# Chapter 08 Profit Planning Answer Key

**True / False Questions**

1. The production budget is typically prepared prior to the sales budget.
**FALSE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Medium*

2. One benefit of budgeting is that it coordinates the activities of the entire organization.
**TRUE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Knowledge*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Easy*

3. Both planning and control are needed for an effective budgeting system.
**TRUE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Knowledge*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Easy*

4. One difficulty with self-imposed budgets is that they are not subject to any type of review.
**FALSE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Medium*

5. The master budget is a network consisting of many separate budgets that are interdependent.
**TRUE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Knowledge*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Easy*

6. Planning and control are essentially the same thing.
**FALSE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Knowledge*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Easy*

7. Sales forecasts are drawn up after the cash budget has been completed because only then are the funds available for marketing known.
**FALSE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Medium*

8. A sales budget is a detailed schedule showing the expected sales for the budget period; typically, it is expressed in both dollars and units of product.
**TRUE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Knowledge*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Easy*

9. Both variable and fixed manufacturing overhead costs are included in the manufacturing overhead budget.
**TRUE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Knowledge*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

10. In the selling and administrative budget, the non-cash charges (such as depreciation) are added to the total budgeted selling and administrative expenses to determine the expected cash disbursements for selling and administrative expenses.
**FALSE**

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-07 Prepare a selling and administrative expense budget*
*Level: Medium*

**Multiple Choice Questions**

11. Which of the following represents the normal sequence in which the indicated budgets are prepared?
A. Direct Materials, Cash, Sales
**B.** Production, Cash, Income Statement
C. Sales, Balance Sheet, Direct Labor
D. Production, Manufacturing Overhead, Sales

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Medium*

12. Which of the following is not a benefit of budgeting?
**A.** It reduces the need for tracking actual cost activity.
B. It sets benchmarks for evaluation performance.
C. It uncovers potential bottlenecks.
D. It formalizes a manager's planning efforts.

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Knowledge*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Easy*

13. Self-imposed budgets typically are:
A. not subject to review by higher levels of management since to do so would contradict the participative aspect of the budgeting processing.
B. not subject to review by higher levels of management except in specific cases where the input of higher management is required.
**C.** subject to review by higher levels of management in order to prevent the budgets from becoming too loose.
D. not critical to the success of a budgeting program.

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Knowledge*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Easy*

14. Which of the following represents the correct order in which the indicated budget documents for a manufacturing company would be prepared?
A. Sales budget, cash budget, direct materials budget, direct labor budget
B. Production budget, sales budget, direct materials budget, direct labor budget
C. Sales budget, cash budget, production budget, direct materials budget
**D.** Selling and administrative expense budget, cash budget, budgeted income statement, budgeted balance sheet

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Medium*

15. National Telephone company has been forced by competition to put much more emphasis on planning and controlling its costs. Accordingly, the company's controller has suggested initiating a formal budgeting process. Which of the following steps will NOT help the company gain maximum acceptance by employees of the proposed budgeting system?
**A.** Implementing the change quickly.
B. Including in departmental responsibility reports only those items that are under the department manager's control.
C. Demonstrating top management support for the budgeting program.
D. Ensuring that favorable deviations of actual results from the budget, as well as unfavorable deviations, are discussed with the responsible managers.

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Knowledge*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Easy*
*Source: CMA, adapted*

16. A continuous (or perpetual) budget:
A. is prepared for a range of activity so that the budget can be adjusted for changes in activity.
**B.** is a plan that is updated monthly or quarterly, dropping one period and adding another.
C. is a strategic plan that does not change.
D. is used in companies that experience no change in sales.

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-01 Understand why organizations budget and the processes they use to create budgets*
*Level: Medium*
*Source: CMA, adapted*

17. Which of the following statements is not correct?
A. The sales budget is the starting point in preparing the master budget.
B. The sales budget is constructed by multiplying the expected sales in units by the sales price.
C. The sales budget generally is accompanied by a computation of expected cash receipts for the forthcoming budget period.
**D.** The cash budget must be prepared prior to the sales budget because managers want to know the expected cash collections on sales made to customers in prior periods before projecting sales for the current period.

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Medium*

18. Budgeted production needs are determined by:
**A.** adding budgeted sales in units to the desired ending inventory in units and deducting the beginning inventory in units from this total.
B. adding budgeted sales in units to the beginning inventory in units and deducting the desired ending inventory in units from this total.
C. adding budgeted sales in units to the desired ending inventory in units.
D. deducting the beginning inventory in units from budgeted sales in units.

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Medium*

19. The budgeted amount of raw materials to be purchased is determined by:
A. adding the desired ending inventory of raw materials to the raw materials needed to meet the production schedule.
B. subtracting the beginning inventory of raw materials from the raw materials needed to meet the production schedule.
**C.** adding the desired ending inventory of raw materials to the raw materials needed to meet the production schedule and subtracting the beginning inventory of raw materials.
D. adding the beginning inventory of raw materials to the raw materials needed to meet the production schedule and subtracting the desired ending inventory of raw materials.

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Medium*

20. Which of the following is not correct regarding the manufacturing overhead budget?
**A.** Total budgeted cash disbursements for manufacturing overhead is equal to the total of budgeted variable and fixed manufacturing overhead.
B. Manufacturing overhead costs should be broken down by cost behavior.
C. The manufacturing overhead budget should provide a schedule of all costs of production other than direct materials and direct labor.
D. A schedule showing budgeted cash disbursements for manufacturing overhead should be prepared for use in developing the cash budget.

*AACSB: Reflective Thinking*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Comprehension*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Medium*

21. Shown below is the sales forecast for Cooper Inc. for the first four months of the coming year.

| | Jan | Feb | Mar | Apr |
|---|---|---|---|---|
| Cash sales | $15,000 | $24,000 | $18,000 | $14,000 |
| Credit sales | $100,000 | $120,000 | $90,000 | $70,000 |

On average, 50% of credit sales are paid for in the month of the sale, 30% in the month following sale, and the remainder are paid two months after the month of the sale. Assuming there are no bad debts, the expected cash inflow in March is:
A. $138,000
B. $122,000
**C.** $119,000
D. $108,000

Cash inflow for March:

| | |
|---|---|
| March cash sales | $ 18,000 |
| March credit sales collected in March ($90,000 × 50%) | 45,000 |
| February credit sales collected in March ($120,000 × 30%) | 36,000 |
| January credit sales collected in March ($100,000 × 20%) | 20,000 |
| Total cash inflow in March | $119,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Medium*
*Source: CMA, adapted*

22. Budgeted sales in Allen Company over the next four months are given below:

| | September | October | November | December |
|---|---|---|---|---|
| Budgeted sales | $100,000 | $160,000 | $180,000 | $120,000 |

Twenty-five percent of the company's sales are for cash and 75% are on account. Collections for sales on account follow a stable pattern as follows: 50% of a month's credit sales are collected in the month of sale, 30% are collected in the month following sale, and 15% are collected in the second month following sale. The remainder are uncollectible. Given these data, cash collections for December should be:
A. $138,000
**B.** $133,500
C. $120,000
D. $103,500

Cash collections for December:

| | |
|---|---|
| December cash sales ($120,000 × 25%) | $ 30,000 |
| December credit sales collected in December ($120,000 × 75% × 50%) | 45,000 |
| November credit sales collected in December ($180,000 × 75% × 30%) | 40,500 |
| October credit sales collected in December ($160,000 × 75% × 15%) | 18,000 |
| Total cash collections in December | $133,500 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Medium*

23. The following data have been taken from the budget reports of Brandon company, a merchandising company.

| | Purchases | Sales |
|---|---|---|
| January | $160,000 | $100,000 |
| February | $160,000 | $200,000 |
| March | $160,000 | $240,000 |
| April | $140,000 | $300,000 |
| May | $140,000 | $260,000 |
| June | $120,000 | $240,000 |

Forty percent of purchases are paid for in cash at the time of purchase, and 30% are paid for in each of the next two months. Purchases for the previous November and December were $150,000 per month. Employee wages are 10% of sales for the month in which the sales occur. Selling and administrative expenses are 20% of the following month's sales. (July sales are budgeted to be $220,000.) Interest payments of $20,000 are paid quarterly in January and April. Brandon's cash disbursements for the month of April would be:

A. $140,000
**B.** $254,000
C. $200,000
D. $248,000

Cash disbursements for April:

| | |
|---|---|
| Purchases: | |
| Purchases in April ($140,000 × 40%) | $ 56,000 |
| Purchases in March ($160,000 × 30%) | 48,000 |
| Purchases in February ($160,000 × 30%) | 48,000 |
| Employee wages: | |
| Employee wages in April ($300,000 × 10%) | 30,000 |
| Selling and administrative expenses: | |
| Selling and administrative expenses ($260,000 × 20%) | 52,000 |
| Interest | 20,000 |
| Total cash disbursements for April | $254,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Hard*
*Source: CMA, adapted*

24. Walsh Company expects sales of Product W to be 60,000 units in April, 75,000 units in May and 70,000 units in June. The company desires that the inventory on hand at the end of each month be equal to 40% of the next month's expected unit sales. Due to excessive production during March, on March 31 there were 25,000 units of Product W in the ending inventory. Given this information, Walsh Company's production of Product W for the month of April should be:
A. 60,000 units
**B.** 65,000 units
C. 75,000 units
D. 66,000 units

| | April |
|---|---|
| Budgeted unit sales | 60,000 |
| Add desired ending finished goods inventory[1] | 30,000 |
| Total needs | 90,000 |
| Less beginning finished goods inventory | 25,000 |
| Required production in units | 65,000 |

[1]May sales of 75,000 units × 40% = 30,000 units

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Medium*

25. Berol Company plans to sell 200,000 units of finished product in July and anticipates a growth rate in sales of 5% per month. The desired monthly ending inventory in units of finished product is 80% of the next month's estimated sales. There are 150,000 finished units in inventory on June 30.
Berol Company's production requirement in units of finished product for the three-month period ending September 30 is:

A. 712,025 units
B. 630,500 units
C. 664,000 units
**D.** 665,720 units

| | July | August | September | Quarter |
|---|---|---|---|---|
| Budgeted unit sales | 200,000 | 210,000[1] | 220,500[2] | 630,500 |
| Add desired ending finished goods inventory | 168,000[3] | 176,400[4] | 185,220[5] | 185,220 |
| Total needs | 368,000 | 386,400 | 405,720 | 815,720 |
| Less beginning finished goods inventory | 150,000 | 168,000 | 176,400 | 150,000 |
| Required production in units | 218,000 | 218,400 | 229,320 | 665,720 |

[1]Unit sales of 200,000 × 105% = 210,000
[2]Unit sales of 210,000 × 105% = 220,500
[3]Unit sales of 210,000 × 80% = 168,000
[4]Unit sales of 220,500 × 80% = 176,400
[5]Unit sales of 220,500 × 105% × 80% = 185,220

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Hard*
*Source: CMA, adapted*

26. The Willsey Merchandise Company has budgeted $40,000 in sales for the month of December. The company's cost of goods sold is 30% of sales. If the company has budgeted to purchase $18,000 in merchandise during December, then the budgeted change in inventory levels over the month of December is:

**A.** $6,000 increase
B. $10,000 decrease
C. $22,000 decrease
D. $15,000 increase

COGS = 0.30 × $40,000 = $12,000
Beginning merchandise inventory + Merchandise purchases = Ending merchandise inventory + COGS
Ending merchandise inventory - Beginning merchandise inventory = Merchandise purchases - COGS
= $18,000 - $12,000 = $6,000

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Hard*

27. Prestwich Company has budgeted production for next year as follows:

| | Quarter | | | |
|---|---|---|---|---|
| | First | Second | Third | Fourth |
| Production in units | 60,000 | 80,000 | 90,000 | 70,000 |

Two pounds of material A are required for each unit produced. The company has a policy of maintaining a stock of material A on hand at the end of each quarter equal to 25% of the next quarter's production needs for material A. A total of 30,000 pounds of material A are on hand to start the year. Budgeted purchases of material A for the second quarter would be:

A. 82,500 pounds
**B.** 165,000 pounds
C. 200,000 pounds
D. 205,000 pounds

Budgeted purchases of material A:

| | Second Quarter |
|---|---|
| Production in units | 80,000 |
| Pounds per unit of production | 2 |
| Pounds of raw material needed for production | 160,000 |
| Add desired ending inventory (90,000 units × 2 pounds per unit × 25%) | 45,000 |
| Total raw materials needs | 205,000 |
| Less beginning inventory (80,000 units × 2 pounds per unit × 25%) | 40,000 |
| Required purchases | 165,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Medium*

28. Veltri Corporation is working on its direct labor budget for the next two months. Each unit of output requires 0.77 direct labor-hours. The direct labor rate is $11.20 per direct labor-hour. The production budget calls for producing 7,100 units in October and 6,900 units in November. The company guarantees its direct labor workers a 40-hour paid work week. With the number of workers currently employed, that means that the company is committed to paying its direct labor work force for at least 5,480 hours in total each month even if there is not enough work to keep them busy. What would be the total combined direct labor cost for the two months?

**A.** $122,752.00
B. $120,736.00
C. $120,881.60
D. $122,606.40

Direct Labor Budget

| | October | November | Total |
|---|---|---|---|
| Required production in units | 7,100 | 6,900 | |
| Direct labor-hours per unit | 0.77 | 0.77 | |
| Total direct labor-hours needed | 5,467 | 5,313 | |
| Minimum guaranteed paid labor-hours | 5,480 | 5,480 | |
| Direct labor cost per hour | $11.20 | $11.20 | |
| Total direct labor cost | $61,376 | $61,376 | $122,752 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-05 Prepare a direct labor budget*
*Level: Easy*

29. Hagos Corporation is working on its direct labor budget for the next two months. Each unit of output requires 0.84 direct labor-hours. The direct labor rate is $9.40 per direct labor-hour. The production budget calls for producing 2,100 units in June and 1,900 units in July. 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. $15,792.00
B. $15,002.40
C. $16,581.60
**D.** $31,584.00

Direct Labor Budget

| | June | July | Total |
|---|---|---|---|
| Required production in units | 2,100 | 1,900 | |
| Direct labor-hours per unit | 0.84 | 0.84 | |
| Total direct labor-hours needed | 1,764 | 1,596 | |
| Direct labor cost per hour | $9.40 | $9.40 | |
| Total direct labor cost | $16,581.60 | $15,002.40 | $31,584 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-05 Prepare a direct labor budget*
*Level: Easy*

30. Shuck Inc. bases its manufacturing overhead budget on budgeted direct labor-hours. The direct labor budget indicates that 8,100 direct labor-hours will be required in May. The variable overhead rate is $1.40 per direct labor-hour. The company's budgeted fixed manufacturing overhead is $100,440 per month, which includes depreciation of $8,910. All other fixed manufacturing overhead costs represent current cash flows. The May cash disbursements for manufacturing overhead on the manufacturing overhead budget should be:

**A.** $102,870
B. $11,340
C. $91,530
D. $111,780

Manufacturing Overhead Budget

| | May |
|---|---|
| Budgeted direct labor-hours | 8,100 |
| Variable manufacturing overhead rate | $1.40 |
| Variable manufacturing overhead | $ 11,340 |
| Fixed manufacturing overhead | 100,440 |
| Total manufacturing overhead | 111,780 |
| Less depreciation | 8,910 |
| Cash disbursement for manufacturing overhead | $102,870 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

31. The manufacturing overhead budget at Latronica Corporation is based on budgeted direct labor-hours. The direct labor budget indicates that 7,100 direct labor-hours will be required in August. The variable overhead rate is $8.60 per direct labor-hour. The company's budgeted fixed manufacturing overhead is $132,770 per month, which includes depreciation of $24,850. All other fixed manufacturing overhead costs represent current cash flows. The company recomputes its predetermined overhead rate every month. The predetermined overhead rate for August should be:
A. $8.60
**B.** $27.30
C. $23.80
D. $18.70

Manufacturing Overhead Rate

| | August |
|---|---|
| Budgeted direct labor-hours | 7,100 |
| Variable manufacturing overhead rate | $8.60 |
| Variable manufacturing overhead | $ 61,060 |
| Fixed manufacturing overhead | 132,770 |
| Total manufacturing overhead (a) | $193,830 |
| Budgeted direct labor-hours (b) | 7,100 |
| Predetermined overhead rate (a) ÷ (b) | $27.30 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

32. Avitia Inc. bases its manufacturing overhead budget on budgeted direct labor-hours. The direct labor budget indicates that 3,700 direct labor-hours will be required in September. The variable overhead rate is $5.70 per direct labor-hour. The company's budgeted fixed manufacturing overhead is $48,100 per month, which includes depreciation of $5,550. All other fixed manufacturing overhead costs represent current cash flows. The company recomputes its predetermined overhead rate every month. The predetermined overhead rate for September should be:

A. $5.70
B. $13.00
**C.** $18.70
D. $17.20

Manufacturing Overhead Rate

| | September |
|---|---|
| Budgeted direct labor-hours | 3,700 |
| Variable manufacturing overhead rate | $5.70 |
| Variable manufacturing overhead | $21,090 |
| Fixed manufacturing overhead | 48,100 |
| Total manufacturing overhead (a) | $69,190 |
| Budgeted direct labor-hours (b) | 3,700 |
| Predetermined overhead rate (a) ÷ (b) | $18.70 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

33. The manufacturing overhead budget at Cutchin Corporation is based on budgeted direct labor-hours. The direct labor budget indicates that 2,800 direct labor-hours will be required in September. The variable overhead rate is $7.00 per direct labor-hour. The company's budgeted fixed manufacturing overhead is $43,120 per month, which includes depreciation of $3,640. All other fixed manufacturing overhead costs represent current cash flows. The September cash disbursements for manufacturing overhead on the manufacturing overhead budget should be:

**A.** $59,080
B. $62,720
C. $19,600
D. $39,480

Manufacturing Overhead Budget

| | September |
|---|---|
| Budgeted direct labor-hours | 2,800 |
| Variable manufacturing overhead rate | $7.00 |
| Variable manufacturing overhead | $19,600 |
| Fixed manufacturing overhead | 43,120 |
| Total manufacturing overhead | 62,720 |
| Less depreciation | 3,640 |
| Cash disbursement for manufacturing overhead | $59,080 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

34. The selling and administrative expense budget of Breckinridge Corporation is based on budgeted unit sales, which are 5,500 units for June. The variable selling and administrative expense is $1.00 per unit. The budgeted fixed selling and administrative expense is $101,200 per month, which includes depreciation of $6,050 per month. The remainder of the fixed selling and administrative expense represents current cash flows. The cash disbursements for selling and administrative expenses on the June selling and administrative expense budget should be:
**A.** $100,650
B. $106,700
C. $5,500
D. $95,150

Selling and Administrative Expense Budget

| | June |
|---|---|
| Budgeted unit sales | 5,500 |
| Variable selling and administrative expense per unit | $1.00 |
| Variable selling and administrative expense | $ 5,500 |
| Fixed selling and administrative expense | 101,200 |
| Total selling and administrative expense | 106,700 |
| Less depreciation | 6,050 |
| Cash disbursements for selling and administrative expenses | $100,650 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-07 Prepare a selling and administrative expense budget*
*Level: Easy*

35. Lunderville Inc. bases its selling and administrative expense budget on budgeted unit sales. The sales budget shows 3,200 units are planned to be sold in December. The variable selling and administrative expense is $3.10 per unit. The budgeted fixed selling and administrative expense is $60,800 per month, which includes depreciation of $6,720 per month. The remainder of the fixed selling and administrative expense represents current cash flows. The cash disbursements for selling and administrative expenses on the December selling and administrative expense budget should be:

A. $70,720
B. $54,080
**C.** $64,000
D. $9,920

Selling and Administrative Expense Budget

| | December |
|---|---|
| Budgeted unit sales | 3,200 |
| Variable selling and administrative expense per unit | $3.10 |
| Variable selling and administrative expense | $ 9,920 |
| Fixed selling and administrative expense | 60,800 |
| Total selling and administrative expense | 70,720 |
| Less depreciation | 6,720 |
| Cash disbursements for selling and administrative expenses | $64,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-07 Prepare a selling and administrative expense budget*
*Level: Easy*

36. The Carlquist Company makes and sells a product called Product K. Each unit of Product K sells for $24 dollars and has a unit variable cost of $18. The company has budgeted the following data for November:

- Sales of $1,152,200, all in cash.
- A cash balance on November 1 of $48,000.
- Cash disbursements (other than interest) during November of $1,160,000.
- A minimum cash balance on November 30 of $60,000.

If necessary, the company will borrow cash from a bank. The borrowing will be in multiples of $1,000 and will bear interest at 2% per month. All borrowing will take place at the beginning of the month. The November interest will be paid in cash during November.
The amount of cash needed to be borrowed on November 1 to cover all cash disbursements and to obtain the desired November 30 cash balance is:
A. $20,000
**B.** $21,000
C. $37,000
D. $38,000

Cash Budget

| | |
|---|---|
| Cash balance, beginning | $ 48,000 |
| Add cash receipts (all sales are for cash) | 1,152,200 |
| Total cash available | 1,200,200 |
| Less cash disbursements | 1,160,000 |
| Excess (deficiency) of cash available over disbursements | 40,200 |
| Interest (2% × $21,000*) | 420 |
| Cash balance before financing | 39,780 |
| Financing | 21,000 |
| Cash balance, ending | $ 60,780 |

Since the company desires an ending cash balance of at least $60,000, the excess of cash available over disbursements is $40,200, and cash must be borrowed in multiples of $1,000, it would appear that the company must borrow at least $21,000. The remainder of the computations establish that this borrowing will suffice, including the interest on the borrowing.

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Hard*

37. Mosbey Inc. is working on its cash budget for June. The budgeted beginning cash balance is $16,000. Budgeted cash receipts total $188,000 and budgeted cash disbursements total $187,000. The desired ending cash balance is $40,000. The excess (deficiency) of cash available over disbursements for June will be:
A. $15,000
B. $1,000
**C.** $17,000
D. $204,000

Cash Budget

| | |
|---|---|
| Cash balance, beginning | $ 16,000 |
| Add cash receipts (all sales are for cash) | 188,000 |
| Total cash available | 204,000 |
| Less cash disbursements | 187,000 |
| Excess (deficiency) of cash available over disbursements | 17,000 |
| Financing ($40,000 – $17,000) | 23,000 |
| Cash balance, ending | $ 40,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*

38. Avril Company makes collections on sales according to the following schedule:

| |
|---|
| 30% in the month of sale |
| 60% in the month following sale |
| 8% in the second month following sale |
| |

The following sales are expected:

| | Expected Sales |
|---|---|
| January | $100,000 |
| February | $120,000 |
| March | $110,000 |

Cash collections in March should be budgeted to be:

A. $110,000
B. $110,800
C. $105,000
**D.** $113,000

Cash collections for March:

| | |
|---|---|
| March credit sales collected in March ($110,000 × 30%) | $ 33,000 |
| February credit sales collected in March ($120,000 × 60%) | 72,000 |
| January credit sales collected in March ($100,000 × 8%) | 8,000 |
| Total cash collections in March | $113,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*

39. Deschambault Inc. is working on its cash budget for December. The budgeted beginning cash balance is $14,000. Budgeted cash receipts total $127,000 and budgeted cash disbursements total $126,000. The desired ending cash balance is $40,000. To attain its desired ending cash balance for December, the company needs to borrow:

**A.** $25,000
B. $0
C. $55,000
D. $40,000

Cash Budget

| | |
|---|---|
| Cash balance, beginning | $ 14,000 |
| Add cash receipts (all sales are for cash) | 127,000 |
| Total cash available | 141,000 |
| Less cash disbursements | 126,000 |
| Excess (deficiency) of cash available over disbursements | 15,000 |
| Financing ($40,000 – $15,000) | 25,000 |
| Cash balance, ending | $ 40,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*

Diltex Farm Supply is located in a small town in the rural west. Data regarding the store's operations follow:

• Sales are budgeted at $220,000 for November, $200,000 for December, and $210,000 for January.
• Collections are expected to be 70% in the month of sale, 27% in the month following the sale, and 3% uncollectible.
• The cost of goods sold is 65% of sales.
• The company desires to have an ending merchandise inventory at the end of each month equal to 50% of the next month's cost of goods sold. Payment for merchandise is made in the month following the purchase.
• Other monthly expenses to be paid in cash are $22,500.
• Monthly depreciation is $19,000.
• Ignore taxes.

| | |
|---|---|
| Statement of Financial Position | |
| October 31 | |
| Assets | |
| Cash | $ 16,000 |
| Accounts receivable (net of allowance for uncollectible accounts) | 76,000 |
| Merchandise inventory | 71,500 |
| Property, plant and equipment (net of $536,000 accumulated depreciation) | 956,000 |
| Total assets | $1,119,500 |
| | |
| Liabilities and Stockholders' Equity | |
| Accounts payable | $ 147,000 |
| Common stock | 840,000 |
| Retained earnings | 132,500 |
| Total liabilities and stockholders' equity | $1,119,500 |

40. Expected cash collections in December are:
A. $59,400
B. $140,000
**C.** $199,400
D. $200,000

Cash collections for December:

| | | |
|---|---|---|
| | November credit sales collected in December ($220,000 × 27%) | 59,400 |
| | December credit sales collected in December ($200,000 × 70%) | $140,000 |
| | Total cash collections in December | $199,400 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Hard*

41. The cost of December merchandise purchases would be:
**A.** $133,250
B. $68,250
C. $130,000
D. $143,000

December merchandise purchases:

| | | November | December | January |
|---|---|---|---|---|
| | Sales | $220,000 | $200,000 | $210,000 |
| | Budgeted cost of goods sold (65% of sales) | $143,000 | $130,000 | $136,500 |
| | Add desired ending merchandise inventory (50% of next month's cost of goods sold) | 65,000 | 68,250 | |
| | Total needs | 208,000 | 198,250 | |
| | Less beginning merchandise inventory | 71,500 | 65,000 | |
| | Required purchases | $136,500 | $133,250 | |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Hard*

42. December cash disbursements for merchandise purchases would be:
**A.** $136,500
B. $68,250
C. $133,250
D. $130,000

| | November | December | January |
|---|---|---|---|
| Sales | $220,000 | $200,000 | $210,000 |
| Budgeted cost of goods sold (65% of sales) | $143,000 | $130,000 | $136,500 |
| Add desired ending merchandise inventory (50% of next month's cost of goods sold) | 65,000 | 68,250 | |
| Total needs | 208,000 | 198,250 | |
| Less beginning merchandise inventory | 71,500 | 65,000 | |
| Required purchases | $136,500 | $133,250 | |

The company pays for its purchases in the month following purchase, so the cash disbursements in December would equal the November purchases of $136,500.

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Hard*

43. The difference between cash receipts and cash disbursements for December would be:
A. $17,900
B. $22,500
**C.** $40,400
D. $62,900

Cash collections for December:

| | |
|---|---|
| November credit sales collected in December ($220,000 × 27%) | 59,400 |
| December credit sales collected in December ($200,000 × 70%) | $140,000 |
| Total cash collections in December | $199,400 |

Cash disbursements for merchandise in December:

| | November | December | January |
|---|---|---|---|
| Sales | $220,000 | $200,000 | $210,000 |
| Budgeted cost of goods sold (65% of sales) | $143,000 | $130,000 | $136,500 |
| Add desired ending merchandise inventory (50% of next month's cost of goods sold) | 65,000 | 68,250 | |
| Total needs | 208,000 | 198,250 | |
| Less beginning merchandise inventory | 71,500 | 65,000 | |
| Required purchases | $136,500 | $133,250 | |

The company pays for its purchases in the month following purchase, so the cash disbursements in December for merchandise would equal the November purchases of $136,500.

Total cash disbursements in December:

| | December |
|---|---|
| Cash disbursements for merchandise | $136,500 |
| Other monthly expenses paid in cash | 22,500 |
| Total cash disbursements | $159,000 |

| | |
|---|---|
| Cash receipts | $199,400 |
| Less cash disbursements | 159,000 |
| Cash receipts less cash disbursements | $ 40,400 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Hard*

44. The net income for December would be:
A. $40,400
**B.** $22,500
C. $47,500
D. $28,500

Budgeted Income Statement

| | | |
|---|---|---|
| | Sales (less bad debts of 3% of $200,000) | $194,000 |
| | Cost of goods sold | 130,000 |
| | Gross margin | 64,000 |
| | Other expenses | 22,500 |
| | Depreciation | 19,000 |
| | Net income | $ 22,500 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-09 Prepare a budgeted income statement*
*Level: Hard*

45. The cash balance at the end of December would be:
**A.** $116,900
B. $16,000
C. $100,900
D. $56,400

Cash Budget

| | |
|---|---|
| Cash balance, October 31 | $ 16,000 |
| Add: accounts receivable collection | 76,000 |
| Add: November credit sales collection ($220,000 × 70%) | 154,000 |
| Cash available | 246,000 |
| Less: accounts payable disbursement | 147,000 |
| Less: November expenses disbursement | 22,500 |
| Cash balance, December 1 | $ 76,500 |
| Add: Cash collection in December | 199,400 |
| Cash available | 275,900 |
| Less: December cash disbursements | 136,500 |
| Less: December expenses disbursement | 22,500 |
| Cash balance, December 31 | $116,900 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Learning Objective: 08-10 Prepare a budgeted balance sheet*
*Level: Hard*

46. The accounts receivable balance, net of uncollectible accounts, at the end of December would be:
A. $82,000
B. $113,400
C. $60,000
**D.** $54,000

December accounts receivable balance:

| | |
|---|---|
| December uncollected (30% × $200,000) | $60,000 |
| Less: December allowance for uncollectibles (3% × $200,000) | 6,000 |
| December net accounts receivable | $54,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-10 Prepare a budgeted balance sheet*
*Level: Hard*

47. Accounts payable at the end of December would be:
A. $65,000
B. $68,250
C. $130,000
**D.** $133,250

December accounts payable balance:

| | |
|---|---|
| Unpaid purchases for December sales ($200,000 × 65% × 50%) | $ 65,000 |
| Unpaid purchases for January sales ($210,000 × 65% × 50%) | 68,250 |
| December accounts payable | $133,250 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-10 Prepare a budgeted balance sheet*
*Level: Hard*

48. Retained earnings at the end of December would be:
A. $132,500
B. $155,000
C. $196,500
**D.** $183,900

Budgeted Income Statement

| | November | December |
|---|---|---|
| Sales | $220,000 | $200,000 |
| Bad debts expense | 6,600 | 6,000 |
| Cost of goods sold | 143,000 | 130,000 |
| Gross margin | 70,400 | 64,000 |
| Expenses | 22,500 | 22,500 |
| Depreciation | 19,000 | 19,000 |
| Net income | $ 28,900 | $ 22,500 |

| | |
|---|---|
| Retained earnings, October 31 | $132,500 |
| Plus: November net income | 28,900 |
| Retained earnings, November 30 | 161,400 |
| Plus: December net income | 22,500 |
| Retained earnings, December 31 | $183,900 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-10 Prepare a budgeted balance sheet*
*Level: Hard*

Brarin Corporation is a small wholesaler of gourmet food products. Data regarding the store's operations follow:

• Sales are budgeted at $340,000 for November, $360,000 for December, and $350,000 for January.

• Collections are expected to be 55% in the month of sale, 44% in the month following the sale, and 1% uncollectible.

• The cost of goods sold is 80% of sales.

• The company would like to maintain ending merchandise inventories equal to 70% of the next month's cost of goods sold. Payment for merchandise is made in the month following the purchase.

• Other monthly expenses to be paid in cash are $23,100.

• Monthly depreciation is $21,000.

• Ignore taxes.

| | |
|---|---|
| Statement of Financial Position | |
| October 31 | |
| Assets | |
| Cash | $ 22,000 |
| Accounts receivable (net of allowance for uncollectible accounts) | 77,000 |
| Merchandise inventory | 190,400 |
| Property, plant and equipment (net of $452,000 accumulated depreciation) | 934,000 |
| Total assets | $1,223,400 |
| | |
| Liabilities and Stockholders' Equity | |
| Accounts payable | $ 281,000 |
| Common stock | 620,000 |
| Retained earnings | 322,400 |
| Total liabilities and stockholders' equity | $1,223,400 |

49. Expected cash collections in December are:
A. $360,000
B. $149,600
C. $198,000
**D.** $347,600

Cash collections for December:

| | |
|---|---|
| December credit sales collected in December ($360,000 × 55%) | $198,000 |
| November credit sales collected in December ($340,000 × 44%) | 149,600 |
| Total cash collections in December | $347,600 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Hard*

50. The cost of December merchandise purchases would be:
A. $272,000
B. $288,000
C. $196,000
**D.** $282,400

December merchandise purchases:

| | November | December | January |
|---|---|---|---|
| Sales | $340,000 | $360,000 | $350,000 |
| Cost of goods sold (80% of sales) | $272,000 | $288,000 | $280,000 |
| Add desired ending merchandise inventory (70% of next month's COGS) | 201,600 | 196,000 | |
| Total needs | 473,600 | 484,000 | |
| Less beginning merchandise inventory (70% of this month's COGS) | 190,400 | 201,600 | |
| Required purchases | $283,200 | $282,400 | |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Hard*

51. December cash disbursements for merchandise purchases would be:
**A.** $283,200
B. $196,000
C. $288,000
D. $282,400

| | November | December |
|---|---|---|
| Sales | $340,000 | $360,000 |
| Cost of goods sold (80**%** of sales) | $272,000 | $288,000 |
| Add desired ending merchandise inventory (70**%** of next month's COGS) | 201,600 | |
| Total needs | 473,600 | |
| Less beginning merchandise inventory (70**%** of this month's COGS) | 190,400 | |
| Required purchases | $283,200 | |

In December, the company will pay for November's purchases of $283,200.

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Hard*

52. The difference between cash receipts and cash disbursements in December would be:
A. $17,000
B. $24,300
**C.** $41,300
D. $65,600

Cash receipts in December:

| | |
|---|---|
| December credit sales collected in December ($360,000 × 55%) | $198,000 |
| November credit sales collected in December ($340,000 × 44%) | 149,600 |
| Total cash collections in December | $347,600 |

Cash disbursements for purchases of merchandise inventory in December:

| | November | December |
|---|---|---|
| Sales | $340,000 | $360,000 |
| Cost of goods sold (80% of sales) | $272,000 | $288,000 |
| Add desired ending merchandise inventory (70% of next month's COGS) | 201,600 | |
| Total needs | 473,600 | |
| Less beginning merchandise inventory (70% of this month's COGS) | 190,400 | |
| Required purchases | $283,200 | |

In December, the company will pay for November's purchases of $283,200.

| | |
|---|---|
| Cash receipts | $347,600 |
| Cash disbursements for purchases of merchandise inventory | 283,200 |
| Other monthly expenses paid in cash | 23,100 |
| Cash receipts less cash disbursements | $ 41,300 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Hard*

The Kafusi Company has the following budgeted sales:

| | April | May | June | July |
|---|---|---|---|---|
| Credit Sales | $320,000 | $300,000 | $350,000 | $400,000 |
| Cash Sales | $70,000 | $80,000 | $90,000 | $70,000 |

The regular pattern of collection of credit sales is 30% in the month of sale, 60% in the month following the month of sale, and the remainder in the second month following the month of sale. There are no bad debts.

53. The budgeted cash receipts for July would be:
A. $400,000
**B.** $430,000
C. $435,000
D. $390,000

Cash collections for July:

| | |
|---|---|
| July cash sales | $ 70,000 |
| July credit sales collected in July ($400,000 × 30%) | 120,000 |
| June credit sales collected in July ($350,000 × 60%) | 210,000 |
| May credit sales collected in July ($300,000 × 10%) | 30,000 |
| Total cash collections in July | $430,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Medium*

54. The budgeted accounts receivable balance on May 31 would be:
A. $210,000
B. $212,000
C. $180,000
**D.** $242,000

May 31 accounts receivable balance:

| | |
|---|---|
| May uncollected credit sales (70% × $300,000) | $210,000 |
| April uncollected credit sales (10% × $320,000) | 32,000 |
| May 31 accounts receivable | $242,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Medium*

Mitchell Company had the following budgeted sales for the last half of last year:

| | Cash Sales | Credit Sales |
|---|---|---|
| July | $50,000 | $150,000 |
| August | $55,000 | $170,000 |
| September | $45,000 | $130,000 |
| October | $50,000 | $145,000 |
| November | $60,000 | $200,000 |
| December | $80,000 | $350,000 |

The company is in the process of preparing a cash budget and must determine the expected cash collections by month. To this end, the following information has been assembled:

| |
|---|
| Collections on credit sales: |
| 60% in month of sale |
| 30% in month following sale |
| 10% in second month following sale |

55. Assume that the accounts receivable balance on July 1 was $75,000. Of this amount, $60,000 represented uncollected June sales and $15,000 represented uncollected May sales. Given these data, the total cash collected during July would be:
A. $150,000
B. $235,000
C. $215,000
**D.** $200,000

Cash collections for July:

| | |
|---|---|
| June credit sales collected in July ($150,000* × 30%) | $ 45,000 |
| May credit sales collected in July | 15,000 |
| July cash sales | 50,000 |
| July credit sales collected in July ($150,000 × 60%) | 90,000 |
| Total cash collections in July | $200,000 |

*Accounts receivables representing June credit sales = $60,000 = (30% + 10%) × June credit sales
June credit sales = $60,000 ÷ (30% + 10%) = $150,000

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Hard*

56. What is the budgeted accounts receivable balance on December 1?
A. $80,000
B. $140,000
**C.** $94,500
D. $131,300

December 1 accounts receivable balance:

| | |
|---|---|
| Uncollected November credit sales (40% × $200,000) | $80,000 |
| Uncollected October credit sales (10% × $145,000) | 14,500 |
| December accounts receivable | $94,500 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Level: Hard*

Sartain Corporation is in the process of preparing its annual budget. The following beginning and ending inventory levels are planned for the year.

| | Beginning Inventory | Ending Inventory |
|---|---|---|
| Finished goods (units) | 20,000 | 70,000 |
| Raw material (grams) | 50,000 | 40,000 |

Each unit of finished goods requires 2 grams of raw material.

57. If the company plans to sell 670,000 units during the year, the number of units it would have to manufacture during the year would be:
A. 670,000 units
**B.** 720,000 units
C. 740,000 units
D. 620,000 units

Production Budget

| | |
|---|---|
| Budgeted unit sales | 670,000 |
| Add desired ending finished goods inventory | 70,000 |
| Total needs | 740,000 |
| Less beginning finished goods inventory | 20,000 |
| Required production in units | 720,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Easy*

58. How much of the raw material should the company purchase during the year?
**A.** 1,430,000 grams
B. 1,450,000 grams
C. 1,480,000 grams
D. 1,440,000 grams

Materials Budget

| | |
|---|---|
| Required production in units | 720,000 |
| Raw materials required per unit (grams) | 2 |
| Raw materials required for production | 1,440,000 |
| Add desired ending finished goods inventory | 40,000 |
| Total raw materials needs | 1,480,000 |
| Less beginning finished goods inventory | 50,000 |
| Required material purchases in grams | 1,430,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Medium*

LHU Corporation makes and sells a product called Product WZ. Each unit of Product WZ requires 2.5 hours of direct labor at the rate of $15.00 per direct labor-hour. Management would like you to prepare a Direct Labor Budget for June.

59. The budgeted direct labor cost per unit of Product WZ would be:
**A.** $37.50
B. $6.00
C. $15.00
D. $17.50

Budgeted direct labor cost = 2.5 direct labor-hours per unit × $15.00 per direct labor-hour =$37.50 per unit

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-05 Prepare a direct labor budget*
*Level: Easy*

60. The company plans to sell 38,000 units of Product WZ in June. The finished goods inventories on June 1 and June 30 are budgeted to be 600 and 100 units, respectively. Budgeted direct labor costs for June would be:
A. $562,500
B. $1,425,000
**C.** $1,406,250
D. $1,443,750

Direct labor budget

| | June |
|---|---|
| Budgeted unit sales | 38,000 |
| Add desired ending finished goods inventory | 100 |
| Total needs | 38,100 |
| Less beginning finished goods inventory | 600 |
| Required production in units | 37,500 |
| Direct labor-hours per unit | 2.5 |
| Total direct labor-hours needed | 93,750 |
| Direct labor cost per hour | $15.00 |
| Budgeted direct labor costs for June | $1,406,250 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Medium*

Hardy, Inc., has budgeted sales in units for the next five months as follows:

| | |
|---|---|
| June | 8,200 units |
| July | 6,300 units |
| August | 4,700 units |
| September | 3,600 units |
| October | 2,600 units |

Past experience has shown that the ending inventory for each month should be equal to 20% of the next month's sales in units. The inventory on May 31 contained 1,640 units. The company needs to prepare a production budget for the next five months.

61. The beginning inventory for September should be:
A. 940 units
**B.** 720 units
C. 1,640 units
D. 520 units

Beginning inventory for September = Ending inventory for August = 20% of September's sales
= 20% × 3,600 units = 720 units

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Easy*

62. The total number of units produced in July should be:
A. 7,240 units
B. 6,620 units
C. 6,300 units
**D.** 5,980 units

Production Budget

| | July |
|---|---|
| Budgeted unit sales | 6,300 |
| Add desired ending finished goods inventory | 940 |
| Total needs | 7,240 |
| Less beginning finished goods inventory | 1,260 |
| Required production in units | 5,980 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Easy*

Young Enterprises has budgeted sales in units for the next five months as follows:

| | | |
|---|---|---|
| | June | 4,600 units |
| | July | 7,200 units |
| | August | 5,400 units |
| | September | 6,800 units |
| | October | 3,800 units |

Past experience has shown that the ending inventory for each month should be equal to 10% of the next month's sales in units. The inventory on May 31 fell short of this goal since it contained only 400 units. The company needs to prepare a Production Budget for the next five months.

63. The beginning inventory in units for September should be:
A. 460 units
B. 6,800 units
C. 540 units
**D.** 680 units

Beginning inventory for September = Ending inventory for August = 10% of September sales = 10% × 6,800 units = 680 units

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Easy*

64. The total number of units to be produced in July is:
A. 7,740 units
B. 7,200 units
**C.** 7,020 units
D. 7,280 units

Production Budget

| | |
|---|---|
| Budgeted unit sales | 7,200 |
| Add desired ending finished goods inventory | 540 |
| Total needs | 7,740 |
| Less beginning finished goods inventory | 720 |
| Required production in units | 7,020 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Medium*

65. The desired ending inventory for August is:
A. 540 units
**B.** 680 units
C. 720 units
D. 380 units

Ending inventory for August = 10% of September sales = 10% × 6,800 units = 680 units

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Easy*

Casper Corporation makes and sells a product called a Miniwarp. One Miniwarp requires 3.5 kilograms of the raw material Jurislon. Budgeted production of Miniwarps for the next five months is as follows:

| | |
|---|---|
| August | 20,400 units |
| September | 18,500 units |
| October | 20,300 units |
| November | 18,700 units |
| December | 20,500 units |

The company wants to maintain monthly ending inventories of Jurislon equal to 10% of the following month's production needs. On July 31, this requirement was not met since only 6,900 kilograms of Jurislon were on hand. The cost of Jurislon is $3.00 per kilogram. The company wants to prepare a Direct Materials Purchase Budget for the next five months.

66. The desired ending inventory of Jurislon for the month of September is:
A. $5,550
**B.** $21,315
C. $6,090
D. $19,425

Ending inventory of Jurislon for September = 10% of October's production needs = 10% × 20,300 units × 3.5 kilograms per unit = 7,105 kilograms
Cost of ending inventory of Jurilson = 7,105 kilograms × $3.00 per kilogram = $21,315

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Medium*

67. The total cost of Jurislon to be purchased in August is:
A. $233,625
B. $407,700
C. $214,200
**D.** $212,925

| | August |
|---|---|
| Required production in units | 20,400 |
| Raw materials required per unit (kilograms) | 3.5 |
| Raw materials needed for production | 71,400 |
| Add desired ending raw materials inventory (10% × 18,500 units × 3.5 kilograms per unit) | 6,475 |
| Total raw materials needs | 77,875 |
| Less beginning raw materials inventory | 6,900 |
| Required purchases of raw material in units | 70,975 |
| Cost per kilogram | $3.00 |
| Required purchases | $212,925 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Medium*

Balmforth Products, Inc. makes and sells a single product called a Bik. It takes three yards of Material A to make one Bik. Budgeted production of Biks for the next five months is as follows:

| | |
|---|---|
| February | 14,000 units |
| March | 15,500 units |
| April | 11,900 units |
| May | 12,600 units |
| June | 14,500 units |

The company wants to maintain monthly ending inventories of Material A equal to 20% of the following month's production needs. On January 31, this target had not been attained since only 2,000 yards of Material A were on hand. The cost of Material A is $0.80 per yard. The company wants to prepare a Direct Materials Purchases Budget.

68. The total cost of Material A to be purchased in February is:
A. $45,200
B. $42,900
**<u>C.</u>** $39,440
D. $34,320

| | February |
|---|---|
| Required production in units of finished goods | 14,000 |
| Raw materials required per unit of finished goods | 3 |
| Raw materials needed to meet the production schedule | 42,000 |
| Add desired ending raw materials inventory (20% × 15,500 units × 3 yards per unit) | 9,300 |
| Total raw materials needs | 51,300 |
| Less beginning raw materials inventory | 2,000 |
| Raw materials to be purchased | 49,300 |
| Unit cost of raw materials | $0.80 |
| Cost of raw materials to be purchased | $39,440 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Medium*

69. The desired ending inventory of Material A for the month of March is:
A. 9,300 yards
**<u>B.</u>** 7,140 yards
C. 3,100 yards
D. 8,400 yards

Desired ending inventory of Material A for March = 20% × 11,900 units × 3 yards per unit = 7,140 yards

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Easy*

70. The total needs (i.e., production requirements plus desired ending inventory) of Material A for the month of May are:
A. 37,800 yards
B. 45,360 yards
**C.** 46,500 yards
D. 38,940 yards

| | May |
|---|---|
| Required production in units of finished goods | 12,600 |
| Raw materials required per unit of finished goods | 3 |
| Raw materials needed to meet the production schedule | 37,800 |
| Add desired ending raw materials inventory (20% × 14,500 units × 3 yards per unit) | 8,700 |
| Total raw materials needs | 46,500 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-04 Prepare a direct materials budget; including a schedule of expected cash disbursements for purchase of materials*
*Level: Medium*

The Yost Company makes and sells a single product, Product A. Each unit of Product A requires 1.2 hours of labor at a labor rate of $8.40 per hour. Yost Company needs to prepare a Direct Labor Budget for the second quarter.

71. If the budgeted direct labor cost for May is $161,280, then the budgeted production of Product A for May is:
**A.** 16,000 units
B. 19,200 units
C. 23,040 units
D. 16,800 units

Budgeted direct labor cost = Budgeted production × 1.2 direct labor-hours per unit × $8.40 per direct labor-hour
$161,280 = Budgeted production × 1.2 direct labor-hours per unit × $8.40 per direct labor-hour
$161,280 = Budgeted production × $10.08 per unit
Budgeted production = $161,280 ÷ $10.08 per unit = 16,000 units

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-05 Prepare a direct labor budget*
*Level: Easy*

72. The budgeted direct labor cost per unit of Product A is:
A. $8.40
B. $7.00
**C.** $10.08
D. $9.60

Direct labor cost per unit = 1.2 direct labor-hours per unit × $8.40 per direct labor-hour = $10.08 per unit

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-05 Prepare a direct labor budget*
*Level: Easy*

73. The company has budgeted to produce 20,000 units of Product A in June. The finished goods inventories on June 1 and June 30 were budgeted at 400 and 600 units, respectively. Budgeted direct labor cost for June is:
A. $207,648
B. $168,000
C. $199,584
**D.** $201,600

Budgeted direct labor cost = Budgeted production × 1.2 direct labor-hours per unit × $8.40 per direct labor-hour = 20,000 units × 1.2 direct labor-hours per unit × $8.40 per direct labor-hour
= 20,000 units × $10.08 per unit = $201,600

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-05 Prepare a direct labor budget*
*Level: Medium*

Davol Corporation is preparing its Manufacturing Overhead Budget for the fourth quarter of the year. The budgeted variable manufacturing overhead rate is $6.80 per direct labor-hour; the budgeted fixed manufacturing overhead is $72,000 per month, of which $20,000 is factory depreciation.

74. If the budgeted direct labor time for October is 5,000 hours, then the total budgeted manufacturing overhead for October is:
A. $52,000
**B.** $106,000
C. $54,000
D. $86,000

Manufacturing Overhead Budget

| | October |
|---|---|
| Budgeted direct labor-hours | 5,000 |
| Variable manufacturing overhead rate | $6.80 |
| Variable manufacturing overhead | $ 34,000 |
| Fixed manufacturing overhead | 72,000 |
| Total manufacturing overhead | $106,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

75. If the budgeted direct labor time for November is 5,000 hours, then the total budgeted cash disbursements for November must be:
A. $54,000
B. $52,000
C. $106,000
**D.** $86,000

| | November |
|---|---|
| Budgeted direct labor-hours | 5,000 |
| Variable manufacturing overhead rate | $6.80 |
| Variable manufacturing overhead | $ 34,000 |
| Fixed manufacturing overhead | 72,000 |
| Total manufacturing overhead | 106,000 |
| Less depreciation | 20,000 |
| Cash disbursement for manufacturing overhead | $86,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Medium*

76. If the budgeted direct labor time for December is 4,000 hours, then the predetermined manufacturing overhead per direct labor-hour for December would be:
A. $6.80
B. $11.80
C. $19.80
**D.** $24.80

| | December |
|---|---|
| Budgeted direct labor-hours | 4,000 |
| Variable manufacturing overhead rate | $6.80 |
| Variable manufacturing overhead | $27,200 |
| Fixed manufacturing overhead | 72,000 |
| Total manufacturing overhead (a) | $99,200 |
| Budgeted direct labor-hours (b) | 4,000 |
| Predetermined overhead rate for the month (a) ÷ (b) | $24.80 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Medium*

The manufacturing overhead budget at Mahapatra Corporation is based on budgeted direct labor-hours. The direct labor budget indicates that 7,900 direct labor-hours will be required in May. The variable overhead rate is $9.50 per direct labor-hour. The company's budgeted fixed manufacturing overhead is $112,970 per month, which includes depreciation of $18,170. All other fixed manufacturing overhead costs represent current cash flows.

77. The company recomputes its predetermined overhead rate every month. The predetermined overhead rate for May should be:
A. $14.30
B. $21.50
C. $9.50
**D.** $23.80

| | May |
|---|---|
| Budgeted direct labor-hours | 7,900 |
| Variable manufacturing overhead rate | $9.50 |
| Variable manufacturing overhead | $ 75,050 |
| Fixed manufacturing overhead | 112,970 |
| Total manufacturing overhead (a) | $188,020 |
| Budgeted direct labor-hours (b) | 7,900 |
| Predetermined overhead rate for the month (a) ÷ (b) | $23.80 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

78. The May cash disbursements for manufacturing overhead on the manufacturing overhead budget should be:
A. $75,050
B. $188,020
C. $94,800
**D.** $169,850

Manufacturing Overhead Budget

| | May |
|---|---|
| Budgeted direct labor-hours | 7,900 |
| Variable manufacturing overhead rate | $9.50 |
| Variable manufacturing overhead | $ 75,050 |
| Fixed manufacturing overhead | 112,970 |
| Total manufacturing overhead | 188,020 |
| Less depreciation | 18,170 |
| Cash disbursement for manufacturing overhead | $169,850 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

Salge Inc. bases its manufacturing overhead budget on budgeted direct labor- hours. The variable overhead rate is $8.10 per direct labor-hour. The company's budgeted fixed manufacturing overhead is $74,730 per month, which includes depreciation of $20,670. All other fixed manufacturing overhead costs represent current cash flows. The direct labor budget indicates that 5,300 direct labor-hours will be required in September.

79. The September cash disbursements for manufacturing overhead on the manufacturing overhead budget should be:
A. $42,930
B. $54,060
**C.** $96,990
D. $117,660

Manufacturing Overhead Budget

| | September |
|---|---|
| Budgeted direct labor-hours | 5,300 |
| Variable manufacturing overhead rate | $8.10 |
| Variable manufacturing overhead | $42,930 |
| Fixed manufacturing overhead | 74,730 |
| Total manufacturing overhead | 117,660 |
| Less depreciation | 20,670 |
| Cash disbursement for manufacturing overhead | $96,990 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

80. The company recomputes its predetermined overhead rate every month. The predetermined overhead rate for September should be:
A. $18.30
B. $14.10
C. $8.10
**D.** $22.20

| | September |
|---|---|
| Budgeted direct labor-hours | 5,300 |
| Variable manufacturing overhead rate | $8.10 |
| Variable manufacturing overhead | $ 42,930 |
| Fixed manufacturing overhead | 74,730 |
| Total manufacturing overhead (a) | $117,660 |
| Budgeted direct labor-hours (b) | 5,300 |
| Predetermined overhead rate for the month (a) ÷ (b) | $22.20 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

Porl Corporation makes and sells a single product called a Yute. The company is in the process of preparing its Selling and Administrative Expense Budget for the last quarter of the year. The following budget data are available:

| | Variable Cost Per Yute Sold | Monthly Fixed Cost |
|---|---|---|
| Sales commissions | $1.50 | |
| Shipping | $2.30 | |
| Advertising | $4.50 | $36,000 |
| Executive salaries | | $146,000 |
| Depreciation on office equipment | | $13,000 |
| Other | $0.60 | $36,000 |

All of these expenses (except depreciation) are paid in cash in the month they are incurred.

81. If the company has budgeted to sell 22,000 Yutes in November, then the total budgeted selling and administrative expenses for November would be:
**A.** $426,800
B. $231,000
C. $413,800
D. $195,800

Total selling and administrative expenses = Fixed selling and administrative expenses + (Variable selling and administrative expenses per unit × Units sold)
= $231,000 + ($8.90 per unit × 22,000 units)
= $231,000 + $195,800
= $426,800

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-07 Prepare a selling and administrative expense budget*
*Level: Medium*

82. If the company has budgeted to sell 19,000 Yutes in December, then the budgeted total cash disbursements for selling and administrative expenses for December would be:
**A.** $387,100
B. $231,000
C. $169,100
D. $400,100

Selling and administrative expenses budget:

| | December |
|---|---|
| Budgeted unit sales | 19,000 |
| Variable selling and administrative expenses per unit | $8.90 |
| Variable selling and administrative | $169,100 |
| Fixed selling and administrative | 231,000 |
| Total selling and administrative | 400,100 |
| Less depreciation | 13,000 |
| Cash disbursement for selling and administrative | $387,100 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-07 Prepare a selling and administrative expense budget*
*Level: Medium*

83. If the total budgeted selling and administrative expense for October is $409,000, then how many Yutes does the company plan to sell in October?
A. 19,700 units
**B.** 20,000 units
C. 20,500 units
D. 20,200 units

Total selling and administrative expenses = Fixed selling and administrative expenses + (Variable selling and administrative expenses per unit × Units sold)
$409,000 = $231,000 + ($8.90 per unit × Units sold)
$8.90 per unit × Units sold = $409,000 - $231,000
$8.90 per unit × Units sold = $178,000
Units sold = $178,000 ÷ $8.90 per unit = 20,000 units

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-07 Prepare a selling and administrative expense budget*
*Level: Hard*

The Gomez Company, a merchandising firm, has budgeted its activity for December according to the following information:
• Sales at $500,000, all for cash.
• Merchandise Inventory on November 30 was $250,000.
• The cash balance at December 1 was $20,000.
• Selling and administrative expenses are budgeted at $50,000 for December and are paid for in cash.
• Budgeted depreciation for December is $30,000.
• The planned merchandise inventory on December 31 is $260,000.
• The cost of goods sold represents 75% of the selling price.
• All purchases are paid for in cash.

84. The budgeted cash receipts for December are:
A. $125,000
B. $375,000
C. $530,000
**D.** $500,000

Sales were all for cash and were $500,000.

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*

85. The budgeted cash disbursements for December are:
**A.** $435,000
B. $385,000
C. $425,000
D. $465,000

December cash disbursements:

| | |
|---|---|
| Cost of goods sold (75% × $500,000) | $375,000 |
| Selling and administrative expenses | 50,000 |
| Increase in merchandise inventory | 10,000 |
| Total cash collections in December | $435,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Medium*

86. The budgeted net income for December is:
A. $75,000
**B.** $45,000
C. $125,000
D. $65,000

Budgeted Income Statement

| | |
|---|---|
| Sales | $500,000 |
| Cost of goods sold (75% × $500,000) | 375,000 |
| Gross margin | 125,000 |
| Selling and administrative expense | 50,000 |
| Depreciation | 30,000 |
| Net income | $ 45,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-09 Prepare a budgeted income statement*
*Level: Medium*

Dengel Inc. is working on its cash budget for November. The budgeted beginning cash balance is $24,000. Budgeted cash receipts total $177,000 and budgeted cash disbursements total $167,000. The desired ending cash balance is $50,000.

87. The excess (deficiency) of cash available over disbursements for November will be:
**A.** $34,000
B. $201,000
C. $10,000
D. $14,000

Cash Budget

| | |
|---|---|
| Cash balance, beginning | $ 24,000 |
| Add cash receipts | 177,000 |
| Total cash available | 201,000 |
| Less cash disbursements | 167,000 |
| Excess (deficiency) of cash available over disbursements | $ 34,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*

88. To attain its desired ending cash balance for November, the company needs to borrow:
A. $0
**B.** $16,000
C. $50,000
D. $84,000

| | |
|---|---|
| Cash balance, beginning | $ 24,000 |
| Add cash receipts | 177,000 |
| Total cash available | 201,000 |
| Less cash disbursements | 167,000 |
| Excess (deficiency) of cash available over disbursements | 34,000 |
| Financing | 16,000 |
| Cash balance, ending | $50,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*

Deshaies Corporation is preparing its cash budget for November. The budgeted beginning cash balance is $10,000. Budgeted cash receipts total $100,000 and budgeted cash disbursements total $104,000. The desired ending cash balance is $30,000.

89. The excess (deficiency) of cash available over disbursements for November is:
A. $110,000
**B.** $6,000
C. ($4,000)
D. $14,000

Cash Budget

| | |
|---|---|
| Cash balance, beginning | $ 10,000 |
| Add cash receipts | 100,000 |
| Total cash available | 110,000 |
| Less cash disbursements | 104,000 |
| Excess (deficiency) of cash available over disbursements | $ 6,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*

90. To attain its desired ending cash balance for November, the company should borrow:
A. $36,000
B. $30,000
**C.** $24,000
D. $0

| | |
|---|---|
| Cash balance, beginning | $ 10,000 |
| Add cash receipts | 100,000 |
| Total cash available | 110,000 |
| Less cash disbursements | 104,000 |
| Excess (deficiency) of cash available over disbursements | 6,000 |
| Financing (plug figure) | 24,000 |
| Cash balance, ending | $30,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*

Carpon Lumber sells lumber and general building supplies to building contractors in a medium-sized town in Montana. Data regarding the store's operations follow:

• Sales are budgeted at $340,000 for November, $350,000 for December, and $370,000 for January.

• Collections are expected to be 55% in the month of sale, 44% in the month following the sale, and 1% uncollectible.

• The cost of goods sold is 75% of sales.

• The company desires to have an ending merchandise inventory equal to 60% of the next month's cost of goods sold. Payment for merchandise is made in the month following the purchase.

• Other monthly expenses to be paid in cash are $21,100.

• Monthly depreciation is $19,000.

• Ignore taxes.

| Statement of Financial Position<br>October 31 | |
|---|---|
| Assets | |
| Cash | $ 13,000 |
| Accounts receivable (net of allowance for uncollectible accounts) | 82,000 |
| Inventory | 153,000 |
| Property, plant and equipment (net of $598,000 accumulated depreciation) | 1,138,000 |
| Total assets | $1,386,000 |
| | |
| Liabilities and Stockholders' Equity | |
| Accounts payable | $ 257,000 |
| Common stock | 600,000 |
| Retained earnings | 529,000 |
| Total liabilities and stockholders' equity | $1,386,000 |

91. The net income for December would be:
A. $66,400
**B.** $43,900
C. $47,400
D. $61,500

| | |
|---|---|
| Sales | $350,000 |
| Cost of goods sold (75% of sales) | 262,500 |
| Gross margin | 87,500 |
| Other monthly expenses | 21,100 |
| Depreciation | 19,000 |
| Bad debt expense (1% of sales) | 3,500 |
| Net income | $ 43,900 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-09 Prepare a budgeted income statement*
*Level: Hard*

92. The cash balance at the end of December would be:
A. $13,000
B. $52,400
**C.** $65,400
D. $74,500

Cash Budget

| | |
|---|---|
| Cash balance, November 1 | $ 13,000 |
| Add: accounts receivable collection | 82,000 |
| Add: November credit sales collections ($340,000 × 55%) | 187,000 |
| Cash available | 282,000 |
| Less: accounts payable disbursement | 257,000 |
| Less: November expenses disbursement | 21,100 |
| Cash balance, December 1 | 3,900 |
| Add: November credit sales collections ($340,000 × 44%) | 149,600 |
| Add: December credit sales collections ($350,000 × 55%) | 192,500 |
| Cash available | 346,000 |
| Less: Cash disbursements for November purchases for December (60% × 75% × $350,000) | 157,500 |
| Less: Cash disbursements for November purchases for November (40% × 75% × $340,000) | 102,000 |
| Less: December expenses disbursement | 21,100 |
| Cash balance, end of December | $ 65,400 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-10 Prepare a budgeted balance sheet*
*Level: Hard*

93. The accounts receivable balance, net of uncollectible accounts, at the end of December would be:
**A.** $154,000
B. $157,500
C. $85,500
D. $303,600

December accounts receivable balance = 44% of December sales = 44% × $350,000 = $154,000

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-10 Prepare a budgeted balance sheet*
*Level: Hard*

94. Accounts payable at the end of December would be:
**A.** $271,500
B. $105,000
C. $166,500
D. $262,500

| | December | January |
|---|---|---|
| | $350,000 | $370,000 |
| Budgeted cost of goods sold (75% of sales) | $262,500 | $277,500 |
| Add desired ending merchandise inventory (60% of next month's COGS) | 166,500 | |
| Total needs | 429,000 | |
| Less beginning merchandise inventory (60% of current month's COGS) | 157,500 | |
| Required purchases | $271,500 | |

Since purchases are paid in the month following purchase, the accounts payable at the end of December should be $271,500.

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-10 Prepare a budgeted balance sheet*
*Level: Hard*

95. Retained earnings at the end of December would be:
A. $572,900
**B.** $614,400
C. $621,300
D. $529,000

Budgeted Income Statement

| | November | December |
|---|---|---|
| Sales | $340,000 | $350,000 |
| Bad debts expense | 3,400 | 3,500 |
| Cost of Goods Sold | 255,000 | 262,500 |
| Gross Margin | 81,600 | 84,000 |
| Other monthly expenses | 21,100 | 21,100 |
| Depreciation | 19,000 | 19,000 |
| Net income | $ 41,500 | $ 43,900 |

| | |
|---|---|
| Beginning balance, retained earnings | $529,000 |
| November net income | 41,500 |
| December net income | 43,900 |
| Ending balance, retained earnings | $614,400 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-10 Prepare a budgeted balance sheet*
*Level: Hard*

**Essay Questions**

96. Randall Company is a merchandising company that sells a single product. The company's inventories, production, and sales in units for the next three months have been forecasted as follows:

| | October | November | December |
|---|---|---|---|
| Beginning inventory | 10,000 | 10,000 | 10,000 |
| Merchandise purchases | 60,000 | 70,000 | 35,000 |
| Sales | 60,000 | 70,000 | 40,000 |
| Ending inventory | 10,000 | 10,000 | 5,000 |

Units are sold for $12 each. One fourth of all sales are paid for in the month of sale and the balance are paid for in the following month. Accounts receivable at September 30 totaled $450,000.

Merchandise is purchased for $7 per unit. Half of the purchases are paid for in the month of the purchase and the remainder are paid for in the month following purchase. Selling and administrative expenses are expected to total $120,000 each month. One half of these expenses will be paid in the month in which they are incurred and the balance will be paid in the following month. There is no depreciation. Accounts payable at September 30 totaled $290,000.

Cash at September 30 totaled $80,000. A payment of $300,000 for purchase of equipment is scheduled for November, and a dividend of $200,000 is to be paid in December.

Required:

a. Prepare a schedule of expected cash collections for each of the months of October, November, and December.

b. Prepare a schedule showing expected cash disbursements for merchandise purchases and selling and administrative expenses for each of the months October, November, and December.

c. Prepare a cash budget for each of the months October, November, and December. There is no minimum required ending cash balance.

| a. | | October | November | December |
|---|---|---|---|---|
| | Sales (at $12 per unit) | $720,000 | $840,000 | $480,000 |
| | | | | |
| | September accounts receivable | $450,000 | | |
| | October sales | 180,000 | $540,000 | |
| | November sales | | 210,000 | $630,000 |
| | December sales | | | 120,000 |
| | Total cash collections | $630,000 | $750,000 | $750,000 |

| b. | | October | November | December |
|---|---|---|---|---|
| | Merchandise purchases at $7 per unit | $420,000 | $490,000 | $245,000 |
| | Selling and administrative expenses | 120,000 | 120,000 | 120,000 |
| | Total incurred | $540,000 | $610,000 | $365,000 |
| | Disbursements, previous month | $290,000 | $270,000 | $305,000 |
| | Disbursements, current month | 270,000 | 305,000 | 182,500 |
| | Total | $560,000 | $575,000 | $487,500 |

| c. | | October | November | December |
|---|---|---|---|---|
| | Beginning cash balance | $80,000 | $150,000 | $25,000 |
| | Add cash receipts | 630,000 | 750,000 | 750,000 |
| | Total cash available | 710,000 | 900,000 | 775,000 |
| | Disbursements: | | | |
| | Accounts payable | 560,000 | 575,000 | 487,500 |
| | Payment for equipment | | 300,000 | |
| | Payment of dividend | | | 200,000 |
| | Total disbursements | 560,000 | 875,000 | 687,500 |
| | Ending cash balance | $150,000 | $25,000 | $87,500 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Learning Objective: 08-03 Prepare a production budget*
*Learning Objective: 08-07 Prepare a selling and administrative expense budget*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Medium*

97. Welnor Industrial Gas Corporation supplies acetylene and other compressed gases to industry. Data regarding the store's operations follow:

- Sales are budgeted at $320,000 for November, $340,000 for December, and $330,000 for January.
- Collections are expected to be 75% in the month of sale, 20% in the month following the sale, and 5% uncollectible.
- The cost of goods sold is 65% of sales.
- The company desires ending merchandise inventory to equal 80% of the following month's cost of goods sold. Payment for merchandise is made in the month following the purchase.
- Other monthly expenses to be paid in cash are $21,000.
- Monthly depreciation is $16,000.
- Ignore taxes.

| | |
|---|---|
| Statement of Financial Position | |
| October 31 | |
| Assets | |
| Cash | $22,000 |
| Accounts receivable (net of allowance for uncollectible accounts) | 82,000 |
| Merchandise inventory | 166,400 |
| Property, plant and equipment (net of $658,000 accumulated depreciation) | 1,170,000 |
| Total assets | $1,440,400 |
| | |
| Liabilities and Stockholders' Equity | |
| Accounts payable | $199,000 |
| Common stock | 840,000 |
| Retained earnings | 401,400 |
| Total liabilities and stockholders' equity | $1,440,400 |

Required:

a. Prepare a Schedule of Expected Cash Collections for November and December.

b. Prepare a Merchandise Purchases Budget for November and December.

c. Prepare Cash Budgets for November and December.

d. Prepare Budgeted Income Statements for November and December.

e. Prepare a Budgeted Balance Sheet for the end of December.

| a. | | November | December |
|---|---|---|---|
| | Sales | $320,000 | $340,000 |
| | | | |
| | Schedule of Expected Cash Collections | | |
| | Accounts receivable | $82,000 | |
| | November sales | 240,000 | $64,000 |
| | December sales | | 255,000 |
| | Total cash collections | $322,000 | $319,000 |

| b. | | November | December |
|---|---|---|---|
| | Budgeted cost of goods sold | $208,000 | $221,000 |
| | Add desired ending merchandising inventory | 176,800 | 171,600 |
| | Total needs | 384,800 | 392,600 |
| | Less beginning merchandise inventory | 166,400 | 176,800 |
| | Required purchases | $218,400 | $215,800 |

| c. | | November | December |
|---|---|---|---|
| | Cash disbursements for merchandise | $199,000 | $218,400 |
| | Other monthly cash expenses | 21,000 | 21,000 |
| | Total cash disbursements | $220,000 | $239,400 |
| | | | |
| | Cash balance, beginning | $ 22,000 | $124,000 |
| | Add cash receipts | 322,000 | 319,000 |
| | Total cash available | 344,000 | 443,000 |
| | Less cash disbursements: | 220,000 | 239,400 |
| | Excess (deficiency) of cash available over disbursements | 124,000 | 203,600 |
| | Financing | 0 | 0 |
| | Cash balance, ending | $124,000 | $203,600 |

| d. | | November | December |
|---|---|---|---|
| | Sales | $320,000 | $340,000 |
| | Bad debt expense | 16,000 | 17,000 |
| | Cost of goods sold | 208,000 | 221,000 |
| | Gross margin | 96,000 | 102,000 |
| | Other monthly expenses | 21,000 | 21,000 |
| | Depreciation | 16,000 | 16,000 |
| | Net operating income | $59,000 | $65,000 |

| | | |
|---|---|---|
| e. | Budgeted Balance Sheet | |
| | December 31 | |
| | Assets | |
| | Cash | $203,600 |
| | Accounts receivable (net of allowance for uncollectible accounts) | 68,000 |
| | Inventory | 171,600 |
| | Property, plant and equipment (net of $690,000 accumulated depreciation) | 1,138,000 |
| | Total assets | $1,581,200 |
| | | |
| | Liabilities and Stockholders' Equity | |
| | Accounts payable | $215,800 |
| | Common stock | 840,000 |
| | Retained earnings | 525,400 |
| | Total liabilities and stockholders' equity | $1,581,200 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Learning Objective: 08-03 Prepare a production budget*
*Learning Objective: 08-08 Prepare a cash budget*
*Learning Objective: 08-09 Prepare a budgeted income statement*
*Learning Objective: 08-10 Prepare a budgeted balance sheet*
*Level: Hard*

98. Capp Corporation is a wholesaler of industrial goods. Data regarding the store's operations follow:

• Sales are budgeted at $350,000 for November, $360,000 for December, and $340,000 for January.

• Collections are expected to be 60% in the month of sale, 39% in the month following the sale, and 1% uncollectible.

• The cost of goods sold is 75% of sales.

• The company desires an ending merchandise inventory equal to 40% of the following month's cost of goods sold. Payment for merchandise is made in the month following the purchase.

• The November beginning balance in the accounts receivable account is $70,000.

• The November beginning balance in the accounts payable account is $257,000.

Required:

a. Prepare a Schedule of Expected Cash Collections for November and December.

b. Prepare a Merchandise Purchases Budget for November and December.

| | | | |
|---|---|---|---|
| a. | | November | December |
| | Sales | $350,000 | $360,000 |
| | | | |
| | Schedule of Expected Cash Collections | | |
| | Accounts receivable | $70,000 | |
| | November sales | 210,000 | $136,500 |
| | December sales | | 216,000 |
| | Total cash collections | $280,000 | $352,500 |
| | | | |
| b. | | November | December |
| | Cost of goods sold | $262,500 | $270,000 |
| | Add desired ending merchandise inventory | 108,000 | 102,000 |
| | Total needs | 370,500 | 372,000 |
| | Less beginning merchandise inventory | 105,000 | 108,000 |
| | Required purchases | $265,500 | $264,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Learning Objective: 08-03 Prepare a production budget*
*Level: Medium*

99. Edwards Company has projected sales and production in units for the second quarter of the year as follows:

| | April | May | June |
|---|---|---|---|
| Sales | 30,000 | 20,000 | 25,000 |
| Production | 25,000 | 25,000 | 30,000 |

Required:
a. Cash production costs are budgeted at $6 per unit produced. Of these production costs, 40% are paid in the month in which they are incurred and the balance in the following month. Selling and administrative expenses (all paid in cash) amount to $60,000 per month. The accounts payable balance on March 31 totals $96,000, all of which will be paid in April. Prepare a schedule for each month showing budgeted cash disbursements for Edwards Company.
b. Assume that all units will be sold on account for $15 each. Cash collections from sales are budgeted at 60% in the month of sale, 30% in the month following the month of sale and the remaining 10% in the second month following the month of sale. Accounts receivable on March 31 totaled $255,000 $(45,000 from February's sales and the remainder from March.) Prepare a schedule for each month showing budgeted cash receipts for Edwards Company.

| | | | | |
|---|---|---|---|---|
| a. | | April | May | June |
| | Production units | 25,000 | 25,000 | 30,000 |
| | Cash required per unit | × $6 | × $6 | × $6 |
| | Production costs | $150,000 | $150,000 | $180,000 |
| | | | | |
| | Cash disbursements: | | | |
| | Production this month (40%) | $60,000 | $60,000 | $72,000 |
| | Production prior month (60%) | 96,000* | 90,000 | 90,000 |
| | Selling and administration | 60,000 | 60,000 | 60,000 |
| | Total disbursements | $216,000 | $210,000 | $222,000 |
| | *Beginning balance of accounts payable. | | | |
| | | | | |
| b. | | April | May | June |
| | Budgeted unit sales | 30,000 | 20,000 | 25,000 |
| | Selling price per unit | × $15 | × $15 | × $15 |
| | Total sales | $450,000 | $300,000 | $375,000 |
| | | | | |
| | Cash receipts: | | | |
| | February sales | $45,000 | | |
| | March sales | 157,500 | $52,500 | |
| | April sales | 270,000 | 135,000 | $45,000 |
| | May sales | | 180,000 | 90,000 |
| | June sales | | | 225,000 |
| | Total receipts | $472,500 | $367,500 | $360,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-02 Prepare a sales budget; including a schedule of expected cash collections*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Medium*

100. Kindschuh Corporation is working on its direct labor budget for the next two months. Each unit of output requires 0.07 direct labor-hours. The direct labor rate is $8.50 per direct labor-hour. The production budget calls for producing 4,800 units in June and 5,300 units in July.

Required:

Construct the direct labor budget for the next two months, assuming that the direct labor work force is fully adjusted to the total direct labor-hours needed each month.

| | June | July |
|---|---|---|
| Required production in units | 4,800 | 5,300 |
| Direct labor-hours per unit | 0.07 | 0.07 |
| Total direct labor-hours needed | 336 | 371 |
| Direct labor cost per hour | $8.50 | $8.50 |
| Total direct labor cost | $2,856.00 | $3,153.50 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-05 Prepare a direct labor budget*
*Level: Easy*

101. Capati Corporation is working on its direct labor budget for the next two months. Each unit of output requires 0.41 direct labor-hours. The direct labor rate is $8.50 per direct labor-hour. The production budget calls for producing 2,300 units in August and 2,200 units in September. The company guarantees its direct labor workers a 40-hour paid work week. With the number of workers currently employed, that means that the company is committed to paying its direct labor work force for at least 960 hours in total each month even if there is not enough work to keep them busy.
Required:
Construct the direct labor budget for the next two months.

| | August | September |
|---|---|---|
| Required production in units | 2,300 | 2,200 |
| Direct labor-hours per unit | 0.41 | 0.41 |
| Total direct labor-hours needed | 943 | 902 |
| Total direct labor-hours paid | 960 | 960 |
| Direct labor cost per hour | $8.50 | $8.50 |
| Total direct labor cost | $8,160 | $8,160 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-05 Prepare a direct labor budget*
*Level: Medium*

102. Mccoo Inc. bases its manufacturing overhead budget on budgeted direct labor-hours. The variable overhead rate is $1.30 per direct labor-hour. The company's budgeted fixed manufacturing overhead is $98,900 per month, which includes depreciation of $19,780. All other fixed manufacturing overhead costs represent current cash flows. The September direct labor budget indicates that 8,600 direct labor-hours will be required in that month.

Required:

a. Determine the cash disbursement for manufacturing overhead for September.

b. Determine the predetermined overhead rate for September.

| a. | | September |
|---|---|---|
| | Budgeted direct labor-hours | 8,600 |
| | Variable manufacturing overhead rate | $1.30 |
| | Variable manufacturing overhead | $11,180 |
| | Fixed manufacturing overhead | 98,900 |
| | Total manufacturing overhead | 110,080 |
| | Less depreciation | 19,780 |
| | Cash disbursement for manufacturing overhead | $90,300 |

| b. | Total manufacturing overhead (a) | $110,080 |
|---|---|---|
| | Budgeted direct labor-hours (b) | 8,600 |
| | Predetermined overhead rate for the month (a) ÷ (b) | $12.80 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

103. The manufacturing overhead budget of Lewison Corporation is based on budgeted direct labor-hours. The June direct labor budget indicates that 5,800 direct labor-hours will be required in that month. The variable overhead rate is $7.70 per direct labor-hour. The company's budgeted fixed manufacturing overhead is $111,360 per month, which includes depreciation of $17,400. All other fixed manufacturing overhead costs represent current cash flows.
Required:
a. Determine the cash disbursement for manufacturing overhead for June. Show your work!
b. Determine the predetermined overhead rate for June. Show your work!

a. June

| | |
|---|---|
| Budgeted direct labor-hours | 5,800 |
| Variable manufacturing overhead rate | $7.70 |
| Variable manufacturing overhead | $44,660 |
| Fixed manufacturing overhead | 111,360 |
| Total manufacturing overhead | 156,020 |
| Less depreciation | 17,400 |
| Cash disbursement for manufacturing overhead | $138,620 |

b.

| | |
|---|---|
| Total manufacturing overhead (a) | $156,020 |
| Budgeted direct labor-hours (b) | 5,800 |
| Predetermined overhead rate for the month (a)/(b) | $26.90 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-06 Prepare a manufacturing overhead budget*
*Level: Easy*

104. Lahay Inc. bases its selling and administrative expense budget on the number of units sold. The variable selling and administrative expense is $4.30 per unit. The budgeted fixed selling and administrative expense is $30,240 per month, which includes depreciation of $3,510. The remainder of the fixed selling and administrative expense represents current cash flows. The sales budget shows 2,700 units are planned to be sold in April.
Required:
Prepare the selling and administrative expense budget for April.

| | April |
|---|---|
| Budgeted unit sales | 2,700 |
| Variable selling and administrative expense per unit | $4.30 |
| Variable selling and administrative expense | $11,610 |
| Fixed selling and administrative expense | 30,240 |
| Total selling and administrative expense | 41,850 |
| Less depreciation | 3,510 |
| Cash disbursements for selling and administrative expenses | $38,340 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-07 Prepare a selling and administrative expense budget*
*Level: Easy*

105. The selling and administrative expense budget of Fenley Corporation is based on the number of units sold, which are budgeted to be 2,500 units in January. The variable selling and administrative expense is $4.40 per unit. The budgeted fixed selling and administrative expense is $35,750 per month, which includes depreciation of $4,000. The remainder of the fixed selling and administrative expense represents current cash flows.
Required:
Prepare the selling and administrative expense budget for January.

| | January |
|---|---|
| Budgeted unit sales | 2,500 |
| Variable selling and administrative expense per unit | $4.40 |
| Variable selling and administrative expense | $11,000 |
| Fixed selling and administrative expense | 35,750 |
| Total selling and administrative expense | 46,750 |
| Less depreciation | 4,000 |
| Cash disbursements for selling and administrative expenses | $42,750 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-07 Prepare a selling and administrative expense budget*
*Level: Easy*

106. Enciso Corporation is preparing its cash budget for November. The budgeted beginning cash balance is $31,000. Budgeted cash receipts total $135,000 and budgeted cash disbursements total $141,000. The desired ending cash balance is $50,000. The company can borrow up to $100,000 at any time from a local bank, with interest not due until the following month.
Required:
Prepare the company's cash budget for November in good form.

| | |
|---|---|
| Cash balance, beginning | $31,000 |
| Add cash receipts | 135,000 |
| Total cash available | 166,000 |
| Less cash disbursements | 141,000 |
| Excess (deficiency) of cash available over disbursements | 25,000 |
| Borrowings | 25,000 |
| Cash balance, ending | $50,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*

107. Wehr Inc. is preparing its cash budget for April. The budgeted beginning cash balance is $19,000. Budgeted cash receipts total $105,000 and budgeted cash disbursements total $98,000. The desired ending cash balance is $50,000. The company can borrow up to $120,000 at any time from a local bank, with interest not due until the following month.
Required:
Prepare the company's cash budget for April in good form. Make sure to indicate what borrowing, if any, would be needed to attain the desired ending cash balance.

| | |
|---|---|
| Cash balance, beginning | $19,000 |
| Add cash receipts | 105,000 |
| Total cash available | 124,000 |
| Less cash disbursements | 98,000 |
| Excess (deficiency) of cash available over disbursements | 26,000 |
| Borrowings | 24,000 |
| Cash balance, ending | $50,000 |

*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Bloom's: Application*
*Learning Objective: 08-08 Prepare a cash budget*
*Level: Easy*