

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 1) Budgeting is helpful to plan for cash inflows and outflows. 1) _____
- 2) A budget is a qualitative expression of a plan that helps managers coordinate and implement the plan. 2) _____
- 3) Budgets provide benchmarks that help managers evaluate performance. 3) _____
- 4) The master budget communicates a variable set of plans throughout the company. 4) _____
- 5) One of the key benefits of budgeting is that it forces managers to plan. 5) _____
- 6) The capital expenditures budget is part of the operating budget. 6) _____
- 7) The master budget is the set of budgeted financial statements and supporting schedules for the entire organization. 7) _____
- 8) The master budget only includes the sales budget, the capital expenditures budget, and the financial budget. 8) _____
- 9) Management uses budgeting to express its plans and to assess how well it's reaching its goals. 9) _____
- 10) Strategic planning only involves setting short-term goals that extend a year into the future. 10) _____
- 11) A zero-based budget is a budget that is continuously updated so that the next 12 months of operations are always budgeted. 11) _____
- 12) A rolling budget is a budget that is continuously updated so that the next 12 months of operations are always budgeted. 12) _____
- 13) In participative budgeting, top management determines the budget. 13) _____
- 14) The operating budgets project the collection and payment of cash, as well as forecast the company's budgeted balance sheet. 14) _____
- 15) Managers are motivated when obtaining budgeted targets are nearly impossible to achieve. 15) _____
- 16) Company strategies lead to detailed plans, which in turn lead to actions. 16) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 17) Budgets are used for all of the following EXCEPT 17) _____
A) planning for the future. B) recording actual results.
C) controlling operations. D) directing operations.
- 18) Strategic planning involves 18) _____
A) setting long-term goals that extend 5-10 years into the future.
B) executing directives from the board of directors.
C) setting short-term goals that extend one year into the future.
D) setting goals for next month.
- 19) A rolling budget is a budget that 19) _____
A) begins with zero for each expense, and then amounts are added in.
B) is rolled out by upper management.
C) extends 5-10 years into the future.
D) is continuously updated, so that the next 12 months of operations are always budgeted.
- 20) When developing the budgets each year, most companies use 20) _____
A) a top-down approach. B) zero-based budgets.
C) slack-based budgets. D) participative budgeting.
- 21) Which of the following is seen as an advantage of participative budgeting? 21) _____
A) Managers build slack into the budget
B) The budget is created centrally
C) Managers are more likely to accept a budget they helped create
D) The budget process becomes complex and time consuming
- 22) Which of the following is a potential disadvantage of participative budgeting? 22) _____
A) Managers are more likely to be motivated by budgets they helped to create.
B) Managers may build slack into the budget.
C) It requires less time than the top down approach.
D) Managers should have more detailed knowledge for creating realistic budgets.
- 23) Managers may intentionally build slack into the budget 23) _____
A) to have the resources they need in the event of budget cuts.
B) because it makes the overall budget more realistic.
C) to make their performance look worse.
D) because of certainty about the future.

- 24) Managers may intentionally build slack into the budget 24) _____
A) to make their performance look better.
B) because of uncertainty about the future.
C) to have the resources they need in the event of budget cuts.
D) because of all of the above.
- 25) The budget committee 25) _____
A) usually is made up of the accounting staff.
B) rarely has the final say on the budget.
C) usually is made up of the Board of Directors.
D) usually is made up of managers from all areas of the value chain.
- 26) The budget committee does all of the following EXCEPT 26) _____
A) removes unwarranted slack.
B) approves the final budget.
C) determines the bonuses awarded to those who achieve budget targets.
D) reviews submitted budgets.
- 27) Which of the following is the starting place for budgeting? 27) _____
A) Last year's budget
B) Zero
C) Last year's actual amounts
D) Any of the above
- 28) Which of the following is an advantage of zero-based budgeting? 28) _____
A) It is time consuming.
B) It requires less examination of current expenditures.
C) It is labour intensive.
D) It forces managers to justify every dollar put in the budget, so some expenses may be lower than they were in previous years.
- 29) Which of the following budgets is part of the financial budgets? 29) _____
A) Cash budget
B) Sales budget
C) Direct materials budget
D) Operating expense budget
- 30) Which of the following budgets is part of the financial budgets? 30) _____
A) Budgeted income statement
B) Manufacturing overhead budget
C) Direct labour budget
D) Capital expenditure budget
- 31) Which of the following budgets is part of the financial budgets? 31) _____
A) Budgeted balance sheet
B) Budgeted income statement
C) Production budget
D) Sales budget

- 32) Which of the following budgets is part of the operating budgets? 32) _____
A) Capital expenditure budget B) Cash budget
C) Production budget D) Budgeted balance sheet
- 33) Which of the following alternatives reflects the proper order of preparing components of the master budget? 33) _____
1. Production budget
2. Sales budget
3. Direct materials budget
A) 1, 3, 2 B) 3, 1, 2 C) 2, 1, 3 D) 2, 3, 1
- 34) Which of the following is an advantage of the budgeting process? 34) _____
A) Guarantees that a profit will be achieved
B) Assures that the lowest cost materials will be obtained
C) Coordinates the activities of the organization
D) Assures the company will achieve its objectives
- 35) Which of the following statements regarding the budgeting process is TRUE? 35) _____
A) The budget should always be designed by top corporate management.
B) The budget should be approved by the company's external auditors.
C) The budget should be designed from the bottom up, with input from employees at all levels.
D) All of the listed statements are true regarding the budgeting process.
- 36) Which of the following is a benefit of budgeting? 36) _____
A) Focuses management's attention on the future
B) Improved motivation by employees
C) Improved decision-making processes
D) All of the above
- 37) Which of the following statements about budgeting is NOT true? 37) _____
A) Budgeting is an aid to planning and control.
B) Budgets promote communication and coordination between departments.
C) The operating budget should be prepared by top management, rather than mid-management personnel, because they have the overall objectives of the company in mind.
D) Budgets help to coordinate the activities of the entire organization.
- 38) Which of the following alternatives reflects the proper order of preparing components of the master budget? 38) _____
1. Financial budget
2. Operating budget
3. Capital expenditures budget
A) 1, 2, 3 B) 2, 3, 1 C) 3, 1, 2 D) 1, 3, 2

- 39) The _____ budget is a major part of the master budget and results with the income statement and its supporting schedules. 39) _____
 A) capital expenditures B) operating
 C) financial D) cash
- 40) The _____ budget is the cornerstone of the master budget. 40) _____
 A) sales B) cash
 C) budgeted balance sheet D) operating expense
- 41) Which term below best describes "sets the targeted revenue and expenses for the period"? 41) _____
 A) Operating budget B) Responsibility centre
 C) Capital budget D) Sensitivity analysis
- 42) Which term below best describes "the comprehensive budget"? 42) _____
 A) Sensitivity analysis B) Responsibility centre
 C) Master budget D) Operating budget
- 43) The master budget embraces the impact of 43) _____
 A) operating and financing decisions.
 B) financing and managerial decisions.
 C) the differences between the budget and the actual costs, for a given cycle.
 D) operating and managerial decisions.
- 44) A limitation of comparing a company's performance against actual results of last year is that 44) _____
 A) past results can contain inefficiencies of the past year.
 B) it includes adjustments for future conditions.
 C) the benchmark may be unrealistic.
 D) feedback is no longer a possibility.
- 45) Stretch goals in budgeting tend to 45) _____
 A) decrease line-management participation in attaining corporate goals.
 B) improve communication and coordination.
 C) increase anxiety without motivation.
 D) motivate improved performance beyond the status quo.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 46) Coiffure Inc. owns a chain of hair stylist shops. Management expected to serve 20,000 customers at an average fee of \$125. Variable expenses were budgeted to be 60% of sales revenue, and total fixed expense was budgeted to be \$150,000. The actual results for the year showed 18 customers were served at an average fee of \$150. The actual variable expenses percentage 70% of sales revenue and the total fixed expenses were as budgeted. 46) _____

Management has asked you to prepare a performance report for the year.

- 47) Coiffure Inc. owns a chain of hair stylist shops. Management expected to serve 30,000 customers at an average fee of \$115. Variable expenses were budgeted to be 60% of sales revenue, and total fixed expense was budgeted to be \$150,000. The actual results for the year showed 28 customers were served at an average fee of \$125. The actual variable expenses percentage 50% of sales revenue and the total fixed expenses were as budgeted. 47) _____

Management has asked you to prepare a performance report for the year.

- 48) Coiffure Inc. owns a chain of hair stylist shops. Management expected to serve 25,000 customers at an average fee of \$200. Variable expenses were budgeted to be 60% of sales revenue, and total fixed expense was budgeted to be \$150,000. The actual results for the year showed 28 customers were served at an average fee of \$165. The actual variable expenses percentage 60% of sales revenue and the total fixed expenses were \$180,000. 48) _____

Management has asked you to prepare a performance report for the year.

- 49) Coiffure Inc. owns a chain of hair stylist shops. Management expected to serve 20,000 customers at an average fee of \$200. Variable expenses were budgeted to be 60% of sales revenue, and total fixed expense was budgeted to be \$150,000. The actual results for the year showed 30 customers were served at an average fee of \$150. The actual variable expenses percentage 65% of sales revenue and the total fixed expenses were \$180,000. 49) _____

Management has asked you to prepare a performance report for the year.

- 50) Biker Billy is a motorcycle dealership. Management expected to sell 1,000 bikes at an average sale price of \$30,000. Variable expenses were budgeted to be 80% of sales revenue, and the fixed expense was budgeted to be \$2,500,000. The actual results for the year showed 800 bikes sold at an average price of \$32,000. The actual variable expenses percentage was 75% of sales revenue and the total fixed expenses were \$2,500,000. 50) _____

Management has asked you to prepare a performance report for the year.

- 51) Biker Billy is a motorcycle dealership. Management expected to sell 800 bikes at an average price of \$30,000. Variable expenses were budgeted to be 75% of sales revenue, and the total fixed expense was budgeted to be \$2,500,000. The actual results for the year showed 1,000 bikes sold at an average price of \$26,000. The actual variable expenses percentage was 80% of sales revenue and the total fixed expenses were \$2,500,000. 51) _____

Management has asked you to prepare a performance report for the year.

- 52) Biker Billy is a motorcycle dealership. Management expected to sell 800 bikes at an average price of \$20,000. Variable expenses were budgeted to be 85% of sales revenue, and the total fixed expense was budgeted to be \$2,500,000. The actual results for the year showed 1,000 bikes sold at an average price of \$16,000. The actual variable expenses percentage was 80% of sales revenue and the total fixed expenses were \$2,750,000. 52) _____

Management has asked you to prepare a performance report for the year.

- 53) Biker Billy is a motorcycle dealership. Management expected to sell 800 bikes at an average price of \$15,000. Variable expenses were budgeted to be 80% of sales revenue, and the total fixed expense was budgeted to be \$2,000,000. The actual results for the year showed 1,000 sold at an average price of \$14,000. The actual variable expenses percentage was 85% of sales revenue and the total fixed expenses were \$2,100,000. 53) _____

Management has asked you to prepare a performance report for the year.

- 54) Caan Corporation used the following data to evaluate their current operating system. The company sells items for \$20 each and used a budgeted selling price of \$20 per unit. 54) _____

	<u>Actual</u>	<u>Budgeted</u>
Units sold	200,000 units	203,000 units
Variable costs	\$1,250,000	\$1,500,000
Fixed costs	\$ 925,000	\$ 900,000

Required:

Prepare a performance report using an income statement in contribution margin format. Use the following three column headings: Actual Results, Budget, Variance.

- 55) Saan Corporation used the following data to evaluate their current operating system. The company sells items for \$19 each and used a budgeted selling price of \$19 per unit. 55) _____

	<u>Actual</u>	<u>Budgeted</u>
Units sold	180,000 units	195,000 units
Variable costs	\$1,260,000	\$1,560,000
Fixed costs	\$ 875,000	\$ 925,000

Required:

Prepare a performance report using an income statement in contribution margin format. Use the following three column headings: Actual Results, Budget, Variance.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 56) List and describe three reasons why a company and its managers could benefit from the use of budgeting.

- 57) Winnie and Pooh 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 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.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 58) Identify the order in which a manufacturer would prepare the following budgets. Note whether each budget is an operating budget or a financial budget. 58) _____

Budget	Order	Operating or Financial
Budget Income Statement		
Combined cash budget		
Sales Budget		
Budget Balance Sheet		
Cash Payments Budget		
Direct Materials Budget		
Production Budget		

MATCHING. Choose the item in column 2 that best matches each item in column 1.

Match the following:

- | | | |
|--|----------------------|-----------|
| 59) a budget that is continuously updated by adding months to the end of the budgeting period. | A) Zero Based Budget | 59) _____ |
| | B) Rolling Budget | |
| 60) the comprehensive planning document for the entire organization | C) Master Budget | 60) _____ |
| | D) Strategic Plan | |
| 61) a budget built from "the ground up" | | 61) _____ |
| 62) Long-term goals that may extend several years into the future | | 62) _____ |

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- | | |
|---|-----------|
| 63) The first component of the operating budget is the production budget. | 63) _____ |
| 64) The first component of the operating budget is the sales budget. | 64) _____ |
| 65) The sales budget is the starting place for budgeting | 65) _____ |
| 66) The three components of the operating budget are the sales budget; inventory, purchases and cost of goods sold budget; and the cash budget. | 66) _____ |
| 67) The sales budget must be prepared before any other component of the operating budget. | 67) _____ |
| 68) Budgeting includes planning for ending inventory. | 68) _____ |

- 69) The operating expense budget is the starting point of the master budget. 69) _____
- 70) When creating the monthly sales budget, management simply takes the sales from the year before and divides that total by 12 months. 70) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 71) On the production budget, the number of units to be produced is computed as 71) _____
A) unit sales + desired end inventory + beginning inventory.
B) unit sales - desired end inventory - beginning inventory.
C) unit sales + desired end inventory - beginning inventory.
D) unit sales - desired end inventory + beginning inventory.
- 72) On the direct materials budget, the total quantity of direct materials needed is computed as 72) _____
A) quantity needed for production + desired end inventory of DM - beginning inventory of DM.
B) units to be produced + desired end inventory of DM - beginning inventory of DM.
C) quantity needed for production - desired end inventory of DM + beginning inventory of DM.
D) units to be produced - desired end inventory of DM + beginning inventory of DM.
- 73) Which of the following budgets is the only one stated only in units, not dollars? 73) _____
A) Direct materials budget B) Manufacturing overhead budget
C) Production budget D) Sales budget
- 74) Which of the following budgets begins with the number of units to be sold? 74) _____
A) Production budget B) Direct materials budget
C) Capital expenditures budget D) Manufacturing overhead budget
- 75) Which of the following budgets usually shows separate sections for fixed and variable costs? 75) _____
A) Production budget and manufacturing overhead budget
B) Operating expense budget and manufacturing overhead budget
C) Direct materials and manufacturing overhead budget
D) Manufacturing overhead budget and production budget
- 76) Which of the following budgets or financial statements is part of the operating budget? 76) _____
A) Budgeted balance sheet B) Cash budget
C) Sales budget D) Capital expenditures budget
- 77) A plan that shows the units to be sold and the projected selling price and is also the starting point in the budgeting process, is called the 77) _____
A) budgeted statement of cash flows. B) budgeted income statement.
C) cash budget. D) sales budget.

- 78) Desired ending inventory is 80% of beginning inventory. If cost of goods sold is \$300,000, which of the following statements is TRUE regarding purchases? 78) _____
- A) Purchases will be less than cost of goods sold.
 - B) Purchases will equal cost of goods sold.
 - C) Purchases will be 80% of cost of goods sold.
 - D) Purchases will be more than cost of goods sold.
- 79) Desired ending inventory is 25% more than beginning inventory. If purchases total \$160,000, which of the following statements is TRUE regarding cost of goods sold (COGS)? 79) _____
- A) COGS will equal \$55,000.
 - B) COGS will exceed purchases.
 - C) COGS will exceed cost of goods available for sale.
 - D) COGS will be less than purchases.
- 80) Good Doggie Treatz Company expects to sell 5,000 gourmet dog biscuits in January and 9,000 in February for \$2 each. What will be the total sales revenue reflected in the sales budget for those months? 80) _____
- A) January \$10,000; February \$18,000
 - B) January \$18,000; February \$10,000
 - C) January \$4,500; February \$2,500
 - D) January \$2,500; February \$4,500
- 81) Stiller Company expects cash sales for July of \$15,000, and a 20% monthly increase during August and September. Credit sales of \$10,000 in July should be followed by 25% increases during August and September. What are budgeted cash sales and budgeted credit sales for September respectively? 81) _____
- A) \$23,438 and \$14,400
 - B) \$18,000 and \$12,500
 - C) \$21,600 and \$15,625
 - D) \$18,750 and \$12,000
- 82) Beedie Company has two products: Beedlez and Bugz. A March sales forecast projects 20,000 units of Beedlez and 15,000 units of Bugz are going to be sold at prices of \$10 and \$12, respectively. The desired ending inventory of Beedlez is 20% higher than the beginning inventory, which was 2,000 units. How much are total March sales for Beedlez anticipated to be? 82) _____
- A) \$100,000
 - B) \$200,000
 - C) \$240,000
 - D) \$180,000
- 83) Rong Company expects cash sales for July of \$15,000, and a 20% monthly increase during August and September. Credit sales of \$6,000 in July should be followed by 10% decreases during August and September. What are budgeted cash sales and budgeted credit sales for September? 83) _____
- A) \$13,500 and \$7,200
 - B) \$21,600 and \$4,860
 - C) \$12,150 and \$8,640
 - D) \$18,000 and \$5,400
- 84) Clark Company has beginning inventory of 16,000 units and expected sales of 23,000 units. If the desired ending inventory is 18,000 units, how many units should be produced? 84) _____
- A) 25,000
 - B) 11,000
 - C) 57,000
 - D) 21,500

- 85) Artwell Company wants to have an ending inventory of 7,000 units. Artwell Company has beginning inventory of 8,000 units and expects to sell 33,000 units. How many units should Artwell Company produce? 85) _____
 A) 48,000 B) 34,000 C) 32,000 D) 40,000
- 86) Lawrence Corporation desires a December 31 ending inventory of 900 units. Budgeted sales for December are 2,650 units. The November 30 inventory was 750 units. What are budgeted purchases in units? 86) _____
 A) 3,550 B) 2,500 C) 2,800 D) 4,300
- 87) Benson Stores wants to have 500 flashlights in ending inventory on December 31. Budgeted sales for December are 1,950 flashlights. The November 30 inventory was 300 flashlights. How many flashlights should Benson Stores purchase for December? 87) _____
 A) 2,150 B) 2,450 C) 2,750 D) 1,750
- 88) Bright Lights Company produces and sells a lantern for \$20 each. The beginning inventory is 2,000 lanterns, and the desired ending inventory is 2,200 lanterns. If budgeted production is 12,500 lanterns, what is the forecasted sales revenue from the lanterns? 88) _____
 A) \$246,000 B) \$334,000 C) \$166,000 D) \$254,000
- 89) MedSupplies Company has budgeted purchases of inventory for December of \$140,000. Expected beginning inventory on December 1 and ending inventory on December 31 are \$90,000 and \$120,000, respectively. If cost of goods sold averages 80% of sales, what are budgeted sales for December? 89) _____
 A) \$88,000 B) \$437,500 C) \$137,500 D) \$212,500
- 90) Lacy's Department Store has budgeted cost of goods sold of \$42,000 for its men's suits in March. Management also wants to have \$7,500 of men's suits in inventory at the end of March to prepare for the summer season. Beginning inventory of men's suits for March is expected to be \$5,500. What dollar amount of men's suits should be purchased in March? 90) _____
 A) \$55,000 B) \$44,000 C) \$40,000 D) \$29,000
- 91) Stuart Corporation recorded sales of \$200,000 during March. Management expects sales to increase 5% in April, another 4% in May, and another 10% in June. Cost of goods sold is expected to be 80% of sales. What is the budgeted gross profit for June? 91) _____
 A) \$45,427 B) \$48,048 C) \$43,680 D) \$240,240
- 92) Horvath Corporation had beginning inventory of 22,000 units and expects sales of 76,500 units during the year. Desired ending inventory is 19,500 units. How many units should Horvath Corporation produce? 92) _____
 A) 118,000 units B) 74,000 units C) 35,000 units D) 79,000 units
- 93) Kayla's Toys budgeted sales of \$300,000 for the month of November and cost of goods sold equal to 70% of sales. Beginning inventory for November was \$50,000 and ending inventory for November is estimated at \$55,000. How much are the budgeted purchases for November? 93) _____
 A) \$215,000 B) \$105,000 C) \$205,000 D) \$95,000

Use the information below to answer the following question(s).

Peabody Enterprises prepared the following sales budget:

Month	Budgeted Sales
March	\$6,000
April	\$13,000
May	\$12,000
June	\$14,000

The expected gross profit rate is 40% and the inventory at the end of February was \$10,000. Desired inventory levels at the end of each month are 20% of the next month's cost of goods sold.

- 94) What is the desired beginning inventory on June 1 at Peabody Enterprises? 94) _____
 A) \$8,400 B) \$1,120 C) \$1,440 D) \$1,680
- 95) What is the desired ending inventory on May 31 at Peabody Enterprises? 95) _____
 A) \$8,400 B) \$1,680 C) \$1,120 D) \$1,440
- 96) What is the budgeted cost of goods sold for May at Peabody Enterprises? 96) _____
 A) \$4,800 B) \$3,600 C) \$2,400 D) \$7,200
- 97) What are the total purchases budgeted for April at Peabody Enterprises? 97) _____
 A) \$7,920 B) \$9,360 C) \$7,680 D) \$7,440
- 98) What are the total purchases budgeted for May at Peabody Enterprises? 98) _____
 A) \$6,960 B) \$7,680 C) \$7,440 D) \$8,640
- 99) A tire store purchased \$3,800 of tires in September. The store had \$1,500 of tires on hand at the beginning of September, and expected to have \$1,300 of tires at the end of September to cover part of anticipated October sales. What is the budgeted cost of goods sold for September? 99) _____
 A) \$6,600 B) \$3,600 C) \$4,000 D) \$5,300

Use the information below to answer the following question(s).

Bigelow Company budgets payroll at \$4,000 per month plus a percentage of monthly sales. The June operating expense budget includes total payroll of \$12,000 with budgeted sales of \$160,000. Sales for July are budgeted at \$180,000 while purchases of inventory for July are budgeted at \$95,000. Depreciation and insurance for July are estimated at \$1,000 and \$600, respectively. Office and administrative expenses related to purchasing inventory are budgeted at 10% of purchases for the month. The purchase of \$2,000 of equipment and \$1,500 in furniture is expected in July.

- 100) The July payroll at Bigelow Company should be budgeted at 100) _____
 A) \$13,000. B) \$12,000. C) \$22,000. D) \$14,000.
- 101) The total operating expenses at Bigelow Company budgeted for July are 101) _____
 A) \$13,600. B) \$24,100. C) \$13,000. D) \$22,500.

- 102) If the Bigelow Company percentage of monthly sales used in budgeting payroll increases by 20%, what would the total payroll budgeted for July be? 102) _____
- A) \$14,800 B) \$18,500 C) \$10,800 D) \$13,000

- 103) At the beginning of the year, Outdoor Living Corporation has 500 umbrellas in inventory. The company plans to sell 5,200 umbrellas during the year and wants to have 1,200 umbrellas in inventory at the end of the year. How many umbrellas must Outdoor Living Corporation produce during the year? 103) _____
- A) 6,900 B) 6,400 C) 3,500 D) 5,900

- 104) Toyz Company produces scooters. Toyz Company has the following sales projections for the upcoming year: 104) _____

First quarter budgeted scooter sales in units	20,000
Second quarter budgeted scooter sales in units	35,000
Third quarter budgeted scooter sales in units	22,000
Fourth quarter budgeted scooter sales in units	30,000

Inventory at the beginning of the year was 4,000 scooters. Toyz Company wants to have 20% of the quarter's sales in units on hand at the end of each quarter. How many scooters should Toyz Company produce during the first quarter?

- A) 20,000 B) 23,000 C) 31,000 D) 16,000
- 105) Tucker Company manufactures dog beds. The following selected data relates to Tucker Company's budgeted sales and inventory levels of the dog beds for the upcoming quarter: 105) _____

October expected unit sales	2,000
November expected unit sales	2,700
December expected unit sales	2,200
October desired ending unit finished goods inventory	850
November desired ending unit finished goods inventory	720
December desired ending unit finished goods inventory	520

How many dog beds should Tucker Company produce in November?

- A) 3,420 B) 2,850 C) 4,270 D) 2,570

- 106) Stillwater Corporation manufactures outdoor planters. Budgeted sales and production data for the planters are as follows:

106) _____

Month 1 budgeted unit sales	2,000
Month 2 budgeted unit sales	2,500
Month 3 budgeted unit sales	3,200
Month 1 budgeted unit production	2,400
Month 2 budgeted unit production	2,700
Month 3 budgeted unit production	3,500
Raw material required for each finished unit (in pounds)	1

The ending inventory for each month should be equal to 20% of the next month's production needs. Each planter requires one pound of clay in its manufacture. Stillwater Corporation has a policy that inventory of clay at the end of each month needs to be equal to 20% of the production needs for the following month. At the beginning of January, 480 pounds of clay were in inventory. How many pounds of clay would Stillwater Corporation need to purchase in Month 2?

- A) 2,860 B) 3,640 C) 2,840 D) 2,660

- 107) Kiddie Toys Company manufactures and sells children's wagons. Each wagon requires four wheels. For September, Kiddie Toys Company has budgeted wagon sales of 530 wagons, while 570 wagons are scheduled to be produced. Kiddie Toys Company will begin September with 200 wheels in its beginning inventory. How many wheels should Kiddie Toys Company purchase for September?

107) _____

- A) 2,080 B) 330 C) 2,280 D) 2,480

- 108) The Teddy Bear Company manufactures stuffed bears. The number of bears to be produced in the upcoming three months follows:

108) _____

Number of teddy bears to be produced in July	12,000
Number of teddy bears to be produced in August	15,000
Number of teddy bears to be produced in September	10,000

Each bear requires 2 pounds of the plastic pellets used as stuffing. The company has a policy that the ending inventory of plastic pellets each month must be equal to 20% of the following month's expected production needs. How many pounds of plastic pellets does The Teddy Bear Company need to purchase in August?

- A) 28,000 B) 40,000 C) 20,000 D) 24,000

- 109) Brawny Corporation manufactures benches. Each bench requires .50 direct labour hours in its production. Brawny Corporation has a direct labour rate of \$15 per direct labour hour. The production budget shows that Brawny Corporation plans to produce 1,000 benches in March and 1,200 benches in April. What is the total combined direct labour cost that should be budgeted for March and April?

109) _____

- A) \$16,500 B) \$33,000 C) \$7,500 D) \$9,000

Use the information below to answer the following question(s).

Fair Score Company manufactures scoreboards for athletic events. It expects to sell 20,000 scoreboards in 2015. The company has enough beginning inventory of direct materials to produce 8,000 units. Beginning work-in-process inventory totals 2,000 units and is 100 percent complete as to material and 50 percent complete as to labour and overhead. Beginning finished units total 4,000 with a target ending finished inventory of 3,000 units. The scoreboards sell for \$800. There is no ending work-in-process inventory. Direct materials costs for each scoreboard total \$200 while direct labour is \$80. Manufacturing overhead is \$60 per scoreboard.

- 110) What will be Fair Score Company's budgeted total sales for 2015? 110) _____
 A) \$17,600,000 B) \$18,400,000 C) \$16,000,000 D) \$15,200,000
- 111) How many scoreboards should Fair Score Company produce in 2015? 111) _____
 A) 21,000 B) 23,000 C) 20,000 D) 19,000
- 112) What will be Fair Score Company's budgeted total cost of direct materials used in 2015? 112) _____
 A) \$3,800,000 B) \$3,400,000 C) \$3,600,000 D) \$3,200,000
- 113) What will be the Fair Score Company budgeted amount of cost of goods sold? 113) _____
 A) \$6,120,000 B) \$8,160,000 C) \$6,800,000 D) \$6,460,000

Use the information below to answer the following question(s).

Layne Cedar manufactures cedar chests. The estimated number of chests for the first three months of 2016 is as follows:

Month	Sales
January	10,000
February	14,000
March	13,000

Finished goods inventory at the end of December is 3,000 units. Ending finished goods are equal to 30 percent of next month's April 2016 sales are expected to total 16,000 units.

- 114) What should be the budgeted number of chests produced in January 2016? 114) _____
 A) 11,200 chests B) 14,200 chests C) 14,700 chests D) 8,800 chests
- 115) How many chests should be budgeted to be produced in the first quarter of 2016? 115) _____
 A) 48,400 chests B) 37,000 chests C) 38,800 chests D) 41,800 chests

Use the information below to answer the following question(s).

Furniture Inc. estimates the following number of mattress sales for the first four months of 2016:

Month	Sales
January	5,000
February	7,000
March	6,500
April	8,000

Finished goods inventory at the end of December 2015 is 1,500 units. Target ending finished goods inventory is 30% of the next month's sales.

- 116) How many mattresses need to be produced in January 2016? 116) _____
- A) 6,500 mattresses B) 5,600 mattresses
C) 4,400 mattresses D) 7,100 mattresses
- 117) How many mattresses need to be produced in the first quarter (January, February, March) of 2016? 117) _____
- A) 20,900 mattresses B) 18,500 mattresses
C) 19,400 mattresses D) 22,400 mattresses

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

Use the information below to answer the following questions:

Piper Pasta produces pasta. Piper has a policy that its ending inventory of pasta should be 20% of the next month's expected sales. At March 31, Piper has 120 batches of prepared pasta in finished goods inventory.

The pasta that Piper produces uses a special organic flour which costs \$2.40 per kilogram. Each batch of pasta that Piper makes requires 5 kilograms of flour. At March 31 Piper had 900 kilograms of flour in inventory and has a policy that ending raw material inventory should always be 30% of the next month's need.

Each batch of pasta requires 3 direct labour hours at a cost of \$ 32.00. Manufacturing overhead is applied at the rate of \$25.00 per direct labour hour.

The demand schedule for the next four months is as follows:

Month	Budgeted Demand (Batches)
April	600
May	750
June	800
July	700
August	600

- 118) Prepare a production budget for the second quarter by month and for the quarter in total to determine the number of batches Piper will need to produce 118) _____

119) Prepare a Direct Materials Budget for the second quarter by month and for the quarter in total to determine the amount of flour Piper will need to purchase each month and the total cost of the flour. 119) _____

120) Prepare a Direct Labour Budget for the second quarter by month and for the quarter in total. 120) _____

121) Prepare a Manufacturing Overhead Budget for the second quarter by month and for the quarter in total. 121) _____

122) Golfing Enterprises produces golf clubs. Golfing Enterprises has the following sales projections for the upcoming year: 122) _____

First quarter budgeted golf club sales in units	20,000
Second quarter budgeted golf club sales in units	35,000
Third quarter budgeted golf club sales in units	22,000
Fourth quarter budgeted golf club sales in units	30,000

Inventory at the beginning of the year was 4,000 golf clubs. Golfing Enterprises wants to have 20% of the next quarter's sales in units on hand at the end of each quarter. How many golf clubs should Golfing Enterprises produce during the first quarter? Show your calculations.

123) Grass Cutters Manufacturing produces lawn mowers. On March 31, Grass Cutters Manufacturing had 120 lawn mowers in inventory. The company has a policy that the ending inventory in any month must be 10% of the following month's expected sales. Grass Cutters Manufacturing expects to sell the following number of lawn mowers in each of the next four months: 123) _____

April	1,200 lawn mowers
May	2,450 lawn mowers
June	1,700 lawn mowers
July	1,200 lawn mowers

Required:

Prepare a production budget for the second quarter, with a column for each month and for the quarter.

124) Woodlawn Company has prepared the following forecasts of monthly sales: 124) _____

	January	February	March	April
Sales (in units)	3,200	4,790	3,700	3,210

Woodlawn Company has decided that the number of units in its inventory at the end of each month should equal 80% of next month's sales. The budgeted cost per unit is \$10.

How many units should be in January's beginning inventory?

- 125) The Dover Company is in the process of preparing its manufacturing overhead budget for upcoming year. Sales are projected to be 80,000 units. Information about the various manufacturing overhead costs follows: 125) _____

	Variable rate per unit	Total fixed costs
Indirect materials	\$2.00	
Supplies	\$1.60	
Indirect labour	\$1.00	\$120,000
Plant utilities	\$0.20	\$60,000
Repairs and maintenance	\$0.80	\$24,000
Depreciation on plant and equipment		\$96,000
Insurance on plant and equipment.		\$40,000
Plant supervision		\$130,000

Required:

Prepare the manufacturing overhead budget for the Dover Company for the upcoming year.

- 126) The Dover Company is in the process of preparing its manufacturing overhead budget for upcoming year. Sales are projected to be 50,000 units. Information about the various manufacturing overhead costs follows: 126) _____

	Variable rate per unit	Total fixed costs
Indirect materials	\$1.20	
Supplies	\$0.95	
Indirect labour	\$0.60	\$95,000
Plant utilities	\$0.10	\$35,000
Repairs and maintenance	\$0.50	\$15,000
Depreciation on plant and equipment		\$60,000
Insurance on plant and equipment		\$24,000
Plant supervision		\$80,000

Required:

Prepare the manufacturing overhead budget for the Dover Company for the upcoming year.

- 127) The Simcoe Company is in the process of preparing its manufacturing overhead budget for the upcoming year. Sales are projected to be 40,000 units. Information about the various manufacturing overhead costs follows: 127) _____

	Variable rate per unit	Total fixed costs
Indirect materials	\$2.40	
Supplies	\$1.90	
Indirect labour	\$1.20	\$190,000
Plant utilities	\$0.20	\$70,000
Repairs and maintenance	\$1.00	\$30,000
Depreciation on plant and equipment		\$120,000
Insurance on plant and equipment		\$48,000
Plant supervision		\$160,000

Required:

Prepare the manufacturing overhead budget for the Simcoe Company for the upcoming year.

- 128) The Simcoe Company is in the process of preparing its manufacturing overhead budget for the upcoming year. Sales are projected to be 90,000 units. Information about the various manufacturing overhead costs follows: 128) _____

	Variable rate per unit	Total fixed costs
Indirect materials	\$1.25	
Supplies	\$1.00	
Indirect labour	\$0.75	\$350,000
Plant utilities	\$0.30	\$125,000
Repairs and maintenance	\$1.50	\$50,000
Depreciation on plant and equipment		\$200,000
Insurance on plant and equipment		\$75,000
Plant supervision		\$300,000

Required:

Prepare the manufacturing overhead budget for the Simcoe Company for the upcoming year.

129) Budget Corporation has the following budgeted sales for the next six-month period:

129) _____

<u>Month</u>	<u>Unit Sales</u>
September	60,000
October	80,000
November	140,000
December	100,000
January	120,000
February	80,000

There were 30,000 units of finished goods in inventory at the beginning of September. Plan to have an inventory of finished products that equal 20 percent of the unit sales for the next month.

Five kilograms of materials are required for each unit produced. Each kilogram of material costs \$10. Inventory levels for materials are equal to 30 percent of the needs for the next month. Materials inventory on September 1 was 10,000 kilograms.

Required:

- Prepare production budgets in units for October, November, and December.
- Prepare a purchases budget in kilograms for October, November, and December, and give total purchases in both kilograms and dollars for each month.

130) Gerdie Company has the following information:

130) _____

<u>Month</u>	<u>Budgeted Sales</u>
March	\$50,000
April	53,000
May	51,000
June	54,500
July	52,500

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

Required:

Prepare a purchases budget for April through June.

131) The Doran Company prepared the following revenue budget:

131) _____

Month	Budgeted Sales
March	\$250,000
April	265,000
May	255,000
June	272,500
July	262,500

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

Required:

Prepare a purchases budget for April through June.

Use the information below to answer the following questions:

Neighbourhood Preschool operates a not-for-profit preschool that operates nine months of the year. Neighbourhood Preschool has 30 children enrolled in its four-day program (with tuition of \$ 500 /month per child) and 40 children enrolled in its five-day program (with tuition of \$600/month per child)

Neighbourhood Preschool's primary expense is payroll. Teachers are paid a flat salary each of the nine months as follows: Teachers of four-day program \$ 2,400 per month and Teachers of five-day program, \$ 3,250 per month. Additionally, the preschool director is paid for 12 months at a rate of \$ 3,600 per month

Neighbourhood Preschool has three four-day program teachers, five five-day program teachers, and one director.

In addition to the salary expense, Neighbourhood Preschool must pay CPP, EI, and Workers' Compensation of 12% of salary expense.

Neighbourhood Preschool leases its facilities from a local church, paying \$2,200 per month for nine months per year. Fixed operating expenses (telephone, internet access, bookkeeping services, and so forth) amount to \$1290 per month for the full year. Variable monthly expenses (over the nine-month school year) for art supplies and snacks are \$40 per child.

132) Prepare Neighbourhood's annual operating expense budget.

132) _____

133) Prepare Neighbourhood's Budget Income Statement.

133) _____

134) Neighbourhood is a non-profit. What should it do with its operating income (if any)?

134) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

135) List the operating budgets. Describe the purpose of each of the budgets listed and the order in which they are prepared. Describe how the budgets are interrelated.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

136) A company's plan for purchases of property, plant, equipment, and other long-term assets is part of the budgeted balance sheet.

136) _____

137) The budgeted cash collections from credit customers generally only reflects sales made in the current month.

137) _____

138) The cash budget is prepared after the operating budget.

138) _____

- 139) The cash budget is prepared after the budgeted balance sheet is prepared. 139) _____
- 140) The cash budget helps managers determine whether or not the company will need financing in a given month. 140) _____
- 141) The Budget Balance Sheet is classified as an operating budget. 141) _____
- 142) Sensitivity analysis is a what-if technique that asks what a result will be if a predicted amount is not achieved or if an underlying assumption changes. 142) _____
- 143) The cash budget helps avoid unnecessary idle cash and at the same time maintain minimum cash balances. 143) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 144) Which of the following would be shown on an operating budget? 144) _____
 A) Cash dividends and bad debt expense
 B) Bad debt expense and depreciation expense
 C) Cash dividends and direct material purchases
 D) Cash dividends and depreciation expense
- 145) Which of the following would not be included on a combined cash budget? 145) _____
 A) Direct material purchases
 B) Depreciation expense
 C) Capital asset purchases
 D) Cash dividends paid out
- 146) Which of the following types of cash outlays has its own budget? 146) _____
 A) Dividends
 B) Depreciation
 C) Income taxes
 D) Capital expenditures
- 147) Which description listed below best defines "financial budget"? 147) _____
 A) A company's plan for purchases of property, plant and equipment, and other long-term assets
 B) A budget that projects cash inflows and outflows and the end of period budgeted balance sheet
 C) A system for evaluating the performance of each responsibility centre and its manager
 D) A budget that shows projected sales, purchases and operating expenses

- 148) Which description listed below best defines "capital expenditures budget"? 148) _____
- A) Details as to how the company expects to go from the beginning cash balance to the desired ending cash balance
 - B) A company's plan for purchases of property, plant and equipment, and other long-term assets
 - C) A budget that projects cash inflows and outflows and the end of period budgeted balance sheet
 - D) A system for evaluating the performance of each responsibility centre and its manager
- 149) What is the technique called that asks what a result will be if a predicted amount is not achieved or if an underlying assumption changes? 149) _____
- A) Strategic analysis
 - B) Risk analysis
 - C) Sensitivity analysis
 - D) Ratio analysis
- 150) Which description listed below best defines "cash budget"? 150) _____
- A) A system for evaluating the performance of each responsibility centre and its manager
 - B) Details as to how the company expects to go from the beginning cash balance to the desired ending cash balance
 - C) A budget that projects cash inflows and outflows and the end of period budgeted balance sheet
 - D) A company's plan for purchases of property, plant and equipment, and other long-term assets
- 151) The _____ budgets project cash inflows and outflows and the budgeted balance sheet. 151) _____
- A) purchases
 - B) financial
 - C) capital expenditures
 - D) cash
- 152) Which of the following is an example of a financial budget? 152) _____
- A) Operating expenses budget
 - B) Budgeted income statement
 - C) Budgeted balance sheet
 - D) Sales budget
- 153) The preparation of which of the following is the final step in the preparation of the financial budget? 153) _____
- A) Operating budgets
 - B) Cash budget
 - C) Master budget
 - D) Budgeted balance sheet
- 154) Warehouse Corporation collects 30% of a month's sales in the month of sale, 65% in the month following sale, and 5% in the second month following sale. Budgeted sales for the upcoming four months are: 154) _____

April budgeted sales	\$100,000
May budgeted sales	\$150,000
June budgeted sales	\$230,000
July budgeted sales	\$180,000

The amount of cash that will be collected in July is budgeted to be

- A) \$54,000.
- B) \$203,500.
- C) \$171,500.
- D) \$211,000.

- 155) Latimer Corporation collects 35% of a month's sales in the month of sale, 50% in the month following sale, and 10% in the second month following sale. The company has found that 5% of their sales are uncollectible. Budgeted sales for the upcoming four months are:

155) _____

August budgeted sales	\$300,000
September budgeted sales	\$280,000
October budgeted sales	\$330,000
November budgeted sales	\$260,000

The amount of cash that will be collected in November is budgeted to be

- A) \$284,000. B) \$289,000. C) \$91,000. D) \$285,500.

- 156) Newton Company is preparing its cash budget for the upcoming month. The beginning cash balance for the month is expected to be \$12,000. Budgeted cash receipts are \$84,000, while budgeted cash disbursements are \$72,000. Newton Company wants to have an ending cash balance of \$40,000. The excess (deficiency) of cash available over disbursements for the month would be

156) _____

- A) \$112,000. B) \$168,000. C) \$(24,000). D) \$24,000.

- 157) Webber Company is preparing its cash budget for the upcoming month. The budgeted beginning cash balance is expected to be \$30,000. Budgeted cash receipts are \$101,000, while budgeted cash disbursements are \$123,000. Webber Company wants to have an ending cash balance of \$45,000. How much would Webber Company need to borrow to achieve its desired ending cash balance?

157) _____

- A) \$8,000 B) \$37,000 C) \$53,000 D) \$23,000

- 158) SuperOffice Company expects its November sales to be 20% higher than its October sales of \$180,000. Purchases were \$110,000 in October and are expected to be \$160,000 in November. All sales are on credit and are collected as follows: 30% in the month of the sale and 60% in the following month. Purchases are paid 40% in the month of purchase and 60% in the following month. The cash balance on November 1 is \$13,500. The cash balance on November 30 will be

158) _____

- A) \$56,300. B) \$29,300. C) \$2,300. D) \$42,800.

- 159) June sales were \$5,000 while projected sales for July and August were \$6,500 and \$7,000, respectively. Sales are 30% cash and 70% credit. All credit sales are collected in the month following the sale. What are the expected collections for July?

159) _____

- A) \$6,050 B) \$5,450 C) \$6,850 D) \$7,550

- 160) Purchases for May were \$60,000, while expected purchases for June and July are \$75,000 and \$92,000, respectively. All purchases are paid 30% in the month of purchase and 70% the following month. At what amount are June payments for purchases budgeted?

160) _____

- A) \$92,100 B) \$70,500 C) \$86,900 D) \$64,500

- 161) McCloud Company has budgeted the following credit sales during the last four months of the year: September, \$16,000; October, \$22,000; November \$21,000; December, \$24,000. Experience has shown that payment for the credit sales is received as follows: 15% in the month of sale, 60% in the first month after sale, 20% in the second month after sale, and 5% uncollectible. How much cash can McCloud Company expect to collect in November as a result of credit sales? 161) _____
- A) \$19,550 B) \$16,400 C) \$16,350 D) \$19,800
- 162) Busch Enterprises has budgeted sales for the months of September and October at \$120,000 and \$150,000, respectively. Monthly sales are 60% credit and 40% cash. Of the credit sales, 25% are collected in the month of sale and 75% are collected in the following month. What are the October cash collections from customers? 162) _____
- A) \$82,500 B) \$136,500 C) \$76,500 D) \$162,000
- 163) Thomario's Powder Coatings makes payments on its inventory purchases as follows: 25% in the month of purchase, 60% in the following month, and 15% in the second month following purchase. Budgeted inventory purchases for June, July, and August are \$15,000, \$19,000 and \$24,000, respectively. At what amount are cash payments for inventory in August budgeted? 163) _____
- A) \$8,700 B) \$7,650 C) \$18,750 D) \$19,650

Use the information below to answer the following question(s).

Blaney Lumber's forecasted sales for April; May; June; and July are \$200,000; \$230,000; \$190,000; and \$240,000; respectively. Sales are 60% cash and 40% credit with all accounts receivables collected in the month following the sale. Cost of goods sold is 75% of sales. Ending inventory is maintained at \$60,000 plus 10% of the following month's cost of goods sold. All inventory purchases are paid in the month of purchase and 80% in the following month.

- 164) What Blaney Lumber's cash collections budgeted for June? 164) _____
- A) \$206,000 B) \$194,400 C) \$114,000 D) \$172,000
- 165) What are Blaney Lumber's budgeted cash payments in June for inventory purchases? 165) _____
- A) \$315,750 B) \$168,150 C) \$495,000 D) \$164,850
- 166) What is the balance of accounts payable on the Blaney Lumber's June 30 budgeted balance sheet? 166) _____
- A) \$111,000 B) \$29,250 C) \$146,250 D) \$117,000

Use the information below to answer the following question(s).

Three Sisters Catering prepared the following sales budget:

Month	Cash Sales	Credit Sales
March	\$20,000	\$10,000
April	\$36,000	\$16,000
May	\$42,000	\$40,000
June	\$54,000	\$48,000

Credit collections are 35% in the month of sale, 55% in the month following the sale, and 10% two months following the sale. The remaining 5% is expected to be uncollectible.

- 167) What are the total cash collections in May at Three Sisters Catering? 167) _____
 A) \$21,800 B) \$65,800 C) \$76,400 D) \$66,200
- 168) What are the total cash collections in June at Three Sisters Catering? 168) _____
 A) \$96,900 B) \$94,400 C) \$38,000 D) \$85,600
- 169) What is the total cash received in April from April sales at Three Sisters Catering? 169) _____
 A) \$3,000 B) \$39,000 C) \$4,800 D) \$41,600

Use the information below to answer the following question(s).

Samson Company prepared the following purchases budget:

Month	Budgeted Purchases
June	\$35,600
July	\$42,500
August	\$39,600
September	\$45,800
October	\$49,400

All purchases are paid for as follows: 20% in the month of purchase, 60% in the following month, and 20% two months after purchase.

- 170) What are the Samson Company cash disbursements in August for June purchases? 170) _____
 A) \$7,120 B) \$21,360 C) \$35,600 D) \$27,480
- 171) What are the Samson Company cash disbursements in October for September purchases? 171) _____
 A) \$9,160 B) \$9,120 C) \$7,120 D) \$27,480
- 172) What are the Samson Company total cash disbursements in August for the purchase of merchandise? 172) _____
 A) \$7,920 B) \$45,280 C) \$40,540 D) \$33,420

- 173) What are the Samson Company total cash disbursements in October for the purchase of merchandise? 173) _____
 A) \$45,280 B) \$9,880 C) \$27,480 D) \$37,360
- 174) Atwood Lake Boats has budgeted sales for June and July at \$420,000 and \$480,000, respectively. Sales are 80% credit, of which 40% is collected in the month of sale and 60% is collected in the following month. What is the accounts receivable balance on July 31? 174) _____
 A) \$384,000 B) \$230,400 C) \$288,000 D) \$201,600

Use the information below to answer the following question(s).

The following information pertains to Hepburn Company:

Month	Sales	Purchases
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.

Labour costs are 20% of sales. Other operating costs are \$30,000 per month (including \$8,000 of depreciation). Both of these are incurred 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.

- 175) How much cash will be collected from customers in March? 175) _____
 A) \$86,000 B) \$92,000 C) \$90,000 D) \$66,000
- 176) How much cash will be paid to suppliers in March? 176) _____
 A) \$49,600 B) \$56,000 C) \$46,400 D) \$35,200
- 177) How much cash will be disbursed in total in March? 177) _____
 A) \$88,400 B) \$68,400 C) \$91,600 D) \$96,400
- 178) What is the ending cash balance for March after borrowing, if required? 178) _____
 A) \$5,600 B) \$6,400 C) \$6,000 D) \$6,600

Use the information below to answer the following question(s).

The following information pertains to Tiffany Company:

Month	Sales	Purchases
January	\$30,000	\$16,000
February	\$40,000	\$20,000
March	\$50,000	\$28,000

Cash is collected from customers in the following manner:

- Month of sale 25%
- Month following the sale 70%
- Two months after the sale 5%

20% of purchases are paid for in cash in the month of purchase, and the balance is paid the following month.

Labour costs are 30% of sales. Other operating costs are \$15,000 per month (including \$4,000 of depreciation). Both of these are incurred in the month incurred. The cash balance on March 1 is \$4,000. A minimum cash balance of \$3,000 is required at the end of the month. Money can be borrowed in multiples of \$1,000.

- 179) How much cash will be collected from customers in March? 179) _____
A) \$45,000 B) \$42,000 C) \$50,000 D) \$33,000
- 180) How much cash will be paid to suppliers in March? 180) _____
A) \$17,600 B) \$23,200 C) \$21,600 D) \$28,000
- 181) How much cash will be disbursed in total in March? 181) _____
A) \$44,200 B) \$47,600 C) \$45,800 D) \$34,200
- 182) How much will Tiffany need to borrow in March? 182) _____
A) \$0 B) \$5,000 C) \$4,000 D) \$1,000

Use the information below to answer the following questions:

The following information pertains to Tiffany Company:

Month	Sales	Purchases
April	\$45,000	\$18,000
May	\$50,000	\$20,000
June	\$55,000	\$22,000

Cash is collected from customers in the following manner:

- Month of sale 25%
- Month following the sale 70%
- Uncollectible 5%

10% of purchases are paid for in cash in the month of purchase, and the balance is paid the following month.

Labour costs are 35% of sales. Other operating costs are \$16,000 per month (including \$4,000 of depreciation). Both of these are incurred in the month incurred. The cash balance on June 1 is \$6,000. A minimum cash balance of \$3,000 is required at the end of the month. Money can be borrowed in multiples of \$1,000.

- 183) How much cash will be collected from customers in June? 183) _____
 A) \$48,750 B) \$45,000 C) \$55,000 D) \$50,000
- 184) How much cash will be paid out to suppliers in June? 184) _____
 A) \$20,000 B) \$22,000 C) \$20,200 D) \$42,000
- 185) How much cash will be disbursed in total in June? 185) _____
 A) \$51,450 B) \$31,250 C) \$45,500 D) \$20,200
- 186) How much cash will Tiffany need to borrow in June? 186) _____
 A) \$5,000 B) \$3,000 C) \$0 D) \$4,000

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 187) Bauer Corporation anticipates the following sales revenue over a five month period: 187) _____

	November	December	January	February	March
Sales revenue	\$20,000	\$22,000	\$26,000	\$18,000	\$20,000

Bauer Corporation's sales are 40% cash and 60% credit. The Bauer Corporation's collection history indicates that credit sales are collected as follows:

Month of sale	20%
Month after sale	50%
Two months after sale	25%
Uncollectible	5%

Required:

Prepare a cash collections budget for each month in the quarter (January, February, and March) and for the quarter in total.

- 188) FirstState Manufacturing is preparing its cash payments budget for the coming month. The following information pertains to the cash payments: 188) _____
- FirstState Manufacturing pays for 60% of its direct materials purchases in the month of purchase and the remainder the following month. Last month's direct material purchases were \$40,000, while FirstState Manufacturing anticipates \$45,000 of direct material purchases this coming month.
 - Direct labour for the upcoming month is budgeted to be \$25,000 and will be paid at the end of the upcoming month.
 - Overhead is estimated to be 150% of direct labour cost each month and is paid in the month in which it is incurred. This monthly estimate includes \$8,000 of depreciation on the equipment.
 - Monthly operating expenses for next month are expected to be \$27,500, which includes \$1,500 of depreciation on office equipment and \$2,000 of bad debt expense. These monthly operating expenses are paid during the month in which they are incurred.
 - FirstState Manufacturing will be making an estimated tax payment of \$6,000 next month.

Required:

Prepare a cash payments budget for the month.

- 189) The Elliot Corporation sells hammocks. On June 30, there were 70 hammocks in ending inventory and accounts receivable had a balance of \$12,000. Sales of hammocks (in units) have been budgeted at the following levels for the upcoming months: 189) _____

Accounts receivable, June 30	\$12,000
Number of hammocks budgeted to be sold in July	350
Number of hammocks budgeted to be sold in August	420
Number of hammocks budgeted to be sold in September	370
Number of hammocks budgeted to be sold in October	300

The company has a policy that the ending inventory of hammocks should be equal to 20% the number of hammocks to be sold in the following month. The Outdoor Leisure Store sells the hammocks for \$100 each. The company's collection history shows that 40% of the sales each month are paid for by customers in the month of sale, while the remainder is collected in the following month.

Required:

- Prepare a merchandise purchases budget showing how many hammocks should be purchased in each of the months including July, August, and September.
- Prepare a cash collections budget for each of the months including July, August, and September.

- 190) Lisbon Company's budgeted data for the upcoming year showed total projected assets of \$2,551,000 and total projected liabilities of \$1,624,000. The balance of common stock for the year is projected to remain stable at \$500,000. The shareholders' equity section of the balance sheet is made up of common stock and retained earnings. No cash dividends will be paid during the year. Lisbon Company is budgeting net income for the year of \$317,000 190) _____

Prepare a budgeted balance sheet for end of the year. What was the balance of retained earnings at the beginning of the year?

- 191) Lisbon Company's budgeted data for the upcoming year showed total projected assets of \$2,643,000 and total projected liabilities of \$1,597,000. The balance of common stock for the year is projected to remain stable at \$750,000. The shareholders' equity section of the balance sheet is made up of common stock and retained earnings. No cash dividends will be paid during the year. Lisbon Company is budgeting net income for the year of \$317,000. 191) _____

Prepare a budgeted balance sheet for end of the year. What was the balance of retained earnings at the beginning of the year?

- 192) Lisbon Company's budgeted data for the upcoming year showed total projected assets of \$2,551,000 and total projected liabilities of \$1,624,000. The balance of common stock for the year is projected to remain stable at \$500,000. The shareholders' equity section of the balance sheet is made up of common stock and retained earnings. Cash dividends of \$31,000 were paid during the year. Lisbon Company is budgeting net income for the year of \$317,000. 192) _____

Prepare a budgeted balance sheet for end of the year. What was the balance of retained earnings at the beginning of the year?

- 193) Lisbon Company's budgeted data for the upcoming year showed total projected assets of \$2,643,000 and total projected liabilities of \$1,597,000. The balance of common stock for the year is projected to remain stable at \$750,000. The shareholders' equity section of the balance sheet is made up of common stock and retained earnings. Cash dividends of \$32,000 were paid during the year. Lisbon Company is budgeting net income for the year of \$317,000. 193) _____

Prepare a budgeted balance sheet for end of the year. What was the balance of retained earnings at the beginning of the year?

- 194) Grandma's Touch Specialty Foods produces a specialty flavoured coffee that is sold to hot chains by the case for \$100 per case. For the upcoming quarter, Fairly Good Foods is projecting the following sales: 194) _____

	January	February	March
Cases of coffee	10,000	9,000	11,500

The budgeted cost of manufacturing each case is \$45. Operating expenses are projected to be \$110,000 in January, \$105,000 in February, and \$125,000 in March. Fairly Good Foods is subject to a corporate tax rate of 30%.

Required:

Prepare a budgeted income statement for the first quarter, with a column for each month and a column for the quarter.

- 195) Grandma's Touch Specialty Foods produces a specialty flavoured coffee that is sold to hot chains by the case for \$75 per case. For the upcoming quarter, Fairly Good Foods is project the following sales:

195) _____

	January	February	March
Cases of coffee	12,000	10,000	13,500

The budgeted cost of manufacturing each case is \$50. Operating expenses are projected to \$120,000 in January, \$125,000 in February, and \$145,000 in March. Fairly Good Foods is su to a corporate tax rate of 30%.

Required:

Prepare a budgeted income statement for the first quarter, with a column for each month a for the quarter.

- 196) Grandma's Touch Specialty Foods produces a specialty flavoured coffee that is sold to hot chains by the case for \$50 per case. For the upcoming quarter, Fairly Good Foods is project the following sales:

196) _____

	January	February	March
Cases of coffee	6,000	5,000	7,000

The budgeted cost of manufacturing each case is \$20. Operating expenses are projected to \$45,000 in January, \$50,000 in February, and \$75,000 in March. Fairly Good Foods is subject corporate tax rate of 30%.

Required:

Prepare a budgeted income statement for the first quarter, with a column for each month a for the quarter.

- 197) Perry Company has gathered the following information:

197) _____

April 30, cash balance	\$90,000
Dividends paid in May	\$24,000
Cash expenditures in May for operating expenses	\$73,600
Amortization expense in May	\$9,000
Cash collections in May	\$178,000
Merchandise purchases paid in cash in May	\$112,400
Purchased equipment for cash in May	\$35,000

Perry desires to keep a minimum cash balance of \$20,000.

Required:

Prepare a cash budget for May, and indicate whether or not Perry meets minimum cash requirements.

198) Berry Company has gathered the following information:

198) _____

April 30, cash balance	\$65,000
Dividends paid in May	\$12,000
Cash expenditures in May for operating expenses	\$76,600
Amortization expense in May	\$13,000
Cash collections in May	\$152,300
Merchandise purchases paid in cash in May	\$121,900
Purchased equipment for cash in May	\$56,000

Berry desires to keep a minimum cash balance of \$15,000.

Required:

Prepare a cash budget for May, and indicate whether or not Berry meets minimum cash requirements.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

199) Define operating budgets and financial budgets. List the specific budgets which are operating budgets. List the specific budgets which are financial budgets.

Answer Key

Testname: UNTITLED1

- 1) TRUE
- 2) FALSE
- 3) TRUE
- 4) FALSE
- 5) TRUE
- 6) FALSE
- 7) TRUE
- 8) FALSE
- 9) TRUE
- 10) FALSE
- 11) FALSE
- 12) TRUE
- 13) FALSE
- 14) FALSE
- 15) FALSE
- 16) TRUE
- 17) B
- 18) A
- 19) D
- 20) D
- 21) C
- 22) B
- 23) A
- 24) D
- 25) D
- 26) C
- 27) D
- 28) D
- 29) A
- 30) D
- 31) A
- 32) C
- 33) C
- 34) C
- 35) C
- 36) D
- 37) C
- 38) B
- 39) B
- 40) A
- 41) A
- 42) C

Answer Key

Testname: UNTITLED1

43) A

44) A

45) D

46)

	This Year Actual	This Year Budget	Variance
Sales revenue (18,000 × \$150);			
(20,000 × \$125)	\$2,700,000	\$2,500,000	\$200,000
Variable exp. (0.70 × \$2,700,000);			
(0.60 × \$2,500,000)	(1,890,000)	(1,500,000)	(390,000)
Fixed expenses	<u>(150,000)</u>	<u>(150,000)</u>	<u>-0-</u>
Net income	<u>\$660,000</u>	<u>\$850,000</u>	<u>\$(190,000)</u>

47)

	This Year Actual	This Year Budget	Variance
Sales revenue (28,000 × \$125);			
(30,000 × \$115)	\$3,500,000	\$3,450,000	\$50,000
Variable exp. (0.50 × \$3,500,000);			
(0.60 × \$3,450,000)	(1,750,000)	(2,070,000)	320,000
Fixed expenses	<u>(150,000)</u>	<u>(150,000)</u>	<u>-0-</u>
Net income	<u>\$1,600,000</u>	<u>\$1,230,000</u>	<u>\$370,000</u>

48)

	This Year Actual	This Year Budget	Variance
Sales revenue (28,000 × \$165);			
(25,000 × \$200)	\$4,620,000	\$5,000,000	(\$380,000)
Variable exp. (0.60 × \$4,620,000);			
(0.60 × \$5,000,000)	(2,772,000)	(3,000,000)	228,000
Fixed expenses	<u>(180,000)</u>	<u>(150,000)</u>	<u>(30,000)</u>
Net income	<u>\$1,668,000</u>	<u>\$1,850,000</u>	<u>(\$182,000)</u>

49)

	This Year Actual	This Year Budget	Variance
Sales revenue (30,000 × \$150);			
(20,000 × \$200)	\$4,500,000	\$4,000,000	\$500,000
Variable exp. (0.65 × \$4,500,000);			
(0.60 × \$4,000,000)	(2,925,000)	(2,400,000)	(525,000)
Fixed expenses	<u>(180,000)</u>	<u>(150,000)</u>	<u>(30,000)</u>
Net income	<u>\$1,395,000</u>	<u>\$1,450,000</u>	<u>\$(55,000)</u>

Answer Key

Testname: UNTITLED1

50)

	This Year Actual	This Year Budget	Variance
Sales revenue (800 × \$32,000);			
(1,000 × \$30,000)	\$25,600,000	\$30,000,000	(\$4,400,000)
Var. exp. (0.75 × \$25,600,000);			
(0.80 × \$30,000,000)	(19,200,000)	(24,000,000)	4,800,000
Fixed expenses	<u>(2,500,000)</u>	<u>(2,500,000)</u>	<u>-0-</u>
Net income	<u>\$3,900,000</u>	<u>\$3,500,000</u>	<u>\$(400,000)</u>

51)

	This Year Actual	This Year Budget	Variance
Sales revenue (1,000 × \$26,000);			
(800 × \$30,000)	\$26,000,000	\$24,000,000	\$2,000,000
Var. exp. (0.80 × \$26,000,000);			
(0.75 × \$24,000,000)	(20,800,000)	(18,000,000)	(2,800,000)
Fixed expenses	<u>(2,500,000)</u>	<u>(2,500,000)</u>	<u>-0-</u>
Net income	<u>\$2,700,000</u>	<u>\$3,500,000</u>	<u>(\$800,000)</u>

52)

	This Year Actual	This Year Budget	Variance
Sales revenue (1,000 × \$16,000);			
(800 × \$20,000)	\$16,000,000	\$16,000,000	-0-
Var. exp. (0.80 × \$16,000,000);			
(0.85 × \$16,000,000)	(12,800,000)	(13,600,000)	800,000
Fixed expenses	<u>(2,750,000)</u>	<u>(2,500,000)</u>	<u>(250,000)</u>
Net income	<u>\$450,000</u>	<u>(\$100,000)</u>	<u>(\$550,000)</u>

53)

	This Year Actual	This Year Budget	Variance
Sales revenue (1,000 × \$14,000);			
(800 × \$15,000)	\$14,000,000	\$12,000,000	\$2,000,000
Var. exp. (0.85 × \$14,000,000);			
(0.80 × \$12,000,000)	(13,600,000)	(9,600,000)	(4,000,000)
Fixed expenses	<u>(2,100,000)</u>	<u>(2,000,000)</u>	<u>(100,000)</u>
Net income	<u>\$(1,700,000)</u>	<u>\$400,000</u>	<u>\$(2,100,000)</u>

Answer Key

Testname: UNTITLED1

54)

	Actual Results	Budget	Variance
Units sold	<u>200,000</u>	<u>203,000</u>	
Revenues	\$4,000,000	\$4,060,000	\$60,000 U
Variable costs	<u>1,250,000</u>	<u>1,500,000</u>	<u>250,000</u> F
Contribution margin	\$2,750,000	\$2,560,000	190,000 F
Fixed costs	<u>925,000</u>	<u>900,000</u>	<u>25,000</u> U
Operating income	<u>\$1,825,000</u>	<u>\$1,660,000</u>	<u>\$165,000</u> F

55)

	Actual Results	Budget	Variance
Units sold	<u>180,000</u>	<u>195,000</u>	
Revenues	\$3,420,000	\$3,705,000	\$285,000 U
Variable costs	<u>1,260,000</u>	<u>1,560,000</u>	<u>300,000</u> F
Contribution margin	\$2,160,000	\$2,145,000	15,000 F
Fixed costs	<u>875,000</u>	<u>925,000</u>	<u>50,000</u> F
Operating income	<u>\$1,285,000</u>	<u>\$1,220,000</u>	<u>\$65,000</u> F

- 56) 1. Planning: The budgeting process forces managers to spend time planning for the future, rather than only concern themselves with daily operations.
2. Coordination and Communication: The budget coordinates a company's activities. It forces managers to consider relations among operations across the entire value chain.
3. Benchmarking: Budgets provide a benchmark that motivates employees and helps managers evaluate performance. The budget provides a target that most managers will try to achieve, especially if they participated in the budgeting process. The budget has been set at a realistic level.

- 57) 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. As the culmination of the planning process, it provides the basis for

1. reassessing the company's objectives,
2. coordinating the activities of various segments of the organization,
3. communicating management's plans throughout the organization, and
4. evaluating employee performance.

58)

Budget	Order	Operating or Financial
Budget Income Statement	4	F
Combined cash budget	6	F
Sales Budget	1	O
Budget Balance Sheet	7	O
Cash Payments Budget	5	F
Direct Materials Budget	3	O
Production Budget	2	O

59) B

60) C

61) A

62) D

63) FALSE

64) TRUE

Answer Key

Testname: UNTITLED1

- 65) TRUE
- 66) FALSE
- 67) TRUE
- 68) TRUE
- 69) FALSE
- 70) FALSE
- 71) C
- 72) A
- 73) C
- 74) A
- 75) B
- 76) C
- 77) D
- 78) A
- 79) D
- 80) A
- 81) C
- 82) B
- 83) B
- 84) A
- 85) C
- 86) C
- 87) A
- 88) A
- 89) C
- 90) B
- 91) B
- 92) B
- 93) A
- 94) D
- 95) B
- 96) D
- 97) C
- 98) C
- 99) C
- 100) A
- 101) B
- 102) A
- 103) D
- 104) B
- 105) D
- 106) A

Answer Key

Testname: UNTITLED1

107) A

108) A

109) A

110) C

111) D

112) B

113) C

114) A

115) C

116) B

117) C

118)	April	May	June	Second Quarter Total	July	August
Number of Batches demanded	600	750	800	2,150	700	600
Desired Ending Inventory	150	160	140	140	120	
Number of Batches Needed	750	910	940	2,290	820	
Less Beginning Inventory (Batches)	120	150	160	120	140	
Number of batches to be produced	630	760	780	2,170	680	

119)	April	May	June	Second Quarter Total	July
Number of Batches demanded	600	750	800	2,150	700
Desired Ending Inventory	<u>150</u>	<u>160</u>	<u>140</u>	<u>140</u>	<u>120</u>
Number of Batches Needed	750	910	940	2,290	820
Less Beginning Inventory (Batches)	<u>120</u>	<u>150</u>	<u>160</u>	<u>120</u>	<u>140</u>
Number of batches to be produced	630	760	780	2,170	680
Kilograms per Batch	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Production Needs (kgs)	3,150	3,800	3,900	10,850	3,400
Ending Inventory	<u>1,140</u>	<u>1,170</u>	<u>1,020</u>	<u>1,020</u>	
Total Flour Needs (kgs)	4,290	4,970	4,920	11,870	
Less: Beginning Inventory	<u>900</u>	<u>1,140</u>	<u>1,170</u>	<u>900</u>	
Flour to be purchased (kgs)	3,390	3,830	3,750	10,970	
Cost per kilogram	<u>\$ 2.40</u>	<u>\$ 2.40</u>	<u>\$ 2.40</u>	<u>\$ 2.40</u>	
Total Cost	\$ 8,136.00	\$ 9,192.00	\$ 9,000.00	\$ 26,328.00	

Answer Key

Testname: UNTITLED1

120)	April	May	June	Second Quarter Total	July	August
Number of Batches demanded	600	750	800	2,150	700	600
Desired Ending Inventory	150	160	140	140	120	
Number of Batches Needed	750	910	940	2,290	820	
Less Beginning Inventory (Batches)	120	150	160	120	140	
Number of batches to be produced	630	760	780	2,170	680	
Labour Hours per Batch	3	3	3	3		
Production Needs (hours)	1,890	2,280	2,340	6,510		
Labour Cost per hour	\$ 32.00	\$ 32.00	\$ 32.00	\$ 32.00		
Total Cost	\$ 60,480.00	\$ 72,960.00	\$ 74,880.00	\$ 208,320.00		

121)	April	May	June	Second Quarter Total	July	August
Number of Batches demanded	600	750	800	2,150	700	600
Desired Ending Inventory	150	160	140	140	120	
Number of Batches Needed	750	910	940	2,290	820	
Less Beginning Inventory (Batches)	120	150	160	120	140	
Number of batches to be produced	630	760	780	2,170	680	
Labour Hours per Batch	3	3	3	3		
Production Needs (hours)	1,890	2,280	2,340	6,510		
MOH per hour	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00		
Total Cost	\$ 47,250.00	\$ 57,000.00	\$ 58,500.00	\$ 162,750.00		

122)	Finished goods inventory at end of each quarter, as percent of next quarter's budgeted unit sales	20%
	Second quarter budgeted golf club sales in units	35,000
	First quarter ending inventory	7,000
	First quarter ending inventory	7,000
	First quarter budgeted golf club sales in units	20,000
	Beginning golf club inventory in units	(4,000)
	Units to produce	23,000

Answer Key

Testname: UNTITLED1

123)

Grass Cutters Manufacturing				
Production Budget				
For the Months of April through June				
	April	May	June	Quarter
Unit Sales	1,200	2,450	1,700	5,350
Plus: Desired End Inventory (10% of next month's unit sales)	245	170	120	120
Total Needed	1,445	2,620	1,820	5,470
Less: Beginning Inventory	120	245	170	120
Units to produce	1,325	2,375	1,650	5,350

124)

January unit sales	3,200
Ending inventory (% next month's sales)	80%
January unit beginning inventory	2,560

125)

The Dover Company	
Manufacturing Overhead Budget	
For the Upcoming Year	
Projected Sales (from Sales Budget)	<u>80,000</u>
Variable MOH costs:	
Indirect materials (\$2.00 per unit)	\$ 160,000
Supplies (\$1.60 per unit)	128,000
Indirect labour (\$1.00 per unit)	80,000
Plant utilities (\$0.20 per unit)	16,000
Repairs and maintenance (\$0.80 per unit)	<u>64,000</u>
Total Variable MOH	\$448,000
Fixed MOH costs:	
Indirect labour	\$ 120,000
Plant utilities	60,000
Repairs and maintenance	24,000
Depreciation on plant and equipment	96,000
Insurance on plant and equipment	40,000
Plant supervision	<u>130,000</u>
Total Fixed MOH	\$ 470,000
Total MOH	<u>\$ 918,000</u>

Answer Key

Testname: UNTITLED1

126)

The Dover Company	
Manufacturing Overhead Budget	
For the Upcoming Year	
Projected Sales (from Sales Budget)	<u>50,000</u>
Variable MOH costs:	
Indirect materials (\$1.20 per unit)	\$ 60,000
Supplies (\$0.95 per unit)	47,500
Indirect labour (\$0.60 per unit)	30,000
Plant utilities (\$0.10 per unit)	5,000
Repairs and maintenance (\$0.50 per unit)	<u>25,000</u>
Total Variable MOH	\$167,500
Fixed MOH costs:	
Indirect labour	\$ 95,000
Plant utilities	35,000
Repairs and maintenance	25,000
Depreciation on plant and equipment	60,000
Insurance on plant and equipment	24,000
Plant supervision	<u>80,000</u>
Total Fixed MOH	<u>\$ 319,000</u>
Total MOH	<u>\$ 486,500</u>

Answer Key

Testname: UNTITLED1

127)

The Simcoe Company	
Manufacturing Overhead Budget	
For the Upcoming Year	
Projected Sales (from Sales Budget)	<u>40,000</u>
Variable MOH costs:	
Indirect materials (\$2.40 per unit)	\$ 96,000
Supplies (\$1.90 per unit)	76,000
Indirect labour (\$1.2 per unit)	48,000
Plant utilities (\$0.20 per unit)	8,000
Repairs and maintenance (\$1.00 per unit)	<u>40,000</u>
Total Variable MOH	\$268,000
Fixed MOH costs:	
Indirect labour	\$ 190,000
Plant utilities	70,000
Repairs and maintenance	30,000
Depreciation on plant and equipment	120,000
Insurance on plant and equipment	48,000
Plant supervision	<u>160,000</u>
Total Fixed MOH	\$ 618,000
Total MOH	<u>\$ 886,000</u>

Answer Key

Testname: UNTITLED1

128)

The Simcoe Company	
Manufacturing Overhead Budget	
For the Upcoming Year	
Projected Sales (from Sales Budget)	<u>90,000</u>
Variable MOH costs:	
Indirect materials (\$1.25 per unit)	\$ 112,500
Supplies (\$1.00 per unit)	90,000
Indirect labour (\$0.75 per unit)	67,500
Plant utilities (\$0.30 per unit)	27,000
Repairs and maintenance (\$1.50 per unit)	<u>135,000</u>
Total Variable MOH	\$432,000
Fixed MOH costs:	
Indirect labour	\$ 350,000
Plant utilities	125,000
Repairs and maintenance	50,000
Depreciation on plant and equipment	200,000
Insurance on plant and equipment	75,000
Plant supervision	<u>300,000</u>
Total Fixed MOH	<u>\$ 1,100,000</u>
Total MOH	<u>\$ 1,532,000</u>

129) a.	<u>October</u>	<u>November</u>	<u>December</u>
Budgeted sales	80,000	140,000	100,000
Add: required ending inventory	<u>28,000</u>	<u>20,000</u>	<u>24,000</u>
Total inventory requirements	108,000	160,000	124,000
Less: beginning inventory	<u>16,000</u>	<u>28,000</u>	<u>20,000</u>
Budgeted production	<u>92,000</u>	<u>132,000</u>	<u>104,000</u>
b.	<u>October</u>	<u>November</u>	<u>December</u>
Production in units	<u>92,000</u>	<u>132,000</u>	<u>104,000</u>
Targeted ending inventory*	198,000	156,000	168,000**
Production needs***	<u>460,000</u>	<u>660,000</u>	<u>520,000</u>
Total requirements	658,000	816,000	688,000
Less: beginning inventory	<u>138,000</u>	<u>198,000</u>	<u>156,000</u>
Purchases needed in kg	520,000	618,000	532,000
Cost (\$10 per kg)	<u>× \$10</u>	<u>× \$10</u>	<u>× \$10</u>
Total material purchases	<u>\$5,200,000</u>	<u>\$6,180,000</u>	<u>\$5,320,000</u>

*0.3 times next month's needs

** (120,000 + 16,000 - 24,000) times 5 kg × 0.3

***5 kg times units to be produced

Answer Key

Testname: UNTITLED1

130)		April	May	June	Total
	Desired ending inventory	\$9,180	\$9,810	\$9,450	\$9,450
	Plus COGS	<u>1,800</u>	<u>30,600</u>	<u>32,700</u>	<u>95,100</u>
	Total less beginning inventory	<u>9,540</u>	<u>9,180</u>	<u>9,810</u>	<u>9,540</u>
	Total purchases	<u>\$31,440</u>	<u>\$31,230</u>	<u>\$32,340</u>	<u>\$95,010</u>

131)		April	May	June
	Desired ending inventory	\$45,900	\$49,050	\$47,250
	Plus COGS	<u>159,000</u>	<u>153,000</u>	<u>163,500</u>
	Total needed	\$204,900	\$202,050	\$210,750
	Less beginning inventory	<u>47,700</u>	<u>45,900</u>	<u>49,050</u>
	Total purchases	<u>\$157,200</u>	<u>\$156,150</u>	<u>\$161,700</u>

132) Operating Expense Budget

Salaries	Number	Rate	Monthly	Annual
4 - day	3	\$ 2,400	\$ 7,200	\$ 64,800
5 - day	5	\$ 3,250	\$ 16,250	\$ 146,250
Director	1	\$ 3,600	\$ 3,600	\$ 43,200
Total				\$ 254,250
Salaries				
CPP, EI,				\$ 30,510
Workers				
Comp				
Rent			\$ 2,200	\$ 19,800
Other			\$ 1,290	\$ 15,480
Variable	60	\$ 40	\$ 2,400	\$ 21,600
Total				\$ 341,640
Operating				
Expenses				

133)	Revenue				
	4 day	30	\$ 500	\$ 15,000	\$ 135,000
	5 Day	40	\$ 600	\$ 24,000	\$ 216,000
	Total				\$ 351,000
	Revenue				
	Expenses				
	Total				\$ 254,250
	Salaries				
	CPP, EI,				\$ 30,510
	Workers				
	Comp				
	Rent			\$ 2,200	\$ 19,800
	Other			\$ 1,290	\$ 15,480
	Variable	60	\$ 40	\$ 2,400	\$ 21,600
	Total				<u>\$ 341,640</u>
	Operating				
	Expenses				
	Operating				\$ 9,360
	Income				

- 134) Since Neighbourhood is a not -for -profit preschool, it is not in business to generate income for its owners. Rath Neighbourhood may be able to further its organizational goals with the projected income. For example, it may decide the income for any of the following purposes:
- Invest in additional (or better) classroom equipment
 - Invest in additional (or better) playground equipment
 - Improve the current program (more crafts, books, better curriculum, special guest visitors, special programs, field etc.)
 - Offer scholarships for those children whose families have difficulty paying the tuition
 - Reduce tuition rates

- 135) The operating budgets are as follows:
1. Sales budget — shows the number of units to be sold and the total sales revenue.
 2. Production budget — shows the number of units to be produced to support the sales to be made.
 3. Direct materials budget — shows the amount and dollar amount of direct materials to be purchased to support the production budget.
 4. Direct labour budget — shows the number of direct labour hours required to support the number of products to be purchased from the production budget.
 5. Manufacturing overhead budget — shows the budgeted manufacturing overhead to be incurred to support the nur of units being produced as denoted on the production budget.
 6. Operating expenses budget — all research and development, design, marketing, distribution, and customer service will be shown on the operating expenses budget.
 7. Budgeted income statement — is constructed after preparing all of the above budgets.

The operating budgets are the budgets needed to run the daily operations of the company. The operating budgets culminate in a budgeted income statement. The starting point of the operating budgets is the sales budget, because it affects most other components of the master budget. After estimating sales, manufacturers prepare the production budget, which determines how many units need to be produced. Once production volume is established, managers prepare the budgets determining the amounts of direct materials, direct labour, and manufacturing overhead that will be needed to meet production. Next, managers prepare the operating expenses budget. After all of these budgets are prepared, management will be able to prepare the budgeted income statement.

- 136) TRUE
137) FALSE
138) TRUE
139) FALSE
140) TRUE
141) FALSE
142) TRUE
143) TRUE
144) B
145) B
146) D
147) B
148) B
149) C
150) B
151) B
152) C

Answer Key

Testname: UNTITLED1

- 153) D
- 154) D
- 155) A
- 156) D
- 157) B
- 158) A
- 159) B
- 160) D
- 161) A
- 162) B
- 163) D
- 164) A
- 165) D
- 166) D
- 167) B
- 168) B
- 169) D
- 170) A
- 171) D
- 172) C
- 173) A
- 174) B
- 175) A
- 176) C
- 177) A
- 178) D
- 179) B
- 180) C
- 181) B
- 182) B
- 183) A
- 184) C
- 185) A
- 186) C

Answer Key

Testname: UNTITLED1

187)

Bauer Corporation				
Cash Collections Budget				
For the Months of January through March				
	January	February	March	Quarter
Cash Sales	\$10,400	\$7,200	\$8,400	
Collections on credit sales:				
0.2 collected in month of sale	\$3,120	\$2,160	\$2,520	
0.5 collected 1 month after sale	\$6,600	\$7,800	\$5,400	
0.25 collected 2 months after sale	\$3,000	\$3,300	\$3,900	
Total cash collections	\$23,120	\$20,460	\$20,220	\$63,800

188)

FirstState Manufacturing	
Cash Payments Budget	
Cash payments for direct materials	
This month's purchases (0.6 x \$ 45000)	\$27,000
Last month's purchases (0.4 x \$ 40000)	\$16,000
Cash payments for direct labor	\$25,000
Cash payments for manufacturing overhead	\$29,500
Cash payments for operating expenses	\$24,000
Cash payment for taxes	\$6,000
Total cash payments	\$127,500

189)

Part 1				
Merchandise Purchases Budget	July	August	September	October
Budgeted unit sales	350	420	370	300
Desired ending inventory (20% of next month's sales)	84	74	60	
Total needs	434	494	430	
Less beginning inventory	70	84	74	
Required purchases	364	410	356	
PART 2				
Cash Collections Budget	July	August	September	
Budgeted unit sales	350	420	370	
Selling price per unit	\$100.00	\$100.00	\$100.00	
Budgeted sales	\$35,000	\$42,000	\$37,000	
Accounts receivable, June 30	\$12,000			
July sales	\$14,000	\$21,000		
August sales		\$16,800	\$25,200	
September sales			\$14,800	
Total cash collections	\$26,000	\$37,800	\$40,000	

Answer Key

Testname: UNTITLED1

190)

Lisbon Company		
Budgeted Balance Sheet		
Total Assets		<u>\$2,551,000</u>
Total Liabilities		1,624,000
Shareholders' Equity:		
Common Stock	500,000	
Retained Earnings	<u>\$427,000^b</u>	<u>\$927,000^a</u>
Total Liabilities & Shareholders' Equity		<u>\$2,551,000</u>

^a Assets less liabilities equals total shareholders' equity: \$2,551,000 - \$1,624,000 = \$927,000

^b Retained earnings is total shareholders' equity less common stock: \$927,000 - \$500,000 = \$427,000

Beginning retained earnings is calculated by subtracting the year's projected net income from the ending retained earnings: \$427,000 - \$317,000 = \$110,000

Therefore, retained earnings at the beginning of the year was \$110,000.

191)

Lisbon Company		
Budgeted Balance Sheet		
Total Assets		<u>\$2,643,000</u>
Total Liabilities		1,597,000
Shareholders' Equity:		
Common Stock	750,000	
Retained Earnings	<u>\$296,000^b</u>	<u>\$1,046,000^a</u>
Total Liabilities & Shareholders' Equity		<u>\$2,643,000</u>

^a Assets less liabilities equals total shareholders' equity: \$2,643,000 - \$1,597,000 = \$1,046,000

^b Retained earnings is total shareholders' equity less common stock: \$1,046,000 - \$750,000 = \$296,000

Beginning retained earnings is calculated by subtracting the year's projected net income from the ending retained earnings: \$296,000 - \$317,000 = \$21,000 deficit

Answer Key

Testname: UNTITLED1

192)

Lisbon Company		
Budgeted Balance Sheet		
Total Assets		<u>\$2,551,000</u>
Total Liabilities		1,624,000
Shareholders' Equity:		
Common Stock	500,000	
Retained Earnings	<u>\$427,000^b</u>	<u>\$927,000^a</u>
Total Liabilities & Shareholders' Equity		<u>\$2,551,000</u>

^a Assets less liabilities equals total shareholders' equity: $\$2,551,000 - \$1,624,000 = \$927,000$

^b Retained earnings is total shareholders' equity less common stock: $\$927,000 - \$500,000 = \$427,000$

Beginning retained earnings is calculated by subtracting the year's projected net income net of dividends from the end retained earnings: $\$427,000 - (\$317,000 - \$31,000) = \$141,000$

Therefore, retained earnings at the beginning of the year was \$141,000.

193)

Lisbon Company		
Budgeted Balance Sheet		
Total Assets		<u>\$2,643,000</u>
Total Liabilities		1,597,000
Shareholders' Equity:		
Common Stock	750,000	
Retained Earnings	<u>\$296,000^b</u>	<u>\$1,046,000^a</u>
Total Liabilities & Shareholders' Equity		<u>\$2,643,000</u>

^a Assets less liabilities equals total shareholders' equity: $\$2,643,000 - \$1,597,000 = \$1,046,000$

^b Retained earnings is total shareholders' equity less common stock: $\$1,046,000 - \$750,000 = \$296,000$

Beginning retained earnings is calculated by subtracting the year's projected net income net of dividends from the end retained earnings: $\$296,000 - (\$317,000 - \$32,000) = \$11,000$

Answer Key

Testname: UNTITLED1

194)

Grandma's Touch Specialty Foods				
Budgeted Income Statement				
For the Quarter Ended March 31				
	Jan.	Feb.	March	Quarter
Sales (unit sales x sale price)	\$1,000,000 ^a	\$900,000 ^b	\$1,150,000 ^c	\$3,050,000
COGS (unit sales x unit cost)	- 450,000 ^d	- 405,000 ^e	- 517,500 ^f	- 1,372,500
Gross profit	550,000	495,000	632,500	1,677,500
Operating expenses	- 110,000	- 105,000	- 125,000	- 340,000
Operating income	440,000	390,000	507,500	1,337,500
Provision for inc. taxes (30%)	- 132,000	- 117,000	- 152,100	- 401,100
Net income	<u>\$308,000</u>	<u>\$273,000</u>	<u>\$355,400</u>	<u>\$936,400</u>

^a January: (10,000)(\$100) = \$1,000,000

^b February: (9,000)(\$100) = \$900,000

^c March: (11,500)(\$100) = \$1,150,000

^d January: (10,000)(\$45) = \$450,000

^e February: (9,000)(\$45) = \$405,000

^f March: (11,500)(\$45) = \$517,500

195)

Grandma's Touch Specialty Foods				
Budgeted Income Statement				
For the Quarter Ended March 31				
	Jan.	Feb.	March	Quarter
Sales (unit sales x sale price)	\$900,000 ^a	\$750,000 ^b	\$1,012,500 ^c	\$2,662,500
COGS (unit sales x unit cost)	- 600,000 ^d	- 500,000 ^e	- 675,000 ^f	- 1,775,000
Gross profit	300,000	250,000	337,500	887,500
Operating expenses	- 120,000	- 125,000	- 145,000	- 390,000
Operating income	180,000	125,000	192,500	497,500
Provision for inc. taxes (30%)	- 54,000	- 37,500	- 57,750	- 149,250
Net income	<u>\$126,000</u>	<u>\$87,500</u>	<u>\$134,750</u>	<u>\$348,250</u>

^a January: (12,000)(\$75) = \$900,000

^b February: (10,000)(\$75) = \$750,000

^c March: (13,500)(\$75) = \$1,012,500

^d January: (12,000)(\$50) = \$600,000

^e February: (10,000)(\$50) = \$500,000

^f March: (13,500)(\$50) = \$675,000

Answer Key

Testname: UNTITLED1

196)

Grandma's Touch Specialty Foods				
Budgeted Income Statement				
For the Quarter Ended March 31				
	Jan.	Feb.	March	Quarter
Sales (unit sales x sale price)	\$300,000 ^a	\$250,000 ^b	\$350,000 ^c	\$900,000
COGS (unit sales x unit cost)	<u>- 120,000^d</u>	<u>- 100,000^e</u>	<u>- 140,000^f</u>	<u>- 360,000</u>
Gross profit	180,000	150,000	210,000	540,000
Operating expenses	<u>- 45,000</u>	<u>- 50,000</u>	<u>- 75,000</u>	<u>- 170,000</u>
Operating income	135,000	100,000	135,000	370,000
Provision for inc. taxes (30%)	<u>-40,500</u>	<u>- 30,000</u>	<u>- 40,500</u>	<u>- 111,00</u>
Net income	<u>\$94,500</u>	<u>\$70,000</u>	<u>\$94,500</u>	<u>\$259,000</u>

^a January: (6,000)(\$50) = \$300,000

^b February: (5,000)(\$50) = \$250,000

^c March: (7,000)(\$50) = \$350,000

^d January: (6000)(\$20) = \$120,000

^e February: (5,000)(\$20) = \$100,000

^f March: (7,000)(\$20) = \$140,000

197)

Cash Budget
for May

Beginning cash balance	\$90,000
Cash collections	<u>178,000</u>
Total cash available	\$268,000

Cash disbursements:

Merchandise purchases	\$112,400	
Operating expenses	73,600	
Equipment purchase	35,000	
Payment of dividends	<u>24,000</u>	<u>245,000</u>
Ending cash balance		<u>\$23,000</u>

The ending cash of \$23,000 exceeds the minimum cash requirement of \$20,000.

Answer Key

Testname: UNTITLED1

198)

Cash Budget for May

Beginning cash balance		\$65,000
Cash collections		<u>152,300</u>
Total cash available		\$217,300
Cash disbursements:		
Merchandise purchases	\$121,900	
Operating expenses	76,600	
Equipment purchase	56,000	
Payment of dividends	<u>12,000</u>	<u>266,500</u>
Cash balance before borrowing		\$(49,200)
Borrow		<u>64,200</u>
Ending cash balance		<u>\$15,000</u>

199) Operating budgets:

1. sales budget
2. production budget
3. direct materials budget
4. direct labour budget
5. manufacturing overhead budget
6. operating expenses budget
7. budgeted income statement

The operating budgets are the budgets needed to run the daily operations of the company. The operating budgets culminate in a budgeted income statement. The starting point of the operating budgets is the sales budget, because it affects most other components of the master budget. After estimating sales, manufacturers prepare the production budget, which determines how many units need to be produced. Once production volume is established, managers prepare the budgets determining the amounts of direct materials, direct labour, and manufacturing overhead that will be needed to meet production. Next, managers prepare the operating expenses budget. After all of these budgets are prepared, management will be able to prepare the budgeted income statement.

Financial budgets:

1. capital expenditures budget
2. cash budgets
3. budgeted balance sheet

The financial budgets project the collection and payment of cash, as well as forecast the company's budgeted balance sheet. The capital expenditure budget shows the company's plan for purchasing property, plant, and equipment. The cash budget projects the cash that will be available to run the company's operations and determines whether the company will have extra funds to invest or whether the company will need to borrow cash. Finally, the budgeted balance sheet forecasts the company's position at the end of the budget period.