**Chapter 8 – Profit Planning**

Which of the following steps in the preparation of a master budget would logically be performed first?

|  |  |  |  |
| --- | --- | --- | --- |
| a | Prepare a cash budget. | c | Prepare a production schedule. |
| b | Prepare a sales forecast. | d | Prepare a budget of manufacturing costs. |

UNCC budgeted sales of 100,000 units of product R for September.  
 Production of one unit of R requires two pounds of material A and three pounds of material B.

Actual inventory units at Sept. 1 and desired units at Sept. 30 are:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | **Actual inventory** | | | | **Budgeted inventory** | | | | |
|  | | | **September 1** | | | | **September 30** | | | | |
| Product R | | | 20,000 | | Units | | 30,000 | | | Units | |
| Material A | | | 15,000 | | Pounds | | 18,000 | | | Pounds | |
| Material B | | | 25,000 | | Pounds | | 24,000 | | | Pounds | |
| How many units of R should be produced during September? | | | | | | | | | |
| a. | 105,000 | b. | 95,000 | | c. | | 110,000 | | d. | | 330,000 |

Repeat the preceding question. How many pounds of Material **A** should be purchased during September?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 272,000 | **b.** | 223,000 | **c.** | 298,000 | **d.** | 213,000 | **e.** | Other |  |

Blue Company prepared its cash budget for July based on the following projections:

|  |  |
| --- | --- |
| Sales | $1,260,000 |
| Markup based on **retail** | 40% |
| Decrease in inventories | $ 130,000 |
| Increase in accounts payable for inventories | $ 120,000 |

For July, what were the estimated cash disbursements for inventories?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $810,000 | **b.** | $910,000 | **c.** | $506,000 | **d.** | $1,175,000 | **e.** | $746,000 |  |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **January** | **February** | **March** | **April** |
| Cash Sales | $15,000 | $24,000 | $21,000 | $14,000 |
| Credit Sales | $100,000 | $120,000 | $90,000 | $70,000 |

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $138,000 | **b.** | $122,000 | **c.** | $119,000 | **d.** | $108,000 | **e.** | Other |  |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 60,000 units | **b**. | 65,000 units | **c.** | 75,000 units | **d.** | 66,000 units |

A company has budgeted its activity for October based on the following information:

* Sales are budgeted at $300,000.
* All sales are credit sales and a provision for bad debts is made monthly at the rate of 2% of sales.
* Merchandise inventory was $70,000 at September 30, and an increase of $10,000 is planned for the month.
* All merchandise is marked up to sell at invoice cost plus **50%**.
* Cash disbursements for selling and administrative expenses in the month are $33,000.
* Depreciation for the month is projected at 5,000.

Budgeted operating income for October in the amount of

a. $6,000 b. $9,000 c. $56,000 d. $66,000 e. None of these

A company had the following:

|  |  |
| --- | --- |
| Accounts receivable on January 1 | $250,000 |
| Accounts receivable on December 31 | $290,000 |
| Net sales in year (all on credit) | $2,600,000 |

Cash received from customers was:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,560,000 | **b.** | $2,640,000 | **c.** | $3,040,000 | **d.** | $2,610,000 | **e.** | Other |  |