

Financial & Managerial Accounting for MBAs, 5th Edition
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Practice Quiz

Module 22—Operational Budgeting and Profit Planning

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:

- \$190,000
 - \$325,000
 - \$395,000
 - None of the above
5. Refer to Question 4 and determine the accounts receivable at the end of June:
- \$190,000
 - \$280,000
 - \$330,000
 - \$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:

- 66,000 pounds
- 48,200 pounds
- 51,000 pounds
- None of the above

7. Presented is additional information for the Barney Company (refer to question 6):

- Price per pound of raw materials \$25
- Direct labor per unit of finished product 0.50 hours at \$20 per hour
- Total monthly factory overhead \$150,000 + \$10 per direct labor hour

Barney's total manufacturing cost budget for January is:

- a. \$1,425,000
- b. \$1,693,750
- c. \$1,575,000
- d. \$1,717,500

8. An advantage of the participative budgeting process is:

- a. The elimination of budgetary slack
- b. A reduction in the time required to complete the budget
- c. The increased likelihood of favorable variances
- d. Improved opportunities for problem solving