

**LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034****B.Com. DEGREE EXAMINATION – ACCOUNTING AND FINANCE****FIRST SEMESTER – NOVEMBER 2023****UAF 1502 – FINANCIAL PLANNING AND PERFORMANCE**

Date: 07-11-2023

Dept. No.

Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

PART – A

Q. No	Answer ALL Multiple Choice Questions (70 x 1 = 70 Marks)								
1	An accountant for a biotechnology company is working on a projection of next year's maintenance expenditures for the company's laboratory equipment used in research and development. By analysing past maintenance expenditures, the accountant was able to determine that future maintenance expenditures can be expressed by the following simple regression equation: $Y = \\$20,000 + (\\$50 \times X)$. The variable X is the number of hours the laboratory equipment has been in service. For the previous year, the variable X was determined to be 4,500 hours. If the accountant is projecting that X will be 5,000 hours next year, how much should the accountant project for next year's maintenance expenditures? <table><tr><td>A</td><td>\$225,000</td></tr><tr><td>B</td><td>\$245,000</td></tr><tr><td>C</td><td>\$250,000</td></tr><tr><td>D</td><td>\$270,000</td></tr></table>	A	\$225,000	B	\$245,000	C	\$250,000	D	\$270,000
A	\$225,000								
B	\$245,000								
C	\$250,000								
D	\$270,000								
2	The average labor cost per unit for the first batch produced by a new process is \$120. The cumulative average labor cost after the second batch is \$72 per product. Using a batch size of 100 and assuming the learning curve continues, the total labor cost of four batches will be <table><tr><td>A</td><td>\$4,320</td></tr><tr><td>B</td><td>\$10,368</td></tr><tr><td>C</td><td>\$2,592</td></tr><tr><td>D</td><td>\$17,280</td></tr></table>	A	\$4,320	B	\$10,368	C	\$2,592	D	\$17,280
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3	One of the primary advantages of budgeting is that it <table><tr><td>A</td><td>Does not take the place of management and administration.</td></tr><tr><td>B</td><td>Bases the profit plan on estimates.</td></tr><tr><td>C</td><td>Is continually adapted to fit changing circumstances.</td></tr><tr><td>D</td><td>Requires departmental managers to make plans in conjunction with the plans of other interdependent departments.</td></tr></table>	A	Does not take the place of management and administration.	B	Bases the profit plan on estimates.	C	Is continually adapted to fit changing circumstances.	D	Requires departmental managers to make plans in conjunction with the plans of other interdependent departments.
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D	Requires departmental managers to make plans in conjunction with the plans of other interdependent departments.								
4	A particular manufacturing job is subject to an estimated 90% learning curve. The first unit required 50 labor hours to complete. What is the cumulative average time per unit after four units are completed? <table><tr><td>A</td><td>40.0 hours.</td></tr><tr><td>B</td><td>45.0 hours.</td></tr><tr><td>C</td><td>50.0 hours.</td></tr><tr><td>D</td><td>40.5 hours.</td></tr></table>	A	40.0 hours.	B	45.0 hours.	C	50.0 hours.	D	40.5 hours.
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C	50.0 hours.								
D	40.5 hours.								

5	A company is anticipating that a major supplier might experience a strike this year. Because of the nature of the product and emphasis on quality, extra production cannot be stored as finished goods inventory. When developing a contingency budget that would anticipate a direct materials buildup, the two most significant items that will be affected are <table border="1" data-bbox="197 203 1481 427"> <tr> <td>A</td><td>Production volume and direct material.</td></tr> <tr> <td>B</td><td>Sales and ending inventory.</td></tr> <tr> <td>C</td><td>Production and cash flow.</td></tr> <tr> <td>D</td><td>Direct materials and cash flow.</td></tr> </table>	A	Production volume and direct material.	B	Sales and ending inventory.	C	Production and cash flow.	D	Direct materials and cash flow.
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D	Direct materials and cash flow.								
6	Gross Point Manufacturing recently completed & sold an order of 50 units that had costs as below: The company has now been requested to prepare a bid for 150 units of the same product. Direct materials \$ 1,500 Direct labor ($\\$8.50 \times 1,000 \text{ hours}$) = 8,500 Variable overhead* ($1,000 \text{ hours} \times \\4.00) = 4,000 Fixed overhead**1,400 Total = \$15,400 *Applied on the basis of direct labor hours. **Applied at the rate of 10% of variable cost. If an 80% learning curve is applicable, Gross Point's total cost on this order would be estimated at <table border="1" data-bbox="197 801 1481 1025"> <tr> <td>A</td><td>\$26,400</td></tr> <tr> <td>B</td><td>\$32,000</td></tr> <tr> <td>C</td><td>\$38,000</td></tr> <tr> <td>D</td><td>\$41,800</td></tr> </table>	A	\$26,400	B	\$32,000	C	\$38,000	D	\$41,800
A	\$26,400								
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7	A company produces and sells eight different varieties of cereal. The company has eight marketing managers, each of whom is responsible for advertising one of the varieties. Historically, the company has budgeted advertising costs as 10% of each product's anticipated revenues, and actual advertising costs have been very close to budgeted amounts, yielding very insignificant variances. In order to provide for a more efficient allocation of resources available for its advertising, the company should <table border="1" data-bbox="197 1249 1481 1473"> <tr> <td>A</td><td>Implement zero-based budgeting.</td></tr> <tr> <td>B</td><td>Implement flexible budgeting.</td></tr> <tr> <td>C</td><td>Implement a balanced scorecard.</td></tr> <tr> <td>D</td><td>Maintain the current system.</td></tr> </table>	A	Implement zero-based budgeting.	B	Implement flexible budgeting.	C	Implement a balanced scorecard.	D	Maintain the current system.
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B	Implement flexible budgeting.								
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8	The type of budget that is continually updated to add a new budget period as the most recent budget period is completed is called a(n) <table border="1" data-bbox="197 1552 1481 1776"> <tr> <td>A</td><td>Rolling budget.</td></tr> <tr> <td>B</td><td>Flexible budget.</td></tr> <tr> <td>C</td><td>Activity-based budget.</td></tr> <tr> <td>D</td><td>Zero-based budget.</td></tr> </table>	A	Rolling budget.	B	Flexible budget.	C	Activity-based budget.	D	Zero-based budget.
A	Rolling budget.								
B	Flexible budget.								
C	Activity-based budget.								
D	Zero-based budget.								
9	A home building company offers its customers the choice of 1 of 12 home designs on lots located in several developing areas. During its 15-year existence, the company created its annual budget by adjusting the prior year's actual results for changes in inflation as well as in projected volume. During this time, the company's profit margins have been among the lowest of all of the local home builders. Ownership of the company recently changed. New management believes there has been significant unnecessary spending in many areas of the company, although they do not know exactly where or to what extent overspending occurred. To improve profitability, the type of budgeting system the company's new management should implement is								

	A	Zero-based budgeting.
	B	Continuous budgeting.
	C	Project budgeting.
	D	Activity-based budgeting.
10	Ineffective budget control systems are characterized by	
	A	Use of budgets as a planning but not a control tool.
	B	Use of budgets for harassment of individuals rather than motivation.
	C	Lack of timely feedback in the use of the budget.
	D	All of the answers are correct.
11	Which one of the following describes what an organization wants to accomplish and leads to the formulation of long-term business objectives?	
	A	Values.
	B	Strategy.
	C	Mission Statement
	D	Competency.
12	A company is the leading company in the premium bottled water industry. Its growth is mainly driven by the negative health publicity on carbonated soft drinks and other sweetened beverages. Extensive inventory and distribution infrastructure is needed to compete in this industry. Its main packaging materials can be sourced either locally or easily imported from overseas. With its 60% market share, the company is able to influence prices and competitive activity. The second biggest competitor holds 20% market share, while the remaining 20% is shared by many small companies. Supermarkets and other grocery retailers are the largest customer segment, accounting for approximately 45% of sales. The supermarkets and grocery retailers are driving volume growth and are undergoing consolidation into larger supermarket conglomerates. Using Porter's 5 Forces, which one of the following statements best reflects the industry environment?	
	A	Low profitability but can increase due to increasing power of buyers.
	B	Low profitability due to low threat of substitutes and new entrants.
	C	High profitability but can decrease due to increasing power of buyers.
	D	High profitability due to high power of buyers and sellers.
13	Which of the following is not a significant reason for planning in an organization?	
	A	Promoting coordination among operation units.
	B	Forcing managers to consider expected future trends and conditions.
	C	Enabling selection of personnel for open positions.
	D	Developing a basis for controlling operations.
14	Profitability is derived from three basic factors. Which of the following is not one of those?	
	A	The price that the company charges for its products and services.
	B	The amount of value placed on the company's products or services by the customer
	C	Research and development that is highly innovative
	D	The costs of creating the company's products or services.

15	Products that are identified in the BCG Growth-Share Matrix as Cash Cows possess relatively	
	A	high market share in a high growth market.
	B	low market share in a high growth market.
	C	high market share in a low growth market.
	D	low market share in a low growth market.
16	A company uses participative budgeting. In order to more easily meet budgetary goals, the controller underestimates the amount of revenue and overestimates fixed selling and administrative expenses. This is an example of	
	A	flexible budgeting.
	B	budgetary slack.
	C	zero-based budgeting.
	D	budgetary variance.
17	All of the following are disadvantages of authoritative budgeting as opposed to participatory budgeting, except that it	
	A	may result in a budget that is not possible to achieve
	B	reduces the time required for budgeting.
	C	may limit the acceptance of proposed goals and objectives
	D	reduces the communication between employees and management
18	A company has the following budget formula for annual electricity expense in its shop: Expense = \$7,200 + (Units produced * \$0.50) If management expects to produce 20,000 units during February, for the purpose of performance evaluation, what amount of expenses should the company expect to incur in February?	
	A	\$12,600
	B	\$10,600
	C	\$10,000
	D	\$17,200
19	A continuous (rolling) budget	
	A	Presents planned activities for a period but does not present a firm commitment.
	B	Drops the current month or quarter and adds a future month or quarter as the current month or quarter is completed.
	C	Presents the plan for only one level of activity and does not adjust to changes in the level of activity.
	D	Presents the plan for a range of activity so that the plan can be adjusted for changes in activity.
20	In developing the budget for the next year, which one of the following approaches would most likely result in a successful budget with the greatest amount of positive motivation and goal congruence?	

	<table> <tr> <td>A</td><td>Permit the divisional manager to develop the goal for the division that in the manager's view will generate the greatest amount of profits.</td></tr> <tr> <td>B</td><td>Have the divisional and senior management jointly develop goals and the divisional manager develop the implementation plan.</td></tr> <tr> <td>C</td><td>Have senior management develop the overall goals and permit the divisional manager to determine how these goals will be met.</td></tr> <tr> <td>D</td><td>Have the divisional and senior management jointly develop goals and objectives while constructing the corporation's overall plan of operation.</td></tr> </table>	A	Permit the divisional manager to develop the goal for the division that in the manager's view will generate the greatest amount of profits.	B	Have the divisional and senior management jointly develop goals and the divisional manager develop the implementation plan.	C	Have senior management develop the overall goals and permit the divisional manager to determine how these goals will be met.	D	Have the divisional and senior management jointly develop goals and objectives while constructing the corporation's overall plan of operation.												
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21	Vivek Enterprises, a distributor of table lamps, is developing its budgeted cost of goods sold for 20X3. Vivek has developed the following range of sales estimates and associated probabilities for the year: <table> <tr> <td>Sales</td><td>Estimated Probability</td></tr> <tr> <td>\$60,000</td><td>25%</td></tr> <tr> <td>85,000</td><td>40%</td></tr> <tr> <td>100,000</td><td>35%</td></tr> </table> Vivek's cost of goods sold averages 80% of sales. What is the expected value of Vivek's 20X3 budgeted cost of goods sold? <table> <tr> <td>A</td><td>\$85,000</td></tr> <tr> <td>B</td><td>\$84,000</td></tr> <tr> <td>C</td><td>\$72,000</td></tr> <tr> <td>D</td><td>\$67,200</td></tr> </table>	Sales	Estimated Probability	\$60,000	25%	85,000	40%	100,000	35%	A	\$85,000	B	\$84,000	C	\$72,000	D	\$67,200				
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22	Sangeetham Co. uses regression analysis to develop a model for predicting overhead costs. Two different cost drivers (machine hours and direct materials weight) are under consideration as the independent variable. Relevant data were run on a computer using one of the standard regression programs, with the following results: <table> <tr> <td>Machine hours</td><td>Coefficient</td></tr> <tr> <td>Y Intercept</td><td>2,500</td></tr> <tr> <td>B</td><td>5</td></tr> </table> R-squared = 0.70 <table> <tr> <td>Direct materials</td><td>Coefficient</td></tr> <tr> <td>Y Intercept</td><td>4,600</td></tr> <tr> <td>B</td><td>2.6</td></tr> </table> R-squared = 0.50 Which regression equation should be used? <table> <tr> <td>A</td><td>$Y = 2,500 + 3.5X$</td></tr> <tr> <td>B</td><td>$Y = 4,600 + 2.6X$</td></tr> <tr> <td>C</td><td>$Y = 4,600 + 1.3X$</td></tr> <tr> <td>D</td><td>$Y = 2,500 + 5X$</td></tr> </table>	Machine hours	Coefficient	Y Intercept	2,500	B	5	Direct materials	Coefficient	Y Intercept	4,600	B	2.6	A	$Y = 2,500 + 3.5X$	B	$Y = 4,600 + 2.6X$	C	$Y = 4,600 + 1.3X$	D	$Y = 2,500 + 5X$
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C	$Y = 4,600 + 1.3X$																				
D	$Y = 2,500 + 5X$																				
23	An accountant estimated the repair costs for the company's plant facilities for next year's operating budget. The accountant has determined the following probability distribution after analyzing historical repair costs.																				

Probability Repair Costs

15% \$2,000,000

45% 2,500,000

30% 3,500,000

10% 5,000,000

What is the estimated repair cost that the accountant should project for next year's operating budget?

A	\$1,850,000.00
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B	\$1,925,000.00
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C	\$3,250,000.00
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D	\$2,975,000.00
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- 24 A computer store sells four computer models designated as P104, X104, A104 and S104. The store manager has made random number assignments to represent customer choices based on past sales data. The assignments are:

Model	Random Numbers
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P104	0-1
------	-----

X104	2-6
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A104	7-8
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S104	9
------	---

The probability that a customer will select model X104 is

A	10 percent.
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B	20 percent.
---	-------------

C	50 percent.
---	-------------

D	Some probability other than those given.
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- 25 Ron Bagley is contemplating whether to investigate a labor efficiency variance in the Assembly Department. It will cost \$6,000 to undertake the investigation and another \$18,000 to correct operations if the department is found to be operating improperly. If the department is operating improperly and Bagley failed to make the investigation, operating costs from the various inefficiencies are expected to amount to \$33,000. Bagley would be indifferent between investigating and not investigating the variance if the probability of improper operation is

A	0.29.
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B	0.40.
---	-------

C	0.60.
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D	0.71.
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- 26 An organization that specializes in reviewing and editing technical magazine articles sets the following standards for evaluating the performance of the professional staff:
- Annual budgeted fixed costs for normal capacity level of 10,000 articles reviewed and edited: \$600,000
 - Standard professional hours per 10 articles: 200 hours
 - Flexible budget of standard labor costs to process 10,000 articles: \$10,000,000
- The following data apply to the 9,500 articles that were actually reviewed and edited during the current year:
- Total hours used by professional staff: 192,000 hours
 - Variable costs: \$9,120,000
 - Total cost: 9,738,000
- Using a flexible budget, the total cost planned for the review and editing of 9,500 articles should be

A	\$9,500,000.00
B	\$10,070,000.00
C	\$10,100,000.00
D	\$10,570,000.00

- 27 A company's master budget for the year planned that the company would manufacture and sell 2,000 units for €500,000 in sales, €350,000 in variable expenses, and €50,000 in fixed expenses. If the company manufactured and sold only 1,750 units during the year, how much is the company's flexible budget operating income?

A	42500
B	81250
C	91875
D	105000

- 28 StoniBrook Industries produces decorative hardware used by home construction firms and sold in do-it-yourself retail outlets. The business is highly competitive with little opportunity for raising prices. StoniBrook's master budget for the next fiscal year is shown below.

Sales \$8,400,000
 Cost of goods sold* 6,000,000
 Advertising 500,000
 Sales salaries 400,000
 Sales commissions 168,000
 Administrative expenses 350,000
 Operating income \$ 982,000

50% direct material, 30% direct labor, 20% fixed overhead

The following events could impact the budget.

- Renegotiation of a union contract resulting in a 3.5% wage increase for factory workers.
- A 5% increase in the cost of 20% of its material.
- Elimination of sales commissions with an equal increase in sales salaries.

If all of these events occur, the incremental change in StoniBrook's operating income will be

A	\$123,000 decrease.
B	\$93,000 decrease
C	\$45,000 increase
D	\$75,000 increase

29	Granger Company is reviewing its standard machine hours per unit to use in its budget for the upcoming year. The machine manufacturer\'s specifications indicated a unit could be made in 0.75 hours, and a benchmarking study showed a competitor produced at a speed of 0.78 machine hours per unit. Granger\'s actual results from last year averaged 0.83 machine hours per unit even though a standard of 0.80 machine hours per unit had been established using engineering studies. The standard Granger should use in its upcoming budget is <table><tr><td>A</td><td>0.75 machine hours per unit.</td></tr><tr><td>B</td><td>0.78 machine hours per unit.</td></tr><tr><td>C</td><td>0.80 machine hours per unit.</td></tr><tr><td>D</td><td>0.83 machine hours per unit.</td></tr></table>	A	0.75 machine hours per unit.	B	0.78 machine hours per unit.	C	0.80 machine hours per unit.	D	0.83 machine hours per unit.									
A	0.75 machine hours per unit.																	
B	0.78 machine hours per unit.																	
C	0.80 machine hours per unit.																	
D	0.83 machine hours per unit.																	
30	A major disadvantage of a static budget is that <table><tr><td>A</td><td>It is more difficult to develop than a flexible budget.</td></tr><tr><td>B</td><td>It is made for only one level of activity.</td></tr><tr><td>C</td><td>Variances tend to be smaller than when flexible budgeting is used.</td></tr><tr><td>D</td><td>Variances are more difficult to compute than when flexible budgeting is used.</td></tr></table>	A	It is more difficult to develop than a flexible budget.	B	It is made for only one level of activity.	C	Variances tend to be smaller than when flexible budgeting is used.	D	Variances are more difficult to compute than when flexible budgeting is used.									
A	It is more difficult to develop than a flexible budget.																	
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31	Jordan Auto has developed the following production plan: Month January 10,000 February 8,000 March 9,000 April 12,000 Each unit contains 3 pounds of raw material. The desired raw material ending inventory each month is 120% of the next month\'s production, plus 500 pounds. (The beginning inventory meets this requirement.) Jordan has developed the following direct labor standards for production of these units: <table><tr><td></td><td>Department 1</td><td>Department 2</td></tr><tr><td>Hours per unit</td><td>2.0</td><td>0.5</td></tr><tr><td>Hourly rate</td><td>\$6.75</td><td>\$12.00</td></tr></table> Jordan Auto's total budgeted direct labor dollars for February usage should be <table><tr><td>A</td><td>\$156,000</td></tr><tr><td>B</td><td>\$165,750</td></tr><tr><td>C</td><td>\$175,500</td></tr><tr><td>D</td><td>\$210,600</td></tr></table>		Department 1	Department 2	Hours per unit	2.0	0.5	Hourly rate	\$6.75	\$12.00	A	\$156,000	B	\$165,750	C	\$175,500	D	\$210,600
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32	In preparing the direct material purchases budget for next quarter, the plant controller has the following information available. Budgeted unit sales 2,000.00 Pounds of materials needed per unit 4 Cost of materials per pound \$3 Pounds of materials on hand 400 Finished units on hand 250 Target ending units inventory 325 Target ending inventory of pounds of materials 800 How many pounds of materials must be purchased?																	

	A	2,475.
	B	7,900
	C	8,700.
	D	9,300.
33	Which of the following would be most impacted by the use of the percentage of sales forecasting method for budgeting purposes?	
	A	Accounts payable.
	B	Mortgages payable.
	C	Bonds payable.
	D	Common stock.
34	Monroe Products is preparing a cash forecast based on the following information: • Monthly sales: December \$200,000; January \$200,000; February \$350,000; March \$400,000. • All sales are on credit and collected the month following the sale. • Purchases are 60% of next month's sales and are paid for in the month of purchase. • Other monthly expenses are \$25,000, including \$5,000 of depreciation. If the January beginning cash balance is \$30,000, and Monroe is required to maintain a minimum cash balance of \$10,000, how much short-term borrowing will be required at the end of February?	
	A	\$70,000
	B	\$60,000
	C	\$75,000
	D	\$80,000
35	Birch Corporation has the following historical pattern on its credit sales. • 70% collected in month of sale • 15% collected in the first month after sale • 10% collected in the second month after sale • 4% collected in the third month after sale • 1% credit losses The sales on open account have been budgeted for the first 6 months of the year are as follows: Month Sales on Open Account January \$70,000 February 90,000 March 100,000 April 120,000 May 100,000 June 90,000 The estimated total cash collections during April from accounts receivable would be	
	A	\$84,000
	B	\$110,800
	C	\$118,800
	D	\$108,000
36	Which one of the following would cause a company's production budget to decrease?	
	A	An increase in direct labor costs per unit.
	B	A decrease in units produced per direct labor hour.

	C	A decrease in required ending inventory.								
	D	An increase in required ending inventory								
37	Over the past several years, McCarthy Industries has experienced the following regarding the company's shipping expenses. Fixed costs \$16,000 Average shipment 15 pounds Cost per pound \$.50 Shown below are McCarthy budget data for the coming year: Number of units shipped 8,000 Number of sales orders 800 Number of shipments 800 Total sales \$1,200,000 Total pounds shipped <u>9,800</u> McCarthy's expected shipping costs for the coming year are <table><tr><td>A</td><td>\$4,800.</td></tr><tr><td>B</td><td>\$16,000.</td></tr><tr><td>C</td><td>\$20,900</td></tr><tr><td>D</td><td>\$20,800.</td></tr></table>		A	\$4,800.	B	\$16,000.	C	\$20,900	D	\$20,800.
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38	Prudent Corporation's budget for the upcoming accounting period reveals total sales of \$700,000 in April and \$750,000 in May. The sales cash collection pattern is 20% of each month's sales are cash sales. 5% of a month's credit sales are uncollectible. 70% of a month's credit sales are collected in the month of sale. 25% of a month's credit sales are collected in the month following the sale. If Prudent anticipates the cash sale of a piece of old equipment in May for \$25,000, May's total budgeted cash receipts would be <table><tr><td>A</td><td>\$560,000.</td></tr><tr><td>B</td><td>\$702,500.</td></tr><tr><td>C</td><td>\$735,000.</td></tr><tr><td>D</td><td>\$737,500.</td></tr></table>		A	\$560,000.	B	\$702,500.	C	\$735,000.	D	\$737,500.
A	\$560,000.									
B	\$702,500.									
C	\$735,000.									
D	\$737,500.									
39	Petersons Planters Inc. budgeted the following amounts for the coming year. Beginning inventory, finished goods \$10,000 Cost of goods sold 400,000 Direct material used in production 100,000 Ending inventory, finished goods 25,000 Beginning and ending work-in-process inventory Zero Overhead is estimated to be two times the amount of direct labor dollars. The amount that should be budgeted for direct labor for the coming year is <table><tr><td>A</td><td>\$315,000</td></tr><tr><td>B</td><td>\$210,000</td></tr><tr><td>C</td><td>\$157,500</td></tr><tr><td>D</td><td>\$105,000</td></tr></table>		A	\$315,000	B	\$210,000	C	\$157,500	D	\$105,000
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B	\$210,000									
C	\$157,500									
D	\$105,000									
40	Myers Company uses a calendar-year and prepares a cash budget for each month of the year. Which one of the following items should be considered when developing July's cash budget?									

	A	Federal income tax and social security tax withheld from employee's June paychecks to be remitted to the Internal Revenue Service in July.																		
	B	Quarterly cash dividends scheduled to be declared on July 15 and paid on August 6 to shareholders of record as of July 25.																		
	C	Property taxes levied in the last calendar year scheduled to be paid quarterly in the coming year during the last month of each calendar quarter.																		
	D	Recognition that 0.5% of the July sales on account will be uncollectible.																		
41	A company has \$10,000 in cash and \$150,000 in merchandise inventory on March 31. The desired cash and merchandise inventory balances on June 30 are \$20,000 and \$250,000, respectively. Sales for the quarter are expected to be \$300,000, all in cash. Gross margin is 40% of sales. Cash operating expenses are expected to be \$50,000. All merchandise inventory purchases are paid for in cash at the time of purchase. What amount of financing will the company need during the quarter?																			
	A	\$50,000																		
	B	\$40,000																		
	C	\$30,000																		
	D	\$20,000																		
42	The following information pertains to Boeck Company: Month Sales Purchases <table> <tr> <td>January</td> <td>\$30,000</td> <td>\$10,000</td> </tr> <tr> <td>February</td> <td>\$10,000</td> <td>\$ 5,000</td> </tr> <tr> <td>March</td> <td>\$20,000</td> <td>\$12,000</td> </tr> </table> Thirty percent of purchases are paid for in cash in the month of purchase, and the balance is paid the following month. Cash is collected from customers in the following manner: Month of sale: 40% Month following sale: 60% Boeck expects to incur labor costs equal to 15 percent of sales and other operating costs of \$15,000 per month (including \$4,000 of depreciation). Both of these are paid in the month incurred. The cash balance on March 1 is \$3,500. A minimum cash balance of \$2,500 is required at the end of the month. Money can be borrowed in multiples of \$500. How much cash will be collected from customers in March?		January	\$30,000	\$10,000	February	\$10,000	\$ 5,000	March	\$20,000	\$12,000									
January	\$30,000	\$10,000																		
February	\$10,000	\$ 5,000																		
March	\$20,000	\$12,000																		
	A	\$20,000.00																		
	B	\$16,000.00																		
	C	\$7,800.00																		
	D	\$14,000.00																		
43	Calculate the pro forma after-tax profit for next year based on the data below. <table> <tr> <th colspan="2">Results for last year</th><th>Projections for next year</th></tr> <tr> <td>Sales</td><td>\$100,000</td><td>10% increase</td></tr> <tr> <td>Variable cost</td><td>60,000</td><td>10% increase</td></tr> <tr> <td>Salaries</td><td>15,000</td><td>5% increase</td></tr> <tr> <td>Other expenses</td><td>5,000</td><td>20% increase</td></tr> <tr> <td>Income tax rate</td><td>30%</td><td>No change</td></tr> </table>		Results for last year		Projections for next year	Sales	\$100,000	10% increase	Variable cost	60,000	10% increase	Salaries	15,000	5% increase	Other expenses	5,000	20% increase	Income tax rate	30%	No change
Results for last year		Projections for next year																		
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Other expenses	5,000	20% increase																		
Income tax rate	30%	No change																		
	A	\$15,000																		
	B	\$15,575.																		
	C	\$16,100.																		
	D	\$18,200.																		

44	A company's need for external financing depends on several factors. A factor that does not affect the company's need for external financing is	
	A	Rapid sales growth.
	B	The company's profit margin.
	C	Unrealized holding gains and losses on the company's portfolio of available-for-sale securities.
	D	The company's retention ratio.
45	A company makes one product that it sells for €125 per unit. The product has a contribution margin of 35% of sales. Direct materials account for 10% of sales. Variable manufacturing overhead is 5% of sales. Fixed costs are €200,000 per year. The controller wants to create a pro forma income statement where the sales increase from 10,000 units to 12,000 units. The average income tax rate is 25.71%. What is the change in operating income as a result of the increase in unit sales?	
	A	€50000
	B	€65000
	C	€75000
	D	€87500
46	Garland Company uses a standard cost system. The standard for each finished unit of the product allows for 3 pounds of plastic at \$0.71 per pound. During December, Garland bought 4,500 pounds of plastic at \$0.75 per pound and used 4,100 pounds in the production of 1,300 finished units of product. What is the materials purchase price variance for the month of December?	
	A	\$117 unfavorable.
	B	\$123 unfavorable.
	C	\$135 unfavorable.
	D	\$180 unfavorable.
47	A favorable materials price variance coupled with an unfavorable materials usage variance would most likely result from	
	A	Machine efficiency problems.
	B	Product mix production changes.
	C	The purchase and use of higher than standard quality materials.
	D	The purchase of lower than standard quality materials.
48	Selected costs associated with a product are as follows: Total standard hours for units produced \$5,000 Total actual direct labor cost \$111,625 Actual per hour labor rate 23.50 Standard per hour labor rate 24.00 What amount is the total direct labor price variance?	
	A	\$2,375 unfavorable.
	B	\$2,375 favorable.
	C	\$2,500 unfavorable.
	D	\$2,500 favorable.

49	Which of the following factors should not be considered when deciding whether to investigate a variance? <table border="1"> <tr> <td>A</td><td>Magnitude of the variance.</td></tr> <tr> <td>B</td><td>Trend of the variances over time.</td></tr> <tr> <td>C</td><td>Likelihood that an investigation will eliminate future occurrences of the variance.</td></tr> <tr> <td>D</td><td>Whether the variance is favorable or unfavorable.</td></tr> </table>	A	Magnitude of the variance.	B	Trend of the variances over time.	C	Likelihood that an investigation will eliminate future occurrences of the variance.	D	Whether the variance is favorable or unfavorable.
A	Magnitude of the variance.								
B	Trend of the variances over time.								
C	Likelihood that an investigation will eliminate future occurrences of the variance.								
D	Whether the variance is favorable or unfavorable.								
50	Lee manufacturing uses a standard cost system with overhead applied based on direct labor hours. The manufacturing budget for the production of 5,000 units for the month of June included 10,000 hours of direct labor at \$15 per hour, \$150,000. During June, 4,500 units were produced, using 9,600 direct labor hours, incurring \$39,360 of variable overhead, and showing a variable overhead efficiency variance of \$2,400 unfavorable. The standard variable overhead rate per direct labor hour was <table border="1"> <tr> <td>A</td><td>\$3.85</td></tr> <tr> <td>B</td><td>\$4.00.</td></tr> <tr> <td>C</td><td>\$4.10.</td></tr> <tr> <td>D</td><td>\$6.00.</td></tr> </table>	A	\$3.85	B	\$4.00.	C	\$4.10.	D	\$6.00.
A	\$3.85								
B	\$4.00.								
C	\$4.10.								
D	\$6.00.								
51	A company prepared a master budget based on 100 budgeted sales units with a \$100 sales price per unit, a variable cost per unit of \$50, and \$2,500 in total fixed cost. The actual sales quantity was 70 units. When preparing a flexible budget, the operating income is <table border="1"> <tr> <td>A</td><td>\$1,000.</td></tr> <tr> <td>B</td><td>\$3,000</td></tr> <tr> <td>C</td><td>\$3,500</td></tr> <tr> <td>D</td><td>\$5,000</td></tr> </table>	A	\$1,000.	B	\$3,000	C	\$3,500	D	\$5,000
A	\$1,000.								
B	\$3,000								
C	\$3,500								
D	\$5,000								
52	The efficiency variance for either labor or materials can be divided into <table border="1"> <tr> <td>A</td><td>Spending variance and yield variance.</td></tr> <tr> <td>B</td><td>Yield variance and price variance.</td></tr> <tr> <td>C</td><td>Volume variance and mix variance.</td></tr> <tr> <td>D</td><td>Yield variance and mix variance.</td></tr> </table>	A	Spending variance and yield variance.	B	Yield variance and price variance.	C	Volume variance and mix variance.	D	Yield variance and mix variance.
A	Spending variance and yield variance.								
B	Yield variance and price variance.								
C	Volume variance and mix variance.								
D	Yield variance and mix variance.								
53	A company produces widgets with budgeted standard direct materials of 2 pounds per widget at \$5 per pound. Standard direct labor was budgeted at 0.5 hour per widget at \$15 per hour. The actual usage in the current year was 25,000 pounds and 3,000 hours to produce 10,000 widgets. What was the direct material usage variance? <table border="1"> <tr> <td>A</td><td>\$25,000 favorable.</td></tr> <tr> <td>B</td><td>\$25,000 unfavorable.</td></tr> <tr> <td>C</td><td>\$30,000 favorable.</td></tr> <tr> <td>D</td><td>\$30,000 unfavorable.</td></tr> </table>	A	\$25,000 favorable.	B	\$25,000 unfavorable.	C	\$30,000 favorable.	D	\$30,000 unfavorable.
A	\$25,000 favorable.								
B	\$25,000 unfavorable.								
C	\$30,000 favorable.								
D	\$30,000 unfavorable.								
54	A company uses a standard costing system. The production budget for year 1 was based on 200,000 units of output. Each unit requires two standard hours of manufacturing labor for completion. Total overhead was budgeted at \$900,000 for the year, and the budgeted fixed overhead rate was \$1.50 per direct manufacturing labor hour. Both variable and fixed overheads are allocated to the product based on direct manufacturing labor hours. The actual data for year 1 are as follows:								

	Actual production in units 198,000 Actual direct manufacturing labor hours 425,000 Actual variable overhead 352,000 Actual fixed overhead 575,000 What is the amount of unfavorable variable overhead efficiency variance? <table> <tr> <td>A</td><td>\$21,750</td></tr> <tr> <td>B</td><td>\$33,250</td></tr> <tr> <td>C</td><td>\$43,500</td></tr> <tr> <td>D</td><td>\$55,000</td></tr> </table>	A	\$21,750	B	\$33,250	C	\$43,500	D	\$55,000
A	\$21,750								
B	\$33,250								
C	\$43,500								
D	\$55,000								
55	During the month of May, Tyler Company experienced a significant unfavorable material efficiency variance in the production of its single product at one of Tyler's plants. Which one of the following reasons would be least likely to explain why the unfavorable variance arose? <table> <tr> <td>A</td><td>Inferior materials were purchased.</td></tr> <tr> <td>B</td><td>Actual production was lower than planned production.</td></tr> <tr> <td>C</td><td>Workers used were less skilled than expected.</td></tr> <tr> <td>D</td><td>Replacement production equipment had just been installed.</td></tr> </table>	A	Inferior materials were purchased.	B	Actual production was lower than planned production.	C	Workers used were less skilled than expected.	D	Replacement production equipment had just been installed.
A	Inferior materials were purchased.								
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C	Workers used were less skilled than expected.								
D	Replacement production equipment had just been installed.								
56	Perma Corporation's management has determined that the company's required rate of return on new projects is <u>7%</u>. The Diddle Division, a highly profitable division, has a current Return on Investment of 13%. The Diddle Division's manager is considering a new project that would involve manufacturing frazzles. The project is expected to require an investment of \$1 million and to have an annual Return on Investment of 10%. What is the project's projected Residual Income? <table> <tr> <td>A</td><td>\$(30,000)</td></tr> <tr> <td>B</td><td>\$30,000.</td></tr> <tr> <td>C</td><td>\$100,000.</td></tr> <tr> <td>D</td><td>\$20,000.</td></tr> </table>	A	\$(30,000)	B	\$30,000.	C	\$100,000.	D	\$20,000.
A	\$(30,000)								
B	\$30,000.								
C	\$100,000.								
D	\$20,000.								
57	When contemplating between two projects, a firm's goal to maximize residual income will be achieved by: <table> <tr> <td>A</td><td>By accepting a project which involves higher amount of capital investment.</td></tr> <tr> <td>B</td><td>By accepting a project which earns higher returns on capital invested.</td></tr> <tr> <td>C</td><td>By accepting a project which involves lower amount of capital investment.</td></tr> <tr> <td>D</td><td>By accepting a project which earns lower returns on capital invested.</td></tr> </table>	A	By accepting a project which involves higher amount of capital investment.	B	By accepting a project which earns higher returns on capital invested.	C	By accepting a project which involves lower amount of capital investment.	D	By accepting a project which earns lower returns on capital invested.
A	By accepting a project which involves higher amount of capital investment.								
B	By accepting a project which earns higher returns on capital invested.								
C	By accepting a project which involves lower amount of capital investment.								
D	By accepting a project which earns lower returns on capital invested.								
58	To ensure that a divisional vice president places appropriate focus on both the short-term and the long-term objectives of the division, the best approach would be to evaluate the vice president's performance by using <table> <tr> <td>A</td><td>return on investment (ROI) which permits easy and quick comparisons to other similar divisions.</td></tr> <tr> <td>B</td><td>residual income since it will eliminate the rejection of capital investments that have a return less than ROI but greater than the cost of capital.</td></tr> <tr> <td>C</td><td>division segment margin or profit margin.</td></tr> <tr> <td>D</td><td>financial and nonfinancial measures, including the evaluation of quality, customer satisfaction, and market performance</td></tr> </table>	A	return on investment (ROI) which permits easy and quick comparisons to other similar divisions.	B	residual income since it will eliminate the rejection of capital investments that have a return less than ROI but greater than the cost of capital.	C	division segment margin or profit margin.	D	financial and nonfinancial measures, including the evaluation of quality, customer satisfaction, and market performance
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D	financial and nonfinancial measures, including the evaluation of quality, customer satisfaction, and market performance								

59	Outlet Company makes and distributes beach equipment. Last year its sales were \$15,000,000, net income was \$1,500,000, and the assets used were \$35,000,000. The return on investment was	
	A	10%.
	B	4.3%.
	C	43%.
	D	None of the answer choices are correct.
60	The imputed interest rate used in the residual income approach to performance evaluation can best be described as the	
	A	Average lending rate for the year being evaluated.
	B	Historical weighted-average cost of capital for the company.
	C	Target return on investment set by the company's management.
	D	Average return on investments for the company over the last several years.
61	The balanced scorecard provides an action plan for achieving competitive success by focusing management attention on a few performance indicators. Which one of the following is not one of the broad categories of performance indicators, also known as perspectives, commonly focused on in the balanced scorecard?	
	A	Competitor business strategies.
	B	Financial performance measures.
	C	Internal processes.
	D	Learning and growth.
62	Oakmont Company has two divisions, Household Appliances and Construction Equipment. The manager of the Household Appliances Division is evaluated on the basis of return on investment (ROI). The manager of the Construction Equipment Division is evaluated on the basis of residual income. The cost of capital has been 12% and the return on investment has been 16% for the two divisions. Each manager is currently considering a project with a 14% rate of return. According to the current evaluation system for managers, which manager(s) would have incentive to undertake the project?	
	A	Both managers would have incentive to undertake the project.
	B	Neither manager would have incentive to undertake the project.
	C	The manager of the Household Appliances Division would have incentive to undertake the project while the manager of the Construction Equipment Division would not have incentive to undertake the project.
	D	The manager of the Construction Equipment Division would have incentive to undertake the project while the manager of the Household Appliances Division would not have incentive to undertake the project.
63	A company is considering the addition of a new product line. The new product line is expected to generate a return higher than the cost of capital, but lower than the current overall return on investment (ROI). If the company decides to add the potential new product line, residual income will	
	A	increase.
	B	remain unchanged.

	C	decrease.
	D	become higher than the firm's return on investment.
64	A company's management is planning on making an investment of UAE Dirham (AED) 1,000,000 to establish a new division in the United Arab Emirates. The new division is expected to generate sales of AED 720,000 and net income of AED 250,000 in Year 1. If the company's required rate of return is 10%, what is the division's residual income in Year 1?	
	A	AED 100,000.
	B	AED 150,000.
	C	AED 225,000.
	D	AED 620,000.
65	David Burke is manager of claims processing for Continental Health Care System. His performance is evaluated using various measures agreed upon in advance with Diane Lewis, general manager. Lewis asked Burke to recommend several measures to evaluate the performance of his unit next year. Which one of the following performance measures would likely have the least positive effect on Burke's motivation and performance?	
	A	Processing cost per claim.
	B	Average processing time per claim.
	C	Percentage of claims processed accurately the first time.
	D	Total dollar amount of claims processed per month.
66	A company's production manager is accountable for controlling costs while manufacturing quality products. The manager also provides recommendations for equipment improvements and replacements. In this market, customers are very sensitive to the product's quality. What type of responsibility center is the production manager in charge of?	
	A	Cost center.
	B	Investment center
	C	Profit center.
	D	Revenue center.
67	Sara Bellows, manager of the telecommunication sales team, has the following department budget. Billings - long distance \$350,000 Billings - phone card 75,000 Billings - toll free 265,000 Her responsibility center is best described as a	
	A	Cost center.
	B	Revenue center.
	C	Profit center.
	D	Investment center.
68	The production manager of the Super T-shirt Company is responsible for the activity of her department and the costs associated with production. Super T adheres to a responsibility centered budget process, and the manager's performance is measured by how well she performs to budget. Recently, the dark horse team won the local college basketball tournament. As a result, the sales department, which operates as a profit center, received an order for 10,000 t-shirts, but only if they could be delivered in three days. The production manager said she could meet the schedule, but only by incurring overtime pay that would cause her to be over budget for hourly wages paid. What would be the best course of action for the sales department and the production manager to undertake in this case?	

	A	Accept the order and overrun the production manager's budget
	B	Refuse the overtime and produce only what the production department is capable of while staying within the budget.
	C	Accept the order and ignore the effect on the production department budget when conducting the performance review
	D	Charge the overtime to the sales department's budget
69	Most firms allocate corporate and other support costs to divisions and departments for all of the following reasons except to	
	A	Remind profit-center managers that earnings must be adequate to cover some share of the indirect costs.
	B	Stimulate profit-center managers to put pressure on central managers to control service costs.
	C	Create competition between divisions and departments, and their managers
	D	Fix accountability and evaluate profit centers
70	With respect to a firm's transfer pricing policy, an advantage of using a dual pricing arrangement is that it	
	A	Provides an incentive for the supplying subunit to control costs.
	B	Exposes the supplying subunit to the discipline of market prices.
	C	Promotes goal congruence between the supplying and buying subunits of the firm.
	D	Simplifies tax calculations when the buying and supplying subunits are taxed in different jurisdictions

PART – B

COMPULSORY QUESTION

(2 x15 = 30 Marks)

71. Greesham Industries manufactures tents in a variety of sizes by using a variety of materials. Last year's income statement data is shown below.

Sales (100,000 units sold)	\$50,000,000
Cost of goods sold (2/3 fixed)	<u>30,000,000</u>
Gross profit	20,000,000
Selling and administrative costs (all fixed)	<u>12,000,000</u>
Operating income	\$ 8,000,000

Greesham did not foresee any changes for this year, so it created a master budget that was the same as last year's actual results. At the end of this year, however, Greesham's sales totaled \$55,000,000. There were no variable cost variances, and the company's operating income was \$7,500,000.

REQUIRED:

- A. Identify and explain three benefits of using a flexible budget. (3 marks)
- B. Prepare Greesham's flexible budget through operating income, at the \$55,000,000 sales level. (5 marks)
- C. Identify and explain three possible reasons Biscayne's sales increased, but the company's operating income decreased. (3 marks)
- D. Define zero-based budgeting. 2 marks)
- E. Identify the sales budget's components. Explain how the sales budget interacts with the other components of the master budget. (2 marks)

72. Edge Products is a global supplier of medical products. They have one primary product which is manufactured in the United States, and two overseas subsidiaries which produce two key supplies for the primary product. Both subsidiaries also sell these supplies to other companies. The U.S. operation purchases the two supplies internally using transfer pricing. The supplies are of the same quality as any available from other suppliers and there would be no benefit to purchasing the supplies outside of the

company. The market for the supplies is very competitive and prices are stable. For performance purposes, the U.S. operation is evaluated by department, such as marketing, IT, and sales, while the overseas operations are smaller and evaluated as a whole.

REQUIRED:

1. Define transfer pricing and identify the objectives of transfer pricing. (2 marks)
2. Identify the methods for determining transfer prices.(4 marks)
3. Explain the advantages and disadvantages of each transfer pricing method.(6 marks)
4. Based on the scenario, which transfer pricing method should this company select? Explain your answer.(3 marks)

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