

Chapter 21—Operational Budgeting and Profit Planning

Practice Quiz

1. Management by exception:
 - a. Advocates the rewarding of exceptional managers
 - b. Provides detailed instructions to all employees except top management
 - c. Requires the justification for all budget items except the amount budgeted or spent in a previous budget
 - d. None of the above

2. Which of the following approaches is widely used for budgeting?
 - a. The incremental approach
 - b. The minimum level approach
 - c. The output/input approach
 - d. All of the above

3. Budgeted sales of the Taco El Loco for the first quarter of the year are as follows:

| | |
|----------|----------|
| January | \$60,000 |
| February | 70,000 |
| March | 86,000 |

The cost of sales averages 30 percent of sales revenue and management desires ending inventories equal to 20 percent of the following month's sales.

Assuming the January 1 inventory is \$7,000, the January purchases budget is:

- a. \$25,200
- b. \$15,200
- c. \$14,600
- d. \$22,200

4. Penn Distribution's sales budget for the second quarter follows:

| | |
|-------|-----------|
| April | \$350,000 |
| May | 450,000 |
| June | 380,000 |

All sales are on account (credit) with 50 percent collected in the month of sale, 30 percent collected in the month after sale, and 20 percent collected in the second month after sale. There are no uncollectable accounts.

The June cash receipts are:

- a. \$190,000
 - b. \$325,000
 - c. \$395,000
 - d. None of the above
5. Refer to Question 4 and determine the accounts receivable at the end of June:
- a. \$190,000
 - b. \$280,000
 - c. \$330,000
 - d. \$385,000
6. Presented is selected first quarter budget data for the Barney Company:

| Sales | |
|----------|--------------|
| January | 25,000 units |
| February | 20,000 units |
| March | 42,000 units |

Additional information:

- Each unit of finished product requires two pounds of raw materials.
- Barney maintains ending finished goods inventories equal to 25 percent of the following month's budgeted sales.
- Barney maintains raw materials inventories equal to 20 percent of the following month's budgeted production.
- January 1 inventories are in line with Barney's inventory policy.

Barney's budgeted purchases (in pounds) for January is:

- a. 66,000 pounds
- b. 48,200 pounds
- c. 51,000 pounds
- d. None of the above

