# Review questions

Finance

Please compute the following October, November, and December sales are $150K, $200K, and $225K, respectively. A total of 80% of all sales are credit sales and 20% are cash sales. A total of 60% of credit sales are collected in the month of the sale and 40% are collected in the following month. There are no bad debt expenses. What is the amount of cash collections for November?

(a) $160K

(b) $208K

(c) $172K

(d) $232

Expected credit sales = 80% * Total sales

Expected cash sales = 20% * Total Sales

Sales

October

November

December

Credit sales

120, 000

160, 000

180, 000

Cash sales

30, 000

40, 000

45, 000

November cash collections = November Cash sales + 60% of November credit sales + 40% of October credit sales

Cash collections = 40, 000 + 60% * 160, 000 + 40% * 120, 000

= $184, 000

2) Able Company’s sales are 30% in cash and 70% on credit. 60% of the credit sales are collected in the month of sale, 25% in the month following the sale, and 12% in the second month following the sale. The remainder is uncollectible. The following are the budgeted sales:

January

February

March

Total sales: $60, 000$70, 000 $30, 000

The total cash receipts in April would be budgeted to be:

(a) $38, 000

(b) $47, 000

(c) $27, 000

(d) $36, 230

Expected credit sales = 70%*Total sales

January

February

March

42, 000

49, 000

21, 000

Collections in April = 25% of March credit sales + 12% of February sales

= 25% * 21, 000 + 12% * 49, 000

= $5, 250+$5, 880

= $11, 130

3) Micro Company plans to sell 12, 000 units during August. If the company has 2, 500 units on hand at the start of the month, and plans to have 2, 000 units on hand at the end of the month, how many units must be produced during the month?

(a) 11, 500

(b) 12, 500

(c) 12, 000

(d) 14, 000

Units to produce = Planned sales + required ending inventory – Opening Inventory

= 12, 000 + 2, 000 - 2, 500

= 11, 500 units

4) The Doberman Company has budgeted production for the next year as follows:

Quarter

First

Second

Third

Fourth

Units in Production

10, 000

12, 000

16, 000

14, 000

Four pounds of raw materials are required for each unit produced. Raw

materials on hand at the start of the year total 4, 000 pounds. The raw materials inventory at the end of each quarter should equal 10% of the next quarter’s production needs. Budgeted purchases of raw materials in the third quarter would be:

(a) 63, 2000

(b) 62, 400

(c) 56, 800

(d) 50, 400

Purchases = Raw materials for Units produced + Raw materials for required ending inventory – Raw materials for Opening Inventory

Third quarter units produced = 16, 000

Raw materials needed = 16, 000 * 4

= 64, 000pounds

Third quarter ending inventory of units = 10% * 14000

= 1400 units

Raw materials needed = 1400*4

= 5, 400 pounds

Third quarter opening inventory of units = 10% * 16, 000

= 1600

Raw materials needed = 1600*4

= 6400 pounds

Therefore, purchases of raw materials = 64, 000 + 5, 400 – 6, 400

= 63, 000 pounds

5) The Broom Corporation is working on its direct labor budget for the next two months. Each unit of output requires 0. 05 direct-labor hours. The direct labor rate is $7. 50 per direct labor hour. The production budget calls for

producing 9, 100 units in May and 8, 800 units in June. If the direct labor work force is fully adjusted to the total direct labor hours needed each month, what would be the total combined direct labor cost for the two months?

(a) $3, 300. 00

(b) $3, 412. 50

(c) 6, 712. 50

(d) $3, 356. 25

Direct labor cost per unit = direct-labor hours * direct labor rate

= 0. 05 * $7. 50

= $ 0. 375

May cost = Direct labor cost per unit * Number of units

= $ 0. 375 * 9100

= $3412. 50

June cost = Direct labor cost per unit * Number of units

= $ 0. 375 * 8800

= $3300

Total cost = $3412. 50 + $3300

= $6712. 50

6) MRI bases its manufacturing overhead budget on budgeted direct labor hours. The direct labor budget indicates that 5400 direct labor hours will be required in January. The variable overhead rate is $4. 40 per direct labor hour. The company’s budgeted fixed manufacturing overhead is $77, 220 per month, which includes depreciation of $9, 720. All other fixed manufacturing overhead costs represent current cash flows. The January cash disbursements for manufacturing overhead on the manufacturing

overhead budget should be:

(a) $7, 040

(b) $19, 680

(c) $26, 720

(d) $32, 160

Variable overhead costs = 5400 labor hours * $4. 4 per direct labor hour

= 5400 *$4. 4

=$ 23, 760

Fixed manufacturing overhead costs = fixed manufacturing overhead + depreciation

= $77, 220 + $9, 720

= $86940

Total costs = $ 23, 760+ $86940

= $110, 700

7) The manufacturing overhead budget for Fanasta Company is based on budgeted direct labor hours. The direct labor budget indicates that 1, 600 direct labor hours will be required in December. The variable overhead rate is $4. 40 per direct labor hour. The company’s budgeted fixed manufacturing overhead is $25, 120 per month, which includes appreciation of $5, 440. All other fixed manufacturing overhead costs represent current cash flows. The December cash disbursements for manufacturing overhead on the manufacturing overhead budget should be:

(a) $7, 040

(b) $19, 680

(c) $26, 720

(d) $32, 160

Variable overhead costs = 1, 600 labor hours * $4. 4 per direct labor hour

= 1600*$4. 4

=$ 7, 040

Fixed manufacturing overhead costs = fixed manufacturing overhead – appreciation

= $25, 120 - $5, 440

= $19, 680

Total costs = $ 7, 040+ $19, 680

= $26, 720