed budget predictions, and ensure goal congruence between superiors and subordinates.
 - c. define responsibility centers, provide a framework for performance evaluation, and promote communication and coordination among the organization's segments.
 - d. define responsibility centers, facilitate the identification of blame for missed budget predictions, and ensure goal congruence between superiors and subordinates.
7. The management of a company has just completed a thorough review of its strategic goals and formulated the company's long-term plan and short-term objectives. The **most** appropriate next step for the company is the development of a
 - a. financial budget.
 - b. operating budget.
 - c. capital budget.
 - d. master budget.
8. Cerawell Products Company is a ceramics manufacturer that is facing several challenges in its operations due to economic and industry conditions. The company is currently preparing its annual plan and budget. Which one of the following is subject to the **least** control by the management of Cerawell in the current fiscal year?
 - a. A new machine that was purchased this year has not helped reduce Cerawell's unfavorable labor efficiency variances.
 - b. A competitor has achieved an unexpected technological breakthrough that has given them a significant quality advantage, and has caused Cerawell to lose market share.
 - c. Vendors have asked that the contract price for the goods they supply to Cerawell be renegotiated and adjusted for inflation.
 - d. Experienced employees have decided to terminate their employment with Cerawell and go to work for the competition.
9. All of the following are advantages of the use of budgets in a management control system **except** that budgets
 - a. force management planning.
 - b. provide performance criteria.
 - c. promote communication and coordination within the organization.
 - d. limit unauthorized expenditures.
10. When properly developed and administered, budgets provide the following advantages to the organization **except** to
 - a. provide a structure for measuring performance.
 - b. motivate managers and other employees.
 - c. ensure that the organization makes a profit.
 - d. promote the efficient allocation of resources.



11. In developing the budget for the next year, which one of the following approaches would most likely result in a successful budget with the **greatest** amount of positive motivation and goal congruence?
 - a. Permit the divisional manager to develop the goal for the division that in the manager's view will generate the greatest amount of profits.
 - b. Have senior management develop the overall goals and permit the divisional manager to determine how these goals will be met.
 - c. Have the divisional and senior management jointly develop goals and objectives while constructing the corporation's overall plan of operation.
 - d. Have the divisional and senior management jointly develop goals and the divisional manager develop the implementation plan.
12. Which one of the following statements concerning approaches for the budget development process is **correct**?
 - a. The authoritative approach to budgeting discourages strict adherence to strategic organizational goals.
 - b. To prevent ambiguity, once departmental budgeted goals have been developed, they should remain fixed even if the sales forecast upon which they are based proves to be wrong in the middle of the fiscal year.
 - c. With the information technology available, the role of budgets as an organizational communication device has declined.
 - d. Since department managers have the most detailed knowledge about organizational operations, they should use this information as the building blocks of the operating budget.
13. Which one of the following items would **most** likely cause the planning and budgeting system to fail? The lack of
 - a. historical financial data.
 - b. input from several levels of management.
 - c. top management support.
 - d. adherence to rigid budgets during the year.
14. All of the following are disadvantages of authoritative budgeting as opposed to participatory budgeting, **except** that it
 - a. may result in a budget that is not possible to achieve.
 - b. may limit the acceptance of proposed goals and objectives.
 - c. reduces the communication between employees and management.
 - d. reduces the time required for budgeting.
15. All of the following statements concerning standard costs are correct **except** that
 - a. time and motion studies are often used to determine standard costs.
 - b. standard costs are usually set for one year.
 - c. standard costs can be used in costing inventory accounts.
 - d. standard costs are usually stated in total, while budgeted costs are usually stated on a per-unit basis.
16. One approach for developing standard costs incorporates communication, bargaining, and interaction among product line managers, the immediate supervisors for whom the standards are being developed, and the accountants and engineers, before the standards are accepted by top management. This approach would **best** be characterized as a(n)
 - a. imposed approach.



- b. authoritative approach.
 - c. engineering approach.
 - d. participative approach.
17. When compared with ideal standards, practical standards
- a. produce lower per-unit product costs.
 - b. result in a less desirable basis for the development of budgets.
 - c. incorporate very generous allowances for spoilage and worker inefficiencies.
 - d. serve as a better motivating target for manufacturing personnel.
18. Jura Corporation is developing standards for the next year. Currently XZ-26, one of the material components, is being purchased for \$36.45 per unit. It is expected that the component's cost will increase by approximately 10% next year and the price could range from \$38.75 to \$44.18 per unit depending on the quantity purchased. The appropriate standard for XZ-26 for next year should be set at the
- a. current actual cost plus the forecasted 10% price increase.
 - b. lowest purchase price in the anticipated range to keep pressure on purchasing to always buy in the lowest price range.
 - c. highest price in the anticipated range to ensure that there are only favorable purchase price variances.
 - d. price agreed upon by the purchasing manager and the appropriate level of company management.
19. Which one of the following will allow a better use of standard costs and variance analysis to help improve managerial decision-making?
- a. Company A does not differentiate between variable and fixed overhead in calculating its overhead variances.
 - b. Company B uses the prior year's average actual cost as the current year's standard.
 - c. Company C investigates only negative variances.
 - d. Company D constantly revises standards to reflect learning curves.
20. After performing a thorough study of Michigan Company's operations, an independent consultant determined that the firm's labor standards were probably too tight. Which one of the following facts would be **inconsistent** with the consultant's conclusion?
- a. A review of performance reports revealed the presence of many unfavorable efficiency variances.
 - b. Michigan's budgeting process was well-defined and based on a bottom-up philosophy.
 - c. Management noted that minimal incentive bonuses have been paid in recent periods.
 - d. Production supervisors found several significant fluctuations in manufacturing volume, with short-term increases on output being followed by rapid, sustained declines.
21. A company pays its production manager an annual bonus based on how well the manager performs against the production department's annual budgets. The production manager has been overestimating budgeted costs the past few



years in order to obtain a higher bonus payment. The production manager's actions are **best** described as

- a. motivating employee effort.
- b. building budgetary slack.
- c. balancing production costs.
- d. setting budgeted performance.

22. An international nonprofit organization finances medical research. The majority of its revenue and support comes from fund-raising activities, investments, and specific grants from an initial sponsoring corporation. The organization has been in operation for over 15 years, and has just finished a major fund-raising event that raised \$500 million for the current fiscal period. The following are selected data from recent financial statements (in millions of dollars).

	<u>Current Year</u>	<u>Past Year</u>
Revenue	\$500	\$425
Investments (average balances)	210	185
Investment income	16	20
Administrative expense	10	8

A financial analyst wants to determine if the change in investment income during the current year was due to changes in investment strategy, changes in portfolio mix, or other factors. Which one of the following techniques should be used?

- a. Ratio analysis that compares changes in the investment portfolio on a monthly basis.
- b. Multiple regression analysis that includes independent variables associated with the nature of the investment portfolio and market conditions.
- c. Best practice analysis that compares the investment income as a percentage of total assets to a competitor's investment income as a percentage of total assets.
- d. Simple linear regression that compares investment income changes over the past five years to determine the nature of the changes.

23. For cost estimation simple regression differs from multiple regression in that simple regression uses only

- a. one dependent variable, while multiple regression uses all available data to estimate the cost function.
- b. dependent variables, while multiple regression can use both dependent and independent variables.
- c. one independent variable, while multiple regression uses more than one independent variable.
- d. one dependent variable, while multiple regression uses more than one dependent variable.

24. A company has accumulated data for the last 24 months in order to determine if there is an independent variable that could be used to estimate shipping costs. Three possible independent variables being considered are packages shipped, miles shipped, and pounds shipped. The quantitative technique that should be used to determine whether any of these independent variables might provide a good estimate for shipping costs is



- a. flexible budgeting.
- b. linear programming.
- c. linear regression.
- d. variable costing.

25. In order to analyze sales as a function of advertising expenses, the sales manager of Smith Company developed a simple regression model. The model included the following equation, which was based on 32 monthly observations of sales and advertising expenses with a related coefficient of determination of .90.

$$S = \$10,000 + 2.50A$$

S = sales

A = advertising expenses

If Smith Company's advertising expenses in one month amounted to \$1,000, the related point estimate of sales would be

- a. \$2,500.
- b. \$11,250.
- c. \$12,250.
- d. \$12,500.

26. The results of regressing Y against X are as follows.

	<u>Coefficient</u>
Intercept	5.23
Slope	1.54

When the value of X is 10, the estimated value of Y is

- a. 6.78.
- b. 8.05.
- c. 20.63.
- d. 53.84.

27. Which one of the following techniques would **most** likely be used to analyze reductions in the time required to perform a task, as experience with that task increases?

- a. Regression analysis.
- b. Learning curve analysis.
- c. Sensitivity analysis.
- d. Normal probability analysis.

28. Aerosub Inc. has developed a new product for spacecraft that includes the manufacturing of a complex part. The manufacturing of this part requires a high degree of technical skill. Management believes there is a good opportunity for its technical force to learn and improve as they become accustomed to the production process. The production of the first unit requires 10,000 direct labor hours. If an 80% learning curve is used and eight units are produced, the cumulative average direct labor hours required per unit of the product will be



- a. 5,120 hours.
- b. 6,400 hours.
- c. 8,000 hours.
- d. 10,000 hours.

29. A manufacturing firm plans to bid on a special order of 80 units that will be manufactured in lots of 10 units each. The production manager estimates that the direct labor hours per unit will decline by a constant percentage each time the cumulative quantity of units produced doubles. The quantitative technique used to capture this phenomenon and estimate the direct labor hours required for the special order is

- a. cost-profit-volume analysis.
- b. the Markov process.
- c. linear programming analysis.
- d. learning curve analysis.

30. A manufacturing company has the opportunity to submit a bid for 20 units of a product on which it has already produced two 10-unit lots. The production manager believes that the learning experience observed on the first two lots will continue for at least the next two lots. The direct labor required on the first two lots was as follows.

- 5,000 direct labor hours for the first lot of 10 units
- 3,000 additional direct labor hours for the second lot of 10 units

The learning rate experienced by the company on the first two lots of this product is

- a. 40.0%.
- b. 60.0%.
- c. 62.5%.
- d. 80.0%.

31. Aerosub Inc. has developed a new product for spacecraft that includes the manufacture of a complex part. The manufacturing of this part requires a high degree of technical skill. Management believes there is a good opportunity for its technical force to learn and improve as they become accustomed to the production process. The production of the first unit requires 10,000 direct labor hours. If an 80% learning curve is used, the cumulative direct labor hours required for producing a total of eight units would be

- a. 29,520 hours.
- b. 40,960 hours.
- c. 64,000 hours.
- d. 80,000 hours.

32. Propeller Inc. plans to manufacture a newly designed high-technology propeller for airplanes. Propeller forecasts that as workers gain experience, they will need less time to complete the job. Based on prior experience, Propeller estimates a 70% cumulative learning curve and has projected the following costs.



<u>of units produced</u>	<u>Average cost per unit</u>	<u>Total costs</u>
1	\$20,000	\$20,000
2	14,000	28,000

If Propeller manufactures eight propellers, the total manufacturing cost would be

- a. \$50,660.
- b. \$54,880.
- c. \$62,643.
- d. \$112,000.

33. Martin Fabricating uses a cumulative average-time learning curve model to monitor labor costs. Data regarding two recently completed batches of a part that is used in tractor-trailer rigs is as follows.

<u>Batch Number</u>	<u>Number of Units</u>	<u>Cumulative Average Hours Per Unit</u>
1	50	20
2	50	16

If the same rate of learning continues for the next several batches produced, which of the following best describes (1) the type (i.e., degree) of learning curve that the firm is experiencing and (2) the average hours per unit for units included in the 201-400 range of units produced (i.e., the last 200 units)?

<u>Type (Degree) of Learning Curve</u>	<u>Average Hours Per Unit for Units 201-400</u>
a. 20%	10.24.
b. 80%	10.24.
c. 80%	7.68.
d. 20%	3.84.

34. Propeller Inc. plans to manufacture a newly designed high-technology propeller for airplanes. Propeller forecasts that as workers gain experience, they will need less time to complete the job. Based on prior experience, Propeller estimates a 70% cumulative learning curve and has projected the following costs.

<u>Cumulative number of units produced</u>	<u>Manufacturing Projections</u>	
	<u>Average cost per unit</u>	<u>Total costs</u>
1	\$20,000	\$20,000
2	14,000	28,000

If Propeller produces eight units, the average manufacturing cost per unit will be

- a. \$1,647.
- b. \$6,860.
- c. \$9,800.
- d. \$14,000.



35. In competing as a subcontractor on a military contract, Aerosub Inc. has developed a new product for spacecraft that includes the manufacturing of a complex part. Management believes there is a good opportunity for its technical force to learn and improve as they become accustomed to the production process. Accordingly, management estimates an 80% learning curve would apply to this unit. The overall contract will call for supplying eight units. Production of the first unit requires 10,000 direct labor hours. The estimated total direct labor hours required to produce the seven additional units would be
- 30,960 hours.
 - 40,960 hours.
 - 56,000 hours.
 - 70,000 hours.
36. A manufacturing company required 800 direct labor hours to produce the first lot of four units of a new motor. Management believes that a 90% learning curve will be experienced over the next four lots of production. How many direct labor hours will be required to manufacture the **next** 12 units?
- 1,792.
 - 1,944.
 - 2,016.
 - 2,160.
37. Propeller Inc. plans to manufacture a newly designed high-technology propeller for airplanes. Propeller forecasts that as workers gain experience, they will need less time to complete the job. Based on prior experience, Propeller estimates a 70% cumulative learning curve and has projected the following costs.

<u>Cumulative number of units produced</u>	<u>Manufacturing Projections</u>	
	<u>Average cost per unit</u>	<u>Total costs</u>
1	\$20,000	\$20,000
2	14,000	28,000

The estimated cost of an order for seven additional propellers, after completing production of the first propeller, would be

- \$34,880.
 - \$54,880.
 - \$92,000.
 - \$98,000.
38. Johnson Software has developed a new software package. Johnson's sales manager has prepared the following probability distribution describing the relative likelihood of monthly sales levels and relative income (loss) for the company's new software package.



<u>Monthly Sales</u> <u>In Units</u>	<u>Probability</u>	<u>Income (Loss)</u>
10,000	.2	\$(4,000)
20,000	.3	10,000
30,000	.3	30,000
40,000	.2	60,000

If Johnson decides to market its new software package, the expected value of additional monthly income will be

- a. \$23,200.
- b. \$24,000.
- c. \$24,800.
- d. \$25,000.

39. According to recent focus sessions, Norton Corporation has a “can’t miss” consumer product on its hands. Sales forecasts indicate either excellent or good results, with Norton’s sales manager assigning a probability of .6 to a good results outcome. The company is now studying various sales compensation plans for the product and has determined the following contribution margin data.

	<u>Contribution</u> <u>Margin</u>
If sales are excellent and	
Plan 1 is adopted	\$300,000
Plan 2 is adopted	370,000
If sales are good and	
Plan 1 is adopted	240,000
Plan 2 is adopted	180,000

On the basis of this information, which of the following statements is **correct**?

- a. Plan 2 should be adopted because it is \$10,000 more attractive than Plan 1.
 - b. Plan 1 should be adopted because it is \$8,000 more attractive than Plan 2.
 - c. Plan 1 should be adopted because of the sales manager’s higher confidence in good results.
 - d. Either Plan should be adopted, the decision being dependent on the probability of excellent sales results.
40. Denton Inc. manufactures industrial machinery and requires 100,000 switches per year in its assembly process. When switches are received from a vendor they are installed in the specific machine and tested. If the switches fail, they are scrapped and the associated labor cost of \$25 is considered lost productivity. Denton purchases “off the shelf” switches as opposed to custom-made switches and experiences quality problems with some vendors’ products. A decision must be made as to which vendor to buy from during the next year based on the following information.



<u>Vendor</u>	<u>Price per switch</u>	<u>Percentage expected to pass the test</u>
P	\$35	90%
Q	37	94%
R	39	97%
S	40	99%

Which vendor should Denton's controller recommend to management?

- a. Vendor P.
- b. Vendor Q.
- c. Vendor R.
- d. Vendor S.

41. Scarf Corporation's controller has decided to use a decision model to cope with uncertainty. With a particular proposal, currently under consideration, Scarf has two possible actions, invest or not invest in a joint venture with an international firm. The controller has determined the following.

Action 1: Invest in the Joint Venture

Events and Probabilities:

Probability of success = 60%.

Cost of investment = \$9.5 million.

Cash flow if investment is successful = \$15.0 million.

Cash flow if investment is unsuccessful = \$2.0 million.

Additional costs to be paid = \$0

Costs incurred up to this point = \$650,000.

Action 2: Do Not Invest in the Joint Venture

Events

Costs incurred up to this point = \$650,000.

Additional costs to be paid = \$100,000.

Which one of the following alternatives correctly reflects the respective expected values of investing versus not investing?

- a. \$300,000 and \$(750,000).
- b. \$(350,000) and \$(100,000).
- c. \$300,000 and (100,000).
- d. \$(350,000) and \$(750,000).

42. Allbee Company has three possible investment opportunities. The controller calculated the payoffs and probabilities, as follows.

<u>Payoffs</u>	<u>Probabilities</u>		
	<u>Investment A</u>	<u>Investment B</u>	<u>Investment C</u>



\$(20,000)	.3	.2	.3
(10,000)	.1	.2	.1
30,000	.3	.2	.2
70,000	.2	.2	.3
100,000	.1	.2	.1

The cost of investments A, B, and C are the same. Using the expected-value criterion, which one of the following rankings of these investments, from highest payoff to lowest payoff, is correct?

- a. A, B, C.
- b. B, A, C.
- c. C, A, B.
- d. B, C, A.

43. The sales manager of Serito Doll Company has suggested that an expanded advertising campaign costing \$40,000 would increase the sales and profits of the company. He has developed the following probability distribution for the effect of the advertising campaign on company sales.

<u>Sales increase</u> <u>(units)</u>	<u>Probability</u>
15,000	.10
30,000	.35
45,000	.10
60,000	.25
75,000	.20

The company sells the dolls at \$5.20 each. The cost of each doll is \$3.20. Serito's expected incremental profit, if the advertising campaign is adopted, would be

- a. \$6,500.
- b. \$46,500.
- c. \$53,000.
- d. \$93,000.

44. Stock X has the following probability distribution of expected future returns.

<u>Probability</u>	<u>Expected</u> <u>Return</u>
.10	-20%
.20	5%
.40	15%
.20	20%
.10	30%



The expected rate of return on stock X would be

- a. 10%.
- b. 12%.
- c. 16%.
- d. 19%.

45. Which one of the following four probability distributions provides the highest expected monetary value?

<u>Alternative #1</u>		<u>Alternative #2</u>		<u>Alternative #3</u>		<u>Alternative #4</u>	
Cash		Cash		Cash		Cash	
<u>Prob.</u>	<u>Inflows</u>	<u>Prob.</u>	<u>Inflows</u>	<u>Prob.</u>	<u>Inflows</u>	<u>Prob.</u>	<u>Inflows</u>
10%	\$50,000	10%	\$50,000	10%	\$50,000	10%	\$150,000
20%	75,000	20%	75,000	20%	75,000	20%	100,000
40%	100,000	45%	100,000	40%	100,000	40%	75,000
30%	150,000	25%	150,000	30%	125,000	30%	50,000

- a. Alternative #1.
- b. Alternative #2.
- c. Alternative #3.
- d. Alternative #4.

46. A company is developing its budget for the upcoming month. The financial planning department has developed the following range of sales activity and the associated probabilities for each level of budgeted sales.

<u>Sales Estimate</u>	<u>Probability</u>
\$120,000	25%
170,000	40%
200,000	35%

The company's cost of goods sold averages 80% of sales, and the relationship is expected to remain consistent in the next fiscal year. What is the expected value of the company's budgeted cost of goods sold?

- a. \$134,400.
- b. \$136,000.
- c. \$168,000.
- d. \$170,000.

47. The Lions Club is planning to sell pretzels at a local football game and has estimated sales demand as follows.

Sales demand	8,000	10,000	12,000	15,000
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Probability	10%	40%	30%	20%
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The cost of the pretzels varies with the quantity purchased as follows.

Purchase quantity	8,000	10,000	12,000	15,000
Cost per unit	\$1.25	\$1.20	\$1.15	\$1.10

Any unsold pretzels would be donated to the local food bank. The calculated profits at the various sales demand levels and purchase quantities are as follows.

<u>Expected Profits at Various Purchase Quantity Levels</u>				
<u>Sales Demand</u>	<u>8,000</u>	<u>10,000</u>	<u>12,000</u>	<u>15,000</u>
8,000	\$6,000	\$4,000	\$ 2,200	\$ (500)
10,000	6,000	8,000	6,200	3,500
12,000	6,000	8,000	10,200	7,500
15,000	6,000	8,000	10,200	13,500

Which one of the following purchase quantities would you recommend to the Lions Club?

- a. 8,000.
- b. 10,000.
- c. 12,000.
- d. 15,000.

48. StoniBrook Industries produces decorative hardware used by home construction firms and sold in do-it-yourself retail outlets. The business is highly competitive with little opportunity for raising prices. StoniBrook's master budget for the next fiscal year is shown below.

Sales	\$8,400,000
Cost of goods sold*	6,000,000
Advertising	500,000
Sales salaries	400,000
Sales commissions	168,000
Administrative expenses	<u>350,000</u>
Operating income	<u>\$ 982,000</u>

*50% direct material, 30% direct labor, 20% fixed overhead

The following events could impact the budget.

- Renegotiation of a union contract resulting in a 3.5% wage increase for factory workers.
- A 5% increase in the cost of 20% of its material.
- Elimination of sales commissions with an equal increase in sales salaries.

If all of these events occur, the incremental change in StoniBrook's operating income will be



- a. \$123,000 decrease.
- b. \$93,000 decrease.
- c. \$45,000 increase.
- d. \$75,000 increase.

49. All of the following are criticisms of the traditional budgeting process **except** that it
- a. makes across-the-board cuts when early budget iterations show that planned expenses are too high.
 - b. incorporates non-financial measures as well as financial measures into its output.
 - c. overemphasizes a fixed time horizon such as one year.
 - d. is not used until the end of the budget period to evaluate performance.
50. What would be the correct chronological order of preparation for the following budgets?
- I. Cost of goods sold budget.
 - II. Production budget.
 - III. Purchases budget.
 - IV. Administrative budget.
- a. I, II, III, IV.
 - b. III, II, IV, I.
 - c. IV, II, III, I.
 - d. II, III, I, IV.
51. Which one of the following **best** describes the order in which budgets should be prepared when developing the annual master operating budget?
- a. Production budget, direct material budget, revenue budget.
 - b. Production budget, revenue budget, direct material budget.
 - c. Revenue budget, production budget, direct material budget.
 - d. Revenue budget, direct material budget, production budget.
52. A budgeting approach that requires a manager to justify the entire budget for each budget period is known as
- a. performance budgeting.
 - b. program budgeting.
 - c. zero-base budgeting.
 - d. incremental budgeting.



53. A company's board of directors has requested a full in-depth review of all budgeted items for next fiscal year's operating budget. The controller of the company subsequently advised all business unit heads that the company will not automatically approve operating budget items for next fiscal year simply because they were approved in the past, and that all operating budget items for next fiscal year will need to be justified. Based on the above information, which one of the following budgeting systems is the company **most** likely using?
- Activity-based budgeting.
 - Zero-based budgeting.
 - Project budgeting.
 - Flexible budgeting.
54. The type of budget that is continually updated to add a new budget period as the most recent budget period is completed is called a(n)
- activity-based budget.
 - flexible budget.
 - rolling budget.
 - zero-based budget.
55. A construction company has an annual master budget that shows straight-line depreciation expense of \$516,000 for the year. The master budget shows a production volume of 206,400 units and production is expected to occur uniformly throughout the year. The capacity for the facility is 215,000 units. During February, the company produced 16,340 units of product and actual depreciation expense recorded was \$40,500. The company controls manufacturing costs with a flexible budget. The flexible budget amount for depreciation expense for March would be
- \$39,216.
 - \$40,500.
 - \$40,850.
 - \$43,000.
56. Rainbow Inc. recently appointed Margaret Joyce as vice president of finance and asked her to design a new budgeting system. Joyce has changed to a monthly budgeting system by dividing the company's annual budget by twelve. Joyce then prepared monthly budgets for each department and asked the managers to submit monthly reports comparing actual to budget. A sample monthly report for Department A is shown below.

Rainbow Inc.
Monthly Report for Department A

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
<u>Units</u>	1,000	900	100F
Variable production costs			
Direct material	\$2,800	\$2,700	\$100U
Direct labor	4,800	4,500	300U
Variable factory overhead	4,250	4,050	200U



Fixed costs			
Depreciation	3,000	2,700	300U
Taxes	1,000	900	100U
Insurance	1,500	1,350	150U
Administration	1,100	990	110U
Marketing	<u>1,000</u>	<u>900</u>	<u>100U</u>
Total costs	<u>\$19,450</u>	<u>\$18,090</u>	<u>\$1,360U</u>

This monthly budget has been imposed from the top and will create behavior problems. All of the following are causes of such problems **except**

- a. the use of a flexible budget rather than a fixed budget.
- b. top management authoritarian attitude toward the budget process.
- c. the inclusion of non-controllable costs such as depreciation.
- d. the lack of consideration for factors such as seasonality.

57. When compared to static budgets, flexible budgets

- a. offer managers a more realistic comparison of budget and actual fixed cost items under their control.
- b. provide a better understanding of the capacity variances during the period being evaluated.
- c. encourage managers to use less fixed costs items and more variable cost items that are under their control.
- d. offer managers a more realistic comparison of budget and actual revenue and cost items under their control.

58. Tut Company's selling and administrative costs for the month of August, when it sold 20,000 units, were as follows.

	Costs	
	<u>Per Unit</u>	<u>Total</u>
Variable costs	\$18.60	\$372,000
Step costs	4.25	85,000
Fixed costs	<u>8.80</u>	<u>176,000</u>
Total selling and administrative costs	<u>\$31.65</u>	<u>\$633,000</u>

The variable costs represent sales commissions paid at the rate of 6.2% of sales. The step costs depend on the number of salespersons employed by the company. In August there were 17 persons on the sales force. However, two members have taken early retirement effective August 31. It is anticipated that these positions will remain vacant for several months. Total fixed costs are unchanged within a relevant range of 15,000 to 30,000 units per month. Tut is planning a sales price cut of 10%, which it expects will increase sales volume to 24,000 units per month. If Tut implements the sales price reduction, the total budgeted selling and administrative costs for the month of September would be



- a. \$652,760.
- b. \$679,760.
- c. \$714,960.
- d. \$759,600.

59. Netco's sales budget for the coming year is as follows.

<u>Item</u>	<u>Volume in Units</u>	<u>Sales Price</u>	<u>Sales Revenue</u>
1	200,000	\$50	\$10,000,000
2	150,000	10	1,500,000
3	300,000	30	9,000,000
Total sales revenue			<u>\$20,500,000</u>

Items 1 and 3 are different models of the same product. Item 2 is a complement to Item 1. Past experience indicates that the sales volume of Item 2 relative to the sales volume of Item 1 is fairly constant. Netco is considering an 10% price increase for the coming year for Item 1, which will cause sales of Item 1 to decline by 20%, while simultaneously causing sales of Item 3 to increase by 5%. If Netco institutes the price increase for Item 1, total sales revenue will decrease by

- a. \$1,050,000.
- b. \$850,000.
- c. \$750,000.
- d. \$550,000.

60. Hannon Retailing Company prices its products by adding 30% to its cost. Hannon anticipates sales of \$715,000 in July, \$728,000 in August, and \$624,000 in September. Hannon's policy is to have on hand enough inventory at the end of the month to cover 25% of the next month's sales. What will be the cost of the inventory that Hannon should budget for purchase in August?

- a. \$509,600.
- b. \$540,000.
- c. \$560,000.
- d. \$680,000.

61. Streeter Company produces plastic microwave turntables. Sales for the next year are expected to be 65,000 units in the first quarter, 72,000 units in the second quarter, 84,000 units in the third quarter, and 66,000 units in the fourth quarter. Streeter maintains a finished goods inventory at the end of each quarter equal to one half of the units expected to be sold in the next quarter. How many units should Streeter produce in the second quarter?

- a. 72,000 units.
- b. 75,000 units.
- c. 78,000 units.



d. 84,000 units.

62. Ming Company has budgeted sales at 6,300 units for the next fiscal year, and desires to have 590 good units on hand at the end of that year. Beginning inventory is 470 units. Ming has found from past experience that 10% of all units produced do not pass final inspection, and must therefore be destroyed. How many units should Ming plan to produce in the next fiscal year?
- a. 6,890.
 - b. 7,062.
 - c. 7,133.
 - d. 7,186.
63. Savior Corporation assembles backup systems for home computers. For the first quarter, the budget for sales is 67,500 units. Savior will finish the fourth quarter of last year with an inventory of 3,500 units, of which 200 are obsolete. The target ending inventory is 10 days of sales (based upon 360 days). What is the budgeted production for the first quarter?
- a. 75,000.
 - b. 71,700.
 - c. 71,500.
 - d. 64,350
64. Sunrise Company produces light switches. Sales for the next year are expected to be 65,000 units in the first quarter, 72,000 units in the second quarter, 84,000 units in the third quarter, and 66,000 units in the fourth quarter. Sunrise usually maintains a finished goods inventory at the end of each quarter equal to one half of the units expected to be sold in the next quarter. However, due to a work stoppage, the finished goods inventory at the end of the first quarter is 8,000 units less than it should be. How many units should Sunrise produce in the second quarter?
- a. 75,000 units.
 - b. 78,000 units.
 - c. 80,000 units.
 - d. 86,000 units.
65. Data regarding Rombus Company's budget are shown below.
- | | |
|--------------------------------------|------------------|
| Planned sales | 4,000 units |
| Material cost | \$2.50 per pound |
| Direct labor | 3 hours per unit |
| Direct labor rate | \$7 per hour |
| Finished goods beginning inventory | 900 units |
| Finished goods ending inventory | 600 units |
| Direct materials beginning inventory | 4,300 units |
| Direct materials ending inventory | 4,500 units |



Materials used per unit 6 pounds

Rombus Company's production budget will show total units to be produced of

- a. 3,700.
- b. 4,000.
- c. 4,300.
- d. 4,600.

66. Krouse Company is in the process of developing its operating budget for the coming year. Given below are selected data regarding the company's two products, laminated putter heads and forged putter heads, that are sold through specialty golf shops.

	Putter Heads	
	Forged	Laminated
Raw materials		
Steel	2 pounds @ \$5/lb.	1 pound @ \$5/lb.
Copper	None	1 pound @ \$15/lb.
Direct labor	1/4 hour @ \$20/hr.	1 hour @ \$22/hr.
Expected sales (units)	8,200	2,000
Selling price per unit	\$30	\$80
Ending inventory target (units)	100	60
Beginning inventory (units)	300	60
Beginning inventory (cost)	\$5,250	\$3,120

Manufacturing overhead is applied to units produced on the basis of direct labor hours. Variable manufacturing overhead is projected to be \$25,000, and fixed manufacturing overhead is expected to be \$15,000.

The estimated cost to produce one unit of the laminated putter head is

- a. \$42.
- b. \$46.
- c. \$52.
- d. \$62.

67. Tidwell Corporation sells a single product for \$20 per unit. All sales are on account, with 60% collected in the month of sale and 40% collected in the following month. A partial schedule of cash collections for January through March of the coming year reveals the following receipts for the period.

	Cash Receipts		
	January	February	March
December receivables	\$32,000		
From January sales	54,000	\$36,000	
From February sales		66,000	\$44,000



Other information includes the following.

- Inventories are maintained at 30% of the following month's sales.
- Assume that March sales total \$150,000.

The number of units to be purchased in February is

- a. 3,850 units.
- b. 4,900 units.
- c. 6,100 units.
- d. 7,750 units.

68. Stevens Company manufactures electronic components used in automobile manufacturing. Each component uses two raw materials, Geo and Clio. Standard usage of the two materials required to produce one finished electronic component, as well as the current inventory, are shown below.

<u>Material</u>	<u>Standard Per Unit</u>	<u>Price</u>	<u>Current Inventory</u>
Geo	2.0 pounds	\$15/lb.	5,000 pounds
Clio	1.5 pounds	\$10/lb.	7,500 pounds

Stevens forecasts sales of 20,000 components for each of the next two production periods. Company policy dictates that 25% of the raw materials needed to produce the next period's projected sales be maintained in ending direct materials inventory.

Based on this information, the budgeted direct material purchases for the coming period would be

	<u>Geo</u>	<u>Clio</u>
a.	\$450,000	\$450,000.
b.	\$675,000	\$300,000.
c.	\$675,000	\$400,000.
d.	\$825,000	\$450,000.

69. Petersons Planters Inc. budgeted the following amounts for the coming year.

Beginning inventory, finished goods	\$ 10,000
Cost of goods sold	400,000
Direct material used in production	100,000
Ending inventory, finished goods	25,000
Beginning and ending work-in-process inventory	Zero

Overhead is estimated to be two times the amount of direct labor dollars. The amount that should be budgeted for direct labor for the coming year is

- a. \$315,000.



- b. \$210,000.
- c. \$157,500.
- d. \$105,000.

70. Over the past several years, McFadden Industries has experienced the following regarding the company's shipping expenses.

Fixed costs	\$16,000
Average shipment	15 pounds
Cost per pound	\$.50

Shown below are McFadden's budget data for the coming year.

Number of units shipped	8,000
Number of sales orders	800
Number of shipments	800
Total sales	\$1,200,000
Total pounds shipped	9,600

McFadden's expected shipping costs for the coming year are

- a. \$4,800.
 - b. \$16,000.
 - c. \$20,000.
 - d. \$20,800.
71. Swan Company is a maker of men's slacks. The company would like to maintain 20,000 yards of fabric in ending inventory. The beginning fabric inventory is expected to contain 25,000 yards. The expected yards of fabric needed for sales is 90,000. Compute the yards of fabric that Swan needs to purchase.
- a. 85,000.
 - b. 90,000.
 - c. 95,000.
 - d. 135,000.
72. Manoli Gift Shop maintains a 35% gross profit margin percentage, and carries an ending inventory balance each month sufficient to support 30% of the next month's expected sales. Anticipated sales for the fourth quarter are as follows.

October	\$42,000
November	58,000
December	74,000

What amount of goods should Manoli Gift Shop plan to purchase during the month of November?



- a. \$40,820.
- b. \$51,220.
- c. \$52,130.
- d. \$62,800.

73. In preparing the direct material purchases budget for next quarter, the plant controller has the following information available.

Budgeted unit sales	2,000
Pounds of materials needed per unit	4
Cost of materials per pound	\$3
Pounds of materials on hand	400
Finished units on hand	250
Target ending units inventory	325
Target ending inventory of pounds of materials	800

How many pounds of materials must be purchased?

- a. 2,475.
- b. 7,900.
- c. 8,700.
- d. 9,300.

74. Playtime Toys estimates that it will sell 200,000 dolls during the coming year. The beginning inventory is 12,000 dolls; the target ending inventory is 15,000 dolls. Each doll requires two shoes which are purchased from an outside supplier. The beginning inventory of shoes is 20,000; the target ending inventory is 18,000 shoes. The number of shoes that should be purchased during the year is

- a. 396,000 shoes.
- b. 398,000 shoes.
- c. 402,000 shoes.
- d. 404,000 shoes.

75. Maker Distributors has a policy of maintaining inventory at 15% of the next month's forecasted sales. The cost of Maker's merchandise averages 60% of the selling price. The inventory balance as of May 31 is \$63,000, and the forecasted dollar sales for the last seven months of the year are as follows.

June	\$700,000
July	600,000
August	650,000
September	800,000
October	850,000
November	900,000



December 840,000

What is the budgeted dollar amount of Maker's purchases for July?

- a. \$355,500.
- b. \$360,000.
- c. \$364,500.
- d. \$399,000.

76. All of the following would appear on a projected schedule of cost of goods manufactured **except** for

- a. ending work-in-process inventory.
- b. beginning finished goods inventory.
- c. the cost of raw materials used.
- d. applied manufacturing overhead.

77. A company that manufactures furniture is establishing its budget for the upcoming year. All of the following items would appear in its overhead budget **except** for the

- a. overtime paid to the workers who perform production scheduling.
- b. cost of glue used to secure the attachment of the legs to the tables.
- c. fringe benefits paid to the production supervisor.
- d. freight charges paid for the delivery of raw materials to the company.

78. Using the following budget data for Valley Corporation, which produces only one product, calculate the company's predetermined factory overhead application rate for variable overhead.

Units to be produced	11,000
Units to be sold	10,000
Indirect materials, varying with production	\$ 1,000
Indirect labor, varying with production	10,000
Factory supervisor's salary, incurred regardless of production	20,000
Depreciation on factory building and equipment	30,000
Utilities to operate factory machines	12,000
Security lighting for factory	2,000
Selling, general and administrative expenses	5,000

- a. \$2.09.
- b. \$2.30.
- c. \$4.73.
- d. \$5.20.



79. Given the following data for Scurry Company, what is the cost of goods sold?

Beginning inventory of finished goods	\$100,000
Cost of goods manufactured	700,000
Ending inventory of finished goods	200,000
Beginning work-in-process inventory	300,000
Ending work-in-process inventory	50,000

- a. \$500,000.
b. \$600,000.
c. \$800,000.
d. \$950,000.
80. A company operates 10 offices. In the prior year, the total cost of operating the offices was \$1,000,000 of which \$140,000 consisted of fixed costs. All else remaining equal, what will be the budgeted costs if the company were to operate 12 offices?

- a. \$1,028,000.
b. \$1,032,000.
c. \$1,172,000.
d. \$1,200,000.

81. Consider the following data for a company for the month just ended.

Sales	\$4,000,000
Gross margin (based on sales)	25%
Decrease in inventories	\$160,000
Decrease in accounts payable for inventories	\$275,000

The estimated cash disbursements for inventories were

- a. \$2,565,000.
b. \$2,840,000.
c. \$3,115,000.
d. \$3,275,000.
82. Many companies use comprehensive budgeting in planning for the next year's activities. When both an operating budget and a financial budget are prepared, which one of the following is **correct** concerning the financial budget?

	Included in the Financial Budget		
	Capital Budget	Pro-forma Balance Sheet	Cash Budget
a. Yes		No	Yes.



- | | | |
|--------|-----|------|
| b. No | Yes | No. |
| c. Yes | Yes | Yes. |
| d. No | No | No. |

83. Granite Company sells products exclusively on account, and has experienced the following collection pattern: 60% in the month of sale, 25% in the month after sale, and 15% in the second month after sale. Uncollectible accounts are negligible. Customers who pay in the month of sale are given a 2% discount. If sales are \$220,000 in January, \$200,000 in February, \$280,000 in March, and \$260,000 in April, Granite's accounts receivable balance on May 1 will be

- a. \$107,120.
- b. \$143,920.
- c. \$146,000.
- d. \$204,000.

84. Myers Company uses a calendar-year and prepares a cash budget for each month of the year. Which one of the following items should be considered when developing July's cash budget?

- a. Federal income tax and social security tax withheld from employee's June paychecks to be remitted to the Internal Revenue Service in July.
- b. Quarterly cash dividends scheduled to be declared on July 15 and paid on August 6 to shareholders of record as of July 25.
- c. Property taxes levied in the last calendar year scheduled to be paid quarterly in the coming year during the last month of each calendar quarter.
- d. Recognition that 0.5% of the July sales on account will be uncollectible.

85. Brown Company estimates that monthly sales will be as follows.

January	\$100,000
February	150,000
March	180,000

Historical trends indicate that 40% of sales are collected during the month of sale, 50% are collected in the month following the sale, and 10% are collected two months after the sale. Brown's accounts receivable balance as of December 31 totals \$80,000 (\$72,000 from December's sales and \$8,000 from November's sales). The amount of cash Brown can expect to collect during the month of January is

- a. \$76,800.
- b. \$84,000.



- c. \$108,000.
- d. \$133,000.

86. Cooper Company's management team is preparing a cash budget for the coming quarter. The following budgeted information is under review.

	<u>January</u>	<u>February</u>	<u>March</u>
Revenue	\$700,000	\$800,000	\$500,000
Inventory purchases	350,000	425,000	225,000
Other expenses	150,000	175,000	175,000

The company expects to collect 40% of its monthly sales in the month of sale and 60% in the following month. 50% of inventory purchases are paid in the month of purchase, and the other 50% in the following month. All payments for other expenses are made in the month incurred.

Cooper forecasts the following account balances at the beginning of the quarter.

Cash	\$100,000
Accounts receivable	300,000
Accounts payable (Inventory)	500,000

Given the above information, the projected change in cash during the coming quarter will be

- a. \$412,500.
- b. \$300,000.
- c. \$112,500.
- d. \$ -0-.

87. Bootstrap Corporation anticipates the following sales during the last six months of the year.

July	\$460,000
August	500,000
September	525,000
October	500,000
November	480,000
December	450,000

20% of Bootstrap's sales are for cash. The balance is subject to the collection pattern shown below.

Percentage of balance collected in the month of sale	40%
Percentage of balance collected in the month following sale	30%
Percentage of balance collected in the second month following sale	25%
Percentage of balance uncollectible	5%

What is the planned net accounts receivable balance as of December 31?



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- a. \$279,300.
- b. \$294,000.
- c. \$360,000.
- d. \$367,500.

88. Projected monthly sales of Wallstead Corporation for January, February, March, and April are as follows.

January	\$300,000
February	340,000
March	370,000
April	390,000

- The company bills each month's sales on the last day of the month.
- Receivables are booked gross and credit terms of sale are: 2/10, n/30.
- 50% of the billings are collected within the discount period, 30% are collected by the end of the month, 15% are collected by the end of the second month, and 5% become uncollectible.

Budgeted cash collections for Wallstead Company during April would be

- a. \$343,300.
- b. \$347,000.
- c. \$349,300.
- d. \$353,000.



89. Tip-Top Cleaning Supply carries a large number of different items in its inventory, giving the firm a competitive advantage in its industry. Below is part of Tip-Top's budget for the first quarter of next year.

Sales	\$855,000
Cost of goods sold	425,000
Rent and salary expenses	375,000

Historically, all of the sales are on account and are made evenly over the quarter. 5% of all sales are determined to be uncollectible and written off. The balance of the receivables is collected in 50 days. This sales and collection experience is expected to continue in the first quarter. The projected balance sheet for the first day of the quarter includes the following account balances.

Cash	\$ 10,000
Accounts receivable (net)	450,000
Inventory	900,000
Accounts payable	800,000

How much cash can Tip-Top anticipate collecting in the first quarter (based on a 360-day year)?

- a. \$811,000.
- b. \$830,000.
- c. \$901,250.
- d. \$902,500.

90. Monroe Products is preparing a cash forecast based on the following information.

- Monthly sales: December \$200,000; January \$200,000; February \$350,000; March \$400,000.
- All sales are on credit and collected the month following the sale.
- Purchases are 60% of next month's sales and are paid for in the month of purchase.
- Other monthly expenses are \$25,000, including \$5,000 of depreciation.

If the January beginning cash balance is \$30,000, and Monroe is required to maintain a minimum cash balance of \$10,000, how much short-term borrowing will be required at the end of February?

- a. \$60,000.
- b. \$70,000.
- c. \$75,000.
- d. \$80,000.



91. Prudent Corporation's budget for the upcoming accounting period reveals total sales of \$700,000 in April and \$750,000 in May. The sales cash collection pattern is

20% of each month's sales are cash sales.

5% of a month's credit sales are uncollectible.

70% of a month's credit sales are collected in the month of sale.

25% of a month's credit sales are collected in the month following the sale.

If Prudent anticipates the cash sale of a piece of old equipment in May for \$25,000, May's total budgeted cash receipts would be

- a. \$560,000.
- b. \$702,500.
- c. \$735,000.
- d. \$737,500.

92. ANNCO sells products on account, and experiences the following collection schedule.

In the month of sale	10%
In the month after sale	60%
In the second month after sale	30%

At December 31, ANNCO reports accounts receivable of \$211,500. Of that amount, \$162,000 is due from December sales, and \$49,500 from November sales. ANNCO is budgeting \$170,000 of sales for January. If so, what amount of cash should be collected in January?

- a. \$129,050.
- b. \$174,500.
- c. \$211,500.
- d. \$228,500.

93. Brooke Company's management team is preparing a cash budget for the coming quarter. The following budgeted information is under review.

	<u>January</u>	<u>February</u>	<u>March</u>
Revenue	\$700,000	\$800,000	\$500,000
Inventory purchases	350,000	425,000	225,000
Other expenses	150,000	175,000	175,000

The company expects to collect 40% of its monthly sales in the month of sale and 60% in the following month. 50% of inventory purchases are paid in the month of purchase, and 50% in the following month. Payments for all other expenses are made in the month incurred.



Brooke forecasts the following account balances at the beginning of the quarter.

Cash	\$200,000
Accounts receivable	300,000
Accounts payable (Inventory)	400,000

Given the above information, the projected ending cash balance for February will be

- a. \$712,500.
- b. \$500,000.
- c. \$232,500.
- d. \$120,000.

94. Health Foods Inc. has decided to start a cash budgeting program to improve overall cash management. Information gathered from the past year reveals the following cash collection trends.

40% of sales are on credit
50% of credit sales are collected in month of sale
30% of credit sales are collected first month after sale
15% of credit sales are collected second month after sale
5% of credit sales result in bad debts

Gross sales for the last five months were as follows.

January	\$220,000
February	240,000
March	250,000
April	230,000
May	260,000

Sales for June are projected to be \$255,000. Based on this information, the expected cash receipts for March would be

- a. \$230,000.
- b. \$237,400.
- c. \$242,000.
- d. \$243,200.

95. Tidwell Corporation sells a single product for \$20 per unit. All sales are on account, with 60% collected in the month of sale and 40% collected in the following month. A schedule of cash collections for January through March of the coming year reveals the following receipts for the period.

Cash Receipts



	<u>January</u>	<u>February</u>	<u>March</u>
December receivables	\$32,000		
From January sales	54,000	\$36,000	
From February sales		66,000	\$44,000
From March sales			72,000

Other information includes the following.

- Inventories are maintained at 30% of the following month's sales.
- Tidwell desires to keep a minimum cash balance of \$15,000. Total payments in January are expected to be \$106,500, which excludes \$12,000 of depreciation expense. Any required borrowings are in multiples of \$1,000.
- The December 31 balance sheet for the preceding year revealed a cash balance of \$24,900.

Ignoring income taxes, the financing needed in January to maintain the firm's minimum cash balance is

- a. \$8,000.
- b. \$10,600.
- c. \$11,000.
- d. \$23,000.

96. Data regarding Johnsen Inc.'s forecasted dollar sales for the last seven months of the year and Johnsen's projected collection patterns are as follows.

<u>Forecasted sales</u>	
June	\$700,000
July	600,000
August	650,000
September	800,000
October	850,000
November	900,000
December	840,000

<u>Types of sales</u>	
Cash sales	30%
Credit sales	70%

Collection pattern on credit sales (5% determined to be uncollectible)

During the month of sale	20%
During the first month following the sale	50%
During the second month following the sale	25%

Johnsen's budgeted cash receipts from sales and collections on account for September are



- a. \$635,000.
- b. \$684,500.
- c. \$807,000.
- d. \$827,000.

97. The Mountain Mule Glove Company is in its first year of business. Mountain Mule had a beginning cash balance of \$85,000 for the quarter. The company has a \$50,000 short-term line of credit. The budgeted information for the first quarter is shown below.

	<u>January</u>	<u>February</u>	<u>March</u>
Sales	\$60,000	\$40,000	\$50,000
Purchases	35,000	40,000	75,000
Operating costs	25,000	25,000	25,000

All sales are made on credit and are collected in the second month following the sale. Purchases are paid in the month following the purchase, while operating costs are paid in the month that they are incurred. How much will Mountain Mule need to borrow at the end of the quarter if the company needs to maintain a minimum cash balance of \$5,000 as required by a loan covenant agreement?

- a. \$0.
 - b. \$5,000.
 - c. \$10,000.
 - d. \$45,000.
98. A firm is considering a capital project. According to the project plan, an existing piece of equipment with a historical cost of \$400,000 and a current selling price of \$10,000 will be disposed. The old equipment has been depreciated on a straight-line basis with no salvage value for 18 of its estimated 20-year useful life. The new equipment has a cost of \$500,000, and the firm expects it will have to invest \$20,000 in inventory and \$24,000 in accounts receivable in the new project. The firm's effective income tax rate is 40%. The required net initial investment for the new project is
- a. \$498,000.
 - b. \$522,000.
 - c. \$534,000.
 - d. \$544,000.
99. Calculate the pro forma after-tax profit for next year based on the data below.

	<u>Results for last year</u>	<u>Projections for next year</u>
Sales	\$100,000	10% increase
Variable cost	60,000	10% increase
Salaries	15,000	5% increase
Other expenses	5,000	20% increase



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Income tax rate

30%

No change

- a. \$15,000.
- b. \$15,575.
- c. \$16,100.
- d. \$18,200.

Câu trả lời cho Phần B: Lập kế hoạch, lập ngân sách và dự báo

(Answer for Section B: Planning, Budgeting and Forecasting)

1. Correct answer d. Internal environmental variables for a company include a company's culture, structure and resources. External environmental factors include economic forces, political-legal forces, technological forces and sociocultural forces.
2. Correct answer d. The determination of organizational objectives is the first step in the planning process. A mission statement is a formal, written document that defines the organization's purpose in society, for example, to produce and distribute certain goods of high quality in a manner beneficial to the public, employees, shareholders and other constituencies. Therefore, a mission statement does not announce specific operating plans. It does not describe strategies for technological development, market expansion or product differentiation because these are tasks for operating management.
3. Correct answer d. The differentiation strategy is aimed at the broad mass market and involves the creation of a product or service that is perceived throughout its industry as unique. Differentiation is a viable strategy for earning above-average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Increased costs can usually be passed on to the buyers.
4. Correct answer d. Michael Porter developed a comprehensive model of the structure of industries and competition. One feature is his analysis of the five competitive forces that determine long-term profitability measured by long-term return on investment. This analysis determines the attractiveness of an industry.
5. Correct answer b. Product ABC is an example of a cash cow. It is a high-market share (dominating the market for the past decade) but low growth (continuously slowing down) product. It also generates a huge amount of cash flows.
6. Correct answer a. A budget is a realistic plan for the future expressed in quantitative terms. The process of budgeting forces a company to establish goals, determine the resources necessary to achieve those goals and anticipate future difficulties in their achievement. A budget is also a control tool because it establishes standards and facilitates comparison of actual and budgeted performance. Since a budget establishes standards and accountability, it motivates good performance by highlighting the work of effective managers. Moreover, the nature of the budgeting process fosters communication of goals to company subunits and coordination of their efforts. Budgeting activities by entities within the company must be coordinated because they are interdependent. Thus, the sales budget is a necessary input to the formulation of the production budget. In turn, production requirements must be known before purchases and expense budgets can be developed and all other budgets must be completed before the preparation of the cash budget.
7. Correct answer d. A master budget translates the organization's short-term objectives into action steps. An organization determines short-term objectives for the budget period based on strategic goals, long-term objectives and plans, operating results of past periods, and expected future



operating and environmental factors including economic, industry, and marketing conditions.

8. Correct answer b. Cerawell has no control over the actions of its competitors; it can only respond to these actions, e.g., increase the company's research and development efforts. Cerawell has some control over the other alternatives presented.
9. Correct answer d. Budget preparation forces management planning can provide performance criteria, and promotes communication and coordination within an organization. However, a budget cannot control unauthorized expenditures – these are usually caused by weak internal controls.
10. Correct answer c. Successful Budgets would provide all the advantages mentioned except to ensure profit to the organization.
11. Correct answer d. Participation in budget preparation at all levels promotes acceptance of budgets and allows those who have to implement plans to participate in the planning process.
12. Correct answer d. Those closest to operations should participate in budget development as they are most knowledgeable and can supply reliable information on which to base the budget.
13. Correct answer c. A budget that is not supported by top management has very little chance of success as subordinates will attach little importance to the budget and will focus on what management considers to be important.
14. Correct answer d. One of the few advantages of top-down budgeting is that it is less time-consuming than participatory budgeting as there is little need for discussion and compromise.
15. Correct answer d. Standard costing traces direct costs to a cost object. As a result, standard costs are most often stated as unit costs. Budgeted costs are generally presented as total costs as one of the objectives of budgeting is to forecast the overall financial condition.
16. Correct answer d. The involvement of all those affected in the development of standard costs is the team development approach. The alternative answers presented generally include those who are not operationally involved.
17. Correct answer d. Ideal standards are those achieved under ideal working conditions and are, therefore, difficult to achieve under realistic working conditions. Practical standards are developed under actual working conditions and are, therefore, a better motivating target for manufacturing personnel.
18. Correct answer d. The price agreed upon by the purchasing manager and the appropriate level of company management is the most reasonable selection as it takes into consideration actual experience and future plans for requiring the component.
19. Correct answer d. Standards that reflect current experience are realistic and will provide the best information for decision making.



20. Correct answer b. The fact that Michigan's budgeting process was based on a bottom-up philosophy would indicate that standards were being set by those with operational knowledge. This is inconsistent with the consultant's findings that labor standards are too tight.
21. Correct answer b.
Budgetary slack describes the practice of underestimating budgeted revenues, or overestimating budgeted costs, to make budgeted targets more easily achievable. It frequently occurs when budget variances (the differences between actual results and budgeted amounts) are used to evaluate performance.
22. Correct answer b.
Regression analysis explains the behavior of a dependent variable in terms of one or more independent variables. Multiple regression analysis is the best approach because it allows the regression of change in investment income on more than one independent variable.
23. Correct answer c. Simple regression analysis estimates the relationship between the dependent variable and one independent variable while multiple regression analysis estimates the relationship between the dependent variable and two or more independent variables.
24. Correct answer c. Using linear regression, there are three criteria for selecting the independent variable: economic plausibility, goodness of fit, and the slope of the regression line.
25. Correct answer d.
- | | | | |
|-----------|---|---------------------------|---------------|
| Sales (S) | = | \$10,000 + 2.50A | (A = \$1,000) |
| | = | \$10,000 + 2.50 (\$1,000) | |
| | = | \$10,000 + \$2,500 | |
| | = | <u>\$12,500</u> | |
26. Correct answer c.
- | | | |
|---|---|------------------|
| Y | = | 1.54X + 5.23 |
| | = | 1.54 (10) + 5.23 |
| | = | 15.4 + 5.23 |
| | = | <u>20.63</u> |
27. Correct answer b. Learning curve analysis is a function that shows how labor hours per unit decline as units of production increase due to workers learning and becoming better at their jobs.
28. Correct answer a. In the cumulative average-time learning model, the cumulative average time per unit declines by a constant percentage each time the cumulative quantity of units produced doubles.

Unit 1	10,000 hrs.	
Unit 2	8,000 hrs.	(10,000 x .80)
Unit 4	6,400 hrs.	(8,000 x .80)
Unit 8	<u>5,120 hrs.</u>	(6,400 x .80)

29. Correct answer d. Learning curve analysis utilizes the cumulative average-time learning model. The cumulative average time per unit declines by a constant percentage each time the cumulative quantity of units produced doubles.



30. Correct answer d. Average hrs. for 20 units = $\frac{(5,000 + 3,000)}{20 \text{ units}}$
Average hrs. for 10 units = $5,000 \div 10 \text{ units}$

$$\begin{aligned} &= 400 \text{ hours} \div 500 \text{ hours} \\ &= \underline{80\% \text{ Learning rate}} \end{aligned}$$

31. Correct answer b. Cumulative direct labor hours = $8 \text{ units} \times 5,120 \text{ hours}^*$
= 40,960 hours

* Unit 1 10,000 hrs.
Unit 2 8,000 hrs. $(10,000 \times .80)$
Unit 4 6,400 hrs. $(8,000 \times .80)$
Unit 8 5,120 hrs. $(6,400 \times .80)$

32. Correct answer b. Unit 4 \$9,800 cost $(\$14,000 \times .70)$
 Unit 8 \$6,860 cost $(\$9,800 \times .70)$

$$\begin{aligned} \text{Total Cost} &= 8 \text{ units} \times \$6,860 \text{ cost per unit} \\ &= \underline{\$54,880} \end{aligned}$$

33. Correct answer c. Learning curve = $16 \text{ hours} \div 20 \text{ hours}$
= 80%

Hours per batch:	Batch 4	12.80 hours	$(16 \text{ hours} \times .80)$
	Batch 8	10.24 hours	$(12.80 \text{ hours} \times .80)$

$$\begin{aligned} \text{Average hrs. Units 201-400} &= (400 \text{ units} \times 10.24) - (200 \text{ units} \times 12.80) \\ &= 4,096 - 2,560 \\ &= 1,536 \text{ hours} \div 200 \text{ units} \\ &= \underline{7.68 \text{ hours}} \end{aligned}$$

34. Correct answer b. Units Average cost/unit
 4 \$9,800 $(\$14,000 \times .70)$
 8 \$6,860 $(\$9,800 \times .70)$

35. Correct answer a. Total hours for next 7 units = $8 \text{ unit total hours} - \text{first unit hours}$
 = $(8 \times 5,120^*) - 10,000$
 = $40,960 - 10,000$
 = 30,960 hours

* Unit 1 10,000 hrs.
Unit 2 8,000 hrs. $(10,000 \times .80)$
Unit 4 6,400 hrs. $(8,000 \times .80)$
Unit 8 5,120 hrs. $(6,400 \times .80)$



36. Correct answer a.
- | | | | | |
|-------|---|----------------------------------|---|--------------|
| Lot 1 | = | $800 \div 4$ units | = | 200 per unit |
| Lot 2 | = | $(800 \times .9) \div 4$ units | = | 180 per unit |
| Lot 4 | = | $(1,440 \times .9) \div 8$ units | = | 162 per unit |

$$\begin{aligned}\text{Hours for next 12 units} &= (16 \times 162) - 800 \text{ for first 4 units} \\ &= 2,592 - 800 \\ &= \underline{1,792 \text{ hours}}\end{aligned}$$

As the cumulative quantity doubles the cumulative average time is reduced by 10%.

<u>Lot</u>	<u>Cum. Units</u>	<u>Cum. Average per Unit</u>	<u>Cum. Production Hours</u>
1	4	200	800
2	8	180	1,440
4	16	162	2,592
Less hours to complete Lot 1			(800)
Total hours to complete lots 2-4 (12 units)			1,792

37. Correct answer a.
- | | | |
|--------|---------|-------------------------|
| Unit 4 | \$9,800 | $(\$14,000 \times .70)$ |
| Unit 8 | \$6,860 | $(\$9,800 \times .70)$ |

$$\begin{aligned}\text{Cost of next 7 units} &= (8 \times \$6,860) - \$20,000 \text{ for first unit} \\ &= \$54,880 - \$20,000 \\ &= \underline{\$34,880}\end{aligned}$$

38. Correct answer a.
- $$\begin{aligned}\text{Expected value} &= (.2 \times \$60,000) + (.3 \times \$30,000) + (.3 \times \$10,000) - (.2 \times \$4,000) \\ &= \$12,000 + \$9,000 + \$3,000 - \$800 \\ &= \underline{\$23,200}\end{aligned}$$

39. Correct answer b.
- | | | | | |
|-----------------------|---|---|---|------------------|
| Plan 1 expected value | = | $(\$300,000 \times .4) + (\$240,000 \times .6)$ | = | \$264,000 |
| Plan 2 expected value | = | $(\$370,000 \times .4) + (\$180,000 \times .6)$ | = | <u>\$256,000</u> |
| Plan 1 is greater by | | | | <u>\$ 8,000</u> |

40. Correct answer d. Recommend Vendor S which has the least cost (initial purchase plus the cost of failure) as shown below.

Vendor P	=	$(100,000 \times \$35) + [(100,000 \times .10) \times (\$35 + \$25)]$	=	\$4.1 million
Vendor Q	=	$(100,000 \times \$37) + [(100,000 \times .06) \times (\$37 + \$25)]$	=	\$4.072 million
Vendor R	=	$(100,000 \times \$39) + [(100,000 \times .03) \times (\$39 + \$25)]$	=	\$4.092 million
Vendor S	=	$(100,000 \times \$40) + [(100,000 \times .01) \times (\$40 + \$25)]$	=	\$4.065 million



41. Correct answer c. For both actions, the \$650,000 is sunk cost and should not be considered.

$$\begin{aligned}\text{Expected value of investing} &= .6 (\$15.0 \text{ mil} - \$9.5 \text{ mil}) + .4 (\$2.0 \text{ mil} - \$9.5 \text{ mil}) \\ &= \$3.3 \text{ mil} - \$3.0 \text{ mil} \\ &= \underline{\$300,000}\end{aligned}$$

$$\text{Value of not investing} = \underline{(\$100,000)} \text{ additional costs to be paid}$$

42. Correct answer d. Ranking is B: \$34,000, C: \$30,000, A: \$26,000 calculated as follows.

$$\begin{aligned}\text{Investment A} &= .3 (-\$20,000) + .1 (-\$10,000) + .3 (\$30,000) + .2 (\$70,000) + .1 (\$100,000) \\ &= -\$6,000 + -\$1,000 + \$9,000 + \$14,000 + \$10,000 \\ &= \underline{\$26,000}\end{aligned}$$

$$\begin{aligned}\text{Investment B} &= .2 (-\$20,000) + .2 (-\$10,000) + .2 (\$30,000) + .2 (\$70,000) + .2 (\$100,000) \\ &= -\$4,000 + -\$2,000 + \$6,000 + \$14,000 + \$20,000 \\ &= \underline{\$34,000}\end{aligned}$$

$$\begin{aligned}\text{Investment C} &= .3 (-\$20,000) + .1 (-\$10,000) + .2 (\$30,000) + .3 (\$70,000) + .1 (\$100,000) \\ &= -\$6,000 + -\$1,000 + \$6,000 + \$21,000 + \$10,000 \\ &= \underline{\$30,000}\end{aligned}$$

43. Correct answer c.

$$\begin{aligned}\text{Increased units sold} &= .1 (15,000) + .35 (30,000) + .1 (45,000) + .25 (60,000) + .2 (75,000) \\ &= 1,500 + 10,500 + 4,500 + 15,000 + 15,000 \\ &= 46,500 \text{ units}\end{aligned}$$

$$\begin{aligned}\text{Increased profit} &= [46,500 \times (\$5.20 - \$3.20)] - \$40,000 \\ &= \$93,000 - \$40,000 \\ &= \underline{\$53,000}\end{aligned}$$

44. Correct answer b.

$$\begin{aligned}\text{Expected return} &= .1 (-.20) + .2 (.05) + .4 (.15) + .2 (.20) + .1 (.30) \\ &= -.02 + .01 + .06 + .04 + .03 \\ &= \underline{.12 \text{ or } 12\%}\end{aligned}$$



45. Correct answer a. Alternative #1 has the highest expected value as shown below.

$$\begin{aligned}\text{Alternative \#1} &= .1(\$50,000) + .2(\$75,000) + .4(\$100,000) + .3(\$150,000) \\ &= \underline{\$105,000}\end{aligned}$$

$$\begin{aligned}\text{Alternative \#2} &= .1(\$50,000) + .2(\$75,000) + .45(\$100,000) + .25(\$150,000) \\ &= \$102,500\end{aligned}$$

$$\begin{aligned}\text{Alternative \#3} &= .1(\$50,000) + .2(\$75,000) + .4(\$100,000) + .3(\$125,000) \\ &= \$97,500\end{aligned}$$

$$\begin{aligned}\text{Alternative \#4} &= .1(\$150,000) + .2(\$100,000) + .4(\$75,000) + .3(\$50,000) \\ &= \$80,000\end{aligned}$$

46. Correct answer a. The expected value is calculated by weighting each sales estimate by the probability of occurrence. Consequently, the expected value of sales is \$168,000 [(\$120,000 x 25%) + (\$170,000 x 40%) + (200,000 x 35%)]. Cost of goods sold is therefore, \$134,400 (80% x \$168,000).

47. Correct answer c. Recommend purchasing 12,000 based on expected demand of 11,400.

$$\begin{aligned}\text{Expected demand} &= .1(8,000) + .4(10,000) + .3(12,000) + .2(15,000) \\ &= 11,400\end{aligned}$$

48. Correct answer b.

$$\text{Material cost: } \$6,000,000 \times .50 = \$3,000,000$$

$$\text{Labor cost: } \$6,000,000 \times .30 = \$1,800,000$$

$$\text{Increase in labor cost: } \$1,800,000 \times .035 = \$63,000$$

$$\text{Inc. in material cost: } \$3,000,000 \times .2 \times .05 = \$30,000$$

$$\$63,000 + \$30,000 = \$93,000 \text{ increase in cost} = \underline{\$93,000 \text{ decrease in op. income}}$$

$$\$93,000 - \$168,000 \text{ commission} = \$75,000 \text{ increase in income}$$

$$(\$3,000,000 \times .035) + (\$1,800,000 \times .2 \times .05) = \$123,000 \text{ decrease in income}$$

$$\$123,000 - \$168,000 = \$45,000 \text{ increase in income}$$

49. Correct answer b. Incorporating non-financial as well as financial measures is beneficial to an organization. The other alternatives given are disadvantages or misuses of traditional budgets.
50. Correct answer d. The production budget and the purchases budget must be completed before the cost of goods sold budget can be completed. An administrative budget may also be dependent on the planned sales and manufacturing activity and is generally completed after all production revenues and costs have been budgeted.
51. Correct answer c. The revenue or sales budget provides the foundation for a master budget and is therefore prepared first. The production budget is dependent on the amount of projected sales and the direct material budget is based on the forecasted production quantity.
52. Correct answer c. The zero-based budgeting approach looks at operations as if they were just beginning and requires justification for all revenues and expenditures.



53. Correct answer b. In zero-based budgeting, the budgeting process requires that managers prepare budgets from a zero base and all budget items have an in-depth review and analyses.
54. Correct answer c. A rolling budget (or continuous budget) is a plan that always covers a specified future period by adding a period in the future and dropping a period just ended. It forces management to continuously focus on the future specified time period. The time period is always the same length, but the actual time period covered by the budget moves forward with the passage of time,
55. Correct answer d. Since depreciation is a fixed cost, that cost will be the same each month regardless of production. Therefore, the budget for March would show depreciation of \$43,000 (\$516,000 annual depreciation divided by 12 months).
56. Correct answer a. Flexible budgets are based on actual output rather than comparing output to a static budget. Flexible budgets make it easier to identify realistic positive and negative variances.
57. Correct answer d. Flexible budgets are based on the output actually achieved and therefore provide a realistic comparison of budgeted and actual revenue and costs.
58. Correct answer a. Netco's sales will decrease by \$1,050,000 as shown below.

Item 1 =	(200,000 x .8) x (\$50 x 1.1)		
=	160,000 x \$55	=	\$ 8,800,000
Item 2 =	(160,000 x .75) x \$10	=	1,200,000
Item 3 =	(300,000 x 1.05) x \$30	=	<u>9,450,000</u>
	Total sales revenue		\$19,450,000
	Original budget		<u>-20,500,000</u>
	Revenue decrease		<u>\$-1,050,000</u>

59. Correct answer a. Tut's selling and administrative costs total \$652,760 as shown below.

Variable costs	(\$18.60 x .90) x \$24,000	=	\$401,760
Step costs	(\$85,000 ÷ 17) x 15	=	75,000
Fixed costs		=	<u>176,000</u>
	Total costs		<u>\$652,760</u>

60. Correct answer b. Hannon's budget for purchased inventory should be \$540,000.

August	\$728,000 ÷ 1.3	=	\$560,000 x .75	=	\$420,000
September	\$624,000 ÷ 1.3	=	\$480,000 x .25	=	<u>120,000</u>
					<u>\$540,000</u>

61. Correct answer c. Streeter should produce 78,000 units as shown below.

Production for 2 nd quarter	72,000 x .5	=	36,000
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$$\begin{array}{rcl} \text{Production for 3rd quarter} & 84,000 \times .5 & = \\ & \text{Production} & \underline{42,000} \\ & & \underline{78,000} \end{array}$$

62. Correct answer c. Ming should plan to produce 7,133 units next fiscal year.

$$\begin{array}{rcl} \text{Sales} - \text{Beg. Inventory} + \text{Ending Inventory} & & \\ 6,300 - 470 + 590 & = & 6,420 \text{ units} \\ \text{To cover 10\% scrap} & = & 6,420 \div .9 = \underline{7,133 \text{ units}} \end{array}$$

63. Correct answer b. Savior's production budget for the first quarter is 71,700 units.

$$\begin{array}{rcl} \text{Daily sales} & = & 67,500 \div (360 \div 4) = 750 \text{ units sold per day} \\ \text{10 days' sales} & = & 750 \times 10 \text{ days} = 7,500 \text{ units for ending inventory} \\ \text{Production} & = & 67,500 + 7,500 - (3,500 - 200) = \underline{71,700 \text{ units}} \end{array}$$

64. Correct answer d. Streeter should produce 86,000 units as shown below.

$$\begin{array}{rcl} \text{Ending inventory} & = & (72,000 \times .5) - 8,000 = 28,000 \text{ units} \\ \text{Production} & = & 72,000 - 28,000 + (84,000 \times .5) = \underline{86,000 \text{ units}} \end{array}$$

65. Correct answer a. Rombus should produce 3,700 units as shown below.

$$\begin{array}{rcl} \text{Production} & = & \text{Sales} - \text{Beg. Inventory} + \text{Ending inventory} \\ & = & 4,000 - 900 + 600 \\ & = & \underline{3,700 \text{ units}} \end{array}$$

66. Correct answer c. The cost of one laminated putter head is \$52 calculated as follows.

$$\begin{array}{rcl} \text{Production} & = & 8,200 - 300 + 100 = 8,000 \text{ forged units} \\ \text{Direct labor} & = & 8,000 \times .25 \text{ hrs.} = 2,000 \text{ hours for forged units} \\ & = & 2,000 \times 1.0 \text{ hrs.} = 2,000 \text{ hours for laminated units} \\ \text{Variable O/H/hr.} & = & \$25,000 \div 4,000 \text{ hrs.} = \$6.25/\text{hr.} \\ \text{Fixed O/H/hr.} & = & \$15,000 \div 4,000 \text{ hrs.} = \$3.75/\text{hr.} \end{array}$$

Laminated putter head cost:	Steel	\$ 5.00
	Copper	15.00
	Direct labor	22.00
	Variable overhead	6.25
	Fixed overhead	<u>3.75</u>
	Total cost	<u>\$52.00</u>

67. Correct answer c. The units to be purchased in February total 6,100 units as shown below.

$$\text{February unit sales} = (\$66,000 + \$44,000) \div \$20 = 5,500 \text{ units}$$



$$\text{March unit sales} = \$150,000 \div \$20 = 7,500 \text{ units}$$

$$\text{February purchase} = (5,500 \times .7) + (7,500 \times .3) = \underline{6,100 \text{ units}}$$

68. Correct answer b. Stevens should purchase \$675,000 of Geo and \$300,000 of Clio.

$$\text{Production components} = 20,000 \text{ first period} + (20,000 \times .25) \text{ second period} = 25,000$$

$$\text{Pounds of Geo} = (25,000 \times 2 \text{ lbs.}) - 5,000 \text{ inventory} = 45,000 \text{ lbs.}$$

$$\text{Cost of Geo} = 45,000 \times \$15 = \underline{\$675,000}$$

$$\text{Pounds of Clio} = (25,000 \times 1.5 \text{ lbs.}) - 7,500 \text{ inventory} = 30,000 \text{ lbs.}$$

$$\text{Cost of Clio} = 30,000 \times \$10 = \underline{\$300,000}$$

69. Correct answer d. The amount that should be budgeted for direct labor is \$105,000.

$$\text{Cost of production} = \$400,000 - \$10,000 + \$25,000 = \$415,000$$

$$\text{Cost of Direct labor + O/H} = \$415,000 - \$100,000 \text{ material} = \$315,000$$

$$\text{Cost of Direct labor} = \$315,000 \div 3^* = \underline{\$105,000}$$

$$*\text{Overhead} = 2 \times \text{direct labor}$$

70. Correct answer d. McFadden's expected shipping costs total \$20,800 as shown below.

$$\begin{aligned} \text{Shipping costs} &= (9,600 \text{ lbs.} \times \$0.50/\text{lb.}) + \$16,000 \text{ fixed cost} \\ &= \underline{\$20,800} \end{aligned}$$

71. Correct answer a. Swan needs to purchase 85,000 yards of fabric as shown below.

$$\begin{aligned} \text{Sales} - \text{Ending Inventory} + \text{Beginning Inventory} &= \\ 90,000 - 25,000 + 20,000 &= \underline{85,000 \text{ yards}} \end{aligned}$$

72. Correct answer a. Manoli should purchase goods totaling \$40,820 as shown below.

$$\begin{aligned} \text{November:} \quad & \$58,000 \times .65 = \\ & \$37,700 \times .70 = \$26,390 \\ \text{December:} \quad & \$74,000 \times .65 = \\ & \$48,100 \times .30 = \underline{\$14,430} \\ \text{Total purchases} &= \underline{\$40,820} \end{aligned}$$

73. Correct answer c. The company should purchase 8,700 pounds of material as shown below.

$$\begin{aligned} \text{Units to be completed} &= 2,000 - 250 + 325 = 2,075 \\ \text{Pounds required} &= 2,075 \text{ units} \times 4 \text{ lbs.} = 8,300 \\ \text{Pounds purchased} &= 8,300 - 400 + 800 = \underline{8,700} \end{aligned}$$

74. Correct answer d. The number of shoes to be purchased is 404,000 as shown below.



$$\begin{array}{lclclcl} \text{Dolls to be completed} & = & 200,000 - 12,000 + 15,000 & = & 203,000 \\ \text{Shoes needed} & = & 203,000 \times 2 & = & 406,000 \\ \text{Shoes purchased} & = & 406,000 - 20,000 + 18,000 & = & \underline{404,000} \end{array}$$

75. Correct answer c. The budget for Maker's July purchases is \$364,500 as shown below.

$$\begin{array}{lclcl} \text{July:} & \$600,000 \times .60 & = & & \\ & \$360,000 \times .85 & = & \$306,000 & \\ \text{August:} & \$650,000 \times .60 & = & & \\ & \$390,000 \times .15 & = & \underline{58,500} & \\ & \text{Total purchases} & & \underline{\underline{\$364,500}} & \end{array}$$

76. Correct answer b. Beginning finished goods inventory would have been produced in a prior period and, therefore, should not be included on a projected schedule of cost of goods manufactured.
77. Correct answer d. Freight charges paid for the delivery of raw materials are generally associated with the cost of making a product and not included as part of overhead.
78. Correct answer a. Valley's predetermined overhead application rate is \$2.09.

$$\begin{array}{l} (\text{Indirect material} + \text{Indirect labor} + \text{Utilities}) \div \text{Production} \\ (\$1,000 + \$10,000 + \$12,000) \div 11,000 = \underline{\underline{\$2.09}} \end{array}$$

79. Correct answer b. Scurry's cost of goods sold is \$600,000 as shown below.

$$\begin{array}{l} \text{Beg. finished goods} + \text{Cost of goods manufactured} - \text{Ending finished goods} \\ \$100,000 + \$700,000 - \$200,000 = \underline{\underline{\$600,000}} \\ \$123,000 - \$168,000 = \$45,000 \text{ increase in income} \end{array}$$

80. Correct answer c.

$$\begin{array}{l} \$1,000,000 - \$140,000 = \$860,000 \text{ variable costs} / 10 \text{ stores in 2014} = \\ \text{Variable costs per store} = \$86,000 \\ \text{Number of stores} = \underline{\underline{x \quad 12}} \\ \text{Total budgeted variable costs:} \quad \$1,032,000 \\ \text{Plus: The fixed costs} \quad \underline{\underline{\$ \quad 140,000}} \\ \text{Total budgeted costs} \quad \$1,172,000 \end{array}$$

81. Correct answer c. The cost of goods sold was \$3,000,000 [\$4,000,000 sales x (1.0 – 25% gross margin)]. Purchases equal cost of goods sold adjusted for the change in inventories. A decrease in inventories signifies that purchases were less than cost of goods sold. Hence, purchases for April were \$2,840,000 (\$3,000,000 COGS - \$160,000 decrease in inventories). A decrease in payables related to inventories indicates that cash disbursements exceeded purchases. Accordingly, the cash outflow for inventories was \$3,115,000 (\$2,840,000 + \$275,000 decrease in accounts payable).
82. Correct answer c. A financial budget consists of the capital expenditure budget, the cash budget



detailing inflows, outflows, and borrowing needs, and the balance sheet. These statements combined with the budgeted income statement produce the Statement of Cash Flows.

83. Correct answer c. Granite's accounts receivable balance will be \$146,000 as shown below.

$$\begin{aligned}\text{May A/R balance} &= 15\% \text{ of March} + 40\% \text{ of April} \\ &= .15 (\$280,000) + .4 (\$260,000) \\ &= \underline{\$146,000}\end{aligned}$$

84. Correct answer a. The employee taxes withheld and due to be remitted in July is the only item listed that actually affects cash flows in the month of July.

85. Correct answer c. The expected cash collections for Brown total \$108,000.

$$\begin{aligned}\text{Cash collections} &= \$8,000 + [(\$72,000 \div .6) \times .5] + (\$100,000 \times .4) \\ &= \$8,000 + \$60,000 + \$40,000 \\ &= \underline{\$108,000}\end{aligned}$$

86. Correct answer c. Cooper's cash balance will increase \$112,500 as shown below.

Opening balance	\$100,000	February A/R	+800,000
A/R balance	+300,000	February A/P	- 425,000
A/P balance	- 500,000	February Other	- 175,000
January A/R	+700,000	March A/R*	+200,000
January A/P	- 350,000	March A/P**	- 112,500
January Other	- 150,000	March Other	- 175,000
		Cash balance	\$212,500
		Less opening	<u>100,000</u>
		Cash increase	<u>\$112,500</u>

* \$500,000 x .4

** \$225,000 x .5

87. Correct answer b. Planned net accounts receivable balance as of December 31 is \$294,000:

$$\begin{aligned}\text{November } (\$480,000 \times .8 \times .25) &= \$96,000 \\ \text{December } (\$450,000 \times .8 \times .55) &= \underline{\$198,000} \\ \text{Total AR as of December} &= \underline{\$294,000}\end{aligned}$$

88. Correct answer a. Wallstead's April cash collections total \$343,000 as shown below.

$$\begin{aligned}\text{March discounted collections} &= (\$370,000 \times .5) \times .98 = \$181,300 \\ \text{March undiscounted collections} &= \$370,000 \times .3 = 111,000 \\ \text{February collections} &= \$340,000 \times .15 = \underline{51,000} \\ \text{Total collections} &= \underline{\$343,300}\end{aligned}$$



89. Correct answer a. Tip-Top's first quarter collections total \$811,000 as shown below.

Collectible sales first quarter	=	\$855,000 x .95	=	\$812,250
Daily collectible sales	=	\$812,250 ÷ 90 days	=	\$9,025
40 days of sales	=	\$9,025 x 40 days	=	\$361,000
Total collections	=	\$361,000 + \$450,000*	=	<u>\$811,000</u>

*Net A/R from last quarter

90. Correct answer b. Monroe will need to borrow \$70,000 as shown below.

	<u>January</u>	<u>February</u>
Opening balance	\$ 30,000	\$ 0
Plus collections	200,000	200,000
Less purchases*	210,000	240,000
Less other expenses	<u>20,000</u>	<u>20,000</u>
Closing balance	\$ 0	\$-60,000

Required borrowing = \$60,000 + \$10,000 = \$70,000

*January = Feb. sales \$350,000 x .6

February = March sales \$400,000 x .6

91. Correct answer c. Prudent's May cash receipts budget is \$735,000 as shown below.

Collections from April sales	=	(\$700,000 x .8) x .25	=	\$140,000
May cash sales	=	\$750,000 x .2	=	150,000
May A/R collections	=	(\$750,000 x .8) x .70	=	420,000
Sale of equipment				<u>25,000</u>
Total cash collections				<u>\$735,000</u>

92. Correct answer b. ANNCO's January cash collections total \$174,500 as shown below.

November sales collections	=		=	\$ 49,500
December sales collections	=	(\$162,000 ÷ .9) x .6	=	108,000
January sales collections	=	\$170,000 x .1	=	<u>17,000</u>
Total cash collections				<u>\$174,500</u>

93. Correct answer c. Brooke's February cash balance is \$232,500 as shown below.

	<u>January</u>		<u>February</u>
Opening balance	\$200,000		\$ 55,000
Accounts receivable	300,000 (Dec.)		420,000 (700,000 x .6)
Accounts receivable	280,000 (700,000 x .4)		320,000 (800,000 x .4)
Accounts payable	400,000 (Dec.)		175,000 (350,000 x .5)
Accounts payable	175,000 (350,000 x .5)		212,500 (425,000 x .5)



Other expense	<u>150,000</u>	<u>175,000</u>
Cash balance	\$ 55,000	<u>\$232,500</u>

94. Correct answer c. Health Foods' March cash receipts total \$242,000 as shown below.

March cash sales	=	\$250,000 x .6	=	\$150,000
March sales collections	=	(\$250,000 x .4 x .5)	=	50,000
February sales collections	=	(\$240,000 x .4 x .3)	=	28,800
January sales collections	=	(\$220,000 x .4 x .15)	=	<u>13,200</u>
Total cash collections				<u>\$242,000</u>

95. Correct answer c. The company will need to borrow \$11,000 in January as shown below.

Opening balance	\$ 24,900	
January collections	86,000	(\$32,000 + \$54,000)
January expenses	<u>106,500</u>	
Closing balance	\$ 4,400	
Less minimum balance	<u>15,000</u>	
Borrowing need	\$ 10,600	rounded to <u>\$11,000</u>

96. Correct answer b. Johnsen's budgeted cash receipts total \$684,500 as shown below.

September cash sales	=	(\$800,000 x .3)	=	\$240,000
September sales collections	=	(\$800,000 x .7 x .2)	=	112,000
August sales collections	=	(\$650,000 x .7 x .5)	=	227,500
July sales collections	=	(\$600,000 x .7 x .25)	=	<u>105,000</u>
Total cash collections				<u>\$684,500</u>

97. Correct answer c. Mountain Mule will need to borrow \$10,000 as shown below.

	January	February	March
Opening balance	\$85,000	\$60,000	\$ 0
Collections	---	---	60,000
Purchases	---	35,000	40,000
Operating expenses	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
Closing balance	\$60,000	\$ 0	\$ -5,000

With required balance of \$5,000 and negative cash of \$5,000, need to borrow \$10,000.



98. Correct answer b. The net initial investment=initial outlay of new equipment (\$500,000)+increase to working capital (\$44,000)-net after-tax cash flow from the disposal of the old equipment (\$22,000).

The cash inflow from the disposal of the old equipment is calculated as follows:

Disposal value	\$ 10,000
- Net book value [$\$400,000 - (\$400,000/20 \times 18)$]	(40,000) Loss on disposal
	<u>(\$ 30,000)</u>

* Tax rate	<u>40%</u>
Tax benefit from disposal	\$12,000
+ Disposal value	10,000
After-tax cash inflow from disposal	<u>\$22,000</u>

99. Correct answer b.
- Pro forma Sales = $\$ 100,000 \times 1.10 = \$ 110,000$
- Pro forma variable cost(Cost of a Sales) = $\$60,000 \times 1.10 = \$66,000$ Pro forma Gross a Profit = $\$ 110,000 - \$ 66,000 = \$ 44,000$
- Pro forma expenses- salaries = $\$15,000 \times 1.05 = \$ 15,750$ Pro forma historical expenses = $\$ 5,000 \times 1.20 = \$6,000$
- Pro forma profit before tax = $\$44,000 - \$15,750 - \$6,000 = \$22,250$ Pro forma profit after tax = $\$ 22,250 - \$6,675 = \$15,575$