ACCOUNTING 203
Chapter 7 Practice Test

1. Shown below is the sales forecast for Clovercast Inc. for the first four months of the coming year.

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash sales</td>
<td>$15,000</td>
<td>$24,000</td>
<td>$18,000</td>
<td>$14,000</td>
</tr>
<tr>
<td>Credit sales</td>
<td>$100,000</td>
<td>$120,000</td>
<td>$90,000</td>
<td>$70,000</td>
</tr>
</tbody>
</table>

On average, 50% of credit sales are paid for in the month of the sale, 30% in the month following sale, and the remainder is paid two months after the month of the sale. Assuming there are no bad debts, the expected cash inflow in March is:

A) $138,000  
B) $122,000  
C) $119,000  
D) $108,000

2. Paradise Company budgets on an annual basis for its fiscal year. The following beginning and ending inventory levels (in units) are planned for the next year.

<table>
<thead>
<tr>
<th></th>
<th>Beginning Inventory</th>
<th>Ending Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials*</td>
<td>40,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Finished goods</td>
<td>80,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

*Three pounds of raw materials are needed to produce each unit of finished product.

If Paradise Company plans to sell 480,000 units during the year, the number of units it would have to manufacture during the year would be:

A) 440,000 units  
B) 480,000 units  
C) 510,000 units  
D) 450,000 units

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

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

*Use the following to answer questions 4 and 5*

Richards Company has the following budgeted sales for the first half of next year:

<table>
<thead>
<tr>
<th></th>
<th>Cash Sales</th>
<th>Credit Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>$80,000</td>
<td>$350,000</td>
</tr>
<tr>
<td>February</td>
<td>$60,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>March</td>
<td>$50,000</td>
<td>$145,000</td>
</tr>
<tr>
<td>April</td>
<td>$45,000</td>
<td>$130,000</td>
</tr>
<tr>
<td>May</td>
<td>$55,000</td>
<td>$170,000</td>
</tr>
<tr>
<td>June</td>
<td>$50,000</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

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

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

4. Assume that the accounts receivable balance on January 1 is $70,000. Of this amount, $60,000 represents uncollected December sales and $10,000 represents uncollected November sales. Given these data, the total cash collected during January would be:
   A) $270,000.  
   B) $420,000.  
   C) $345,000.  
   D) $360,000.

5. What is the budgeted accounts receivable balance on May 30?
   A) $81,000.  
   B) $68,000.  
   C) $60,000.  
   D) $141,000.
**Use the following to answer questions 6-8**

Determine Enterprises has budgeted sales for the next five months as follows:

- January .......... 3,800 units
- February ....... 6,800 units
- March ............ 5,400 units
- April ............. 7,200 units
- May ............... 4,600 units

Past experience has shown that the ending inventory for each month should be equal to 10% of the next month’s sales in units. The inventory on December 31 contained 400 units, which was in excess of the desired level of inventory. The company needs to prepare a Production Budget for the first quarter of the year.

6. The total number of units needed (i.e., unit sales plus desired ending inventory) in March is:
   - A) 6,120 units
   - B) 6,080 units
   - C) 5,400 units
   - D) 5,940 units

7. The total number of units to be produced in January is:
   - A) 4,480 units
   - B) 3,800 units
   - C) 4,080 units
   - D) 3,500 units

8. The desired ending inventory for April is:
   - A) 460 units
   - B) 540 units
   - C) 720 units
   - D) 680 units

**True/False Questions**

9. The production budget is typically prepared prior to the sales budget.
   - True

10. The cash budget is developed from the budgeted income statement.
   - False

11. Both planning and control are needed for an effective budgeting system.
    - True

12. Planning and control are essentially the same thing.
   - False

13. The effect of responsibility accounting is to personalize the accounting system.
    - True

14. Both variable and fixed manufacturing overhead costs are included in the manufacturing overhead budget.
    - True
Multiple Choice Questions

15. Which of the following represents the normal sequence in which the indicated budgets are prepared?

A) Direct, Materials, Cash, Sales
B) Production, Cash, Income Statement
C) Sales, Balance Sheet, Direct Labor
D) Production, Manufacturing Overhead, Sales

16. Which of the following is not a benefit of budgeting?

A) It reduces the need for tracking actual cost activity.
B) It sets benchmarks for evaluation performance.
C) It uncovers potential bottlenecks.
D) It formalizes a manager’s planning efforts.

17. Zero-based budgeting:

A) does not adjust costs for the expected level of activity.
B) is used when no increases in budgets are allowed.
C) requires that all programs be justified and prioritized.
D) assumes that departments are entitled to at least the current level of spending.

18. Budgeted production needs are determined by:

A) adding budgeted sales in units to the desired ending inventory in units and deducting the beginning inventory in units from this total.
B) adding budgeted sales in units to the beginning inventory in units and deducting the desired ending inventory in units from this total.
C) adding budgeted sales in units to the desired ending inventory in units.
D) deducting the beginning inventory in units from budgeted sales in units.

Answers: