1. The master budget is primarily concerned with:
2. Short-range decisions
3. Intermediate-range decisions
4. Long-range decisions
5. None of the above
6. Capital budgeting deals with:
7. Short-range purchase decisions
8. Intermediate to long-term asset management decisions
9. Perpetual budgeting decisions
10. Divisional variance analysis
11. Which of the following would not be included in the cash budget?
12. Cash collections from sales
13. Cash payments for selling and administrative expense
14. Cost of goods sold
15. Interest expense
16. Participative budgeting involves:
    1. Low-level operational employees
    2. Middle management
    3. Upper-level executives
    4. All of the above
17. The starting point in the preparation of the master budget is:
    1. A. Schedule of cash receipts
    2. Purchases budget
    3. Sales budget
    4. Schedule of cash payments for selling and administrative expense

The following information pertains to Questions 6 and 7:

Vixerox Company showed the following expected total sales:

Month Sales

May $60,000

June $45,000

July $55,000

August $50,000

The company expects 40% of its sales to be on account (credit sales). Credit sales are collected as follows: 30% in the month of sale, 65% in the month following the sale with the remainder being uncollectible and written off in the month following the sale.

1. The budgeted accounts receivable balance on July 30 is:
   1. A. $22,000
   2. $12,000
   3. $15,400
   4. $14,300
2. The total cash inflows from the collection of receivables in June would be:
   1. $44,400
   2. $5,400
   3. $13,500
   4. $21,000
3. The XYZ Company is in the process of preparing a purchase budget for the second quarter of the 2006 year. Forecasts of sales for the second quarter follow:

April 2006 14,900 units

May 2006 13,500 units

June 2006 16,200 units

The March 2006 sales were 12,500 units. Cost of goods sold is expected to be $8 per unit. XYZ would like to have ending inventory each month equal to 15% of the following month’s predicted sales. The total cost of purchases in April is:

1. $117,520
2. $108,000
3. $119.200
4. None of the above

**Use the following information to answer Questions 9 and 10:**

Purchases on account are given below:

**January February March**

25,000 30,000 35,000

80% of the month’s purchase will be paid in the month of purchase: the remaining 20% will be paid in the following month.

1. How much will the cash payment be in February?
   1. $24,000
   2. $25,000
   3. $29,000
   4. $30,000
2. How much will the cash payment be in March?
   1. $21,000
   2. $23,000
   3. $28,000
   4. $34,000
3. The accounts payable balance at the beginning of the year was $32,600. The company purchased $180,300 worth of goods on account, and the ending balance of the payables account was $28,900. Payments on account were:
   1. $184,000
   2. $196,600
   3. $207,500
   4. $241,800
4. The Zebra Company expects to begin operating on January 1. The Company’s master budget contained the following selling and administrative expense budget for January:

Salary Expense $20,000

Sales Commissions 5% of Sales $10,000

Utilities 1,200

Depreciation on Store Equipment 2,000

Rent 2,400

Miscellaneous 600

Total Operating Expenses $36,200

Sales commissions are paid in cash in the month following the month in which the expense is recognized. All other expense items requiring cash payment are paid in the month in which they are recognized. The amount of cash paid for operating expenses during the month of January is:

1. $24,200
2. $22,200
3. $36,200
4. None of the above
5. Sales commissions are 10% of sales. Sales for the quarter are given as follows:

October November December

32,000 24,000 46,000

What amount of sales commissions would be transferred to the pro formal income statement for the quarter?

1. $3,200
2. $10,200
3. $1,020
4. $13,800
5. ABC Company started the period with $35,000 cash. Cash receipts for January were expected to total $171,000. Cash disbursements for January were expected to be $158,000. What is the expected cash balance to be at the end of January?
   1. $13,000
   2. $48,000
   3. $35,000
   4. None of the above
6. Manufacturing overhead expenses for Good Corp. are budgeted at $2,000 per month. Included in the $2,000 are $500 worth of monthly depreciation expense and $200 worth of allocated expenses related to manufacturing insurance that is paid in September. What is the cash outflow for overhead for the month of May?
   1. $200
   2. $500
   3. $1,300
   4. $1,200
7. A static budget:
   1. Is related to the electrical budget
   2. Remains constant, regardless of actual volume of production
   3. Is adjusted for actual activity levels
   4. Is updated on a monthly basis
8. Select the answer that is true.
   1. When Actual Sales are > Expected Sales, Variances are Unfavorable
   2. When Actual Sales are < Expected Sales, Variances are Favorable
   3. When Actual Costs are > Standard Costs, Variances are Favorable
   4. (a), (b), and (c) are false
9. If actual volume is greater than expected:
   1. Fixed overhead cost per unit will be higher than expected
   2. Fixed overhead cost per unit will be lower than expected
   3. Variable cost per unit will not be affected
   4. (b) and (c)
10. Lowballing occurs when:
    1. Marketing managers deliberately underestimate expected sales
    2. Production managers deliberately overestimate expected material usage
    3. Sales personnel deliberately underestimate expected sales
    4. Personnel managers deliberately underestimate expected labor rates
11. Which of the following represents the type of standards that are most likely to motivate employees to maximize their performance?
    1. Ideal standards
    2. Practical standards
    3. Lax standards
    4. All three choices are likely to have the same effect on employee motivation

The following information pertains to Questions 21 and 22:

The following master budget was drawn from the records of ABC Company. The master budget was based on a planned volume of activity of 5,000 units:

Revenues $50,000

Variable cost (35,000)

Contribution Margin 15,000

Fixed Costs ( 5,000)

Net Income $10,000

1. If ABC actually produces 6,000 units, the flexible budget would show total variable cost of:
   1. $15,000
   2. $35,000
   3. $42,000
   4. $6,000
2. If ABC actually produced 4,500 units, the flexible budget would show fixed costs amounted to:
   1. $4,500
   2. $1.00 per unit
   3. $5,000
   4. (a) and (b)

Use the following information for Questions 23 – 26:

Dole Manufacturing Company expects its variable cost per unit to be $25. Fixed costs are expected to be $69,000. Dole plans to make and sell 5,000 units of its product. The expected sales price is $45 per unit. Each of the following four multiple choice questions should be considered independently. In other words, the facts described in one question should be ignored when considering the other questions.

1. Assume that Dole reduces the actual sales price to $43 in order to increase actual sales to 5,300 units. The implementation of this strategy will:
   1. Produce a favorable sales volume variance of $13,500
   2. Produce an unfavorable sales price variance of $10,600
   3. Produce a favorable total sales variance of $2,900
   4. All of the above
2. Assume that actual volume is 4,800 units and the actual sales price is $47. Based on this information:
   1. The sales price variance would be $9,600 favorable
   2. The sales volume variance would be $9,600 unfavorable
   3. The sales volume variance would be $9,000 favorable
   4. The sales price variance would be $9,000 favorable
3. Assume that actual volume is 4,900 units and the actual variable cost per unit is $24. Based on this information:
   1. The variable cost volume variance is $2,500 favorable
   2. The variable cost flexible budget variance is $2,500 unfavorable
   3. The variable cost volume variance is $2,500 unfavorable
   4. The variable cost flexible budget variance is $2,500 favorable
4. Assume that actual volume is 4,700 units and the actual fixed cost is $72,000. Based on the information the amount of fixed cost shown in the flexible budget would be:
   1. $72,000
   2. $69,000
   3. $3,000
   4. None of the above
5. Which of the following would be responsible for generating variable cost volume variances?
   1. Purchasing agents
   2. Production managers
   3. Sales managers
   4. The company president
6. If planned activity is understated, what consequence is likely?
   1. The predetermined overhead rate will be overstated
   2. Products are underpriced
   3. Per unit fixed cost will not be affected
   4. Per unit variable overhead costs are understated

**Use the following to answer Questions 29 and 30:**

Correction, Inc (CI) makes a white liquid substance that is used to cover errors made on printed documents. CI expects to use 4 ounces of a chemical known as Erase per bottle of correction fluid. Erase is expected to cost $0.40 per ounce. Actual materials cost amounted to $0.46 per ounce. CI expected to sell 1,000,000 bottles of correction fluid during the accounting period. Actual production amounted to 900,000 bottles and 4,095,000 ounces.

1. The materials price variance for Erase is:
   1. $245,700 unfavorable
   2. $245,700 favorable
   3. $40,000 favorable
   4. $40,000 unfavorable
2. The materials usage variance for Erase is:
   1. $198,000 favorable
   2. $198,000 unfavorable
   3. $245,700 favorable
   4. $245,700 unfavorable