Business exam: budgeting and forecasting

Business

1. (TCO 7) At Lakeside Manufacturing, budgets are theresponsibilityof everyone. Eac department collaborates in determining its expected needs, and sales personnel det the likely sales volume. Al Talbott, one of the production managers, believes in build plenty of slack into everything, including his estimates of ending inventory of work i process. As the accounting manager, write a memo to Mr. Talbott, explaining why th ending inventory figure should be extremely accurate, with as little slack as possible (Points: 20)

2. TCO 9) Garner Company requires its marketing managers to submit estimated co behavior data on all requests for new products or expansions of a product line. Judy a new manager. Her calculations show a fixed cost for a new project at $100, 000 ar variable cost of $5 per unit. Based on these calculations, the low-volume project wo be profitable. She shares her dismay with Nina Smythe, another manager. Nina stro advises her to revise her estimates. She points out that several of the costs that had classified as fixed costs could be considered variable since they are mixed costs. Wh data has been revised classifying those costs as variable costs, the project appears

Part (a) Who are the stakeholders in this decision? Part (b) Is it ethical for Judy to rev costs as indicated? Briefly explain. Part (c) What should Judy do? (Points: 20)

3. (TCO 6) Tom Bat became a baseball enthusiast at a very early age. All of his base experience has provided him valuable knowledge of the sport, and he is thinking ab going into the batting cage business. He estimates that the construction of a state-o building and the purchase of necessary equipment will cost $630, 000. Both the faci the equipment will be depreciated over 12 years using the straight-line method and expected to have zero salvage values. His required rate of return is 10%. The estima

annual net income and cash flows are $49, 000 and $101, 500, respectively. For this investment, calculate:

Part (a) The net present value. Part (b) The internal rate of return. Part (c) The payba period. (Points: 30)

4. (TCO 7) Roswell Company has budgeted sales revenue as follows for the next 4 m as follows:

- February - $150, 000
- March - $120, 000
- April - $105, 000
- May - $165, 000

Past experience indicates that 80% of sales each month are on credit and that collec credit sales occurs as follows: 60% in the month of sale, 35% in the month following sale, and 3% in the second month following the sale. The other 2% is uncollectible. I a schedule that shows expected cash receipts from sales for May. (Points: 30)

5. (TCO 8) Eastern Company’s budgeted and actual sales for 2009 were:

- Product - Budgeted Sales - Actual Sales
- A - 35, 300 units at $2. 00 per unit - 32, 700 units at $2. 0 per unit
- B - 27, 900 units at $5. 00 per unit - 29, 200 units at $4. 70 per unit

Part (a) Calculate the sales volume variance. Part (b) Calculate the sales price variar (c) Calculate the total sales variance. (Points: 30)

6. (TCO 9) Mace Company accumulates the following data concerning a mixed cost,

miles as the activity level.

- Month - Miles Driven - Total Cost
- January - 10, 000 - $15, 000
- February - 8, 000 - 13, 500
- March - 9, 000 - 14, 400
- April - 7, 500 - 12, 500

Compute the variable and fixed cost elements using the high-low method. (Points: 3

5. (TCO 8) Eastern Company’s budgeted and actual sales for 2009 were:

- Product - Budgeted Sales - Actual Sales
- A - 35, 300 units at $2. 00 per unit - 32, 700 units at $2. 60 per unit
- B - 27, 900 units at $5. 00 per unit - 29, 200 units at $4. 70 per unit

Part (a) Calculate the sales volume variance. Part (b) Calculate the sales price varia

(c) Calculate the total sales variance. (Points: 30)

1. (TCO 1) A common starting point in the budgeting process is __________. (Points: 5)	expected future net income.	past performance.	to motivate the sales force.	a clea with n expect
2. (TCO 2) Which of the following is not a qualitative forecasting method? (Points: 5)	Executive opinions	Salesforce polling	Delphi method	Classic decom
3. (TCO 3) Which of the following statements regarding	The t-statistic cannot be	The t-statistic measures how	The higher the t-value,	Low t- indica

the t-statistic is true? (Points: 5)	negative.	many standard errors the coefficient is away from the independent variable.	the more confidence we have in the coefficient.	reliabi
4. TCO 4) Which of the following statements regarding the risk associated with R&D activities is incorrect? (Points: 5)	The amount of time between the R&D activity and the cash flows from the project does not affect risk.	A greater risk is associated with creating new products than improving existing products.	Risk increases as the time between the R&D activity and the cash flow from the project increases.	Assess is a vit of rese and develo
5. (TCO 5) Program budgeting does not include: (Points: 5)	Controlling	Programming	Budgeting	Plannii
6. (TCO 6) When using the payback period technique, the payback period is expressed in	a percent.	dollars.	years.	month

terms of _______. (Points: 5)				
7. (TCO 6) The accounting rate of return method is based on ___________ (Points: 5)	income data.	the time value ofmoneydata.	market values.	cash fl data.
8. (TCO 6) A company projects annual cash inflows of $90, 000 each year for the next five years if it invests $450, 000 in new equipment. The equipment has a five-year life and an estimated salvage value of $150, 000. What is the accounting rate of return on this investment? (Points: 5)	6. 7%	13. 3%	20%	33. 3%
9. (TCO 6) If an asset costs $210, 000 and is expected to have a $30, 000 salvage value at the end of its ten-year life, and generates annual net cash inflows of $30, 000 each year, the payback period is _____. (Points: 5)	5 years	6 years	7 years	8 year

10. (TCO 6) Munson Inc. is comparing several alternative capital budgeting projects as shown below: • Projects - A - B - C • Initial Investment - $150, 000 - $55, 000 - $95, 000 • Present value of cash inflows - $200, 000 - $65, 000 - $100, 000 Using the profitability index, rank the projects, starting with the most attractive. (Points: 5)	A, C, B.	A, B, C.	C, A, B.	C, B, A
11. (TCO 6) A company has a minimum required rate of return of 9%. It is considering investing in a project that costs $175, 000 and is expected to generate cash inflows of $70, 000 at the end of each year for three years. The approximate net present value of this project is ________. (Points: 5)	$177, 170	$35, 000	$17, 718	$2, 19

12. (TCO 7) Which of the following is not an operating budget? (Points: 5)	Selling and administrative expense budget	Direct materials budget	Pro forma balance sheet	Pro for income statem
13. (TCO 7) A company budgeted unit sales of 102, 000 units for January 2008 and 120, 000 units for February 2008. The company has a policy of having an inventory of units on hand at the end of each month equal to 30% of next month's budgeted unit sales. If there were 30, 600 units of inventory on hand on December 31, 2007, how many units should be produced in January 2008 in order for the company to meet itsgoals? (Points: 5)	107, 400 units	102, 000 units	96, 600 units	138, 0
14. TCO 8) Which of the following is not a cause of profit variance? (Points: 5)	Changes in sales price	Changes in the sales mix	Changes in sales volume	All of t above causes

				profit v
15. (TCO 9) A static budget _____________. (Points: 5)	should not be prepared in a company	is useful in evaluating a manager's performance by comparing actual variable costs and planned variable costs	shows planned results at the original budgeted activity level	is char only if actual activit differe origina budge
16. (TCO 9) If costs are not responsive to changes in activity level, how are they best described? (Points: 5)	Mixed	Flexible	Variable	Fixed
17. (TCO 9) Using the high-low method, what is the unit variable cost for the following information? • Month- Miles- Total Cost • January- 80, 000- $96, 000 • February- 50, 000- $80,	$1. 44	$1. 25	$1. 60	$1. 50

000 • March- 70, 000- $94, 000 • April- 90, 000- $130, 000 (Points: 5)				
18. (TCO 10) What is the method used to determine whether the budgeting process is operating effectively? (Points: 5)	Budget evaluation	Budget review	Budget appraisal	Budge