**MANAGEMENT ADVISORY SERVICES**

**MASTER BUDGET**

**THEORY**

1. Which of the following objectives is not a primary purpose of preparing a budget?

a. To provide a basis for comparison of actual performance

b. To communicate the company’s plans throughout the entire business organization

c. To control income and expenditure in a given period.

d. To make sure the company expands its operations.

2. Budget slack is a condition in which

a. demand is low at various times of the year.

b. excess machine capacity exists in some areas of the plant.

c. there is an intentional overestimate of expenses or an underestimate of revenues.

d. managers grant favored employees extra time off.

3. Ineffective budgets and/or control systems are characterized by the use of

a. budgets as a planning tool only and disregarding them for control purposes.

b. budgets for motivation.

c. budgets for coordination.

d. the budget for communication.

4. For better management acceptance, the flow of data to be used for budgeting should begin with

a. Accounting department c. Lower levels of management

b. Top management d. Budget committee

5. These statements are proper to the budgeting process except:

a. It is a part of management’s responsibility to plan the use of its resources.

b. It is a tool to orchestrate the various functions of operations in a business.

c. The involvement of the various levels of individuals in the company is necessary to gain its acceptance and attain its goals.

d. Actual results need not be compared with plan, since the process ends after budget is approved.

6. In budgeting, which of the following statements is false?

a. Budgeting provides a measuring device to which subsequent performances are compared and evaluated.

b. Planning and control are the essential features of the budgeting process

c. Budget preparation is not the sole responsibility of any one department and is prepared by combining the efforts of many individuals

d. Capital expenditures budget shows the availability of idle cash for investment

7. Activity-based budgeting includes all the following steps EXCEPT

a. determining demands for activities from sales and production targets.

b. computing the cost of performing activities.

c. determining a separate cost-driver rate for each department.

d. describing the budget as costs of activities rather than costs of functions.

8. Just-in-time manufacturers are more likely than conventional manufacturers to

a. Prepare production budgets without a sales forecast.

b. Budget materials purchases equal to the current month’s needs for production.

c. Budget unit production for the month at greater than budgeted unit sales for the month.

d. Experience cash shortages.

9. On budgeting, all of the following are not valid, except

a. Responsibility budget identifies revenue and costs with the individual responsible for their incurrence.

b. The best way to establish budget figures is to use last year’s actual cost and activity data as this year’s budget estimates.

c. A sales budget and a sales forecast are the same thing.

d. The primary purpose of the cash budget is to show the expected cash balance at the end of the budget period.

10. Which of the following statements is True?

a. Under zero-based budgeting, a manager is required to start at zero budget levels each period, as if the programs involved were being initiated for the first time.

b. The primary purpose of the cash budget is to show the expected cash balance at the end of the budget period.

c. Budget data are generally prepared by top management and distributed downward in an organization.

d. The budget committee is responsible for preparing detailed budget figures in an organization.

11. A budget that includes a 12-month planning period at all times is called a \_\_\_\_\_\_\_\_\_\_ budget.

a. pro forma b. flexible c. master d. continuous

12. Budgeting expenditures by purpose is called

a. Program budgeting. c. Line budgeting.

b. Zero-based budgeting. d. Flexible budgeting.

13. A systematized approach known as zero-based budgeting (ZBB)

a. Presents planned activities for a period of time but does not present a firm commitment.

b. Divides the activities of individual responsibility centers into a series of packages that are prioritized.

c. Classifies the budget by the prior year’s activity and estimates the benefits arising from each activity.

d. Commences with the current level of spending.

14. The procedure for setting profit objectives in which management specifies a given rate of return that it seeks to realize in the long run by means of planning toward that end is the:

A. *a priori* method D. theoretical method

B. *ad hoc* method E. *a posteriori* method

C. pragmatic method

15. This budgeting system places the burden of proof on the manager to justify authority to spend any money whether or not there was spending in the previous period. Different ways of performing the same activity and different levels of effort for the activity is evaluated. This system is called

a. Scenario budgeting. c. Budgeting by alternatives.

b. Zero-based budgeting. d. Budgeting by responsibility and authority.

16. In zero-based budgeting, which of the following statements are True?

1. All activities in the company are organized into break-up units called packages.

2. All costs have to be justified every budgeting period.

3. The process is not time consuming since justification of costs can be done as a routine matter.

a. All three statements. c. Statement 1 only.

b. Statements 1 and 2 only. d. Statement 2 and 3 only.

17. A budget that is expressed in units of materials, number of employees, or number of man-hours or service units rather than in pesos is known as

a. Planning budget b. Progressive budget c. Physical budget d. Traditional budget

18. Which of these statements are advantages of profit planning?

1. Develops profit-mindedness, encourages cost consciousness and resources utilization throughout the company.

2. Provides vehicle to communicate objectives, gain support for the plan, of what is expected, thereby developing a sense of commitment to achieve established goals.

3. Provides yardstick to evaluate actual performance; encouraging efficiency, increasing output and reducing cost.

4. Provides a sense of direction for the company and enhances coordination of business activity.

5. Eliminates or takes over the role of administration by providing detailed information that allows executives to operate toward achievement of the organization’s objectives.

a. Statements 3, 4, and 5 only. c. Statements 1, 3, and 4 only.

b. All five statements. d. Statements 1, 2, 3, and 4 only.

19. For a company that does not have resource limitations in what sequence would the budgets be prepared?

1. cash budget 4. production budgets

2. sales budget 5. purchase budgets

3. inventory budgets

a. sequence 2, 3, 4, 5 and 1 c. sequence 2, 4, 3, 5 and 1

b. sequence 2, 3, 4,1 and 5 d. sequence 4, 3, 2, 1 and 5

20. A budget that identifies revenues and costs with an individual controlling their incurrence is

a. Master budget c. Responsibility budget

b. Product budget d. None of the above

21. If a company has a policy of maintaining an inventory of finished goods at a specified percentage of the next month's budgeted sales, budgeted production for January will exceed budgeted sales for January when budgeted

a. February sales exceed budgeted January sales.

b. January sales exceed budgeted December sales.

c. January sales exceed budgeted February sales.

d. December sales exceed budgeted January sales.

22. A company that maintains a raw material inventory, which is based on the following month's production needs, will purchase less material than it uses in a month where

a. sales exceed production.

b. production exceeds sales.

c. planned production exceeds the next month's planned production.

d. planned production is less than the next month's planned production.

23. A company has prepared a cash budget for January through June of 20x3. Which of the following, discovered in February 20x3, is LEAST likely to require revising the cash budget?

a. February sales are lower than budgeted.

b. The interest rate on short-term borrowing is higher than budgeted.

c. The company increased from 10% to 20% the down payment it requires from customers.

d. The company changed inventory methods from LIFO to FIFO.

24. Which of the following is not a functional budget?

a. Research and development budget c. Cash budget

b. Purchasing budget d. Direct labor cost

25. By the end of this year you expect to have a cash balance of P500,000. Which of these transactions/indicators (not considered in your estimate) will reduce this balance?

a. A modification on credit terms to customers will reduce credit sales.

b. A dialogue with key suppliers will allow discounts on extended payment terms.

c. A new machine will be bought with proceeds from a bank loan that will carry a 17% interest per annum and monthly payments over 2 years.

d. The ratio of current trade receivables to total receivables will decrease.

26. Information not shown in the cash budget but needed in the preparation of the statement of operations for the period

a. Sales b. Dividends c. Inventory levels d. Tax Payments

27. Which of the following is LEAST likely to be affected if unit sales for this month are lower than budgeted?

a. Production for this month. c. Cash receipts for next month.

b. Production for next month. d. Inventory at the end of this month.

28. The cash budget for 20x2 would be affected in some way by all of the following EXCEPT

a. A cash dividend declared in 20x1 for payment in 20x2.

b. A cash dividend declared in 20x2 for payment in 20x3.

c. Interest expense on loans taken out and repaid during 20x2.

d. The sales forecast for the first month in 20x3.

29. Net cash inflow is given too much emphasis by managers today, for they know that cash is the common cause of business failures. Net cash inflow is equal to

a. Cash balance at the beginning + cash receipts – cash disbursements

b. Cash balance at the end of last month + cash from all sources of revenue – revenue payments

c. Cash received during the period minus cash disbursements during the period

d. Cash sales and collections of accounts receivable minus revenue and capital expenditures

30. A financing gap occurs when

a. Required assets exceed available equities.

b. The budgeted cash balance goes below the minimum required balance.

c. Budgeted cash receipts are less than budgeted cash disbursements.

d. Any of the above occurs.

31. Which of the following statements about budgeted financial statements is incorrect?

a. Cost of goods sold is determined by multiplying the budgeted unit sales by the budgeted total unit production cost.

b. The budgeted income statement is developed from the budgeted for the current year.

c. The budgeted balance sheet is developed entirely from the budgets for the current year.

d. Once established, the budgeted income statement provides the basis for evaluating company performance.

32. Which of the following is most likely to result if X’s managers decide to reduce inventory to alleviate a cash deficiency shown in its initial cash budget?

a. A decrease in X’s cost-of-sales percentage.

b. A decrease in X’s budgeted purchases.

c. A lowering of X’s credit rating.

d. A longer collection period for X’s credit sales.

33. If cash receipts from customers are greater than sales, which of the following is most likely to be true?

a. Accounts receivable will decrease. c. Cash balance will increase.

b. Outstanding debt will decrease. d. The company will show a profit.

34. Considering budgeting concepts and principles, which of the following statements is not applicable?

a. The only difference between a flexible budget and a static budget is that a flexible budget does not contain fixed costs.

b. A flexible budget is geared toward a range of activity rather than toward a single level of activity.

c. Although it is effective in measuring production control, a static budget is not effective in measuring cost control.

d. The flexible budget is often used as a basis for preparing the pre-determined overhead rate.

**PROBLEMS**

1. Budgeted sales for the first six months of 2001 for Henry Corp. are listed below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Jan | Feb | Mar | Apr | May | June |
| UNITS: | 6,000 | 7,000 | 8,000 | 7,000 | 5,000 | 4,000 |

Henry Corp. has a policy of maintaining an inventory of finished goods equal to 40 percent of the next month's budgeted sales. If Henry Corp. plans to produce 6,000 units in June, what are budgeted sales for July?

a. 3,600 units b. 1,000 units c. 9,000 units d. 8,000 units

2. Beatless Corp, plans to sell 200,000 units of Let-It-Be product in July and anticipate a growth in sales of 5% per month. The target ending inventory in units of the product is 80% of the next month’s estimated sales. There are 150,000 units in inventory as of the end of June. The production requirement in units of Let-It-Be for the quarter ending September 30 would be

a. 670,560 b. 691,525 c. 665,720 d. 675,925

3. Mien Co. is budgeting sales of 53,000 units of product Nous for October 2000. The manufacture of one unit of Nous requires 4 kilos of chemical Loire. During October 1998, Mine plans to reduce the inventory of Loire by 50,000 kilos and increase the finished goods inventory of Nous by 6,000 units. There is no Nous work in process inventory. How many kilos of Loire is Mien budgeting to purchase in October 2000?

a. 138,000 b. 162,000 c. 186,000 d. 238,000

4. Next month’s budgeted sales for TEMP is 18,000 units. Each unit of product TEMP uses 6 kilograms of raw materials. The production and inventory budgets for June 1992 are as follows:

|  |  |  |
| --- | --- | --- |
|  | Opening Inventory | Planned Ending Inventory |
| Raw materials | 21,000 kgs. | 24,400 kgs. |
| Finished goods | 15,000 units | 11,400 units |

During the production process, it is usually found that 10% of production units are scrapped as defective and this loss occurs after the raw materials have been placed in process.

What will the raw material purchases be in June?

a. 89,800 kgs. b. 96,000 kgs. c. 98,440 kgs. d. 99,400 kgs.

Questions 5 and 6 are based on the following information.

Sta. Barbara is one of the manufacturers of a part used in the production of a popular consumer product. Sales of the consumer product in 1985 are estimated at 5,000,000 units. Sta. Barbara regularly supplies 40% of the parts used in the new products. Two parts units are needed for each product unit. Aside from the new products, there is also a replacement parts market. Over the past three years, the company has sold the following number of replacement parts:

|  |  |
| --- | --- |
| 1982 | 300,000 |
| 1983 | 330,000 |
| 1984 | 363,000 |

This trend is expected to continue. The parts are sold for P4 per piece in the new products market and P4.50 in the replacement parts market.

5. The estimated number of parts to be sold by Sta. Barbara in 1985 is

a. 2,399,300 b. 4,000,000 c. 4,399,300 d. 4,435,600

6. The amount of expected revenue based on the estimated number of parts to be sold in 1985 is

a. P9,796,850 b. P16,000,000 c. P17,597,200 d. P17,796,850

7. In preparing its cash budget for July, 19x7, Art Company made the following projections

|  |  |
| --- | --- |
| Sales | P1,500,000 |
| Gross Profit | 25% |
| Decrease in inventories | P 70,000 |
| Decrease in accounts payable for inventories | 120,000 |

For July, 19X7, what were the estimated cash disbursement for inventories?

a. P1,050,000. b. P1,055,000. c. P1,175,000. d. P 935,000.

8. Cook Co.’s total costs of operating five sales offices last year were $500,000, of which $70,000 represented fixed costs. Cook has determined that total costs are significantly influenced by the number of sales offices operated. Last year’s costs and number of sales offices can be used as the bases for predicting annual costs. What would be the budgeted cost for the coming year if Cook were to operate seven sales offices?

a. $700,000 b. $672,000 c. $602,000 d. $586,000

9. Each unit of product ZIM takes five direct labor hours to make. Quality standards are high and 8% of units produced are normally rejected due to substandard quality. Next month’s budgets are as follows:

|  |  |
| --- | --- |
| Beginning inventory of finished goods |  3,000 units |
| Planned ending inventory of finished goods |  7,600 units |
| Budgeted sales of ZIM | 36,800 units |

All stocks of finished goods must have successfully passed the quality control check. What is the direct labor budget for the month?

a. 198,720 hours b. 200,000 hours c. 223,500 hours d. 225,000 hours

10. Tropical Manufacturing Corporation is using the following flexible-budget formula for annual indirect labor cost: Total cost = P12,000 + P0.75 per machine hour. For the month of June, the operating budgets are based upon 10,000 hours of planned machine time. Indirect labor costs included in this planning budget are

a. P7,500 b. P8,500 c. P17,500 d. P19,500

Questions 11 and 12 are based on the following information.

The budget committee of Ferbel Company is preparing its manufacturing budget for the year 1983. Initial estimates indicate an annual sales forecast of 40,000 units. The company shall also need 10,000 units for stock. Economic lot purchases of 1,750 kilos of material A at P8 per kilo and 1,000 liters of material B at P15 per liter are required to produce the 50,000 units.

Budgeted factory overhead expenses for this production are:

|  |  |
| --- | --- |
| Fixed factory overhead |  |
| Supervision | P4,000 |
| Depreciation | P2,300 |
| Insurance | P 500 |
| Variable factory overhead |  |
| Indirect labor | P0.50 per direct labor hour |
| Indirect supplies | P0.008 per unit |
| General factory | P0.10 per direct labor hour |
| Labor hours and rates for the two operations are |
| Operation 1 | 4,000 hours at P5.00 per hour |
| Operation 2 | 2,000 hours at P4.50 per hour |

11. Based on the above information, the budgeted total manufacturing costs for Ferbel Company for the year 1983 would be

a. P51,040 b. P60,800 c. P68,800 d. P76,560

12. The factory overhead rate based on direct labor hours would be

a. P0.67 per direct labor hour c. P2.16 per direct labor hour

b. P1.80 per direct labor hour d. P2.70 per direct labor hour

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13. Budji Corp. is preparing its budget for 19B. For 19A, the following were reported:

|  |  |
| --- | --- |
| Sales (100,000 units) | P1,000,000 |
| Cost of Goods Sold | 600,000 |
| Gross Profit | P 400,000 |
| Operating Expenses (including depreciation of P40,000) | 240,000 |
| Net Income | P 160,000 |

Selling prices will increase by 10% and sales volume in units will decrease by 5%. The cost of goods sold as a percent of sales will increase to 62%. Other than depreciation, all operating costs are variable. Budji will budget a net income for 19B of

a. P167,100 b. P167,500 c. P168,000 d. P176,000

14. Karmel, Inc. pays out sales commissions to its sales team in the month the company receives cash for payment. These commissions equal 5% of total (monthly) cash inflows as a result of sales. Karmel has budgeted sales of $300,000 for August, $400,000 for September, and $200,000 for October. Approximately, half of all sales are on credit, and the other half are all cash sales. Experience indicates that 70% of the budgeted credit sales will be collected in the month following the sale, 20% the month after that, and 10% of the sales will be uncollectible. Based on this information, what should be the total amount of sales commissions paid out by Karmel in the month of October?

a. $8,500 b. $13,500 c. $17,000 d. $22,000

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15. It is budgeting time for Del Co. The following assumptions were agreed upon for the next year after a strategic planning session which covered a five-year horizon

1. Sales is estimated to be at 70,000 units at its national selling price of P126.00. 75% of total sales are on credit. 1.5% of net sales is provided for doubtful accounts.

2. Sales discounts are given to various customers at different rates and net to gross ratio is at 93%

3. Mark-up on merchandise is at 45% of invoice cost. Beginning inventory is P80,900 and is expected to be reduced by P15,000 at the end of the period.

4. Selling and administrative expenses is expected to be 15% of gross sales.

5. Depreciation is computed at P500,000.

The projected operating income for the year is

a. P252,741 b. P296,841 c. P252,341 d. P173,802

16. Pera Inc. prepared the following sales budget

|  |  |  |
| --- | --- | --- |
| Month | Cash Sales | Credit Sales |
| February | P 80,000 | P 340,000 |
| March | 100,000 | 400,000 |
| April | 90,000 | 370,000 |
| May | 120,000 | 460,000 |
| June | 110,000 | 380,000 |

Collections are 40% in the month of sale, 45% in the month following the sale, and 10% two months following the sale. The remaining 5% is expected to be uncollectible. The company’s total budgeted collection from April to June amounts to

a. P1,090,250 b. P1,325,500 c. P1,468,500 d. P1,397,500

17. The following historical pattern on its credit sales of Rainy Co. was presented:

70% collection during the month of sale.

15% in the first month after sale.

10% in the second month after sale.

4% in the third month after sale.

1% uncollectible.

The sales on account of the last six months of the year were reported as follows:

|  |  |
| --- | --- |
| July | P120,000 |
| August | 140,000 |
| September | 160,000 |
| October | 180,000 |
| November | 200,000 |
| December | 170,000 |

The total cash collections during the fourth calendar quarter from sales made on account during the fourth calendar quarter would be

a. P345,000 b. P550,000 c. P502,800 d. P460,000

18. Sta. Elena Merchandising Company plans to sell in December 15,000 units of its product at a unit price of P20. The estimated gross profit is 25% of sales. The inventory will be increased in December in anticipation of higher sales volume for Christmas. The increase will be about P100,000. Amounts payable to trade creditors will also increase by P25,000. Estimate of payment to be made during the month of December for merchandise is

a. P300,000 b. P250,000 c. P150,000 d. P100,000

19. JLT Corporation expects to sell 150,000 units during the first quarter of 1998, with an ending inventory for the quarter of 20,000 units. Variable manufacturing costs are budgeted at P50 per unit, with 70% of total variable manufacturing costs requiring cash payments during the quarter. Fixed manufacturing costs are budgeted at P120,000 per quarter, 40% of which are expected to require cash payment during the quarter.

In the cash budget, payments for manufacturing costs during the quarter will total

a. P8,500,000 b. P5,950,000 c. P5,998,000 d. P5,298,000

20. MNO Corporation has a P35,000 balance of account receivable at the beginning of its budget period. It has budgeted P160,000 credit sales and expects to collect 70% of these during the budget period.

What is the ending balance of accounts receivable assuming that all but 10% of the beginning balance is collected during the budget period.

a. $3,560 b. P51,500 c. P71,500 d. P143,500

21. Harrison Company has budgeted its operations for August. No change in the inventory level during the month is planned. Selected data based on estimated amounts are as follows:

|  |  |
| --- | --- |
| Net loss  | $(120,000) |
| Increase in accounts payable  | 48,000 |
| Depreciation expense  | 42,000 |
| Decrease in gross amounts of trade account receivables | 72,000 |
| Purchase of equipment on 90-day credit terms  | 18,000 |
| Provision for estimated warranty liability | 12,000 |

What is the expected change in the cash position during August?

A. $18,000 decrease. B. $30,000 decrease. C. $36,000 increase. D. $54,000 increase.

22. The following information was extracted from the May Cash Budget of Hair Stars, a groom pad for men and women:

|  |  |
| --- | --- |
| Budget of Hair Stars, a groom pad for men and women: |  |
| Excess of cash available over disbursements | P 800 |
| Cash balance, May 1 | 10,100 |
| Total cash disbursement for May | 32,500 |

 The business can only borrow money in round figures of P1,000 amounts. If the business is required to maintain a minimum cash balance of P10,000, how much money should be borrowed in May?

a. P9,200 b. P10,000 c. P22,000 d. P23,000

23. In preparing its budget for July, 1997, Joy Company has the following accounts receivable information available:

|  |  |
| --- | --- |
| Accounts receivable at June 30, 19x7 | P350,000 |
| Estimated credit sales for July | P400,000 |
| Estimated collections in July for credit sales in July and prior months | P320,000 |
| Estimated write-offs in July for uncollectible credit sales | P 16,000 |
| Estimated provision for doubtful accounts for credit sales in July | P 12,000 |

What is the projected balance of accounts receivable at July 31, 19x7?

a. P402,000. b. P430,000. c. P414,000. d. P426,000.

24. The January 1983 budget of Balagtas Company is being prepared by the budget officer of the company. In the preparation of the cash budget the estimates for the month of January, 1983 include the following:

|  |  |
| --- | --- |
| Sales | P937,500 |
| Gross profit (based on sales) | 25% |
| Increase in inventories | P75,000 |
| Decrease in trade accounts payable | P30,000 |

The estimated cash disbursements for inventories in January, 1983 is

a. P598,125 b. P733,125 c. P748,125 d. P808,125

25. GLORIA CORP. has the following budget estimates for its second year of operations:

Projected sales – P3,500,000

Projected net income before tax – 12% of sales

Estimated selling and administrative expenses – 25% of sales

Direct labor and factory overhead are budgeted at 70% of the total manufacturing cost.

Inventories are estimated as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Raw materials | Goods in process | Finished goods |
| Beginning | P220,000 | P250,000 | P350,000 |
| Ending | 270,000 | 300,000 | 420,000 |

The estimated purchases of raw materials would be

a. P967,500 b. P732,500 c. P697,000 d. P747,500

26. Digna Company had the following transactions in 19x7, their first year of operations

|  |  |
| --- | --- |
| Sales (90% collected in 1997) | P1,500,000 |
| Bad debts write-offs | 60,000 |
| Disbursements for cost and expenses | 1,200,000 |
| Disbursement for income taxes | 90,000 |
| Purchase of fixed assets | 400,000 |
| Depreciation of fixed assets | 80,000 |
| Proceeds from issuance of common stock | 500,000 |
| Proceeds from short-term borrowings | 100,000 |
| Payments on short-term borrowings | 50,000 |

What is the cash balance at December 31, 19x7?

a. P210,000. b. P150,000. c. P280,000. d. P170,000

Questions 27 thu 30 are based on the following information.

For purposes of preparing the cash projections and other budget estimates for the third quarter of 1988, the following information is presented to you by the management of Virgo Corporation:

|  |  |  |
| --- | --- | --- |
| Second Quarter Sales Data: | Pesos | Units |
| April | P 530,000 | 10,600 |
| May |  550,000 | 11,000 |
| June |  570,000 | 11,400 |

|  |  |  |
| --- | --- | --- |
| Projected sales for the next four months | Pesos | Units |
| July |  540,000 | 10,800 |
| August |  550,000 | 11,000 |
| September |  560,000 | 11,200 |
| October |  580,000 | 11,600 |

All sales are on charge basis and billed at the end of the month. A 5% discount is given on collections within the 15 days from billing date. Sales collections are generally made as follows:

70% within the month following the billing date with 40% of this being collected within the discount period.

27% on the second month following the billing date.

 3% considered uncollectible

Merchandise purchases are generally paid as follows:

50% within the month they are incurred.

50% after the month they are incurred

Ending inventory in units (cost per unit is P40) is 30% higher than the following month’s sales in units. Operating expenses are on cash basis and are estimated to be 15% of the current month’s sales including monthly depreciation of P10,000.

As of June 30, 1988, Accounts Receivable balance was P630,000 and Merchandise Inventory was P565,000.

27. The budgeted cash collections for the month of July would be

a. P547,500 b. P539,520 c. P556,020 d. P391,020

28. The budgeted cash payments of the month of September would be

a. P518,000 b. P533,600 c. P468,800 d. P459,600

29. The projected net income for September would be

a. P122,200 b. P112,000 c. P28,000 d. P38,000

30. The balance of accounts receivable at the end of July, assuming that no uncollectible accounts are written off for July would be (VD)

a. P622,500 b. P645,660 c. P613,980 d. P630,480

Questions 31 thru 38 are based on the following information.

The following information has been gathered by the Budget Director of the Kareton Company, another outfit managed by the Masugid Company. The firm manufactures and sells only one product. The selling price during the coming month is expected to be the prevailing price of P5 per unit. Expected sales during the month is a total of 75,000 units of finished goods. Finished goods expected to be on hand at the end of the month total 50,000 units. Finished goods expected to be on hand at the beginning of he month total 42,000 units.

Direct labor cost is P3.00 per hour. One-fourth an hour of direct labor is required to manufacture each unit of finished product.

Factory overhead is applied to work-in-process on the basis of direct labor hours. Variable factory expenses at the planned level of operations is expected to amount to P33,200; fixed overhead is expected to amount to P99,600.

The raw materials expected to be on hand at the beginning of the month total 5,000 gallons. Only one kind of raw material is used to produce the finished goods. One and one-half gallons of raw material are needed to manufacture each unit of finished product. Raw materials are expected to cost P0.18 per gallon during the coming month, its prevailing cost. Raw materials expected to be on hand at the end of the month total 8,000 gallons.

Variable administrative and selling expenses is P1.00 per unit.

In assisting the company to formulate the budget, you determined the following budget parameters.

31. Budgeted cost of raw materials to be used in production is

a. P124,500 b. P14,940 c. P8,910 d. P22,410

32. Budgeted raw materials purchases cost is

a. P22,950 b. P22,410 c. P23,760 d. P124,500

33. Budgeted direct labor is

a. P20,750 b. P83,000 c. P62,250 d. P33,200

34. Variable overhead cost per direct labor hour is

a. P1.60 b. P4.80 c. P1.80 d. P6.40

35. Fixed overhead cost per direct labor hour is

a. P1.60 b. P4.80 c. P1.80 d. P6.40

36. Budgeted contribution margin is

a. P5.00 b. P1.80 c. P3.40 d. P2.58

37. Budgeted cost of goods sold (full cost) is

a. P76,500 b. P96,500 c. P196,500 d. P304,000

38. Net profit before tax is

a. P178,500 b. P103,500 c. P53,000 d. P249,500

**ANSWER KEY**

**xxx**

**Theory Problem**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1. D | 16. B | 31. C | 1. C | 16. C | 31. D |
| 2. C | 17. C | 32. B | 2. C | 17. D | 32. A |
| 3. A | 18. D | 33. A | 3. C | 18. A | 33. C |
| 4. C | 19. A | 34. A | 4. D | 19. C | 34. A |
| 5. D | 20. C |  | 5. C | 20. B | 35. B |
| 6. D | 21. A |  | 6. D | 21. D | 36. D |
| 7. C | 22. C |  | 7. C | 22. B | 37. C |
| 8. B | 23. D |  | 8. B | 23. C | 38. B |
| 9. A | 24. C |  | 9. D | 24. D |  |
| 10. A | 25. C |  | 10. B | 25. D |  |
| 11. D | 26. C |  | 11. C | 26. A |  |
| 12. A | 27. A |  | 12. B | 27. B |  |
| 13. B | 28. B |  | 13. A | 28. B |  |
| 14. A | 29. C |  | 14. B | 29. C |  |
| 15. B | 30. A |  | 15. D | 30. A |  |