

Cost Accounting, 14e (Horngren/Datar/Rajan)
Chapter 6 Master Budget and Responsibility Accounting

Objective 6.1

1) A budget:

- A) is the quantitative expression of a proposed plan of action by management
- B) is an aid to coordinate what needs to be done
- C) generally includes both financial and nonfinancial aspects of the plan
- D) All of the above are correct.

Answer: D

Diff: 1

Terms: budget

Objective: 1

AACSB: Reflective thinking

2) A budget

- A) is the quantitative expression of a proposed plan of action.
- B) aids in coordinating what needs to be done.
- C) includes both financial and nonfinancial aspects.
- D) All of these answers are correct.

Answer: D

Diff: 1

Terms: budget

Objective: 1

AACSB: Reflective thinking

3) Budgeting is used to help companies:

- A) plan to better satisfy customers
- B) anticipate potential problems
- C) focus on opportunities
- D) All of these answers are correct.

Answer: D

Diff: 2

Terms: master budget

Objective: 1

AACSB: Communication

4) A master budget:

- A) includes only financial aspects of a plan and excludes nonfinancial aspects
- B) is an aid to coordinating what needs to be done to implement a plan
- C) includes broad expectations and visionary results
- D) should not be altered after it has been agreed upon

Answer: B

Diff: 2

Terms: master budget

Objective: 1

AACSB: Reflective thinking

5) Operating decisions primarily deal with:

- A) the use of scarce resources
- B) how to obtain funds to acquire resources
- C) acquiring equipment and buildings
- D) satisfying stockholders

Answer: A

Diff: 2

Terms: operating budget

Objective: 1

AACSB: Reflective thinking

6) Financing decisions primarily deal with:

- A) the use of scarce resources
- B) how to obtain funds to acquire resources
- C) acquiring equipment and buildings
- D) preparing financial statements for stockholders

Answer: B

Diff: 2

Terms: financial budget

Objective: 1

AACSB: Reflective thinking

7) Budgeting provides all of the following EXCEPT:

- A) a means to communicate the organization's short-term goals to its members
- B) support for the management functions of planning and coordination
- C) a means to anticipate problems
- D) an ethical framework for decision making

Answer: D

Diff: 2

Terms: master budget

Objective: 1

AACSB: Communication

8) If initial budgets prove UNACCEPTABLE, planners achieve the most benefit from:

- A) planning again in light of feedback and current conditions
- B) deciding not to budget this year
- C) accepting an unbalanced budget
- D) using last year's budget

Answer: A

Diff: 2

Terms: master budget

Objective: 1

AACSB: Communication

9) Operating budgets and financial budgets:

- A) combined form the master budget
- B) are prepared before the master budget
- C) are prepared after the master budget
- D) have nothing to do with the master budget

Answer: A

Diff: 1

Terms: operating budget, financial budget, master budget

Objective: 1

AACSB: Reflective thinking

10) A good budgeting system forces managers to examine the business as they plan, so they can:

- A) detect inaccurate historical records
- B) set specific expectations against which actual results can be compared
- C) complete the budgeting task on time
- D) get promoted for doing a good job

Answer: B

Diff: 2

Terms: master budget

Objective: 1

AACSB: Communication

11) A budget is the quantitative expression of a proposed plan of action by management for a specified period.

Answer: TRUE

Diff: 1

Terms: budget

Objective: 1

AACSB: Analytical skills

12) A budget generally includes both financial and nonfinancial aspects of the plan.

Answer: TRUE

Diff: 1

Terms: budget

Objective: 1

AACSB: Communication

13) Budgeted financial statements are also referred to as pro forma statements.

Answer: TRUE

Diff: 1

Terms: financial budget

Objective: 1

AACSB: Reflective thinking

14) Budgeting includes only the financial aspects of the plan and NOT any nonfinancial aspects such as the number of physical units manufactured.

Answer: FALSE

Explanation: Budgeting includes both financial and nonfinancial aspects of the plan.

Diff: 2

Terms: financial budget

Objective: 1

AACSB: Reflective thinking

15) Budgeting helps management anticipate and adjust for trouble spots in advance.

Answer: TRUE

Diff: 1

Terms: budget

Objective: 1

AACSB: Reflective thinking

16) Budgets can play both planning and control roles for management.

Answer: TRUE

Diff: 1

Terms: budget

Objective: 1

AACSB: Reflective thinking

17) Long-run planning and short-run planning are best performed independently of each other.

Answer: FALSE

Explanation: Long-run planning and short-run planning are best performed as a part of an overall strategic planning process since they influence each other.

Diff: 2

Terms: planning

Objective: 1

AACSB: Reflective thinking

18) Financing decisions deal with how to best use the limited resources of an organization.

Answer: FALSE

Explanation: Financing decisions deal with how to obtain the funds to acquire those resources.

Diff: 2

Terms: master budget

Objective: 1

AACSB: Ethical reasoning

19) Operating decisions deal with how to obtain the funds to acquire resources.

Answer: FALSE

Explanation: Financing decisions deal with obtaining funds.

Diff: 2

Terms: master budget

Objective: 1

AACSB: Ethical reasoning

20) Budgeted financial statements are called pro forma statements.

Answer: TRUE

Diff: 2

Terms: pro forma statements

Objective: 1

AACSB: Reflective thinking

21) Describe the benefits to an organization of preparing an operating budget.

Answer: A well-prepared operating budget should serve as a guide for a company to follow during the budgeted period. It is not "set in stone." If new information or opportunities arise, the budget should be adjusted.

A well-prepared operating budget assists management with the allocation of scarce resources. It can help management see trouble spots in advance, and then management can decide where to allocate its limited resources.

A well-prepared operating budget fosters communication and coordination among various segments of the company. The process of preparing a budget requires managers from different functional areas to work together and communicate performance levels they both want and can attain.

A well-prepared operating budget can become the performance standard against which firms can compare the actual results.

Diff: 2

Terms: operating budget

Objective: 1

AACSB: Reflective thinking

22) Bob and Dale have just purchased a small honey manufacturing company that was having financial difficulties. After a brief operating period, they decided that the company's main problem was the lack of any financial planning. The company made a good product and market potential was great.

Required:

Explain why a company needs a good budgeting plan. Specifically address the need for a master budget.

Answer: The master budget is a series of interrelated budgets that quantify management's expectations about a company's revenues, expenses, net income, cash flows, and financial position. When administered wisely, a budget:

1. provides a framework for judging performance,
2. motivates managers and employees, and
3. promotes coordination and communication among subunits within the company.

Diff: 2

Terms: operating budget

Objective: 1

AACSB: Reflective thinking

Objective 6.2

1) A budget can do all of the following EXCEPT:

- A) promote coordination among subunits
- B) determine actual profitability
- C) motivate managers
- D) motivate employees

Answer: B

Diff: 2

Terms: budget

Objective: 2

AACSB: Reflective thinking

2) A budget should/can do all of the following EXCEPT:

- A) be prepared by managers from different functional areas working independently of each other
- B) be adjusted if new opportunities become available during the year
- C) help management allocate limited resources
- D) become the performance standard against which firms can compare the actual results

Answer: A

Diff: 3

Terms: master budget

Objective: 2

AACSB: Reflective thinking

3) A limitation of comparing a company's performance against actual results of last year is that:

- A) it includes adjustments for future conditions
- B) feedback is no longer a possibility
- C) past results can contain inefficiencies of the past year
- D) the budgeting time period is set at one year

Answer: C

Diff: 2

Terms: master budget

Objective: 2

AACSB: Reflective thinking

4) Challenging budgets tend to:

- A) decrease line-management participation in attaining corporate goals
- B) increase failure
- C) increase anxiety without motivation
- D) motivate improved performance

Answer: D

Diff: 2

Terms: master budget

Objective: 2

AACSB: Reflective thinking

5) Actual results should NOT be compared against past performance because:

- A) past results may contain mistakes and substandard performance
- B) past results will never happen again
- C) past performance is an indicator of future performance
- D) future conditions will be similar to past conditions

Answer: A

Diff: 2

Terms: master budget

Objective: 2

AACSB: Reflective thinking

6) A company's actual performance should be compared against budgeted amounts for the same accounting period so that:

- A) adjustments for future conditions can be included
- B) no feedback is possible
- C) inefficiencies of the past year can be included
- D) a rolling budget can be implemented

Answer: A

Diff: 2

Terms: master budget

Objective: 2

AACSB: Ethical reasoning

7) It is advantageous to coordinate budgets with:

- A) suppliers
- B) customers
- C) the marketing and production departments
- D) All of these answers are correct.

Answer: D

Diff: 3

Terms: master budget

Objective: 2

AACSB: Reflective thinking

8) A budget can help implement:

- A) strategic planning
- B) long-run planning
- C) short-run planning
- D) All of these answers are correct.

Answer: D

Diff: 2

Terms: master budget

Objective: 2

AACSB: Reflective thinking

9) To gain the benefits of budgeting _____ must understand and support the budget.

- A) senior management
- B) middle management
- C) line employees
- D) All of these answers are correct.

Answer: D

Diff: 3

Terms: master budget

Objective: 2

AACSB: Communication

10) Participation of employees in the budgeting process helps to create:

- A) greater commitment
- B) greater anxiety
- C) less commitment
- D) better past performance

Answer: A

Diff: 2

Terms: master budget

Objective: 2

AACSB: Communication

11) Line managers who feel that top management does NOT believe in the budget are most likely to:

- A) pick up the slack and participate in the budgeting process
- B) be motivated by the budget
- C) spend little time on the budgeting process
- D) convert the budget to a shorter more reasonable time period

Answer: C

Diff: 2

Terms: master budget

Objective: 2

AACSB: Communication

12) The time coverage of a budget should be:

- A) one year
- B) guided by the purpose of the budget
- C) cover design through manufacture and sale of the product
- D) shorter rather than longer

Answer: B

Diff: 2

Terms: master budget

Objective: 2

AACSB: Reflective thinking

13) Rolling budgets help management to:

- A) better review the past calendar year
- B) deal with a 5-year time frame
- C) focus on the upcoming budget period
- D) rigidly administer the budget

Answer: C

Diff: 2

Terms: rolling budget

Objective: 2

AACSB: Reflective thinking

14) Budgets should:

- A) be flexible
- B) be administered rigidly
- C) only be developed for short periods of time
- D) include only variable costs

Answer: A

Diff: 2

Terms: master budget

Objective: 2

AACSB: Reflective thinking

15) After a budget is agreed upon and finalized by the management team, the amounts should NOT be changed for any reason.

Answer: FALSE

Explanation: Budgets should not be administered rigidly, but rather should be adjusted for changing conditions.

Diff: 2

Terms: master budget

Objective: 2

AACSB: Ethical reasoning

16) Even in the face of changing conditions, attaining the original budget is critical.

Answer: FALSE

Explanation: Changing conditions usually call for a change in plans. Attaining the budget should not be an end in itself.

Diff: 3

Terms: master budget

Objective: 2

AACSB: Reflective thinking

17) Lower-level managers will not actively participate in the budget process if they perceive upper management does NOT believe in the process.

Answer: TRUE

Diff: 3

Terms: master budget

Objective: 2

AACSB: Communication

18) Coordination is meshing and balancing all aspects of production or service and all departments in a company in the best way for the company to meet its goals.

Answer: TRUE

Diff: 2

Terms: coordination

Objective: 2

AACSB: Reflective thinking

19) Research shows that challenging budgets improve employee performance because employees view falling short of budgeted numbers as a failure.

Answer: TRUE

Diff: 2

Terms: master budget

Objective: 2

AACSB: Reflective thinking

20) It is best to compare this year's performance with last year's actual performance rather than this year's budget.

Answer: FALSE

Explanation: It is best to compare this year's performance with this year's budget because inefficiencies and different conditions may be reflected in last year's actual performance amounts.

Diff: 3

Terms: master budget

Objective: 2

AACSB: Reflective thinking

21) When administered wisely, budgets promote communication and coordination among the various subunits of the organization.

Answer: TRUE

Diff: 2

Terms: budget

Objective: 2

AACSB: Communication

Objective 6.3

1) Operating budgets include all of the following EXCEPT:

A) the revenues budget

B) the budgeted income statement

C) the administrative costs budget

D) the budgeted balance sheet

Answer: D

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

2) Operating budgets include the:

- A) budgeted balance sheet
- B) budgeted income statement
- C) capital expenditures budget
- D) budgeted statement of cash flows

Answer: B

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

3) The operating budget process generally concludes with the preparation of the:

- A) production budget
- B) distribution budget
- C) research and development budget
- D) budgeted income statement

Answer: D

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

4) Which budget is NOT necessary to prepare the budgeted balance sheet?

- A) cash budget
- B) budgeted statement of cash flows
- C) budgeted income statement
- D) revenues budget

Answer: B

Diff: 1

Terms: master budget

Objective: 3

AACSB: Reflective thinking

5) Financial budgets include the all of the following EXCEPT:

- A) capital expenditures budget
- B) budgeted income statement
- C) budgeted balance sheet
- D) budgeted statement of cash flows

Answer: B

Diff: 1

Terms: financial budget

Objective: 3

AACSB: Reflective thinking

6) _____ includes a budgeted statement of cash flows and a budgeted balance sheet.

- A) An annual report
- B) The financial budget
- C) The operating budget
- D) The capital expenditures budget

Answer: B

Diff: 1

Terms: financial budget

Objective: 3

AACSB: Reflective thinking

7) The order to follow when preparing the operating budget is:

- A) revenues budget, production budget, and direct manufacturing labor costs budget
- B) costs of goods sold budget, production budget, and cash budget
- C) revenues budget, manufacturing overhead costs budget, and production budget
- D) cash expenditures budget, revenues budget, and production budget.

Answer: A

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

8) In which order are the following developed? First to last:

- A = Production budget
- B = Direct materials costs budget
- C = Budgeted income statement
- D = Revenues budget

- A) ABDC
- B) DABC
- C) DCAB
- D) CABD

Answer: B

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

9) The budgeting process is most strongly influenced by:

- A) the capital budget
- B) the budgeted statement of cash flows
- C) the sales forecast
- D) the production budget

Answer: C

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

10) _____ is the usual starting point for budgeting.

- A) The revenues budget
- B) Net income
- C) The production budget
- D) The cash budget

Answer: A

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

11) The sales forecast should be primarily based on:

- A) statistical analysis.
- B) input from sales managers and sales representatives
- C) production capacity
- D) input from the board of directors

Answer: B

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

12) The sales forecast is influenced by:

- A) advertising and sales promotions
- B) competition
- C) general economic conditions
- D) All of these answers are correct.

Answer: D

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

13) A sales forecast is:

- A) often the outcome of elaborate information gathering and discussions among sales managers
- B) developed primarily to prepare next year's marketing campaign
- C) solely based on sales of the previous year
- D) a summary of product costs that influence pricing decisions

Answer: A

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

14) The revenues budget identifies:

- A) expected cash flows for each product
- B) actual sales from last year for each product
- C) the expected level of sales for the company
- D) the variance of sales from actual for each product

Answer: C

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

15) The number of units in the sales budget and the production budget may differ because of a change in:

- A) finished goods inventory levels
- B) overhead charges
- C) direct material inventory levels
- D) sales returns and allowances

Answer: A

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

16) Production is primarily based on:

- A) projected inventory levels
- B) the revenues budget
- C) the administrative costs budget
- D) the capital expenditures budget

Answer: B

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

17) Budgeted production equals:

- A) beginning finished goods inventory + budgeted unit sales - targeted ending finished goods inventory
- B) targeted ending finished goods inventory + beginning finished goods inventory - budgeted unit sales
- C) budgeted unit sales + targeted ending finished goods inventory - beginning finished goods inventory
- D) budgeted unit sales + targeted ending finished goods inventory + beginning finished goods inventory

Answer: C

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

18) The direct materials usage budget is based on:

- A) the units to be produced during a period
- B) budgeted sales dollars
- C) the predetermined factory overhead rate
- D) the amount of labor-hours worked

Answer: A

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

19) Direct material purchases equal:

- A) production needs
- B) production needs plus target ending inventories
- C) production needs plus beginning inventories
- D) production needs plus target ending inventories less beginning inventories

Answer: D

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

20) Individual budgeted amounts included in the manufacturing overhead costs budget are based on input from:

- A) operating personnel
- B) costs incurred in prior years
- C) cost changes expected in the future
- D) All of these answers are correct.

Answer: D

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

21) The manufacturing overhead costs budget includes budgeted amounts for:

- A) indirect materials
- B) indirect manufacturing labor
- C) depreciation on factory equipment
- D) All of these answers are correct.

Answer: D

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

22) Budgeted manufacturing overhead costs include all types of factory expenses EXCEPT:

- A) fixed items such as depreciation of manufacturing machinery
- B) variable items such as plant supplies
- C) indirect labor such as the salary of the plant supervisor
- D) direct labor and direct materials

Answer: D

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

23) The cost of goods sold budget requires all of the following budgets EXCEPT:

- A) direct material cost budget
- B) manufacturing overhead cost budget
- C) distribution cost budget
- D) direct manufacturing labor cost budget

Answer: C

Diff: 2

Terms: master budget

Objective: 3

AACSB: Reflective thinking

24) Grandma's Baskets Company expects to manufacture and sell 50,000 baskets in 2011 for \$5 each. There are 4,000 baskets in beginning finished goods inventory with target ending inventory of 4,000 baskets. The company keeps no work-in-process inventory. What amount of sales revenue will be reported on the 2011 budgeted income statement?

- A) \$246,000
- B) \$250,000
- C) \$254,000
- D) \$258,000

Answer: B

Explanation: B) $50,000 \times \$5 = \$250,000$

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Analytical skills

25) Basile Corporation has budgeted sales of 36,000 units, target ending finished goods inventory of 6,000 units, and beginning finished goods inventory of 1,800 units. How many units should be produced next year?

- A) 43,800 units
- B) 40,200 units
- C) 31,800 units
- D) 36,000 units

Answer: B

Explanation: B) $36,000 + 6,000 - 1,800 = 40,200$ units

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

26) For next year, Manzo, Inc., has budgeted sales of 30,000 units, target ending finished goods inventory of 1,500 units, and beginning finished goods inventory of 900 units. All other inventories are zero. How many units should be produced next year?

- A) 29,400 units
- B) 30,000 units
- C) 30,600 units
- D) 32,400 units

Answer: C

Explanation: C) $30,000 + 1,500 - 900 = 30,600$ units

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

27) Wilcox Company has budgeted sales volume of 60,000 units and budgeted production of 54,000 units, while 10,000 units are in beginning finished goods inventory. How many units are targeted for ending finished goods inventory?

- A) 10,000 units
- B) 16,000 units
- C) 6,000 units
- D) 4,000 units

Answer: D

Explanation: D) $10,000 + 54,000 - 60,000 = 4,000$

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

Answer the following questions using the information below:

Kason, Inc., expects to sell 20,000 pool cues for \$24.00 each. Direct materials costs are \$4.00, direct manufacturing labor is \$8.00, and manufacturing overhead is \$1.60 per pool cue. The following inventory levels apply to 2011:

	<u>Beginning inventory</u>	<u>Ending inventory</u>
Direct materials	24,000 units	24,000 units
Work-in-process inventory	0 units	0 units
Finished goods inventory	2,000 units	2,500 units

28) On the 2012 budgeted income statement, what amount will be reported for sales?

- A) \$492,000
- B) \$480,000
- C) \$624,000
- D) \$636,000

Answer: B

Explanation: B) $20,000 \times \$24 = \$480,000$

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

29) How many pool cues need to be produced in 2012?

- A) 22,500 cues
- B) 22,000 cues
- C) 20,500 cues
- D) 19,500 cues

Answer: C

Explanation: C) $20,000 + 2,500 - 2,000 = 20,500$ cues

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

30) On the 2012 budgeted income statement, what amount will be reported for cost of goods sold?

- A) \$278,800
- B) \$272,000
- C) \$265,200
- D) \$306,000

Answer: B

Explanation: B) $20,000 \times (\$8.00 + \$4.00 + \$1.60) = \$272,000$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

31) What are the 2012 budgeted costs for direct materials, direct manufacturing labor, and manufacturing overhead, respectively?

- A) \$0; \$192,000; \$38,400
- B) \$78,000; \$156,000; \$31,200
- C) \$160,000; \$80,000; \$32,000
- D) \$82,000; \$164,000; \$32,800

Answer: D

Explanation: D) $20,500 \times \$4.00 = \$82,000$; $20,500 \times \$8.00 = \$164,000$; $20,500 \times \$1.60 = \$32,800$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

Answer the following questions using the information below:

Elton, Inc., expects to sell 6,000 ceramic vases for \$40 each. Direct materials costs are \$4, direct manufacturing labor is \$20, and manufacturing overhead is \$6 per vase. The following inventory levels apply to 2011:

	<u>Beginning inventory</u>	<u>Ending inventory</u>
Direct materials	1,000 units	1,000 units
Work-in-process inventory	0 units	0 units
Finished goods inventory	400 units	500 units

32) On the 2012 budgeted income statement, what amount will be reported for sales?

- A) \$244,000
- B) \$236,000
- C) \$280,000
- D) \$240,000

Answer: D

Explanation: D) $6,000 \times \$40 = \$240,000$

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

33) How many ceramic vases need to be produced in 2012?

- A) 5,900 vases
- B) 6,100 vases
- C) 7,000 vases
- D) 6,000 vases

Answer: B

Explanation: B) $6,000 + 500 - 400 = 6,100$ vases

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

34) On the 2012 budgeted income statement, what amount will be reported for cost of goods sold?

- A) \$183,000
- B) \$210,000
- C) \$180,000
- D) \$177,000

Answer: C

Explanation: C) $6,000 \times (\$4 + \$20 + \$6) = \$180,000$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

35) What are the 2012 budgeted costs for direct materials, direct manufacturing labor, and manufacturing overhead, respectively?

- A) \$24,400; \$122,000; \$36,600
- B) \$24,000; \$120,000; \$36,000
- C) \$4,000; \$20,000; \$6,000
- D) \$4,000; \$0; \$9,000

Answer: A

Explanation: A) $6,100 \times \$4 = \$24,400$; $6,100 \times \$20 = \$122,000$; $6,100 \times \$6 = \$36,600$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

Answer the following questions using the information below:

The following information pertains to the January operating budget for Casey Corporation, a retailer:

Budgeted sales are \$200,000 for January

Collections of sales are 50% in the month of sale and 50% the next month

Cost of goods sold averages 70% of sales

Merchandise purchases total \$150,000 in January

Marketing costs are \$3,000 each month

Distribution costs are \$5,000 each month

Administrative costs are \$10,000 each month

36) For January, budgeted gross margin is:

- A) \$100,000
- B) \$140,000
- C) \$60,000
- D) \$50,000

Answer: C

Explanation: C) $\$200,000 - (.70 \times \$200,000) = \$60,000$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

37) For January, the amount budgeted for the nonmanufacturing costs budget is:

- A) \$78,000
- B) \$10,000
- C) \$168,000
- D) \$18,000

Answer: D

Explanation: D) $\$3,000 + \$5,000 + \$10,000 = \$18,000$

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

38) Tiger Pride produces two product lines: T-shirts and Sweatshirts. Product profitability is analyzed as follows:

	<u>T-SHIRTS</u>	<u>SWEATSHIRTS</u>
Production and sales volume	60,000 units	35,000 units
Selling price	\$16.00	\$29.00
Direct material	\$ 2.00	\$ 5.00
Direct labor	\$ 4.50	\$ 7.20
Manufacturing overhead	<u>\$ 2.00</u>	<u>\$ 3.00</u>
Gross profit	\$ 7.50	\$13.80
Selling and administrative	<u>\$ 4.00</u>	<u>\$ 7.00</u>
Operating profit	<u>\$ 3.50</u>	<u>\$ 6.80</u>

What is projected operating income if direct materials costs of T-Shirts increase to \$4.00 per unit and direct labor costs of Sweatshirts increase to \$8.20 per unit.

- A) \$293,000
- B) \$90,000
- C) \$203,000
- D) \$473,000

Answer: A

Explanation: A) $(60,000 \times \$1.50) + (35,000 \times \$5.80) = \$293,000$

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Analytical skills

Answer the following questions using the information below:

Beat, Inc., expects to sell 60,000 athletic uniforms for \$80 each in 2012. Direct materials costs are \$20, direct manufacturing labor is \$8, and manufacturing overhead is \$6 for each uniform. The following inventory levels apply to 2011:

	<u>Beginning inventory</u>	<u>Ending inventory</u>
Direct materials	24,000 units	18,000 units
Work-in-process inventory	0 units	0 units
Finished goods inventory	12,000 units	10,000 units

39) How many uniforms need to be produced in 2012?

- A) 52,000 uniforms
- B) 68,000 uniforms
- C) 60,000 uniforms
- D) 58,000 uniforms

Answer: D

Explanation: D) $60,000 + 10,000 - 12,000 = 58,000$ uniforms

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

40) What is the amount budgeted for direct material purchases in 2012?

- A) \$1,040,000
- B) \$1,200,000
- C) \$1,160,000
- D) \$1,520,000

Answer: A

Explanation: A) $(60,000 + 10,000 - 12,000)$ units + 18,000 units - 24,000 units = Purchases 52,000 units
 $\times \$20 = \$1,040,000$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

41) What is the amount budgeted for cost of goods manufactured in 2012?

- A) \$2,040,000
- B) \$1,972,000
- C) \$2,312,000
- D) \$2,380,000

Answer: B

Explanation: B) $(60,000 + 10,000 - 12,000) \times (\$20 + \$8 + \$6) = \$1,972,000$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

42) What is the amount budgeted for cost of goods sold in 2012?

- A) \$2,312,000
- B) \$1,972,000
- C) \$2,040,000
- D) \$4,800,000

Answer: C

Explanation: C) $60,000 \times (\$20 + \$8 + \$6) = \$2,040,000$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

Answer the following questions using the information below:

Furniture, Inc., estimates the following number of mattress sales for the first four months of 2012:

<u>Month</u>	<u>Sales</u>
January	10,000
February	14,000
March	13,000
April	16,000

Finished goods inventory at the end of December is 3,000 units. Target ending finished goods inventory is 30% of the next month's sales.

43) How many mattresses need to be produced in January 2012?

- A) 8,800 mattresses
- B) 11,200 mattresses
- C) 13,000 mattresses
- D) 14,200 mattresses

Answer: B

Explanation: B) $12,000 + (14,000 \times 0.30) - 3,000 = 11,200$ mattresses

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

44) How many mattresses need to be produced in the first quarter (January, February, March) of 2012?

- A) 37,000 mattresses
- B) 38,800 mattresses
- C) 41,800 mattresses
- D) 44,800 mattresses

Answer: B

Explanation: B) $10,000 + 14,000 + 13,000 + (16,000 \times 0.30) - 3,000 = 38,800$ mattresses

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

Answer the following questions using the information below:

Wallace Company provides the following data for next year:

<u>Month</u>	<u>Budgeted Sales</u>
January	\$120,000
February	108,000
March	132,000
April	144,000

The gross profit rate is 40% of sales. Inventory at the end of December is \$21,600 and target ending inventory levels are 30% of next month's sales, stated at cost.

45) Purchases budgeted for January total:

- A) \$130,800
- B) \$72,000
- C) \$69,840
- D) \$74,160

Answer: C

Explanation: C) $(\$120,000 \times 0.6) + (\$108,000 \times 0.6 \times 0.3) - \$21,600 = \$69,840$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

46) Purchases budgeted for February total:

- A) \$69,120
- B) \$60,480
- C) \$115,200
- D) \$64,800

Answer: A

Explanation: A) $(\$108,000 \times 0.6) + (\$132,000 \times 0.6 \times 0.3) - (\$108,000 \times 0.6 \times 0.3) = \$69,120$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

47) Shamokin Manufacturing produces two products, Big and Bigger. Shamokin expects to sell 10,000 units of product Bigger and to have an inventory of 2,000 units of Bigger on hand at the end of the period. Currently, Shamokin has 800 units of Bigger on hand. Bigger requires two labor operations, molding and polishing. Each unit of Bigger requires one hour of molding and two hours of polishing. The direct labor rate for molding is \$20 per molding hour and the direct labor rate for polishing is \$25 per polishing hour. The expected cost of direct labor for Bigger is:

- A) \$224,000
- B) \$560,000
- C) \$616,000
- D) \$784,000

Answer: D

Explanation: D) $10,000 + 2,000 - 800 = 11,200$
 $(11,200 \times 1 \times \$20) + (11,200 \times 2 \times \$25) = \$784,000$

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

48) Shamokin Manufacturing produces two products, Big and Bigger. Shamokin expects to sell 10,000 units of product Bigger and to have an inventory of 2,000 units of Bigger on hand at the end of the period. Currently, Shamokin has 800 units of Bigger on hand. Bigger requires two labor operations, molding and polishing. Each unit of Bigger requires one hour of molding and two hours of polishing. The direct labor rate for molding is \$20 per molding hour and the direct labor rate for polishing is \$25 per polishing hour. The expected number of hours of direct labor for Bigger is:

- A) 8,800 hours of molding; 17,600 hours of polishing
- B) 11,200 hours of molding; 22,400 hours of polishing
- C) 17,600 hours of molding; 8,800 hours of polishing
- D) 22,400 hours of molding; 11,200 hours of polishing

Answer: B

Explanation: B) $10,000 + 2,000 - 800 = 11,200$
 $(11,200 \times 1) = 11,200$ hours of molding; $(11,200 \times 2) = 22,400$ hours of polishing

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

49) St. Claire Manufacturing expects to produce and sell 6,000 units of Big, its only product, for \$20 each. Direct material cost is \$2 per unit, direct labor cost is \$8 per unit, and variable manufacturing overhead is \$3 per unit. Fixed manufacturing overhead is \$24,000 in total. Variable selling and administrative expenses are \$1 per unit, and fixed selling and administrative costs are \$3,000 in total. According to generally accepted accounting principles, inventoriable cost per unit of Big would be:

- A) \$13.00 per unit
- B) \$14.00 per unit
- C) \$17.00 per unit
- D) \$18.50 per unit

Answer: C

Explanation: C) $\$2 + \$8 + \$3 + (\$24,000 / 6,000) = \$17$

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

50) The use of activity-based budgeting is growing because of:

- A) the increased use of activity-based costing
- B) the increased use of kaizen costing
- C) increases in work-in-process inventory
- D) increases in direct materials inventory

Answer: A

Diff: 1

Terms: activity-based budgeting

Objective: 3

AACSB: Analytical skills

51) Activity-based budgeting would separately estimate:

- A) the cost of overhead for a department
- B) a plant-wide cost-driver rate
- C) the cost of a setup activity
- D) All of these answers are correct.

Answer: C

Diff: 2

Terms: activity-based budgeting

Objective: 3

AACSB: Reflective thinking

52) Activity-based-costing analysis makes no distinction between:

- A) direct-materials inventory and work-in-process inventory
- B) short-run variable costs and short-run fixed costs
- C) parts of the supply chain
- D) components of the value chain

Answer: B

Diff: 3

Terms: activity-based budgeting

Objective: 3

AACSB: Reflective thinking

53) Activity-based budgeting makes it easier to:

- A) determine a rolling budget
- B) prepare pro forma financial statements
- C) determine how to reduce costs
- D) execute a financial budget

Answer: C

Diff: 3

Terms: activity-based budgeting

Objective: 3

AACSB: Reflective thinking

54) Activity-based budgeting does NOT require:

- A) knowledge of the organization's activities
- B) specialized expertise in financial management and control
- C) knowledge about how activities affect costs
- D) the ability to see how the organization's different activities fit together

Answer: B

Diff: 3

Terms: activity-based budgeting

Objective: 3

AACSB: Reflective thinking

55) Activity-based budgeting:

- A) uses one cost driver such as direct labor-hours
- B) uses only output-based cost drivers such as units sold
- C) focuses on activities necessary to produce and sell products and services
- D) classifies costs by functional area within the value chain

Answer: C

Diff: 1

Terms: activity-based budgeting

Objective: 3

AACSB: Reflective thinking

56) Activity-based budgeting includes all the following steps EXCEPT:

- A) determining demands for activities from sales and production targets
- B) computing the cost of performing activities
- C) determining a separate cost-driver rate for each department
- D) describing the budget as costs of activities rather than costs of functions

Answer: C

Diff: 2

Terms: activity-based budgeting

Objective: 3

AACSB: Reflective thinking

57) A rolling budget is the same as a continuous budget.

Answer: TRUE

Diff: 2

Terms: rolling budget

Objective: 3

AACSB: Reflective thinking

58) The cash budget and the budgeted income statement are necessary to prepare the budgeted balance sheet and budgeted statement of cash flows.

Answer: TRUE

Diff: 2

Terms: master budget

Objective: 3

AACSB: Reflective thinking

59) Preparation of the budgeted statement of cash flows is the final step in preparing the operating budget.

Answer: FALSE

Explanation: Preparation of the budgeted income statement is the final step in preparing the operating budget.

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

60) The sales forecast should primarily be based on statistical analysis with secondary input from sales managers and sales representatives.

Answer: FALSE

Explanation: The sales forecast should be primarily based on input from sales managers and sales representatives with secondary input from statistical analysis.

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

61) The usual starting point in budgeting is to forecast net income.

Answer: FALSE

Explanation: The usual starting point in budgeting is to forecast sales demand and revenues.

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

62) The revenues budget should be based on the production budget.

Answer: FALSE

Explanation: The production budget should be based on the revenues budget.

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

63) The financial budget is that part of the master budget that includes the capital expenditures budget, cash budget, budgeted balance sheet, and the budgeted statement of cash flows.

Answer: TRUE

Diff: 1

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

64) Since fixed manufacturing overhead is fixed, it is NOT normally included in the operating budget.

Answer: FALSE

Explanation: Fixed manufacturing is normally included in the operating budget.

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

65) The manufacturing labor budget depends on wage rates, production methods, and hiring plans.

Answer: TRUE

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

66) The manufacturing labor budget depends on wage rates, production methods, and hiring plans.

Answer: TRUE

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

67) If inventoriable costs in the operating budget are going to be in accordance with Generally Accepted Accounting Principles (GAAP), they include only variable manufacturing costs.

Answer: FALSE

Explanation: If inventoriable costs in the operating budget are going to be in accordance with Generally Accepted Accounting Principles (GAAP), they include variable and fixed manufacturing costs.

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

68) Activity-based budgeting provides better decision-making information than budgeting based solely on output-based cost drivers (units produced, units sold, or revenues).

Answer: TRUE

Diff: 2

Terms: activity-based budgeting

Objective: 3

AACSB: Communication

69) Activity-based costing analysis takes a long-run perspective and treats all activity costs as variable costs.

Answer: TRUE

Diff: 3

Terms: activity-based budgeting

Objective: 3

AACSB: Reflective thinking

70) Activity-based budgeting (ABB) focuses on the budgeting cost of activities necessary to produce and sell products and services.

Answer: TRUE

Diff: 1

Terms: activity-based budgeting

Objective: 3

AACSB: Reflective thinking

71) Activity-based budgeting would permit the use of multiple drivers and multiple cost pools in the budgeting process.

Answer: TRUE

Diff: 2

Terms: activity-based budgeting

Objective: 3

AACSB: Reflective thinking

72) Listed below are elements of the master budget. Determine whether each budget is an operating budget or a financial budget. Place an O for operating budget or F for a financial budget.

1. Capital expenditures budget
2. Cost of goods sold budget
3. Revenues budget
4. Budgeted statement of cash flows
5. Distribution costs budget
6. Marketing costs budget
7. Cash budget
8. Direct materials cost budget
9. Budgeted balance sheet
10. Budgeted income statement

Answer:

- | | |
|------|-------|
| 1. F | 6. O |
| 2. O | 7. F |
| 3. O | 8. O |
| 4. F | 9. F |
| 5. O | 10. O |

Diff: 3

Terms: master budget

Objective: 3

AACSB: Analytical skills

73) Nittany Company sells three products with the following seasonal sales pattern:

<u>Quarter</u>	<u>Products</u>		
	<u>A</u>	<u>B</u>	<u>C</u>
1	40%	30%	10%
2	30%	20%	40%
3	20%	20%	40%
4	10%	30%	10%

The annual sales budget shows forecasts for the different products and their expected selling price per unit as follows:

<u>Product</u>	<u>Units</u>	<u>Selling Price</u>
A	50,000	\$ 8
B	125,000	20
C	62,500	12

Required:

Prepare a sales budget, in units and dollars, by quarters for the company for the coming year.

Answer:	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
Product A:					
Sales (units)	20,000	15,000	10,000	5,000	50,000
Price	× \$8	× \$8	× \$8	× \$8	× \$8
Sales	\$160,000	\$120,000	\$80,000	\$40,000	\$400,000
Product B:					
Sales (units)	37,500	25,000	25,000	37,500	125,000
Price	× \$20	× \$20	× \$20	× \$20	× \$20
Sales	\$750,000	\$500,000	\$500,000	\$750,000	\$2,500,000
Product C:					
Sales (units)	6,250	25,000	25,000	6,250	62,500
Price	× \$12	× \$12	× \$12	× \$12	× \$12
Sales	\$75,000	\$300,000	\$300,000	\$75,000	\$750,000
Total	\$985,000	\$920,000	\$880,000	\$865,000	\$3,650,000

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

74) Lubriderm Corporation has the following budgeted sales for the next six-month period:

<u>Month</u>	<u>Unit Sales</u>
June	90,000
July	120,000
August	210,000
September	150,000
October	180,000
November	120,000

There were 30,000 units of finished goods in inventory at the beginning of June. Plans are to have an inventory of finished products that equal 20% of the unit sales for the next month.

Five pounds of materials are required for each unit produced. Each pound of material costs \$8. Inventory levels for materials are equal to 30% of the needs for the next month. Materials inventory on June 1 was 15,000 pounds.

Required:

- Prepare production budgets in units for July, August, and September.
- Prepare a purchases budget in pounds for July, August, and September, and give total purchases in both pounds and dollars for each month.

Answer:

a.		July	August	September
	Budgeted sales	120,000	210,000	150,000
	Add: Required ending inventory	<u>42,000</u>	<u>30,000</u>	<u>36,000</u>
	Total inventory requirements	162,000	240,000	186,000
	Less: Beginning inventory	<u>24,000</u>	<u>42,000</u>	<u>30,000</u>
	Budgeted production	<u>138,000</u>	<u>198,000</u>	<u>156,000</u>
b.		July	August	September
	Production in units	<u>138,000</u>	<u>198,000</u>	<u>156,000</u>
	Targeted ending inventory in lbs. *	297,000	234,000	**252,000
	Production needs in lbs. ***	<u>690,000</u>	<u>990,000</u>	<u>780,000</u>
	Total requirements in lbs.	987,000	1,224,000	1,032,000
	Less: Beginning inventory in lbs. ****	<u>207,000</u>	<u>297,000</u>	<u>234,000</u>
	Purchases needed in lbs.	780,000	927,000	798,000
	Cost (\$8 per lb.)	× <u>\$8</u>	× <u>\$8</u>	× <u>\$8</u>
	Total material purchases	<u>\$6,240,000</u>	<u>\$7,416,000</u>	<u>\$6,384,000</u>

- * 0.3 times next month's needs
- ** $(180,000 + 24,000 - 36,000)$ times 5 lbs. $\times 0.3$
- *** 5 lbs. times units to be produced, across row
- **** $(690,000 \times .3) = 207,000$ lbs., etc. row across

Diff: 3

Terms: operating budget

Objective: 3

AACSB: Analytical skills

75) Perry Company has the following information:

Month	Budgeted Sales
March	\$100,000
April	106,000
May	102,000
June	109,000
July	105,000

In addition, the gross profit rate is 40% and the desired inventory level is 30% of next month's cost of sales.

Required:

Prepare a purchases budget for April through June.

Answer:	April	May	June	Total
Desired ending inventory	\$ 18,360	\$ 19,620	\$ 18,900	\$ 18,900
Plus COGS	<u>63,600</u>	<u>61,200</u>	<u>65,400</u>	<u>190,200</u>
Total needed	81,960	80,820	84,300	209,100
Less beginning inventory	<u>19,080</u>	<u>18,360</u>	<u>19,620</u>	<u>19,080</u>
Total purchases	<u>\$62,880</u>	<u>\$62,460</u>	<u>\$64,680</u>	<u>\$ 190,020</u>

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

76) Favata Company has the following information:

Month	Budgeted Sales
June	\$60,000
July	51,000
August	40,000
September	70,000
October	72,000

In addition, the cost of goods sold rate is 70% and the desired inventory level is 30% of next month's cost of sales.

Required:

Prepare a purchases budget for July through September.

Answer:	July	Aug	Sept	Total
Desired ending inventory	\$ 8,400	\$14,700	\$15,120	\$15,120
Plus COGS	<u>35,700</u>	<u>28,000</u>	<u>49,000</u>	<u>112,700</u>
Total needed	44,100	42,700	64,120	127,820
Less beginning inventory	<u>10,710</u>	<u>8,400</u>	<u>14,700</u>	<u>10,710</u>
Total purchases	<u>\$33,390</u>	<u>\$34,300</u>	<u>\$49,420</u>	<u>\$117,110</u>

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

77) Picture Pretty manufactures picture frames. Sales for August are expected to be 10,000 units of various sizes. Historically, the average frame requires four feet of framing, one square foot of glass, and two square feet of backing. Beginning inventory includes 1,500 feet of framing, 500 square feet of glass, and 500 square feet of backing. Current prices are \$0.30 per foot of framing, \$6.00 per square foot of glass, and \$2.25 per square foot of backing. Ending inventory should be 150% of beginning inventory. Purchases are paid for in the month acquired.

Required:

- Determine the quantity of framing, glass, and backing that is to be purchased during August.
- Determine the total costs of direct materials for August purchases.

Answer:

a.	<u>Framing</u>	<u>Glass</u>	<u>Backing</u>
Desired ending inventory*	2,250	750	750
Production needs (10,000 units)**	<u>40,000</u>	<u>10,000</u>	<u>20,000</u>
Total needs	42,250	10,750	20,750
Less: Beginning inventory	<u>1,500</u>	<u>500</u>	<u>500</u>
Purchases planned	<u>40,750</u>	<u>10,250</u>	<u>20,250</u>

b. Cost of direct materials:

Framing (40,750 × \$0.30)	\$12,225.00
Glass (10,250 × \$6.00)	61,500.00
Backing (20,250 × \$2.25)	<u>45,562.50</u>

Total	<u>\$119,287.50</u>
-------	---------------------

- * $1,500 \times 1.5 = 2,250$ framing
 $500 \times 1.5 = 750$ glass
 $500 \times 1.5 = 750$ backing

- ** $10,000 \times 4 = 40,000$ framing
 $10,000 \times 1 = 10,000$ glass
 $10,000 \times 2 = 20,000$ backing

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

78) Christy Enterprises reports the year-end information from 2011 as follows:

Sales (100,000 units)	\$500,000
Less: Cost of goods sold	<u>300,000</u>
Gross profit	200,000
Operating expenses (includes \$20,000 of Depreciation)	<u>120,000</u>
Net income	<u>\$ 80,000</u>

Christy is developing the 2012 budget. In 2012 the company would like to increase selling prices by 10%, and as a result expects a decrease in sales volume of 5%. Cost of goods sold as a percentage of sales is expected to increase to 62%. Other than depreciation, all operating costs are variable.

Required:

Prepare a budgeted income statement for 2012.

Answer:

Christy Enterprises Budgeted Income Statement For the Year 2012

Sales (95,000 × \$5.50)	\$522,500
Cost of goods sold (2012 sales × 62%)	<u>323,950</u>
Gross profit	198,550
Less: Operating expenses [(\$1.00 × 95,000) + \$20,000]	<u>115,000</u>
Net income	<u>\$ 83,550</u>

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

79) Shamokin Manufacturing produces two products, Big and Bigger. Shamokin expects to sell 20,000 units of Big and 10,000 units of Bigger. Shamokin plans on having an ending inventory of 4,000 units of Big and 2,000 units of Bigger. Currently, Shamokin has 1,000 units of Big in its inventory and 800 units of Bigger. Each product requires two labor operations: molding and polishing. Product Big requires one hour of molding time and one hour of polishing time. Product Bigger requires one hour of molding time and two hours of polishing time. The direct labor rate for molders is \$20 per molding hour, and the direct labor rate for polishers is \$25 per polishing hour.

Required:

Prepare a direct labor budget in hours and dollars for each product.

Answer: Desired Production:

	Big	Bigger	Total
Expected sales	20,000	10,000	
Desired ending inventory	<u>4,000</u>	<u>2,000</u>	
Production needs	24,000	12,000	
Less: beginning inventory	<u>1,000</u>	<u>800</u>	
Desired production	<u>23,000</u>	<u>11,200</u>	
Direct Labor Budget for Big:	Molding	Polishing	
Desired Production of Big	23,000	23,000	
Hours of Labor Required per unit	1	1	
Total Hours of Labor Required	23,000	23,000	
Direct Labor Rate	<u>\$20</u>	<u>\$25</u>	
Cost of Direct Labor for Big	\$460,000	\$575,000	\$1,035,000
Direct Labor Budget for Bigger:	Molding	Polishing	
Desired Production of Bigger	11,200	11,200	
Hours of Labor Required per unit	1	2	
Total Hours of Labor Required	11,200	22,400	
Direct Labor Rate	<u>\$20</u>	<u>\$25</u>	
Cost of Direct Labor for Bigger	\$224,000	\$560,000	<u>\$784,000</u>
Total Direct Labor Costs	\$684,000	\$1,135,000	<u>\$1,819,000</u>

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Analytical skills

80) Describe operating and financial budgets and give at least two examples of each discussed in the textbook.

Answer: Operating budgets specify the expected outcomes of any selling, manufacturing, purchasing, labor management, R&D, marketing, distribution, customer service, and administrative activities during the planning period. Operations personnel use these plans to guide and coordinate activities during the planning period.

Examples of operating budgets include the revenues budget, production budget, direct materials costs budget, direct manufacturing labor costs budget, manufacturing overhead budget, and budgets for R&D, marketing, distribution, customer service, and administrative activities.

Financial budgets are used to evaluate the financial consequences of a proposed decision.

Examples of financial budgets include the capital expenditures budget, cash budget, budgeted balance sheet, and the budgeted statement of cash flows.

Diff: 2

Terms: operating budget, financial budget

Objective: 3

AACSB: Reflective thinking

81) Discuss the importance of the sales forecast and items that influence its accuracy.

Answer: All other budgets are based on information from the sales forecast.

The sales forecast is a challenge to predict because its accuracy depends on the ability to forecast the state of the general economy, changes in the industry, actions of the competition, and developments in technology. Each of these items affects individual products or product lines and are quantified and aggregated to obtain the sales forecast.

Diff: 2

Terms: operating budget

Objective: 3

AACSB: Reflective thinking

Objective 6.4

1) Financial planning models:

A) are not used in the budgeting process

B) are not useful for sensitivity analysis

C) are mathematical representations of the relationships affecting the budget process

D) are used for nonfinancial aspects of budgeting

Answer: C

Diff: 2

Terms: financial planning models

Objective: 4

AACSB: Reflective thinking

2) Financial planning software packages assist management with:

- A) assigning responsibility to various levels of management
- B) identifying the target customer
- C) sensitivity analysis in their planning and budgeting activities
- D) achieving greater commitment from lower management

Answer: C

Diff: 2

Terms: financial planning models

Objective: 4

AACSB: Use of Information Technology

3) _____ uses a "what-if" technique that examines how results will change if the originally predicted data changes.

- A) A sales forecast
- B) A sensitivity analysis
- C) A pro forma financial statement
- D) The statement of cash flows

Answer: B

Diff: 1

Terms: sensitivity analysis

Objective: 4

AACSB: Reflective thinking

4) When performing a sensitivity analysis, if the selling price per unit is increased, then the:

- A) per unit fixed administrative costs will increase
- B) per unit direct materials purchase price will increase
- C) total volume of sales will increase
- D) total costs for sales commissions and other nonmanufacturing variable costs will increase

Answer: D

Diff: 3

Terms: sensitivity analysis

Objective: 4

AACSB: Reflective thinking

5) Sensitivity analysis is useful for examining all of the following EXCEPT:

- A) changes in employee satisfaction
- B) changes in direct material cost
- C) changes in sales price
- D) changes in direct labor cost

Answer: A

Diff: 3

Terms: sensitivity analysis

Objective: 4

AACSB: Reflective thinking

Answer the following questions using the information below:

Kramer Enterprises reports year-end information from 2010 as follows:

Sales (160,000 units)	\$960,000
Cost of goods sold	<u>640,000</u>
Gross margin	320,000
Operating expenses	<u>260,000</u>
Operating income	<u>\$ 60,000</u>

Kramer is developing the 2011 budget. In 2011 the company would like to increase selling prices by 8%, and as a result expects a decrease in sales volume of 10%. All other operating expenses are expected to remain constant. Assume that COGS is a variable cost and that operating expenses are a fixed cost.

6) What is budgeted sales for 2011?

- A) \$1,036,800
- B) \$1,066,666
- C) \$933,120
- D) \$864,000

Answer: C

Explanation: C) $\$960,000 \times 1.08 \times 0.90 = \$933,120$

Diff: 3

Terms: sensitivity analysis

Objective: 4

AACSB: Analytical skills

7) What is budgeted cost of goods sold for 2011?

- A) \$622,080
- B) \$576,000
- C) \$691,200
- D) \$640,000

Answer: B

Explanation: B) $\$640,000 \times 0.90 = \$576,000$

Diff: 3

Terms: sensitivity analysis

Objective: 4

AACSB: Analytical skills

- 8) Should Kramer increase the selling price in 2011?
A) Yes, because operating income is increased for 2011.
B) Yes, because sales revenue is increased for 2011.
C) No, because sales volume decreases for 2011.
D) No, because gross margin decreases for 2011.

Answer: A

Explanation: A) $\$933,120 - \$576,000 - 260,000 = \$97,120$; Yes, because it would result in an increase in operating income compared to 2010.

Diff: 3

Terms: sensitivity analysis

Objective: 4

AACSB: Analytical skills

Answer the following questions using the information below:

Brent Enterprises reports the year-end information from 2011 as follows:

Sales (35,000 units)	\$280,000
Cost of goods sold	<u>105,000</u>
Gross margin	175,000
Operating expenses	<u>100,000</u>
Operating income	<u>\$ 75,000</u>

Brent is developing the 2012 budget. In 2012 the company would like to increase selling prices by 4%, and as a result expects a decrease in sales volume of 10%. All other operating expenses are expected to remain constant. Assume that COGS is a variable cost and that operating expenses are a fixed cost.

- 9) What is budgeted sales for 2012?
A) \$291,200
B) \$262,080
C) \$252,000
D) \$280,000

Answer: B

Explanation: B) $\$280,000 \times 1.04 \times 0.90 = \$262,080$

Diff: 3

Terms: sensitivity analysis

Objective: 4

AACSB: Analytical skills

10) What is budgeted cost of goods sold for 2012?

- A) \$94,500
- B) \$98,280
- C) \$109,200
- D) \$105,000

Answer: A

Explanation: A) $\$105,000 \times 0.90 = \$94,500$

Diff: 3

Terms: sensitivity analysis

Objective: 4

AACSB: Analytical skills

11) Should Brent increase the selling price in 2012?

- A) Yes, because sales revenue is increased for 2012.
- B) Yes, because operating income is increased for 2012.
- C) No, because sales volume decreases for 2012.
- D) No, because gross margin decreases for 2012.

Answer: D

Explanation: D) $\$262,080 - \$94,500 = \$167,580$ gross margin - $\$100,000 = \$67,580$ operating income. No, because there would be a decrease in gross margin and operating income compared to 2011.

Diff: 3

Terms: sensitivity analysis

Objective: 4

AACSB: Reflective thinking

12) If budgeted amounts change, sensitivity analysis can be used to examine changes in the budgeted results.

Answer: TRUE

Diff: 2

Terms: sensitivity analysis

Objective: 4

AACSB: Reflective thinking

13) Computer-based financial planning models are mathematical statements of the interrelationships among operating activities, financial activities, and other factors that affect the budget.

Answer: TRUE

Diff: 1

Terms: financial planning models

Objective: 4

AACSB: Use of Information Technology

14) Most computer-based financial planning models have difficulty incorporating sensitivity (what-if) analysis.

Answer: FALSE

Explanation: Computer-based financial planning models easily assist management with sensitivity (what-if) analysis.

Diff: 2

Terms: financial planning models, sensitivity analysis

Objective: 4

AACSB: Use of Information Technology

15) Sensitivity analysis is a "what-if" technique that examines how a result will change if the original prediction or assumptions change.

Answer: TRUE

Diff: 2

Terms: sensitivity analysis

Objective: 4

AACSB: Reflective thinking

16) If we increase the selling price of our product, we should probably expect an increase in the number of these products sold.

Answer: FALSE

Explanation: If we increase the selling price of our product, we should probably expect a decrease in the number of these products sold.

Diff: 2

Terms: sensitivity analysis

Objective: 4

AACSB: Analytical skills

17) If we decrease the selling price of our product, we can always expect a decrease in total revenue.

Answer: FALSE

Explanation: If we decrease the selling price of our product, we may experience either an increase in total revenue or a decrease in total revenue due to the uncertain effect of the price decrease on the quantity demanded.

Diff: 2

Terms: sensitivity analysis

Objective: 4

AACSB: Analytical skills

18) Explain what is meant by sensitivity analysis in budgeting, and discuss how managers might use sensitivity analysis in practice.

Answer: Sensitivity analysis is a "what-if" technique that examines how results will change if the original predicted data are not achieved or if an underlying assumption changes. Managers often use financial planning models, which are mathematical representations of relationships among the factors that influence the master budget.

It is possible, using these models, to examine the financial impact of one or more parameters that influence a master budget, for example selling price and material cost. Management could consider three levels of each of these two parameters, resulting in nine scenarios of different selling prices and material costs. The financial model could then present a master budget based on each of these changes, and demonstrate the financial impact on the original data given changes in selling prices and/or material costs. Management could use these predictions to make contingency plans, change their strategies, or simply update the budgets as environmental conditions change.

Diff: 2

Terms: sensitivity analysis

Objective: 4

AACSB: Reflective thinking

Objective 6.5

1) Responsibility accounting:

- A) is a system that measures the plans, budgets, actions, and actual results of a responsibility center
- B) is an arrangement of lines of responsibility within the organization
- C) explicitly incorporates continuous improvement anticipated during the budget period
- D) examines how a result will change if the original plan is not achieved

Answer: A

Diff: 2

Terms: responsibility accounting

Objective: 5

AACSB: Reflective thinking

2) Responsibility centers include all of the following EXCEPT:

- A) cost
- B) revenue
- C) customers
- D) investment

Answer: C

Diff: 2

Terms: responsibility center

Objective: 5

AACSB: Reflective thinking

3) Variances between actual and budgeted amounts can be used to:

- A) alert managers to potential problems and available opportunities
- B) inform managers about how well the company has implemented its strategies
- C) signal that company strategies are ineffective
- D) All of these answers are correct.

Answer: D

Diff: 2

Terms: responsibility accounting

Objective: 5

AACSB: Reflective thinking

4) A maintenance manager is most likely responsible for a(n):

- A) revenue center
- B) investment center
- C) cost center
- D) profit center

Answer: C

Diff: 1

Terms: cost center

Objective: 5

AACSB: Reflective thinking

5) The regional sales office manager of a national firm is most likely responsible for a(n):

- A) revenue center
- B) investment center
- C) cost center
- D) profit center

Answer: A

Diff: 1

Terms: revenue center

Objective: 5

AACSB: Multiculturalism and diversity

6) A regional manager of a restaurant chain in charge of finding additional locations for expansion is most likely responsible for a(n):

- A) revenue center
- B) investment center
- C) cost center
- D) profit center

Answer: B

Diff: 1

Terms: investment center

Objective: 5

AACSB: Analytical skills

7) The manager of a hobby store that is part of a chain of stores is most likely responsible for a(n):

- A) revenue center
- B) investment center
- C) cost center
- D) profit center

Answer: D

Diff: 1

Terms: profit center

Objective: 5

AACSB: Analytical skills

8) A manager of a revenue center is responsible for all of the following EXCEPT:

- A) service quality and units sold
- B) the acquisition cost of the product or service sold
- C) price, product mix, and promotional activities
- D) investments of excess cash

Answer: B

Diff: 2

Terms: revenue center

Objective: 5

AACSB: Reflective thinking

9) A manager of a profit center is responsible for all of the following EXCEPT:

- A) sales revenue
- B) the cost of merchandise purchased for resale
- C) expanding into new geographic areas
- D) selling and marketing costs

Answer: C

Diff: 2

Terms: profit center

Objective: 5

AACSB: Reflective thinking

10) A controllable cost is any cost that can be _____ by a responsibility center manager for a period of time.

- A) controlled
- B) influenced
- C) segregated
- D) excluded

Answer: B

Diff: 2

Terms: controllable cost

Objective: 5

AACSB: Reflective thinking

11) A responsibility accounting system could:

- A) exclude all uncontrollable costs
- B) exclude controllable costs
- C) segregate uncontrollable costs from controllable costs
- D) Both A and C are correct.

Answer: D

Diff: 2

Terms: responsibility accounting

Objective: 5

AACSB: Analytical skills

12) Which statement about controllability is NOT true:

- A) few costs are clearly under the sole influence of one manager
- B) holds managers responsible for uncontrollable costs
- C) with a long enough time span, all costs will come under somebody's control
- D) describes the degree of influence that managers have over a particular item

Answer: B

Diff: 2

Terms: controllable cost

Objective: 5

AACSB: Reflective thinking

13) Controllability may be difficult to pinpoint because of all the following EXCEPT:

- A) some costs depend on market conditions
- B) current managers may have inherited inefficiencies of a previous manager
- C) the current use of stretch or challenge targets
- D) few costs are under the sole influence of one manager

Answer: C

Diff: 2

Terms: controllable cost

Objective: 5

AACSB: Analytical skills

14) Responsibility accounting:

- A) emphasizes controllability
- B) focuses on whom should be asked about the information
- C) attempts to assign blame for problems to a specific manager
- D) All of these answers are correct.

Answer: B

Diff: 3

Terms: responsibility accounting

Objective: 5

AACSB: Reflective thinking

15) A primary consideration in assigning a cost to a responsibility center is:

- A) whether the cost is fixed or variable
- B) whether the cost is direct or indirect
- C) who can best control the change in that cost
- D) where in the organizational structure the cost was incurred

Answer: C

Diff: 3

Terms: responsibility center

Objective: 5

AACSB: Reflective thinking

16) A responsibility center is a part, segment, or subunit of an organization, whose manager is accountable for a specified set of activities.

Answer: TRUE

Diff: 1

Terms: responsibility center

Objective: 5

AACSB: Reflective thinking

17) Each manager, regardless of level, is in charge of a responsibility center.

Answer: TRUE

Diff: 2

Terms: responsibility center

Objective: 5

AACSB: Reflective thinking

18) In a cost center, a manager is responsible for investments, revenues, and costs.

Answer: FALSE

Explanation: In a cost center, a manager is responsible for costs, but not revenues or investments.

Diff: 1

Terms: cost center

Objective: 5

AACSB: Reflective thinking

19) A packaging department is most likely a profit center.

Answer: FALSE

Explanation: A packaging department is most likely a *cost* center.

Diff: 2

Terms: profit center

Objective: 5

AACSB: Analytical skills

20) Variances between actual and budgeted amounts inform management about performance relative to the budget.

Answer: TRUE

Diff: 1

Terms: responsibility accounting

Objective: 5

AACSB: Communication

21) An organization structure is an arrangement of lines of responsibility within the entity.

Answer: TRUE

Diff: 1

Terms: organization structure

Objective: 5

AACSB: Communication

22) A responsibility center can be structured to promote better alignment of individual and company goals.

Answer: TRUE

Diff: 2

Terms: responsibility center

Objective: 5

AACSB: Communication

23) Management will most likely behave the same way if a department is structured as a cost center or if the same department is structured as a profit center.

Answer: FALSE

Explanation: Management will most likely behave differently if a department is structured as a cost center than if the same department is structured as a profit center due to the incentives to control costs as well as revenues in a profit center.

Diff: 2

Terms: revenue center, profit center

Objective: 5

AACSB: Reflective thinking

24) Responsibility accounting focuses on control, NOT on information and knowledge.

Answer: FALSE

Explanation: Responsibility accounting focuses on information and knowledge, not on control.

Diff: 2

Terms: responsibility accounting

Objective: 5

AACSB: Communication

25) The fundamental purpose of responsibility accounting is to fix blame when budgets are NOT achieved.

Answer: FALSE

Explanation: The fundamental purpose of responsibility accounting is to *gather information* when budgets are not achieved.

Diff: 2

Terms: responsibility accounting

Objective: 5

AACSB: Communication

26) Distinguish between controllable and uncontrollable aspects of revenue and costs. Can a manager totally control all revenue and costs? Why or why not?

Answer: Although no revenue or cost can be totally controlled, a cost or revenue is a controllable item when a manager has significant influence over the amount of a cost or revenue. It is uncontrollable if this is not the case. A manager's ability to influence costs and revenues depends on two factors: (1) the manager's level of authority, and (2) the time period involved. Costs and revenue contracts, the economic costs of disposing of fixed assets, and the economy are three conditions that are likely to affect the period of time during which an item is not controllable.

Diff: 2

Terms: controllable cost

Objective: 5

AACSB: Reflective thinking

Objective 6.6

1) The Japanese use the term kaizen when referring to:

- A) scarce resources
- B) pro forma financial statements
- C) continuous improvement
- D) the sales forecast

Answer: C

Diff: 1

Terms: kaizen budgeting

Objective: 6

AACSB: Multiculturalism and diversity

2) Kaizen refers to incorporating cost reductions:

- A) in each successive budgeting period
- B) in each successive sales forecast
- C) in all customer service centers
- D) All of these answers are correct.

Answer: A

Diff: 2

Terms: kaizen budgeting

Objective: 6

AACSB: Multiculturalism and diversity

3) All of the following are encouraged with kaizen budgeting EXCEPT:

- A) better interactions with suppliers
- B) large discontinuous improvements
- C) cost reductions during manufacturing
- D) systematic monthly cost reductions

Answer: B

Diff: 3

Terms: kaizen budgeting

Objective: 6

AACSB: Multiculturalism and diversity

4) Kaizen budgeting involves:

- A) large cost reductions
- B) management directed improvements
- C) continual small cost reductions
- D) continual small revenue increases

Answer: C

Diff: 3

Terms: kaizen budgeting

Objective: 6

AACSB: Multiculturalism and diversity

5) Kaizen budgeting is driven by:

- A) management
- B) employees
- C) stockholders
- D) creditors

Answer: B

Diff: 3

Terms: kaizen budgeting

Objective: 6

AACSB: Multiculturalism and diversity

Answer the following questions using the information below:

Sherry and John Enterprises are using the kaizen approach to budgeting for 2011. The budgeted income statement for January 2011 is as follows:

Sales (168,000 units)	\$1,000,000
Less: Cost of goods sold	<u>600,000</u>
Gross margin	400,000
Operating expenses (includes \$50,000 of fixed costs)	<u>300,000</u>
Operating income	<u>\$ 100,000</u>

Under the kaizen approach, cost of goods sold and variable operating expenses are budgeted to decline by 1% per month.

6) What is budgeted cost of goods sold for March 2011?

- A) \$588,060
- B) \$592,000
- C) \$600,000
- D) \$594,000

Answer: A

Explanation: A) $\$600,000 \times 0.99 \times 0.99 = \588.060

Diff: 3

Terms: kaizen budgeting

Objective: 6

AACSB: Analytical skills

7) What is budgeted gross margin for March 2011?

- A) \$392,040
- B) \$396,000
- C) \$408,040
- D) \$411,940

Answer: D

Explanation: D) $\$1,000,000 - (\$600,000 \times .99 \times .99) = \$411,940$

Diff: 3

Terms: kaizen budgeting

Objective: 6

AACSB: Analytical skills

- 8) Building in budgetary slack includes:
- A) overestimating budgeted revenues
 - B) underestimating budgeted costs
 - C) making budgeted targets more easily achievable
 - D) All of these answers are correct.

Answer: C

Diff: 2

Terms: budgetary slack

Objective: 6

AACSB: Reflective thinking

- 9) To reduce budgetary slack management may:
- A) incorporate stretch or challenge targets
 - B) use external benchmark performance measures
 - C) award bonuses for achieving budgeted amounts
 - D) reduce projected cost targets by 10% across all areas

Answer: B

Diff: 3

Terms: budgetary slack

Objective: 6

AACSB: Analytical skills

- 10) A stretch budget is a budget that:
- A) crosses more than one responsibility center
 - B) represents a challenging, but achievable level of performance
 - C) is impossible to implement in a cost center
 - D) is designed to include the effects of exchange rate fluctuations

Answer: B

Diff: 2

Terms: responsibility accounting

Objective: 6

AACSB: Reflective thinking

- 11) Activity-based budgeting and kaizen budgeting are really equivalent in meaning.

Answer: FALSE

Explanation: Activity-based budgeting and kaizen budgeting are not equivalent in meaning.

Diff: 2

Terms: activity-based budgeting, kaizen budgeting

Objective: 6

AACSB: Reflective thinking

- 12) Kaizen budgeting incorporates continuous improvement into budgeted amounts.

Answer: TRUE

Diff: 1

Terms: sensitivity analysis, kaizen budgeting

Objective: 6

AACSB: Reflective thinking

13) Companies implementing kaizen budgeting believe that employees who actually do the job have the best knowledge of how the job can be done better.

Answer: TRUE

Diff: 1

Terms: kaizen budgeting

Objective: 6

AACSB: Reflective thinking

14) The Japanese use kaizen to mean financing alternatives.

Answer: FALSE

Explanation: The Japanese use kaizen to mean *continuous improvement*.

Diff: 1

Terms: kaizen budgeting

Objective: 6

AACSB: Multiculturalism and diversity

15) Kaizen budgeting does NOT make sense for cost centers.

Answer: FALSE

Explanation: Kaizen budgeting can be used in any type of responsibility center.

Diff: 2

Terms: kaizen budgeting

Objective: 6

AACSB: Multiculturalism and diversity

16) Kaizen budgeting encourages major improvements rather than small incremental changes.

Answer: FALSE

Explanation: Kaizen budgeting encourages small incremental changes rather than major improvements.

Diff: 1

Terms: kaizen budgeting

Objective: 6

AACSB: Multiculturalism and diversity

17) Kaizen budgeting allows for budgeting of small incremental increases in costs each budgeting period to allow for the effects of normal inflation.

Answer: FALSE

Explanation: Kaizen budgeting allows for budgeting of small incremental decreases in costs each budgeting period.

Diff: 2

Terms: kaizen budgeting

Objective: 6

AACSB: Multiculturalism and diversity

18) Human factors are crucial parts of budgeting.

Answer: TRUE

Diff: 2

Terms: responsibility accounting

Objective: 6

AACSB: Reflective thinking

19) Budgetary slack provides management with a hedge against planned adverse circumstances.

Answer: FALSE

Explanation: Budgetary slack provides management with a hedge against unexpected adverse circumstances.

Diff: 2

Terms: responsibility accounting

Objective: 6

AACSB: Communication

20) Most costs can be easily controlled because they are under the sole influence of one manager.

Answer: FALSE

Explanation: Few costs are clearly under the sole influence of one manager.

Diff: 3

Terms: controllable cost

Objective: 6

AACSB: Reflective thinking

21) Performance reports of responsibility centers may include uncontrollable items to influence behavior that is in alignment with corporate strategy.

Answer: TRUE

Diff: 2

Terms: controllable cost

Objective: 6

AACSB: Reflective thinking

22) When the operating budget is used as a control device, managers are less likely to be motivated to budget higher sales than actually anticipated.

Answer: TRUE

Diff: 3

Terms: operating budget, budgetary slack

Objective: 6

AACSB: Ethical reasoning

23) Budgeting slack is most likely to occur when a firm uses the budget only as a planning device and NOT for control.

Answer: FALSE

Explanation: Budgeting slack is most likely to occur when a firm uses the budget for *control*.

Diff: 3

Terms: controllable cost, budgetary slack

Objective: 6

AACSB: Reflective thinking

24) If a cost is considered controllable, it indicates that all aspects of the cost are under the control of the manager of the responsibility center to which that cost is assigned.

Answer: FALSE

Explanation: A controllable cost is any cost that is primarily subject to the *influence* of a given responsibility manager.

Diff: 2

Terms: controllable cost

Objective: 6

AACSB: Reflective thinking

25) To create greater commitment to the budget, lower-level managers should participate in creating the budget.

Answer: TRUE

Diff: 3

Terms: responsibility accounting

Objective: 6

AACSB: Ethical reasoning

26) Allscott Company is developing its budgets for 2012 and, for the first time, will use the kaizen approach. The initial 2012 income statement, based on static data from 2011, is as follows:

Sales (140,000 units)	\$420,000
Less: Cost of goods sold	<u>280,000</u>
Gross margin	140,000
Operating expenses (includes \$28,000 of depreciation)	<u>112,000</u>
Net income	<u>\$28,000</u>

Selling prices for 2012 are expected to increase by 8%, and sales volume in units will decrease by 10%. The cost of goods sold as estimated by the kaizen approach will decline by 10% per unit. Other than depreciation, all other operating costs are expected to decline by 5%.

Required:

Prepare a kaizen-based budgeted income statement for 20X5.

Answer: Sales (126,000 × \$3.24)	\$408,240
Less: COGS (126,000 × \$1.80)	<u>226,800</u>
Gross margin	181,440
Operating expenses (\$28,000 + \$79,800)	<u>107,800</u>
Net income	<u>\$ 73,640</u>

Diff: 2

Terms: kaizen budgeting, sensitivity analysis

Objective: 4, 6

AACSB: Analytical skills

27) Steve Corporation is using the kaizen approach to budgeting for 2011. The budgeted income statement for January 2011 is as follows:

Sales (240,000 units)	\$360,000
Less: Cost of goods sold	<u>240,000</u>
Gross margin	120,000
Operating expenses (includes \$32,000 of fixed costs)	<u>96,000</u>
Net income	<u>\$ 24,000</u>

Under the kaizen approach, cost of goods sold and variable operating expenses are budgeted to decline by 1% per month.

Required:

Prepare a kaizen-based budgeted income statement for March of 2011.

Answer: Sales	\$360,000
Less: Cost of goods sold ($\$240,000 \times 0.99 \times 0.99$)	<u>235,224</u>
Gross margin	124,776
Operating expenses [$(\$64,000 \times 0.99 \times 0.99) + \$32,000$]	<u>94,726</u>
Net income	<u>\$ 30,050</u>

Diff: 2

Terms: kaizen budgeting

Objective: 6

AACSB: Analytical skills

28) Describe the concept of kaizen budgeting.

Answer: Kaizen budgeting explicitly incorporates continuous improvement in cost reduction anticipated during the budget period. Much of the cost reduction arises from many small improvements rather than large one time improvements. Most of the improvements come from employee suggestions. Companies that employ kaizen budgeting create a culture where employee suggestions are valued, recognized, and rewarded.

Diff: 2

Terms: kaizen budgeting

Objective: 6

AACSB: Reflective thinking

29) Describe some of the drawbacks of using the operating budget as a control device.

Answer: When the operating budget is used as a control device it can lead to behavior that is actually detrimental to the organization.

The major problem with the budget performance report is not the report itself, but rather the way it is used. In general, managers are rewarded for favorable variances, and disciplined for unfavorable variances. This encourages managers to set lax standards for both sales and costs so favorable variances result. It can also lead to "budget games."

Another drawback is that once the budget is established, if there is any variance between budget and actual, it is assumed to be because of actual. However, as we know, the budget will never be totally accurate due to the uncertainties of predicting the future.

If used properly, however, the operating budget can be a tremendous benefit to any company.

Diff: 2

Terms: operating budget

Objective: 6

AACSB: Reflective thinking

30) What is budget slack? What are the pros and cons of building slack into the budget from the point of view of (a) an employee and (b) a senior manager?

Answer: Budget slack occurs when subordinates (a) ask for excess resources above and beyond what they need to accomplish budget objectives and (b) distort information by claiming they are not as efficient or effective at what they do, thus lowering management's performance expectations of them.

Employee's point of view: There are two benefits from this point of view. First, the subordinate may be able to obtain excess resources to achieve desired goals. This may take a lot of pressure off the subordinate and reduce job anxiety. Second, the subordinate may be able to convince senior management to lower their work expectations of him or her. This may also lead to lower pressure on the subordinate to perform. Both of these types of slack building are designed to reduce job stress for the subordinate. However, if incentives are graduated in such a way that achieving higher and higher goals provides the subordinate with more and more compensation in the form of bonuses, then the subordinate may lose income by selecting lower goals.

Senior management's point of view: When subordinates build in slack, they are either using unnecessary resources to achieve a goal that they should have been able to achieve with fewer resources, or they are understating their performance capabilities. Thus, the organization is either not running as efficiently as it can, or is losing potential productivity from employees who are not working as hard as they can. In some cases, senior management may believe that subordinates build in slack to relieve job pressure. If burnout of employees has been happening in the organization, then perhaps senior management may be more forgiving and view some slack building as necessary to keep their employees from quitting.

Diff: 2

Terms: budgetary slack

Objective: 6

AACSB: Reflective thinking

31) How is budgeting for a multinational corporation different than budgeting for a corporation that is strictly domestic?

Answer: Budgeting for a multinational corporation is made far more complex than budgeting for a domestic corporation because the multinational corporation often has subunits operating in many different countries, resulting in less familiar business environments and many different currencies.

Multinational corporations need to understand many different business environments with significant political, legal, and economic environments.

Multinational companies earn their revenues and incur their expenses in many different currencies, and must report their results a single currency. Additionally, management accountants in different countries need to budget for foreign exchange rates and anticipate changes that might take place during the year in the face of constantly fluctuating exchange rates.

Diff: 2

Terms: responsibility accounting

Objective: 6

AACSB: Reflective thinking

Objective 6.6

1) Multinational budgeting is more complex than budgeting in a domestic environment due to the possibility of:

- A) exchange rate fluctuations
- B) sophisticated techniques used by multinationals such as forward, future, and options contracts
- C) different political, legal, and economic environments faced by multinationals
- D) All of these answers are correct.

Answer: D

Diff: 2

Terms: responsibility accounting

Objective: 7

AACSB: Multiculturalism and diversity

2) Multinational budgeting is useful for everything EXCEPT:

- A) comparing actual to budget in volatile conditions
- B) helping managers learn and adapt to changing conditions
- C) determining the impact of currency fluctuations
- D) determining how well managers adapt to uncertain environments

Answer: A

Diff: 2

Terms: responsibility accounting

Objective: 7

AACSB: Multiculturalism and diversity

3) Budgeting for a multinational company is made more complex due to the possibility of exchange rate fluctuations.

Answer: TRUE

Diff: 2

Terms: responsibility accounting

Objective: 7

AACSB: Multiculturalism and diversity

4) The possibility of exchange rate fluctuations does NOT influence the budgeting procedures in a multinational corporation.

Answer: FALSE

Explanation: The possibility of exchange rate fluctuations influences the budgeting procedures in a multinational corporation.

Diff: 2

Terms: responsibility accounting

Objective: 7

AACSB: Multiculturalism and diversity

5) Because of the possibility of exchange rate fluctuations, managers of multinational corporations should ignore subjective factors in their performance evaluations.

Answer: FALSE

Explanation: The possibility of exchange rate fluctuations increases the importance of subjective factors in performance evaluations of multinational corporations.

Diff: 2

Terms: responsibility accounting

Objective: 7

AACSB: Multiculturalism and diversity

Objective 6.A

1) To prepare the cash budget, all of the following budgets are required EXCEPT:

A) capital expenditures budget

B) cost of goods sold budget

C) budgeted balance sheet

D) revenue budget

Answer: C

Diff: 2

Terms: cash budget

Objective: A

AACSB: Reflective thinking

2) Financial analysts use the projected cash flow statement to do all of the following EXCEPT:

A) plan for when excess cash is generated

B) plan for short-term cash investments

C) project cash shortages and plan a strategy to deal with the shortages

D) project depreciation expense

Answer: D

Diff: 2

Terms: cash budget

Objective: A

AACSB: Reflective thinking

3) The cash flow statement does NOT include:

- A) cash inflows from the collection of receivables
- B) cash outflows paid toward raw material purchases
- C) all sales revenues
- D) interest paid and received

Answer: C

Diff: 2

Terms: cash budget

Objective: A

AACSB: Reflective thinking

4) The cash budget is a schedule of expected cash receipts and disbursements that:

- A) requires an aging of accounts receivable and accounts payable
- B) is a self-liquidating cycle
- C) is prepared immediately after the sales forecast
- D) predicts the effect on the cash position at given levels of operations

Answer: D

Diff: 1

Terms: cash budget

Objective: A

AACSB: Reflective thinking

Answer the following questions using the information below:

The following information pertains to Hepburn Company:

<u>Month</u>	<u>Sales</u>	<u>Purchases</u>
January	\$60,000	\$32,000
February	\$80,000	\$40,000
March	\$100,000	\$56,000

- Cash is collected from customers in the following manner:
Month of sale 30%
Month following the sale 70%
- 40% of purchases are paid for in cash in the month of purchase, and the balance is paid the following month.
- Labor costs are 20% of sales. Other operating costs are \$30,000 per month (including \$8,000 of depreciation). Both of these are paid in the month incurred.
- The cash balance on March 1 is \$8,000. A minimum cash balance of \$6,000 is required at the end of the month. Money can be borrowed in multiples of \$1,000.

5) How much cash will be collected from customers in March?

- A) \$94,000
- B) \$86,000
- C) \$100,000
- D) None of these answers are correct.

Answer: B

Explanation: B) $(\$80,000 \times 70\%) + (\$100,000 \times 30\%) = \$86,000$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

6) How much cash will be paid to suppliers in March?

- A) \$46,400
- B) \$56,000
- C) \$88,000
- D) None of these answers are correct.

Answer: A

Explanation: A) $(\$40,000 \times 60\%) + (\$56,000 \times 40\%) = \$46,400$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

7) How much cash will be disbursed in total in March?

- A) \$42,000
- B) \$50,000
- C) \$88,400
- D) \$96,400

Answer: C

Explanation: C) $(\$40,000 \times 60\%) + (\$56,000 \times 40\%) + (\$100,000 \times 20\%) + (\$30,000 - \$8,000) = \$88,400$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

8) What is the ending cash balance for March?

- A) (\$50,000)
- B) \$6,000
- C) \$5,600
- D) \$6,600

Answer: D

Explanation: D) $\$8,000 + \$86,000 - \$88,400 + \$1,000 = \$6,600$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

Answer the following questions using the information below:

Monetary Company has the following sales budget for the last six months of 2011:

July	\$200,000	October	\$ 180,000
August	160,000	November	200,000
September	220,000	December	188,000

Historically, the cash collection of sales has been as follows:

65% of sales collected in the month of sale,

25% of sales collected in the month following the sale,

8% of sales collected in the second month following the sale, and

2% of sales are uncollectible.

9) Cash collections for September are:

- A) \$143,000
- B) \$173,400
- C) \$199,000
- D) \$204,000

Answer: C

Explanation: C) $(\$220,000 \times 0.65) + (\$160,000 \times 0.25) + (\$200,000 \times 0.08) = \$199,000$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

10) What is the ending balance of accounts receivable for September, assuming uncollectible balances are written off during the second month following the sale?

- A) \$199,000
- B) \$97,000
- C) \$89,800
- D) \$93,000

Answer: D

Explanation: D) $(\$220,000 \times 0.35) + (\$160,000 \times 0.10) = \$93,000$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

11) Cash collections for October are:

- A) \$117,000
- B) \$184,800
- C) \$199,000
- D) \$176,400

Answer: B

Explanation: B) $(\$180,000 \times 0.65) + (\$220,000 \times 0.25) + (\$160,000 \times 0.08) = \$184,800$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

Answer the following questions using the information below:

Bear Company has the following information:

<u>Month</u>	<u>Budgeted Purchases</u>
January	\$26,800
February	29,000
March	30,520
April	29,480
May	27,680

Purchases are paid for in the following manner:

- 10% of the purchase amount in the month of purchase
- 50% of the purchase amount in the month after purchase
- 40% of the purchase amount in the month after purchase

12) What is the expected balance in Accounts Payable as of March 31?

- A) \$39,068
- B) \$18,312
- C) \$2,900
- D) \$30,520

Answer: A

Explanation: A) $(\$30,520 \times 0.9) + (\$29,000 \times 0.4) = \$39,068$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

13) What is the expected balance in Accounts Payable as of April 30?

- A) \$26,532
- B) \$38,740
- C) \$12,208
- D) \$17,688

Answer: B

Explanation: B) $(\$29,480 \times 0.9) + (\$30,520 \times 0.4) = \$38,740$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

14) What is the expected Accounts Payable balance as of May 31?

- A) \$11,792
- B) \$24,912
- C) \$36,704
- D) \$2,948

Answer: C

Explanation: C) $(\$27,680 \times 0.9) + (\$29,480 \times 0.4) = \$36,704$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

Answer the following questions using the information below:

The following information pertains to the January operating budget for Casey Corporation.

- Budgeted sales for January \$100,000 and February \$200,000.
- Collections for sales are 60% in the month of sale and 40% the next month.
- Gross margin is 30% of sales.
- Administrative costs are \$10,000 each month
- Beginning accounts receivable is \$20,000.
- Beginning inventory is \$14,000.
- Beginning accounts payable is \$60,000. (All from inventory purchases.)
- Purchases are paid in full the following month.
- Desired ending inventory is 20% of next month's cost of goods sold (COGS).

15) For January, budgeted cash collections are:

- A) \$20,000
- B) \$60,000
- C) \$80,000
- D) None of these answers are correct.

Answer: C

Explanation: C) $\$20,000 + (\$100,000 \times 60\%) = \$80,000$

Diff: 3

Terms: cash budget

Objective: A

AACSB: Analytical skills

16) At the end of January, budgeted accounts receivable is:

- A) \$20,000
- B) \$40,000
- C) \$60,000
- D) None of these answers are correct.

Answer: B

Explanation: B) $\$100,000 \times 40\% = \$40,000$

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

17) For January, budgeted cost of goods sold is:

- A) \$20,000
- B) \$30,000
- C) \$40,000
- D) None of these answers are correct.

Answer: D

Explanation: D) $\$100,000 \times 70\% = \$70,000$

Diff: 3

Terms: cash budget

Objective: A

AACSB: Analytical skills

18) For January, budgeted net income is:

- A) \$20,000
- B) \$30,000
- C) \$40,000
- D) None of these answers are correct.

Answer: A

Explanation: A) $\$100,000 - \$70,000 - \$10,000 = \$20,000$

Diff: 3

Terms: cash budget

Objective: A

AACSB: Analytical skills

19) For January, budgeted cash payments for purchases are:

- A) \$14,000
- B) \$70,000
- C) \$60,000
- D) None of these answers are correct.

Answer: C

Explanation: C) Accounts payable, \$60,000 as stated

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

20) At the end of January, budgeted ending inventory is:

- A) \$20,000
- B) \$28,000
- C) \$40,000
- D) None of these answers are correct.

Answer: B

Explanation: B) $\$200,000 \times 70\% \times 20\% = \$28,000$

Diff: 3

Terms: cash budget

Objective: A

AACSB: Analytical skills

21) A key use of sensitivity analysis is for cash-flow budgeting.

Answer: TRUE

Diff: 1

Terms: sensitivity analysis, cash budget

Objective: A

AACSB: Analytical skills

22) The self-liquidating cycle is the movement from cash to inventories to receivables and back to cash.

Answer: TRUE

Diff: 1

Terms: cash budget

Objective: A

AACSB: Reflective thinking

23) Russell Company has the following projected account balances for June 30, 2011:

Accounts payable	\$80,000	Sales	\$1,600,000
Accounts receivable	200,000	Capital stock	800,000
Depreciation, factory	48,000	Retained earnings	?
Inventories (5/31 & 6/30)	360,000	Cash	112,000
Direct materials used	400,000	Equipment, net	480,000
Office salaries	160,000	Buildings, net	800,000
Insurance, factory	8,000	Utilities, factory	32,000
Plant wages	280,000	Selling expenses	120,000
Bonds payable	320,000	Maintenance, factory	56,000

Required:

- Prepare a budgeted income statement for June 2011
- Prepare a budgeted balance sheet as of June 30, 2011.

Answer:

- Russell Company
Budgeted Income Statement
For the Month of June 2011

Sales		\$1,600,000
Cost of goods sold:		
Materials used	\$400,000	
Wages	280,000	
Depreciation	48,000	
Insurance	8,000	
Maintenance	56,000	
Utilities	<u>32,000</u>	<u>824,000</u>
Gross profit		776,000
Operating expenses:		
Selling expenses	\$120,000	
Office salaries	<u>160,000</u>	<u>280,000</u>
Net income		<u>\$496,000</u>

b. Russell Company
Budgeted Balance Sheet
June 30, 2011

Assets:		Liabilities and Owners' Equity:	
Cash	\$ 112,000	Accounts payable	\$ 80,000
Accounts receivable	200,000	Bonds payable	320,000
Inventories	360,000	Capital stock	800,000
Equipment, net	480,000	Retained earnings*	<u>752,000</u>
Buildings, net	<u>800,000</u>		
Total	<u>\$1,952,000</u>	Total	<u>\$1,952,000</u>

*\$1,952,000 - (\$80,000 + \$320,000 + \$800,000) = \$752,000

Diff: 2

Terms: operating budget

Objective: 3, A

AACSB: Analytical skills

24) Duffy Corporation has prepared the following sales budget:

<u>Month</u>	<u>Cash Sales</u>	<u>Credit Sales</u>
May	\$16,000	\$68,000
June	20,000	80,000
July	18,000	74,000
August	24,000	92,000
September	22,000	76,000

Collections are 40% in the month of sale, 45% in the month following the sale, and 10% two months following the sale. The remaining 5% is expected to be uncollectible.

Required:

Prepare a schedule of cash collections for July through September.

Answer:

	<u>July</u>	<u>August</u>	<u>September</u>	<u>Total</u>
Cash sales	\$18,000	\$24,000	\$22,000	\$64,000

Collections of credit sales from:

Current month	29,600	36,800	30,400	96,800
Previous month	36,000	33,300	41,400	110,700
Two months ago	<u>6,800</u>	<u>8,000</u>	<u>7,400</u>	<u>22,200</u>
Total collections	<u>\$90,400</u>	<u>\$102,100</u>	<u>\$101,200</u>	<u>\$293,700</u>

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills

25) The following information pertains to Amigo Corporation:

<u>Month</u>	<u>Sales</u>	<u>Purchases</u>
July	\$30,000	\$10,000
August	34,000	12,000
September	38,000	14,000
October	42,000	16,000
November	48,000	18,000
December	60,000	20,000

- Cash is collected from customers in the following manner:
 - Month of sale (2% cash discount) 30%
 - Month following sale 50%
 - Two months following sale 15%
 - Amount uncollectible 5%
- 40% of purchases are paid for in cash in the month of purchase, and the balance is paid the following month.

Required:

- a. Prepare a summary of cash collections for the 4th quarter.
- b. Prepare a summary of cash disbursements for the 4th quarter.

Answer:

- a. Cash collections Oct \$36,448 + Nov \$40,812 + Dec \$47,940 = \$125,200

	<u>October</u>	<u>November</u>	<u>December</u>
August	\$ 5,100		
September	19,000	5,700	
October	12,348	21,000	6,300
November		14,112	24,000
December			17,640
	-----	-----	-----
	<u>\$36,448</u>	<u>\$40,812</u>	<u>\$47,940</u>

- b. Cash disbursements Oct \$14,800 + Nov \$16,800 + Dec \$18,800 = \$50,400

	<u>October</u>	<u>November</u>	<u>December</u>
September	8,400		
October	6,400	9,600	
November		7,200	10,800
December			8,000
	-----	-----	-----
	<u>\$14,800</u>	<u>\$16,800</u>	<u>\$18,800</u>

Diff: 2

Terms: cash budget

Objective: A

AACSB: Analytical skills