Chapter 21(6)
Budgeting

OBJECTIVES

Obj 1	Describe budgeting, its objectives, and its impact on human behavior.
Obj 2	Describe the basic elements of the budget process, the two major types of budgeting, and the use of computers in budgeting.
Obj 3	Describe the master budget for a manufacturing business.
Obj 4	Prepare the basic income statement budgets for a manufacturing business.
Obj 5	Prepare balance sheet budgets for a manufacturing business.

TRUE/FALSE

1. A formal written statement of management's plans for the future, expressed in financial terms, is called a budget.
ANS: T DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

2. Budgets are normally used only by profit-making businesses.
ANS: F DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

3. The objectives of budgeting are (1) establishing specific goals for future operations, (2) executing plans to achieve the goals, and (3) periodically comparing actual results with these goals.
ANS: T DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

4. When budget goals are set too tight, the budget becomes less effective as a tool for planning and controlling operations.
ANS: T DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

5. Employees view budgeting more positively when goals are established for them by senior management.
ANS: F DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

6. Budgetary slack can be avoided if lower and mid-level managers are requested to support all of their spending requirements with specific operational plans.
ANS: T DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

7. Goal conflict can be avoided if budget goals are carefully designed for consistency across all areas of the organization.
ANS: T DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

8. The budgeting process is used to effectively communicate planned expectations regarding profits and expenses to the entire organization.
ANS: T DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

9. The budget procedures used by a large manufacturer of automobiles would probably not differ from those used by a small manufacturer of paper products.
ANS: F DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

10. A budget procedure that provides for the maintenance at all times of a twelve-month projection into the future is called continuous budgeting.
ANS: T DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

11. A budget procedure that provides for the maintenance at all times of a twelve-month projection into the future is called master budgeting.
ANS: F DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

12. The budget procedure that requires all levels of management to start from zero in estimating sales, production, and other operating data is called zero-based budgeting.
ANS: T DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

13. The budget procedure that requires all levels of management to start from zero in estimating sales, production, and other operating data is called continuous budgeting.
ANS: F DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

14. Budgets are prepared in the Accounting Department and monitored by various department managers.
ANS: F DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

15. Once a static budget has been determined, it is changed regularly as the underlying activity changes.
ANS: F DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

16. The flexible budget is, in effect, a series of static budgets for different levels of activity.
ANS: T DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

17. Flexible budgeting requires all levels of management to start from zero and estimate sales, production, and other operating data as though operations were being started for the first time.
ANS: F DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

18. Flexible budgeting builds the effect of changes in level of activity into the budget system.
ANS: T DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

19. In preparing flexible budgets, the first step is to identify the fixed and variable components of the various costs and expenses being budgeted.
ANS: T DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

20. A process whereby the effect of fluctuations in level of activity is built into the budgeting system is referred to as flexible budgeting.
ANS: T DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

21. The master budget of a small manufacturer would normally include all necessary component budgets except the capital expenditures budget.
ANS: F DIF: Moderate OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

22. The master budget of a small manufacturer would normally include all necessary component budgets except the budgeted balance sheet.
ANS: F DIF: Moderate OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

23. The master budget of a small manufacturer would normally include all component budgets that impact on the financial statements.
ANS: T DIF: Moderate OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

24. The first budget to be prepared is usually the sales budget.
ANS: T DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

25. The first budget to be prepared is usually the production budget.
ANS: F DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

26. The first budget to be prepared is usually the cash budget.
ANS: F DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

27. After the sales budget is prepared, the production budget is normally prepared next.
ANS: T DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

28. After the sales budget is prepared, the capital expenditures budget is normally prepared next.
ANS: F DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

29. The budgeted volume of production is based on the sum of (1) the expected sales volume and (2) the desired ending inventory, less (3) the estimated beginning inventory.
ANS: T DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

30. The budgeted volume of production is normally computed as the sum of (1) the expected sales volume and (2) the desired ending inventory.
ANS: F DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

31. If Division Inc. expects to sell 200,000 units in 2003, desires ending inventory of 24,000 units, and has 22,000 units on hand as of the beginning of the year, the budgeted volume of production for 2003 is 202,000 units.
ANS: T DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

32. If Division Inc. expects to sell 200,000 units in 2003, desires ending inventory of 24,000 units, and has 22,000 units on hand as of the beginning of the year, the budgeted volume of production for 2003 is 198,000 units.
ANS: F DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

33. The budgeted direct materials purchases is based on the sum of (1) the materials needed for production and (2) the desired ending materials inventory, less (3) the estimated beginning materials inventory.
ANS: T DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

34. The budgeted direct materials purchases is normally computed as the sum of (1) the materials for production and (2) the desired ending inventory.
ANS: F DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

35. The production budget is the starting point for preparation of the direct labor cost budget.
ANS: T DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

36. The sales budget is the starting point for preparation of the direct labor cost budget.
ANS: F DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

37. Supervisor salaries, maintenance, and indirect factory wages would normally appear in the factory overhead cost budget.
ANS: T DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

38. Supervisor salaries, maintenance, and indirect factory wages would normally appear in the operating expenses budget.
ANS: F DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

39. Supervisor salaries and indirect factory wages would normally appear in the direct labor cost budget.
ANS: F DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

40. Detailed supplemental schedules based on department responsibility are often prepared for major items in the operating expenses budget.
ANS: T DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

41. The capital expenditures budget summarizes future plans for acquisition of fixed assets.
ANS: T DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

42. The cash budget summarizes future plans for acquisition of fixed assets.
ANS: F DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

43. The cash budget is affected by the sales budget, the various budgets for manufacturing costs and operating expenses, and the capital expenditures budget.
ANS: T DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

44. The cash budget presents the expected inflow and outflow of cash for a specified period of time.
ANS: T DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

45. The budgeted balance sheet assumes that all operating and financing plans are met.
ANS: T DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

MULTIPLE CHOICE

1. A formal written statement of management's plans for the future, expressed in financial terms, is a:
   a. gross profit report
   b. responsibility report
   c. budget
   d. performance report
ANS: C DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

2. The budget process involves doing all the following except:
   a. establishing specific goals
   b. executing plans to achieve the goals
   c. periodically comparing actual results with the goals
   d. dismissing all managers who fail to achieve operational goals specified in the budget
ANS: D DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

3. The budgetary unit of an organization which is led by a manager who has both the authority over and responsibility for the unit's performance is known as a:
   a. control center
   b. budgetary area
   c. responsibility center
   d. managerial department

ANS: C DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

4. The benefits of comparing actual performance of the operations against planned goals include all of the following except:
   a. providing prompt feedback to employees about their performance relative to the goal
   b. preventing unplanned expenditures
   c. helping to establish spending priorities
   d. determining how managers are performing against prior years' actual operating results

ANS: D DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

5. Budgeting supports the planning process by encouraging all of the following activities except:
   a. requiring all organizational units to establish their goals for the upcoming period
   b. increasing the motivation of managers and employees by providing agreed-upon expectations
   c. directing and coordinating operations during the period
   d. improving overall decision making by considering all viewpoints, options, and cost reduction possibilities

ANS: C DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

6. When management seeks to achieve personal departmental objectives that may work to the detriment of the entire company, the manager is experiencing:
   a. budgetary slack
   b. padding
   c. goal conflict
   d. cushions

ANS: C DIF: Moderate OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

7. The budgeting process does not involve which of the following activities:
   a. specific goals are established
   b. Periodic comparison of actual results to goals
   c. Execution of plans to achieve goals
   d. Increase of sales by increasing marketing efforts.

ANS: D DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

8. Budgets need to be fair and attainable for employees to consider the budget important in their normal daily activities. Which of the following is not considered a human behavior problem?
   a. Setting goals among managers that conflict with one another.
   b. Setting goals too tightly making it difficult to meet performance expectation.
   c. Allowing employees the opportunity to be a part of the budget process.
   d. Allowing goals to be so low that employees develop a "spend it or lose it" attitude.

ANS: C DIF: Easy OBJ: 21(6)-01
NAT: AACSB Analytic | IMA-Budget Preparation

9. Which of the following budgets allow for adjustments in activity levels?
   a. Static Budget
   b. Continuous Budget
   c. Zero-Based Budget
   d. Flexible Budget

ANS: D DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

10. The process of developing budget estimates by requiring all levels of management to estimate sales, production, and other operating data as though operations were being initiated for the first time is referred to as:
    a. flexible budgeting
    b. continuous budgeting
    c. zero-based budgeting
    d. master budgeting

ANS: C DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

11. A variant of fiscal-year budgeting whereby a twelve-month projection into the future is maintained at all times is termed:
    a. flexible budgeting
    b. continuous budgeting
    c. zero-based budgeting
    d. master budgeting

ANS: B DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

12. McCabe Manufacturing Co.'s static budget at 8,000 units of production includes $40,000 for direct labor and $4,000 for electric power. Total fixed costs are $23,000. At 9,000 units of production, a flexible budget would show:
    a. variable costs of $49,500 and $25,875 of fixed costs
    b. variable costs of $44,000 and $23,000 of fixed costs
    c. variable costs of $49,500 and $23,000 of fixed costs
    d. variable and fixed costs totaling $75,375

ANS: C DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

13. Christiansen and Sons' static budget for 10,000 units of production includes $50,000 for direct materials, $44,000 for direct labor, utilities of $5,000, and supervisor salaries of $15,000. A flexible budget for 12,000 units of production would show:
    a. the same cost structure in total
    b. direct materials of $60,000, direct labor of $52,800, utilities of $6,000, and supervisor salaries of $18,000
    c. total variable costs of $136,800
    d. direct materials of $60,000, direct labor of $52,800, utilities of $6,000, and supervisor salaries of $15,000

ANS: D DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

14. A disadvantage of static budgets is that they:
    a. start with a clean slate
    b. cannot be used by service companies
    c. do not show possible changes in underlying activity levels
    d. show the expected results of a responsibility center for several levels of activity

ANS: C DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

15. A series of budgets for varying rates of activity is termed a(n):
    a. flexible budget
    b. variable budget
    c. master budget
    d. activity budget

ANS: A DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

16. For January, sales revenue is $600,000; sales commissions are 5% of sales; the sales manager's salary is $96,000; advertising expenses are $80,000; shipping expenses total 2% of sales; and miscellaneous selling expenses are $2,100 plus 1/2 of 1% of sales. Total selling expenses for the month of January are:
    a. $157,100
    b. $223,100
    c. $183,750
    d. $182,100

ANS: B DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

17. For February, sales revenue is $700,000; sales commissions are 5% of sales; the sales manager's salary is $96,000; advertising expenses are $80,000; shipping expenses total 2% of sales; and miscellaneous selling expenses are $2,100 plus 1/2 of 1% of sales. Total selling expenses for the month of February are:
    a. $185,650
    b. $189,500
    c. $196,100
    d. $230,600

ANS: D DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

18. For March, sales revenue is $800,000; sales commissions are 4% of sales; the sales manager's salary is $80,000; advertising expenses are $75,000; shipping expenses total 1% of sales; and miscellaneous selling expenses are $2,100 plus 3/4 of 1% of sales. Total selling expenses for the month of March are:
    a. $203,100
    b. $187,550
    c. $194,100
    d. $192,100

ANS: A DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

19. McCabe Manufacturing Co.'s static budget at 5,000 units of production includes $40,000 for direct labor and $5,000 for variable electric power. Total fixed costs are $25,000. At 8,000 units of production, a flexible budget would show:
    a. variable costs of $64,000 and $25,875 of fixed costs
    b. variable costs of $64,000 and $25,000 of fixed costs
    c. variable costs of $72,000 and $25,000 of fixed costs
    d. variable and fixed costs totaling $112,000

ANS: C DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

20. Samson and Sons' static budget for 10,000 units of production includes $60,000 for direct materials, $44,000 for direct labor, fixed utilities costs of $5,000, and supervisor salaries of $15,000. A flexible budget for 12,000 units of production would show:
    a. the same cost structure in total
    b. direct materials of $72,000, direct labor of $52,800, utilities of $5,000, and supervisor salaries of $15,000
    c. total variable costs of $148,800
    d. direct materials of $60,000, direct labor of $52,800, utilities of $6,000, and supervisor salaries of $15,000

ANS: B DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

21. The primary difference between a fixed budget and a flexible budget is that a fixed budget
    a. cannot be changed after the period begins, whereas flexible budget can be changed after the period begins.
    b. is concerned only with future acquisitions of fixed assets, whereas a flexible budget is concerned with expenses that vary with sales.
    c. includes only fixed costs, whereas a flexible budget includes only variable costs.
    d. is a plan for a single level of production, whereas a flexible budget can be converted to any level of production.

ANS: D DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

22. At the beginning of the period, the Cutting Department budgeted direct labor of $135,000, direct material of $165,000 and fixed factory overhead of $12,000 for 7,500 hours of production. The department actually completed 10,000 hours of production. What is the appropriate total budget for the department, assuming it uses flexible budgeting.
    a. $416,000
    b. $412,000
    c. $367,000
    d. $357,000

ANS: B DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

23. At the beginning of the period, the Assembly Department budgeted direct labor of $105,000, direct material of $112,000 and fixed factory overhead of $28,000 for 7,000 hours of production. The department actually completed 10,000 hours of production. What is the appropriate total budget for the department, assuming it uses flexible budgeting.
    a. $302,000
    b. $305,000
    c. $350,000
    d. $338,000

ANS: D DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

24. The production budgets are used to prepare which of the following budgets?
    a. Operating expenses
    b. Direct materials purchases, direct labor cost, factory overhead cost
    c. Sales in dollars
    d. Sales in units

ANS: B DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

25. Principal components of a master budget include which of the following?
    a. Production budget
    b. Sales budget
    c. Capital expenditures budget
    d. All of the above

ANS: D DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

26. The first budget customarily prepared as part of an entity's master budget is the:
    a. production budget
    b. cash budget
    c. sales budget
    d. direct materials purchases

ANS: C DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

27. Machine Manufacturers, Inc. projected sales of 66,000 machines for 2008. The estimated January 1, 2008, inventory is 6,500 units, and the desired December 31, 2008, inventory is 7,000 units. What is the budgeted production (in units) for 2008?
    a. 65,500
    b. 66,000
    c. 66,500
    d. 65,000

ANS: C DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

28. The budget that needs to be completed first when preparing the master budget is the:
    a. Production Budget
    b. Sales Budget
    c. Cash Budget
    d. Capital Expenditures Budget

ANS: B DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

29. Which of the following budgets is not directly associated with the production budget?
    a. Direct materials purchases budget
    b. Factory overhead cost budget
    c. Capital Expenditures budget
    d. Direct labor cost budget

ANS: C DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation

Below is budgeted production and sales information for Fleming Company for the month of December:

	Product XXX	Product ZZZ
Estimated beginning inventory	30,000 units	18,000 units
Desired ending inventory	32,000 units	15,000 units
Region I, anticipated sales	320,000 units	260,000 units
Region II, anticipated sales	190,000 units	130,000 units

The unit selling price for product XXX is $5 and for product ZZZ is $14.

30. Budgeted sales for the month are:
    a. $2,040,000
    b. $4,680,000
    c. $6,692,000
    d. $8,010,000

ANS: D DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

31. Budgeted production for product XXX during the month is:
    a. 510,000 units
    b. 512,000 units
    c. 542,000 units
    d. 572,000 units

ANS: B DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

32. Budgeted production for product ZZZ during the month is:
    a. 405,000 units
    b. 390,000 units
    c. 387,000 units
    d. 423,000 units

ANS: C DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

33. Mancini Corporation sells a single product. Budgeted sales for the year are anticipated to be 640,000 units, estimated beginning inventory is 108,000 units, and desired ending inventory is 90,000 units. The quantities of direct materials expected to be used for each unit of finished product are given below.

    Material A .50 lb. per unit @ $ .60 per pound
    Material B 1.00 lb. per unit @ $1.70 per pound
    Material C 1.20 lb. per unit @ $1.00 per pound

    The dollar amount of direct material A used in production during the year is:
    a. $186,600
    b. $181,200
    c. $240,000
    d. $210,600

ANS: A DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

Mancini Corporation sells a single product. Budgeted sales for the year are anticipated to be 640,000 units, estimated beginning inventory is 98,000 units, and desired ending inventory is 80,000 units. The quantities of direct materials expected to be used for each unit of finished product are given below.

Material A .50 lb. per unit @ $ .60 per pound
Material B 1.00 lb. per unit @ $1.70 per pound
Material C 1.20 lb. per unit @ $1.00 per pound

34. The dollar amount of direct material B used in production during the year is:
    a. $1,057,400
    b. $1,193,400
    c. $1,026,800
    d. $1,224,000

ANS: A DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

35. The dollar amount of direct material C used in production during the year is:
    a. $746,400
    b. $724,800
    c. $824,400
    d. $758,160

ANS: A DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

36. Production and sales estimates for March for the Finneaty Co. are as follows:

Estimated inventory (units), March 1	17,500
Desired inventory (unit), March 31	19,300
Expected sales volume (units):	
Area M	6,000
Area L	7,000
Area O	9,000
Unit sales price	$15

The number of units expected to be manufactured in March is:
    a. 22,000
    b. 1,800
    c. 23,800
    d. 20,200

ANS: C DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

37. Production and sales estimates for May for the Finneaty Co. are as follows:

Estimated inventory (units), March 1	17,500
Desired inventory (unit), March 31	19,300
Expected sales volume (units):	
Area W	4,200
Area X	7,000
Area Y	9,000
Unit sales price	$15

The number of units expected to be sold in May is:
    a. 22,000
    b. 1,800
    c. 23,800
    d. 20,200

ANS: A DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

38. Production and sales estimates for June are as follows:

Estimated inventory (units), June 1	18,000
Desired inventory (units), June 30	19,000
Expected sales volume (units):	
Area X	3,000
Area Y	4,000
Area Z	5,500
Unit sales price	$20

The number of units expected to be manufactured in June is:
a. 10,000
b. 11,500
c. 13,500
d. 12,500

ANS: C DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

39. Production and sales estimates for June are as follows:

Estimated inventory (units), June 1	8,000
Desired inventory (units), June 30	9,000
Expected sales volume (units):	
Area X	3,000
Area Y	4,000
Area Z	5,500
Unit sales price	$20

The budgeted total sales for June is:
a. $200,000
b. $230,000
c. $270,000
d. $250,000

ANS: B DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

40. If the expected sales volume for the current period is 7,000 units, the desired ending inventory is 200 units, and the beginning inventory is 300 units, the number of units set forth in the production budget, representing total production for the current period, is:
a. 7,000
b. 6,900
c. 7,100
d. 7,200

ANS: B DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

Production estimates for August are as follows:

Estimated inventory (units), August 1	12,000
Desired inventory (units), August 31	9,000
Expected sales volume (units), August	75,000

For each unit produced, the direct materials requirements are as follows:

Direct material A ($5 per lb.)	3 lbs.
Direct material B ($18 per lb.)	1/2 lb.

41. The number of pounds of materials A and B required for August production is:
    a. 216,000 lbs. of A; 72,000 lbs. of B
    b. 216,000 lbs. of A; 36,000 lbs. of B
    c. 225,000 lbs. of A; 37,500 lbs. of B
    d. 234,000 lbs. of A; 39,000 lbs. of B

ANS: B DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

42. The total direct materials purchases (assuming no beginning or ending inventory of material) of materials A and B required for August production is:
    a. $1,080,000 for A; $1,296,000 for B
    b. $1,080,000 for A; $648,000 for B
    c. $1,125,000 for A; $675,000 for B
    d. $1,170,000 for A; $702,000 for B

ANS: B DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

43. Based on the following production and sales estimates for May, determine the number of units expected to be manufactured in May.

Estimated inventory (units), May 1	10,000
Desired inventory (units), May 31	15,000
Expected sales volume (units):	
South region	30,000
West region	40,000
North region	20,000
Unit sales price	$10

    a. 85,000
    b. 90,000
    c. 95,000
    d. 105,000

ANS: C DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

44. Which of the following budgets provides the starting point for the preparation of the direct labor cost budget?
    a. Direct materials purchases budget
    b. Cash budget
    c. Production budget
    d. Sales budget

ANS: C DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

45. Production and sales estimates for April are as follows:

Estimated inventory (units), April	19,000
Desired inventory (units), April 30	18,000
Expected sales volume (units):	
Area A	3,500
Area B	4,750
Area C	4,250
Unit sales price	$20

The number of units expected to be manufactured in April is:
    a. 11,500
    b. 10,000
    c. 12,500
    d. 13,500

ANS: A DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

46. Production and sales estimates for April are as follows:

Estimated inventory (units), April 1	9,000
Desired inventory (units), April 30	8,000
Expected sales volume (units):	
Area A	3,500
Area B	4,750
Area C	4,250
Unit sales price	$20

The budgeted total sales for April is:
    a. $200,000
    b. $230,000
    c. $270,000
    d. $250,000

ANS: B DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

47. If the expected sales volume for the current period is 7,000 units, the desired ending inventory is 400 units, and the beginning inventory is 300 units, the number of units set forth in the production budget, representing total production for the current period, is:
    a. 6,900
    b. 7,000
    c. 7,200
    d. 7,100

ANS: D DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

Production estimates for July are as follows:

Estimated inventory (units), July 1	8,500
Desired inventory (units), July 31	10,500
Expected sales volume (units), July	76,000

For each unit produced, the direct materials requirements are as follows:

Direct material A ($5 per lb.)	3 lbs.
Direct material B ($18 per lb.)	1/2 lb.

48. The number of pounds of materials A and B required for July production is:
    a. 216,000 lbs. of A; 36,000 lbs. of B
    b. 216,000 lbs. of A; 72,000 lbs. of B
    c. 234,000 lbs. of A; 39,000 lbs. of B
    d. 225,000 lbs. of A; 37,500 lbs. of B

ANS: C DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

49. The total direct materials purchases of materials A and B (assuming no beginning or ending material inventory) required for July production is:
    a. $1,080,000 for A; $648,000 for B
    b. $1,080,000 for A; $1,296,000 for B
    c. $1,170,000 for A; $702,000 for B
    d. $1,125,000 for A; $675,000 for B

ANS: C DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

The Martin Company had a finished goods inventory of 55,000 units on January 1. Its projected sales for the next four months were: January - 200,000 units; February - 180,000 units; March - 210,000 units; and April - 230,000 units. The Martin Company wishes to maintain a desired ending finished goods inventory of 20% of the following months sales.

50. What should the budgeted production be for January?
    a. 236,000
    b. 181,000
    c. 200,000
    d. 219,000

ANS: B DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

51. What would be the budgeted production for February?
    a. 186,000
    b. 181,000
    c. 222,000
    d. 174,000

ANS: A DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

52. What would be the budgeted production for March?
    a. 256,000
    b. 206,000
    c. 214,000
    d. 298,000

ANS: C DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

53. What would be the budgeted inventory for March 31st?
    a. 46,000
    b. 36,000
    c. Cannot be determined from the data given
    d. 42,000

ANS: A DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

54. The budget that summarizes future plans for the acquisition of fixed assets is the:
    a. direct materials purchases budget
    b. production budget
    c. sales budget
    d. capital expenditures budget

ANS: D DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

Below is budgeted production and sales information for Starlink Company for the month of December:

	Product XXX	Product ZZZ
Estimated beginning inventory	30,000 units	18,000 units
Desired ending inventory	32,000 units	15,000 units
Anticipated sales	520,000 units	460,000 units

The unit selling price for product XXX is $5 and for product ZZZ is $14.

55. Budgeted production for product XXX during the month is:
    a. 522,000 units
    b. 552,000 units
    c. 518,000 units
    d. 520,000 units

ANS: A DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

56. Budgeted production for product ZZZ during the month is:
    a. 460,000 units
    b. 475,000 units
    c. 457,000 units
    d. 463,000 units

ANS: C DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

57. Production and sales estimates for June are as follows:

Estimated inventory (units), June 1	16,000
Desired inventory (units), June 30	18,000
Expected sales volume (units):	
Area X	4,000
Area Y	6,000
Area Z	5,500
Unit sales price	$20

The number of units expected to be manufactured in June is:
    a. 15,500
    b. 17,500
    c. 16,500
    d. 13,500

ANS: B DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

58. If the expected sales volume for the current period is 9,000 units, the desired ending inventory is 200 units, and the beginning inventory is 300 units, the number of units set forth in the production budget, representing total production for the current period, is:
    a. 9,000
    b. 8,900
    c. 8,700
    d. 9,100

ANS: B DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

59. Consider the following budget information: materials to be used totals $64,750; direct labor totals $198,400; factory overhead totals $394,800; work in process inventory January 1, 2008, was expected to be $189,100; and work in progress inventory on December 31, 2008, is expected to be 197,600. What is the budgeted cost of goods manufactured?
    a. $649,450
    b. $657,950
    c. $197,600
    d. $1,044,650

ANS: A DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

60. Consider the following budget information: materials to be used totals $69,750; direct labor totals $198,400; factory overhead totals $394,800; work in process inventory January 1, 2008, was expected to be $189,100; and work in progress inventory on December 31, 2008, is expected to be 197,600. What is the budgeted cost of goods manufactured?
    a. $662,950
    b. $671,450
    c. $654,450
    d. $1,049,650

ANS: C DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

61. The budgeted finished goods inventory and cost of goods sold for a manufacturing company for the year 2008 are as follows: January 1 finished goods, $765,000; December 31 finished goods, $540,000; cost of goods sold for the year, $2,560,000. The budgeted costs of goods manufactured for the year is?
    a. $1,255,000
    b. $2,335,000
    c. $2,785,000
    d. $3100,000

ANS: B DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

62. The budgeted finished goods inventory and cost of goods sold for a manufacturing company for the year 2008 are as follows: January 1 finished goods, $765,000; December 31 finished goods, $640,000; cost of goods sold for the year, $2,560,000. The budgeted costs of goods manufactured for the year is?
    a. $1,405,000
    b. $2,560,000
    c. $2,435,000
    d. $3,965,000

ANS: C DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

The Dandy Jeans Company produces two different types of jeans. One is called the "Simple Life" and the other is called the "Fancy Life" The company's Production Budget requires 353,500 units of Simple jeans and 196,000 Fancy jeans to be manufactured. It is estimated that 2.5 direct labor hours will be needed to manufacture one pair of Simple Life jeans and 3.75 hours of direct labor hours for each pair of Fancy life jeans.

63. What is the total number of direct labor hours needed for both lines of jeans?
    a. 883,750 direct labor hours
    b. 1,618,750 direct labor hours
    c. 735,000 direct labor hours
    d. 353,500 direct labor hours

ANS: B DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

64. What is the total number of direct labor hours needed for both lines of jeans?
    a. 900,000 direct labor hours
    b. 1,631,250 direct labor hours
    c. 731,250 direct labor hours
    d. 355,000 direct labor hours

ANS: B DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

65. O'Neill Co. has $296,000 in accounts receivable on January 1. Budgeted sales for January are $860,000. O'Neill expects to sell 20% of its merchandise for cash. Of the remaining 80% of sales on account, 75% are expected to be collected in the month of sale and the remainder the following month. The January cash collections from sales are:
    a. $812,000
    b. $688,000
    c. $468,000
    d. $984,000

ANS: D DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

66. Estimated cash payments are planned reductions in cash from all of the following except:
    a. manufacturing and operating expenses
    b. capital expenditures
    c. notes and accounts receivable collections
    d. payments for interest or dividends

ANS: C DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

67. Management accountants usually provide for a minimum cash balance in their cash budgets for which of the following reasons:
    a. stockholders demand a minimum cash balance
    b. it is an important way of effectively managing cash
    c. it provides a safety buffer for variations in estimates
    d. to have funds available for major capital expenditures

ANS: C DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

Wright Corporation began its operations on September 1 of the current year. Budgeted sales for the first three months of business are $240,000, $300,000, and $420,000, respectively, for September, October, and November. The company expects to sell 20% of its merchandise for cash. Of sales on account, 70% are expected to be collected in the month of the sale, 25% in the month following the sale, and the remainder in the following month.

68. The cash collections in September from accounts receivable are:
    a. $240,000
    b. $134,400
    c. $192,000
    d. $168,000

ANS: B DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

69. The cash collections in October from accounts receivable are:
    a. $216,000
    b. $240,000
    c. $210,000
    d. $288,000

ANS: A DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

70. The cash collections in November from accounts receivable are:
    a. $294,000
    b. $336,000
    c. $295,200
    d. $304,800

ANS: D DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

Kidder Company began its operations on March 31 of the current year. Projected manufacturing costs for the first three months of business are $156,800, $195,200, and $217,600, respectively, for April, May, and June. Depreciation, insurance, and property taxes represent $28,800 of the estimated monthly manufacturing costs. Insurance was paid on March 31, and property taxes will be paid in November. Three-fourths of the remainder of the manufacturing costs are expected to be paid in the month in which they are incurred, with the balance to be paid in the following month.

71. The cash payments for manufacturing in the month of April are:
    a. $128,000
    b. $96,000
    c. $156,800
    d. $117,000

ANS: B DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

72. The cash payments for manufacturing in the month of May are:
    a. $156,800
    b. $195,200
    c. $166,400
    d. $146,400

ANS: A DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

73. The cash payments for manufacturing in the month of June are:
    a. $14,600
    b. $188,800
    c. $217,600
    d. $183,200

ANS: D DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

74. Planning for capital expenditures is necessary for all of the following reasons except:
    a. machinery and other fixed assets wear out
    b. expansion may be necessary to meet increased demand
    c. amounts spent for office equipment may be immaterial
    d. fixed assets may fall below minimum standards of efficiency

ANS: C DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

75. As of January 1 of the current year, the Joyner Company had accounts receivables of $50,000. The sales for January, February, and March of 2007 were as follows: $120,000, $140,000 and $150,000. 20% of each months sales are for cash. Of the remaining 80% (the credit sales), 60% are collected in the month of sale, with remaining 40% collected in the following month. What is the total cash collected (both from accounts receivable and for cash sales) in the month of January?
    a. $$74,000
    b. $110,000
    c. $71,600
    d. $131,600

ANS: D DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

76. As of January 1 of the current year, the Joyner Company had accounts receivables of $50,000. The sales for January, February, and March were as follows: $120,000, $140,000 and $150,000. 20% of each months sales are for cash. Of the remaining 80% (the credit sales), 60% are collected in the month of sale, with remaining 40% collected in the following month. What is the total cash collected (both from accounts receivable and for cash sales) in the month of February?
    a. $129,600
    b. $62,400
    c. $133,600
    d. $91,200

ANS: C DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

77. As of January 1 of the current year, the Joyner Company had accounts receivables of $50,000. The sales for January, February, and March were as follows: $120,000, $140,000 and $150,000. 20% of each months sales are for cash. Of the remaining 80% (the credit sales), 60% are collected in the month of sale, with remaining 40% collected in the following month. What is the total cash collected (both from accounts receivable and for cash sales) in the month of March?
    a. $74,800
    b. $146,800
    c. $102,000
    d. $116,800

ANS: B DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

78. As of January 1 of the current year, the Joyner Company had accounts receivables of $50,000. The sales for January, February, and March of 2007 were as follows: $120,000, $140,000 and $150,000. 20% of each months sales are for cash. Of the remaining 80% (the credit sales), 60% are collected in the month of sale, with remaining 40% collected in the following month. What is the accounts receivable balance as of March 31?
    a. $72,000
    b. $48,000
    c. $58,720
    d. $$60,000

ANS: B DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

Bright Corporation began its operations on September 1 of the current year. Budgeted sales for the first three months of business are $250,000, $320,000, and $410,000, respectively, for September, October, and November. The company expects to sell 20% of its merchandise for cash. Of sales on account, 70% are expected to be collected in the month of the sale, 30% in the month following the sale.

79. The cash collections in October are:
    a. $320,000
    b. $243,000
    c. $303,200
    d. $380,000

ANS: C DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

80. The cash collections in November are:
    a. $312,000
    b. $388,400
    c. $487,000
    d. $410,000

ANS: B DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

81. Dandy Jeans sells two lines of jeans; Simple Life and Fancy Life. Simple Life sells for $85.00 a pair and Fancy Life sells for $100.00 a pair. The company sells all of its jeans on credit and estimates that 60% is collected in the month of the sale, 35% is collected in the following month, and the rest is considered to be uncollectible. The estimated sales for Simple are as follows: January 20,000 jeans, February 27,500 jeans, and March 25,000 jeans. The estimated sales for Fancy are as follows: January 18,000 jeans, February 19,000, and March 20,500 jeans. What are the expected cash receipts for the month of March?
    a. $3,988,125
    b. $2,505,000
    c. $2,125,000
    d. $4,175,000

ANS: A DIF: Easy OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

82. The Dandy Jeans Company estimates the following cash payments for the month of July:

    Total Direct Materials Purchases: July $635,000, June $500,000, May $575,000
    Total Direct Labor $67,000
    Other Manufacturing Costs (Including Depreciation $25,000) $160,000
    Selling and Administrative Expenses $55,000
    Capital Additions $50,000
    Dividends to Stockholders $30,000

    It is estimated that Material Purchases are paid at a rate of 70% in the month of purchase, with the remainder paid the following month. All other expenses are paid in the month they occur.
    a. $956,500
    b. $931,500
    c. $972,000
    d. $997,000

ANS: B DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

EXERCISE/OTHER

1. At the beginning of the period, the Cutting Department budgeted direct labor of $30,000 and supervisor salaries of $20,000 for 4,000 hours of production. The department actually completed 5,000 hours of production. Determine the budget for the department assuming that it uses flexible budgeting?

ANS:

Variable cost:	
Direct labor (5,000 × $7.50* per hour)	$37,500
Fixed cost:	
Supervisor salaries	$20,000
Total department cost	$57,500
*$30,000 ÷ 4,000 hours	

DIF: Easy OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation TOP: Example Exercise 21(6)-1

2. Bicycle Manufacturers, Inc. projected sales of 55,000 bicycles for 2008. The estimated January 1, 2008, inventory is 4,000 units, and the desired December 31, 2008, inventory is 6,000 units. What is the budgeted production (in units) for 2008?

ANS:

Expected units to be sold	55,000
Plus: desired ending inventory, December 31, 2008	6,000
Total	61,000
Less estimated beginning inventory, January 1, 2008	4,000
Total units to be produced	57,000

DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation TOP: Example Exercise 21(6)-2

3. Machine Manufacturers, Inc. projected sales of 60,000 machines for 2008. The estimated January 1, 2008, inventory is 6,000 units, and the desired December 31, 2008, inventory is 8,000 units. What is the budgeted production (in units) for 2008?

ANS:

Expected units to be sold	60,000
Plus: desired ending inventory, December 31, 2008	8,000
Total	68,000
Less estimated beginning inventory, January 1, 2008	6,000
Total units to be produced	62,000

DIF: Easy OBJ: 21(6)-03
NAT: AACSB Analytic | IMA-Budget Preparation TOP: Example Exercise 21(6)-2

4. Sleepy Time, Inc. manufactures bedding sets. The budgeted production is for 52,000 comforters in 2008. Each comforter requires 6 yards of material. The estimated January 1, 2008, beginning inventory is 31,000 yards. The desired ending balance is 30,000 yards of material. If the material costs $3.50 per yard, determine the materials budget for 2008.

ANS:

Yards of material required for production:	
Comforter material (52,000 × 6 yards)	312,000
Plus: desired ending inventory, December 31, 2008	30,000
Total	342,000
Less estimated beginning inventory, January 1, 2008	31,000
Total yards to purchase	311,000
Unit price (per yard)	$3.50
Total direct material to be purchased	$1,088,500

DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation TOP: Example Exercise 21(6)-3

5. Sleepy Time, Inc. manufactures bedding sets. The budgeted production is for 52,000 comforters in 2008. Each comforter requires 1.5 hours to cut and sew the material. If cutting and sewing labor costs $11.00 per hour, determine the direct labor budget for 2008.

ANS:

Hours required for cutting and sewing:	
Comforters (52,000 × 1.5 hours)	78,000 hrs
Hourly rate	$11.00
Total direct labor cost	$858,000

DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation TOP: Example Exercise 21(6)-4

6. Prepare a cost of goods sold budget for Dreamland, Inc. They manufacture comforters. Assume the estimated inventories on January 1, 2008, for finished goods, work in process, and material were $51,000, $28,000 and $33,000 respectively. Also assume the desired inventories on December 31, 2008, for finished goods, work in process, and materials were $48,000, $35,000 and $29,000 respectively. Direct material purchases were $555,000. Direct labor was $252,000 for the year. Factory overhead was $176,000.

ANS:

Dreamland, Inc. Cost of Goods Sold Budget For the Year Ending December 31, 2008			
Finished goods inventory, January 1, 2008			$ 51,000
Work in process inventory, January 1, 2008		$ 28,000	
Direct materials inventory, January 1, 2008	$ 33,000		
Direct materials purchases	555,000		
Cost of direct materials available for sale	$588,000		
Less direct materials inventory December 31, 2008	29,000		
Cost of direct materials placed in production	$559,000		
Direct labor	252,000		
Factory overhead	176,000		
Total manufacturing costs		987,000	
Total work in process during the period		$1,015,000	
Less work in process inventory, December 31, 2008		35,000	
Costs of good manufactured			980,000
Cost of finished goods available for sale			$1,031,000

Less finished goods inventory, December 31, 2008			48,000
Costs of goods sold			$ 983,000

DIF: Difficult OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation TOP: Example Exercise 21(6)-5

7. Prepare a cost of goods sold budget for Sleepy Time, Inc. They manufacture comforters. Assume the estimated inventories on January 1, 2008, for finished goods, work in process, and material were $39,000, $33,000 and $27,000 respectively. Also assume the desired inventories on December 31, 2008, for finished goods, work in process, and materials were $42,000, $35,000 and $21,000 respectively. Direct material purchases were $575,000. Direct labor was $212,000 for the year. Factory overhead was $156,000.

ANS:

Sleepy Time, Inc. Cost of Good Sold Budget For the Year Ending December 31, 2008			
Finished goods inventory, January 1, 2008			$ 39,000
Work in process inventory, January 1, 2008		$ 33,000	
Direct materials inventory, January 1, 2008	$ 27,000		
Direct materials purchases	575,000		
Cost of direct materials available for sale	$602,000		
Less direct materials inventory December 31, 2008	21,000		
Cost of direct materials placed in production	$581,000		
Direct labor	212,000		
Factory overhead	156,000		
Total manufacturing costs		949,000	
Total work in process during the period		$982,000	
Less work in process inventory, December 31, 2008		35,000	
Costs of good manufactured			947,000
Cost of finished goods available for sale			986,000
Less finished goods inventory, December 31, 2008			42,000
Costs of goods sold			$944,000

DIF: Difficult OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation TOP: Example Exercise 21(6)-5

8. Tandum Bicycles, Inc. collects 25% of its sales on account in the month of the sale and 75% in the month following the sale. If sales are budgeted to be $200,000 for March and $250,000 for April, what are the budgeted cash receipts from sales on account for April?

ANS:

	April
Collections from March sales (75% × $200,000)	$150,000
Collections from April (25% × $250,000)	62,500
Total receipts from sales on account	$212,500

DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation TOP: Example Exercise 21(6)-6

9. Tandum Bicycles, Inc. collects 25% of its sales on account in the month of the sale and 75% in the month following the sale. If sales are budgeted to be $150,000 for March and $200,000 for April, what are the budgeted cash receipts from sales on account for April?

ANS:

	April
Collections from March sales (75% × $150,000)	$112,500
Collections from April (25% × $200,000)	50,000
Total receipts from sales on account	$162,500

DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation TOP: Example Exercise 21(6)-6

PROBLEM

1. Marshall Cabinet Manufacturers uses flexible budgets that are based on the following manufacturing data for the month of July:

Direct materials	$8 per unit
Direct labor	$5 per unit
Electric power (variable)	$0.30 per unit
Electric power (fixed)	$4,000 per month
Supervisor salaries	$15,000 per month
Property taxes on factory	$4,000 per month
Straight-line depreciation	$2,900 per month

Prepare a flexible budget for Marshall, based on production of 10,000, 15,000, and 20,000 units.

ANS:

Marshall Cabinet Manufacturers
Flexible Manufacturing Budget
For the Month Ended July 31, 20--

Units of production	10,000	15,000	20,000
Variable cost:			
Direct materials ($8 per unit)	$ 80,000	$120,000	$160,000
Direct labor ($5 per unit)	50,000	75,000	100,000
Electric power ($0.30 per unit)	3,000	4,500	6,000
Total variable cost	$133,000	$199,500	$266,000
Fixed cost:			
Electric power	$ 4,000	$ 4,000	$ 4,000
Supervisor salaries	15,000	15,000	15,000
Property taxes	4,000	4,000	4,000
Depreciation expense	2,900	2,900	2,900
Total fixed cost	$ 25,900	$ 25,900	$ 25,900
Total manufacturing costs	$158,900	$225,400	$291,900

DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

2. Prepare a monthly flexible selling expense budget for Prater Company for sales volumes of $300,000, $350,000, and $400,000, based on the following data:

Sales commissions	6% of sales
Sales manager's salary	$120,000 per month
Advertising expense	$ 90,000 per month
Shipping expense	1% of sales
Miscellaneous selling expense	$4,000 per month plus 1.5% of sales

ANS:

Prater Company
Monthly Selling Expense Budget

Sales volume	$300,000	$350,000	$400,000
Variable expense:			
Sales commissions	$ 18,000	$ 21,000	$ 24,000
Shipping expense	3,000	3,500	4,000
Misc. selling expense	4,500	5,250	6,000
Total variable expense	$ 25,500	$ 29,750	$ 34,000
Fixed expense:			
Sales manager's salary	$120,000	$120,000	$120,000
Advertising expense	90,000	90,000	90,000
Misc. selling expense	4,000	4,000	4,000
Total fixed expense	$214,000	$214,000	$214,000
Total selling expense	$239,500	$243,750	$248,000

DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

3. Prepare a flexible budget for Dandy Jeans Company using production levels of 16,000, 18,000, and 20,000 units produced. The following is additional information necessary to complete the budget:

Variable costs:
Direct :Labor ($6.00 per unit)
Direct Materials ($8.00 per unit)
Variable Manufacturing Costs ($2.50 per unit)

Fixed costs:

Supervisor’s Salaries	$80,000
Rent	12,000
Depreciation On Equipment	24,000

ANS:

Dandy Jeans Company
Flexible Budget
For the Year Ended December 31, 200x

Units of production	16,000	18,000	20,000
Variable Costs:			
Direct Labor ($6.00 per unit)	$ 96,000	$108,000	$120,000
Direct Materials ($8.00 per unit)	128,000	144,000	160,000
Variable Costs ($2.50 per unit)	40,000	45,000	50,000
Total Variable Costs	$ 264,000	$297,000	$330,000
Fixed Costs:			
Supervisor's Salaries	$ 80,000	$ 80,000	$ 80,000
Rent	12,000	12,000	12,000
Depreciation on Equipment	24,000	24,000	24,000
Total Fixed Costs	$ 116,000	$ 116,000	$116,000
Total Manufacturing Budget	$ 380,000	$ 413,000	$446,000

DIF: Moderate OBJ: 21(6)-02
NAT: AACSB Analytic | IMA-Budget Preparation

4. The Dandy Jeans Company produces two different types of jeans. One is called the "Simple Life" and the other is called the "Fancy Life". The company sales budget estimates that 350,000 of the Simple Life Jeans and 200,000 of the Fancy Life will be sold during 200X. The company begins with 3,000 Simple Life Jeans and 12,000 Fancy Life Jeans. The company desires ending inventory of 6,500 of Simple Life Jeans and 8,000 Fancy Life Jeans. Prepare a Production Budget for the 200x.

ANS:

Dandy Jeans Company
Production Budget
For the Year Ending December 31, 200x

	Simple	Fancy
Expected units to be sold (As Per Sales Budget)	350,000	200,000
Plus desired ending inventory	6,500	8,000
Total	356,500	208,000
Less estimated beginning inventory	3,000	12,000
Total Units to be Produced	353,500	196,000

DIF: Easy OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

5. Based on the following production and sales data of Concrete Co. for March of the current year, prepare (a) a sales budget and (b) a production budget.

	Product T	Product X
Estimated inventory, March 1	28,000 units	20,000 units
Desired inventory, March 31	32,000 units	15,000 units
Expected sales volume:		
Area I	320,000 units	260,000 units
Area II	190,000 units	130,000 units
Unit sales price	$6	$14

ANS:
(a)

Concrete Co.
Sales Budget
For Month Ending March 31, 20--

Product and Area	Unit Sales Volume	Unit Selling Price	Total Sales
Product T:			
Area I	320,000	$ 6	$1,920,000
Area II	190,000	6	1,140,000
Total	510,000		$3,060,000
Product X:			
Area I	260,000	$14	$3,640,000
Area II	130,000	14	1,820,000
Total	390,000		$5,460,000
Total revenue from sales			$8,520,000

(b)

Concrete Co.
Production Budget
For Month Ending March 31, 20--

	Product T	Product X
Sales.	510,000 units	390,000 units
Desired inventory, March 31, 20--	32,000	15,000
Total	542,000 units	405,000 units
Less estimated inventory, March 1, 20--	28,000	20,000
Total production	514,000 units	385,000 units

DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

6. Norman Company manufactures two models of microcassette recorders, VCH and MTV. Based on the following production data for April of the current year, prepare a production budget for April.

	VCH	MTV
Estimated inventory (units), April 1	2,600	3,900
Desired inventory (units), April 30	5,200	3,250
Expected sales volume (units):		
Eastern zone	10,500	12,960
Midwest zone	17,000	19,800
Western zone	4,500	9,840

ANS:

Norman Company
Production Budget
For Month Ending April 30, 20--

	VCH	MTV
Sales	32,000 units	42,600 units
Plus desired ending inventory, April 30, 20--	5,200	3,250
Total	37,200 units	45,850 units
Less estimated beginning inventory, April 1, 20--	2,600	3,900
Total production	34,600 units	41,950 units

DIF: Moderate OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

7. Brown Inc. production budget for Product X for the year ended December 31 is as follows:

	Product X	
Sales	640,000	units
Plus desired ending inventory	85,000	
Total	725,000	
Less estimated beginning inventory, Jan. 1	90,000	
Total production	635,000	

In Brown's production operations, Materials A, B, and C are required to make Product X. The quantities of direct materials expected to be used for each unit of product are as follows:

Product X	
Material A	.50 pound per unit
Material B	1.00 pound per unit
Material C	1.20 pound per unit

The prices of direct materials are as follows:

Material A	$0.60 per pound
Material B	1.70 per pound
Material C	1.00 per pound

Prepare a direct materials purchases budget for Product X, assuming that there are no beginning or ending inventories for direct materials (all units purchased are used in production).

ANS:

	Direct Materials			
	A	B	C	Total
Units required for production of Product X (Note A)	317,500 lb.	635,000 lb.	762,000 lb.	
Unit price	× $.60	× $1.70	× $1.00	
Total direct materials purchases	$190,500	$1,079,500	$762,000	$2,032,000

Note A:
- Material A: 635,000 × .50 lb. per unit = 317,500 lbs.
- Material B: 635,000 × 1.00 lb. per unit = 635,000 lbs.
- Material C: 635,000 × 1.20 lb. per unit = 762,000 lbs.

DIF: Difficult OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

8. The Dandy Jeans Company produces two different types of jeans. One is called the "Simple Life" and the other is called the "Fancy Life". The company sales budget estimates that 350,000 of the Simple Life Jeans and 200,000 of the Fancy Life will be sold during 200x. The Production Budget requires 353,500 units of Simple Life jeans and 196,000 Fancy jeans be manufactured The Simple Life jeans require 3 yards of denim material, a zipper, and 25 yards of thread. The Fancy Life jeans require 4.5 yards of denim material, a zipper, and 40 yards of thread. Each yard of denim material costs $3.25, the zipper costs $.75 each, and the thread is $.01 per yard. There is enough material to make 2,000 jeans of each type at the beginning of the year. The desired amount of materials left in ending inventory is to have enough to manufacture 3,500 jeans of each type. Prepare a Direct Materials Purchases Budget.

ANS:

Dandy Jeans Company
Direct Materials Purchases Budget
For the Year ending December 31,200x

	Denim Total (Yards)	Zippers (Each)	Thread (Yards)	
Units Required:				
Simple (353,500 Units *3 Yards)	1,060,500	353,500	8,837,500	
Fancy (196,000 Units *4.5 Yards)	882,000	196,000	7,840,000	
Desired Ending Inventory:				
Simple (3,500 Units * 3 Yards)	10,500	3,500	87,500	
Fancy (3,500 Units * 4.5 Yards)	15,750	3,500	140,000	
Total	1,968,750	556,500	16,905,000	
Less Beginning Inventory:				
Simple (2,000 Units * 3 Yards)	6,000	2,000	50,000	
Fancy (2,000 Units * 4.5 Yards)	9,000	2,000	80,000	
Total Amount to be Purchased	1,953,750	552,500	16,775,000	
Unit Price	× $3.25	× $.75	× $.01	
Total Direct Materials to be Purchased	$6,349,688	$414,375	$ 167,750	$6,931,813

DIF: Difficult OBJ: 21(6)-04
NAT: AACSB Analytic | IMA-Budget Preparation

9. The treasurer of Unisyms Company has accumulated the following budget information for the first two months of the coming year:

	March	April
Sales.	$450,000	$520,000
Manufacturing costs	290,000	350,000
Selling and administrative expenses	41,400	46,400
Capital additions	250,000	---

The company expects to sell about 35% of its merchandise for cash. Of sales on account, 80% are expected to be collected in full in the month of the sale and the remainder in the month following the sale. One-fourth of the manufacturing costs are expected to be paid in the month in which they are incurred and the other three-fourths in the following month. Depreciation, insurance, and property taxes represent $6,400 of the probable monthly selling and administrative expenses. Insurance is paid in February and a $40,000 installment on income taxes is expected to be paid in April. Of the remainder of the selling and administrative expenses, one-half are expected to be paid in the month in which they are incurred and the balance in the following month. Capital additions of $250,000 are expected to be paid in March.

Current assets as of March 1 are composed of cash of $45,000 and accounts receivable of $51,000. Current liabilities as of March 1 are composed of accounts payable of $121,500 ($102,000 for materials purchases and $19,500 for operating expenses). Management desires to maintain a minimum cash balance of $20,000.

Prepare a monthly cash budget for March and April.

ANS:

Unisyms Company
Cash Budget
For the Two Months Ending April 30, 20--

	March	April
Estimated cash receipts from:		
Cash sales*	$157,500	$182,000
Collections of accounts receivable**	285,000	328,900
Total cash receipts	$442,500	$510,900
Estimated cash payments for:		
Manufacturing costs	$174,500	$305,000
Selling and administrative expenses	37,000	37,500
Capital additions	250,000	---
Income taxes	---	40,000
Total cash payments	$461,500	$382,500
Cash increase (decrease)	$(19,000)	$128,400
Cash balance at beginning of month	45,000	26,000
Cash balance at end of month	$ 26,000	$154,400
Minimum cash balance	20,000	20,000
Excess (deficiency)	$ 6,000	$134,400

*$450,000 × .35 = $157,500; $520,000 × .35 = $182,000
**($450,000 × .65 × .80) + $51,000 = $285,000
($520,000 × .65 × .80) + ($450,000 × .65 × .20) = $328,900
DIF: Difficult OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

10. Trapp Co. was organized on August 1 of the current year. Projected sales for the next three months are as follows:

August	$100,000
September	185,000
October	225,000

The company expects to sell 40% of its merchandise for cash. Of the sales on account, one third are expected to be collected in the month of the sale and the remainder in the following month.

Prepare a schedule indicating cash collections of accounts receivable for August, September, and October.

ANS:

Trapp Co.
Schedule of Collections of Accounts Receivable
For Three Months Ending October 31, 20--

	August	September	October
August sales on account (60% × $100,000):			
Collected in August (1/3 × $60,000)	$20,000		
Collected in September (2/3 × $60,000)		$40,000	
September sales on account (60% × $185,000):			
Collected in September (1/3 × $111,000)		37,000	
Collected in October (2/3 × $111,000)			$ 74,000
October sales on account (60% × $225,000):			
Collected in October (1/3 × $135,000)			45,000
Totals	$20,000	$77,000	$119,000

DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation

11. Stellar Co. was organized on August 1 of the current year. Projected sales for the next three months are as follows:

August	$200,000
September	255,000
October	275,000

The company expects to sell 40% of its merchandise for cash. Of the sales on account, one third are expected to be collected in the month of the sale and the remainder in the following month.

Prepare a schedule indicating cash collections for August, September, and October.

ANS:

Stellar Co.
Schedule of Cash Collections
For Three Months Ending October 31, 20--

	August	September	October
August sales on account (40% × $200,000):	80,000		
Collected in August (60% × $200,000 × 1/3)	$40,000		
Collected in September (60% × $200,000 × 2/3)		$ 80,000	
September sales on account (40% × $255,000):		102,000	
Collected in September (60% $255,000 × 1/3)		51,000	
Collected in October (60% $255,000 × 2/3)			$ 102,000
October sales on account (40% × $275,000):			110,000
Collected in October (60% × $275,000 × 1/3)			55,000
Totals	$120,000	$233,000	$267,000

DIF: Moderate OBJ: 21(6)-05
NAT: AACSB Analytic | IMA-Budget Preparation