Unit 3 Practice Test

1. The formula for determining budgeted merchandise purchases is budgeted?
A. sales + beginning inventory – desired ending inventory.
B. production + desired ending inventory – beginning inventory.
C. cost of goods sold + desired ending inventory – beginning inventory.
D. cost of goods sold + beginning inventory – desired ending inventory.

2. The standard direct materials quantity does **not** include allowances for
A. unavoidable waste.
B. normal spoilage.
C. unexpected spoilage.
D. all of the above are included

3. A disadvantage of the cash payback technique is that it
A. ignores the time value of money
B. ignores obsolescence factors
C. ignores the cost of an investment
D. is complicated to use.

4. The important end-product of the operating budgets is the
A. Cash budget
B. Production budget
C. Budgeted balance sheet
D. Budgeted income statement

5. When calculating the annual rate of return, the average investment is equal to
A. (initial investment plus salvage value) divided by 2.
B. initial investment divided by life of project
C. initial investment divided by 2
D. (initial investment plus $0) divided by 2

6. All of the following are advantages of standard costs **except** they
A. Increase net income.
B. facilitate management planning
C. are useful in setting selling prices
D. simplify costing in inventories

7. Bramble Corp. is preparing its direct labor budget for May. Projections for the month are that 30000 units are to be produced and that direct labor time is three hours per unit. If the labor cost per hour is $19, what is the total budgeted direct labor cost for May?

A. 1,680,000
B. 1,740,000
C. 6,840,000
D. 1,710,000

8. A company purchases and uses 40,000 gallons of materials for which they paid $9 a gallon. The materials price variance was $70,000 favorable. What is the standard price per gallon?
A. $10.75
B. $9.00
C. $1.75
D. $7.25

9. A company developed the following per-unit standards for its product: 2 gallons of direct materials at $8 per gallon. Last month, 2200 gallons of direct materials were purchased for $16720. The direct materials price variance for last month was
A. 440 unfavorable
B. 440 favorable
C. 880 favorable
D. 880 unfavorable

10. A company has a standard of 2 hours of labor per unit, at $12 per hour. In producing 1,800 units, the company used 3,150 hours of labor at a total cost of $38,430. The company's labor price variance is
A. 4,500 Unfavorable
B. 5,490 favorable
C. 630 unfavorable
D. 4,770 favorable

11. In the Concord Corporation, indirect labor is budgeted for $51000 and factory supervision is budgeted for $24000 at normal capacity of 170000 direct labor hours. If 190000 direct labor hours are worked, flexible budget total for these costs is
A. $77,824
B. $75,000
C. $81,000
D. $83,824

12. The Company plans to sell 3,000 purple lawn chairs during May, 4,700 in June, and 3,000 during July. The company keeps 15% of the next month's sales as ending inventory. How many units should the company produce during June?
A. 4,955
B. 4,445

C. 5,150
D. 5,405

13. Vaughn Manufacturing uses flexible budgets. At normal capacity of 13,000 units, budgeted manufacturing overhead is $104,000 variable and $360,000 fixed. If Vaughn had actual overhead costs of $476,000 for 17,000 units produced, what is the difference between actual and budgeted costs?
    A. 32,000 favorable
    B. 32,000 unfavorable
    C. 12,000 unfavorable
    D. 12,000 favorable

14. Coronado Industries is planning to sell 1100 boxes of ceramic tile, with production estimated at 670 boxes during May. Each box of tile requires 44 pounds of clay mix and a 0.50 hour of direct labor. Clay mix costs $0.40 per pound and employees of the company are paid $14 per hour. Manufacturing overhead is applied at a rate of 110% of direct labor costs. Coronado has 4400 pounds of clay mix in beginning inventory and wants to have 5000 pounds in ending inventory.

    What is the total amount to be budgeted in pounds for direct materials to be purchased for the month?

A. 29,480
B. 49,000
C. 28,880
D. 30,080

15. The cash payback period is computed by dividing the cost of the capital investment by the

A. Annual net income
B. Net annual cash inflow
C. Present value of cash inflow
D. Present value of the net income

16. Which of the following is a correct statement about residual income?
    A. It is less effective for evaluating investment centers than ROI.
    B. Its goal is to maximize profits of an investment center
    C. It is the ratio of controllable margin to the minimum rate of return on average operating assets
    D. It evaluates performance by comparing the return of an investment center with the company's minimum rate of return

    Use the following information to answer questions 17-20.

The company has to decide between three projects, which should all last 10 years and have no salvage value. The discount rate is 8%. Information about each is presented below:

	Project A	Project B	Project C
Initial Investment	300,000	500,000	450,000
Annual Cash Flow	40,000	50,000	90,000
Cash payback	7.5	10	5

17. Which project provides the best cash payback period

A. Project A
B. Project B
C. Project C
D. Can not be determined

18. Based on Net Present Value, which project should management choose?

   A. Project A
   B. Project B
   C. Project C
   D. Can not be determined

19. What is the profitability index of Project C

A. .34
B. 2.94
C. .2
D. .58

20. What is the average rate of return for Project C

A. 20%
B. 40%
C. 58%
D. 72%

SOLUTIONS

1. C
2. C
3. A
4. D
5. A
6. A
7. D
8. A
9. C
10. C
11. C
12. B
13. C
14. D
15. B
16. D
17. C see chart below
18. C see chart below
19. A
20. B

	Project A	Project B	Project C
Initial Investment	300,000	500,000	450,000
Annual Cash Flow	40,000	50,000	90,000
Cash payback	7.5	10	5
Net present Value	-31,596	-164,495	153,909
Profitability Index			.34
Annual ROR			40%