

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 1) Developing a budget reduces coordination and communication at different levels in an organization. 1) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 2) The starting point in the budgeting process is the preparation of the: 2) _____
 - A) sales budget.
 - B) budgeted income statement.
 - C) production budget.
 - D) cash budget.
- 3) Which of the following best describes the term sensitivity analysis? 3) _____
 - A) It is an analysis of the emotional sensitivity of a company's employees.
 - B) It is an evaluation of the accuracy of the assumptions.
 - C) It evaluates a company's financial condition by doing financial statement analysis.
 - D) It is a testing technique to determine how results would differ if key assumptions are changed.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 4) From the following details, provided by a merchandiser, prepare the selling and administrative expenses budget for the first quarter of the next year.

Rent Expense	\$8,000 per month
Depreciation Expense	\$ 3,500 per month
Insurance Expense	\$1,250 per month
Miscellaneous Expense	2% of sales, paid as incurred
Commissions Expense	10% of sales
Salaries Expense	\$7,000 per month

	Jan	Feb	March
Sales	\$50,000	\$65,000	\$80,000

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- 5) The financial budget of a merchandiser is similar to that of a manufacturer. 5) _____
- 6) The budgeted income statements of both manufacturing and merchandising companies include a calculation of gross profit. 6) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 7) The final step in the process of creating the master budget is the preparation of: 7) _____
 - A) the budgeted balance sheet.
 - B) the cash payments for expenses.
 - C) the operating budget
 - D) the budgeted cash flow statement.

- 8) Uncle's Caps, a merchandiser, wants to prepare the budgeted balance sheet for the next budget period. For this purpose the amount of ending cash balance can be retrieved from: 8) _____
- A) the Cost of Goods Sold budget. B) the cash budget.
C) the budgeted funds flow statement. D) the sales budget.

- 9) Freighters Inc. has the following budgeted figures: 9) _____

	Jan	Feb	Mar	April
Sales	\$50,000	\$65,000	\$80,000	\$95,000
Cost of goods sold	60% of sales			
Required ending inventory	\$15,000 + 25% of sales of next month			
Inventory on hand on Jan 1st	\$27,500			

Calculate the budgeted purchases for the month of January.

- A) \$52,000 B) \$51,750 C) \$33,750 D) \$40,250

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- 10) For a merchandiser, the budgeted sales equals the number of units budgeted for sale multiplied by the budgeted selling price per unit. 10) _____
- 11) Unlike a manufacturing company, the cash budget is the cornerstone for the master budget of a merchandiser. 11) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 12) At a company with different business units, individual managers make decisions by changing various assumptions of their budget in order to determine how the modifications would affect the operational and financial results. This is an example of: 12) _____
- A) sensitivity analysis. B) financial statement analysis.
C) zero-based budgeting. D) responsibility accounting.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 13) Preparation of the production budget is the first step in the preparation of operating budget. 13) _____
- 14) The capital expenditures budget represents the company's plan for purchasing the long-term assets. 14) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 15) Which of the following is an example of the coordination and communication function of a budget? 15) _____
- A) Budget figures are used to evaluate the performance of managers.
B) A budget demands integrated input from different business units and functions.
C) The budget outlines a specific course of action for the coming period.
D) Employees are motivated to achieve the goals set by the budget.

16) Which of the following statements is true of the budgeting process?

16) _____

- A) It is a continuous process.
- B) It includes qualitative targets of the company, not just quantitative.
- C) Its success is not dependent on human behavior.
- D) It shows the actual performance of the business.