



LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – ACCOUNTING AND FINANCE

FIRST SEMESTER – NOVEMBER 2022

UAF 1502 – FINANCIAL PLANNING AND PERFORMANCE

Date: 30-11-2022

Dept. No.

Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

SECTION A

Answer all the questions

(75*1 =75 Marks)

1. Kallert Manufacturing currently uses the company's budget only as a planning tool. The company decided that it would be beneficial to also use budgets for control purposes. In order to implement this change, the management accountant must
 - A. Develop forecasting procedures
 - B. Appoint a budget director
 - C. Synchronize the budgeting and accounting system with the organizational structure
 - D. Organize a budget committee-
2. All the following are characteristics of the strategic planning process except the
 - A. Analysis of external economic factors.
 - B. Analysis and review of departmental budgets.
 - C. Emphasis on the long run
 - D. Review of the attributes and behavior of the organization's competition
3. Paradise Company budgets on an annual basis for its fiscal year. The following beginning and ending inventory levels (in units) are planned for the fiscal year of July 1 through June 30:

	July 1	June 30
Raw material*	40,000	50,000
Work-in-process	10,000	20,000
Finished goods	80,000	50,000

*Two units of raw materials are needed to produce each unit of finished product.

If Paradise Company plans to sell 480,000 units during the fiscal year, the number of units it will have to manufacture during the year is

- A. 450,000 units
 - B. 480,000 units
 - C. 440,000 units
 - D. 510,000 units
4. For cost estimation simple regression differs from multiple regression in that simple regression uses only
 - A. One dependent variable, while multiple regression uses all available data to estimate the cost function
 - B. Dependent variables, while multiple regression can use both dependent and independent variables.
 - C. One dependent variable, while multiple regression uses more than one dependent variable.
 - D. One independent variable, while multiple regression uses more than one independent variable.
 5. A manufacturing firm plans to bid on a special order of 80 units that will be manufactured in lots of 10 units each. The production manager estimates that the direct labor hours per unit will decline by a constant percentage each time the cumulative quantity of units produced doubles. The quantitative technique used to capture this phenomenon and estimate the direct labor hours required for the special order is
 - A. Linear programming analysis
 - B. Cost-profit-volume analysis
 - C. Learning curve analysis
 - D. The Markov process

6. Jackson industries employs a standard cost system in which direct materials inventory is carried at standard cost. Jackson has established the following standards for the prime costs of one unit of product.

	Standard quantity	standard price	standard cost
Direct materials	5 pounds	\$3.60/pound	\$18.00
Direct labor	1.25 hours	12.00 / hour	<u>15.00</u>
			\$33.0

During May, Jackson purchased 125,000 pounds of direct materials at a total cost of \$475,000. The total factory wages for May were \$364,000, 90% of which were for direct labor, Jackson manufactured 22,000 unit of product during may using 108,000 pounds of direct materials and 28,000 direct labor hours

- \$25,000 unfavorable
- \$28,000 favorable
- \$21,600 favorable
- \$21,600 unfavorable

7. A company manufactures one product and has a standard cost system. In April the company had the following experience:

	Direct materials	Direct labor
Actual \$/unit of input (lbs. & hrs.)	\$28	\$18
Standard price/unit of input	\$24	\$20
Standard inputs allowed per unit of output	10	4
Actual units of input	190,000	78,000
Actual units of output	20,000	20,000

The direct materials efficiency variance for April is:

- \$760,000 unfavorable
 - \$156,000 favorable
 - \$240,000 favorable
 - \$240,000 unfavorable
8. Which one of the following is not considered to be a benefit of participative budgeting?
- Managers are more motivated to reach the budget goals since they participated in setting them.
 - When managers set the final targets for the budget, top management need not be concerned with the overall profitability of current operations.
 - Individuals at all organizational levels are recognized as being part of the team; this result in greater support of the organization.
 - The budget estimates are prepared by those in direct contact with various activities.
9. Ordinarily, the most appropriate basis on which to evaluate the performance of a division manager is the division's
- Contribution margin
 - Net revenue minus controllable division costs
 - Gross profit
 - Net income minus the division's fixed costs.
10. The segment margin of the Wire Division of Lerner Corporation should not include:
- The Wire Division's fair share of the salary of Lerner Corporation's president
 - Fixed selling expenses of the Wire Division.
 - Variable selling expenses of the Wire Division
 - Net sales of the Wire Division.

11. The controller for Durham Skates is reviewing the production cost report for July. An analysis of direct materials costs reflects an unfavorable flexible budget variance of \$25. The plant manager believes this is excellent performance on a flexible budget for 5,000 units of direct materials. However, the production supervisor is not pleased with this result because he claims to have saved \$1,200 in materials cost on actual production using 4,900 units of direct materials. The standards materials cost is \$12 per unit. Actual materials used for the month amounted to \$60,025

If the direct materials variance is investigated further, it will reflect a price variance of

- a. \$1,200 favorable
- b. \$2,500 favorable
- c. Zero
- d. \$1,225 unfavorable

12. Most firms allocate and other support costs to divisions and departments for all the following reasons except to

- a. Create competition between divisions and departments and their managers.
- b. Remind profit center managers that earnings must be adequate to cover some share of the indirect costs.
- c. Stimulate profit center managers to put pressure on central managers to control service costs.
- d. Fix accountability and evaluate profit centers.

13. After performing a thorough study of Michigan Company's operations, an independent consultant determined that the firm's labor standards were probably too tight. Which one of the following facts would be inconsistent with the consultant's conclusion?

- a. Production supervisors found several significant fluctuations in manufacturing volume, with short-term increases in output being followed by rapid, sustained declines.
- b. A review of performance reports revealed the presence of many unfavorable efficiency variances.
- c. Management noted that minimal incentive bonuses have been paid in recent periods
- d. Michigan's budgeting process as well-defined and based on a bottom-up philosophy

14. A firm prepared a segmented income statement that included the following data for its suburban marketing segment

Fixed costs controllable by the suburban marketing segment manager	\$150,000
Fixed suburban marketing costs controllable by corporate management	\$250,000
Fixed manufacturing costs allocated to the suburban marketing segment	\$110,000
Variable manufacturing costs	\$200,000
Variable selling costs	\$100,000
Variable administrative costs	\$130,000
Net sales	\$950,000

The best measure of the economic performance of the suburban marketing segment is:

- a. \$120,000
- b. \$520,000
- c. \$10,000
- d. \$370,000

15. During the month of May, Tyler Company experienced a significant unfavorable material efficiency variance in the production of its single product at one Tyler's plants. Which one of the following reasons would be least likely to explain why the unfavorable variance arose?

- a. Replacement production equipment had just been installed
- b. Inferior materials were purchased
- c. Workers used were less skilled than expected
- d. Actual production was lower than planned production.

16. 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.

- 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. Financial and nonfinancial measures, including the evaluation of quality, customer satisfaction, and market performance
- d. Division segment margin or profit margin.

17. Chemking uses a standard costing system in the manufacture of its single product. The 35,000 units of raw material in inventory were purchased for \$105,000, and two units of raw material are required to produce one unit of final product. In November, the company produced 12,000 units of product. The standard cost for material allowed for the output was \$60,000 and there was an unfavorable quantity variance of \$2,500.
- The units of material used to produce November output totaled.
- 25,000 units
 - 12,500 units
 - 12,000 units
 - 23,000 units
18. A manufacturing firm planned to manufacture and sell 100,000 unit of product during the year at a variable cost per unit of \$4.00 and a fixed cost per unit of \$2.00. The firm fell short of its goal and only manufactured 80,000 units at a total incurred cost of \$515,000. The firm's manufacturing cost variance was:
- \$5,000 unfavorable
 - \$5,000 favorable
 - \$35,000 unfavorable
 - \$85,000 favorable
19. P.C. Programs Inc. Produces software for individual users and small businesses. Rita Morgan manages the customer hot line department for the firm and is responsible for answering customer questions related to software products produced by all divisions of the firm. For purposes of promoting goal congruence, which one of the following would be the least appropriate measure of her performance?
- Average time a customer is on hold.
 - Number of customer complaints due to incorrect responses given to customers
 - Number of calls to the hot line for each new release of software
 - Average time to provide an answer or solution to a customer.
20. The price that one division of a company charges another division for goods or services provided is called the
- Market price
 - Transfer price
 - Outlay price
 - Distress price
21. A favorable material price variance coupled with an unfavorable material usage variance would most likely result from:
- Labor efficiency problems.
 - The purchase and use of lower than standard quality material.
 - Labor mix problems
 - The purchase and use of higher than standard quality material.
22. Which of the following techniques would be best of evaluating the management performance of a department that is operated as a cost center?
- Return on assets ratio
 - Return on investment ratio
 - Payback method
 - Variance analysis
23. Which of the following is not true of responsibility accounting?
- Every factor that affects a firm's financial performance ultimately is controllable by someone, even if that someone is the person at the top of the firm.
 - Managers should only be held accountable for factors over which they have significant influence.
 - When a responsibility accounting system exists, operations of the business are organized into separate areas controlled by individual managers.
 - The focus of cost center managers will normally be narrow than that of profit center managers.

24. Folsom fashion sells a line of women's dresses. Folsom's performance report for November follows

	Actual	Budget
Dresses sold	5,000	6,000
Sales	\$235,000	\$300,000
Variable costs	(145,000)	(180,000)
Contribution margin	\$90,000	\$120,000
Fixed costs	(84,000)	(80,000)
Operating income	\$6,000	\$40,000

The company uses a flexible budget to analyze its performance and to measure the effect on operating income of the various factors affecting the difference between budgeted and actual operating income.

The fixed cost variance for November is

- \$5,000 favorable.
- \$4,000 favorable
- \$4,000 unfavorable
- \$5,000 unfavorable.

25. The controller for Durham Skates is reviewing the production cost report for July. An analysis of direct material costs reflects an unfavorable flexible budget variance of \$25. The plant manager believes this is excellent performance on a flexible budget for 5,000 units of direct materials. However, the production supervisor is not pleased with this result because he claims to have saved \$1,200 in materials cost on actual production using 4,900 units of direct materials. The standard materials cost is \$12 per unit. Actual materials used for the month amounted to \$60,025.

The actual average cost per unit for materials was

- \$12.00
- \$12.24
- \$12.01
- \$12.25

26. Of the following pairs of variances found in a flexible budget report, which pair is most likely to be related?

- Material usage variance and labor efficiency variance
- Labor rate variance and variable overhead efficiency variance
- Material price variance and variable overhead efficiency variance
- Labor efficiency variance and fixed overhead volume variance

27. A company has a raw material price variance that is unfavorable. An analysis of this variance indicates that the company's only available supplier of one of its raw materials unexpectedly raised the price of the material. The action management should take regarding this situation should be to

- Negatively evaluate the performance of the purchasing manager
- Ask the production manager to lower the material usage standard to compensate for higher material costs.
- Negatively evaluate the performance of the production manager
- Change the raw material price standard

28. Fortune Corporation's Marketing Department recently accepted a rush order for a nonstick item from a valued customer. The Marketing Department field the necessary paperwork with the production Department accepted the manufacturing commitment and filed the required paperwork with the purchasing Department for the needed raw materials. A purchasing clerk temporarily misplaced the paperwork. By the time the paperwork was found, it was too late to order from the company's regular supplier. A new supplier was located, and that vendor quoted a very attractive price. The materials arrived and were rushed into production, bypassing the normal inspection processes (as directed by the Production Department supervisor) to make up for lost time. Unfortunately, the goods were of low quality and created considerable difficulty for Fortune's assembly-line personnel. Which of the following best indicates the responsibility for the materials usage variance in this situation?

- Purchasing, Marketing, and Production.
- Marketing and Production

- c. Purchasing
- d. Purchasing and Marketing

29. The JoyT Company manufactures Maxi Dolls for sale in toy stores. In planning for this year, JoyT estimated variable factory overhead of \$600,000 and fixed factory overhead of \$400,000. JoyT uses a standard costing system, and factory overhead is allocated to units produced on the basis of standard direct labor hours. The denominator level of activity budgeted for this year was 10,000 direct labor hours, and JoyT used 10,300 actual direct labor hours.

Based on the output accomplished during this year, 9,900 standard direct labor hours should have been used. Actual variable factory overhead was \$596,000, and actual fixed factory overhead was \$410,000 for the year. Based on this information, the variable overhead spending variance for JoyT for this year was

- a. \$4,000 favorable
- b. \$2,000 unfavorable
- c. \$24,000 unfavorable
- d. \$22,000 favorable

30. Which one of the following is an incorrect description of transfer pricing?

- a. It measures the value of goods or services furnished by a profit center to other responsibility centers with a company
- b. If a market price exists, that price may be used as a transfer price
- c. It measures exchanges between a company and external customers
- d. If no market price exists, the transfer price may be based on cost.

31. When compared with ideal standards, practical standards

- (a) Produce lower per-unit product costs.
- (b) Result in a less desirable basis for the development of budgets.
- (c) Incorporate very generous allowances for spoilage and worker inefficiencies.
- (d) Serve as a better motivating target for manufacturing personnel.

32. One approach for developing standard costs incorporates communication, bargaining and interaction among product line managers; the immediate supervisors for whom the standards are being developed; and the accountants and engineers before the standards are accepted by top management. This approach would best be characterized as a (n).

- (a) Team development approach
- (b) Engineering approach
- (c) Imposed approach
- (d) Centralized top-down approach

33. Which one of the following best describes the role of top management in the budgeting process? Top management

- (a) Should be involved only in the approval process
- (b) Needs to be involved, including using the budget process to communicate goals
- (c) Needs to separate the budgeting process and the business planning process into two separate processes
- (d) Lacks the detailed knowledge of the daily operations and should limit their involvement

34. All of the following are advantages of the use of budgets in a management control system except that budget:

- (a) Provide performance criteria
- (b) Limit unauthorized expenditures
- (c) Force management planning
- (d) Promote communication and coordination within the organization

35. RedRock Company uses flexible budgeting for cost control. RedRock produced 10,800 units of product during October, incurring indirect material costs of \$13,000. Its master budget for the year reflected indirect materials costs of \$180,000 at a production volume of 144,000 units. A flexible budget for October production would reflect indirect materials costs of

- (a) \$13,975
- (b) \$11,700
- (c) \$13,000
- (d) \$13,500

36. Aerosub Inc. has developed a new product for spacecraft that includes the manufacturing of a complex part. The manufacturing of this part requires a high degree of technical skill. Management believes there is a good opportunity for its technical force to learn and improve as they become accustomed to the production process. The production of the first unit requires 10,000 direct labour hours. If an 80% learning curve is used and eight units are produced, the cumulative average direct labour hours required per unit of the product will be

- (a) 5,120 hours
- (b) 6,400 hours
- (c) 8,000 hours
- (d) 10,000 hours

37. Sunrise Corporations actual sales for May were \$22,000,000, a result \$600,000 greater than projected. Actual sales for June totalled \$22,500,000. Using exponential smoothing with a smoothing factor (alpha) of 0.7, Sunrises projected sales for July would be

- (a) \$22,296,000
- (b) \$22,476,000
- (c) \$21,856,000
- (d) \$21,820,000

38. A distinction between forecasting and planning

- (a) Arises because forecasting covers the short-term and planning does not.
- (b) Is not valid because they are synonyms.
- (c) Is that forecasting is a management activity whereas planning is a technical activity.
- (d) Is that forecasts are used in planning.

39. Moss Point Manufacturing recently completed and sold an order of 50 units that had costs as shown in the next column.

The company has now been requested to prepare a bid for 150 units of the same product.

Direct materials	\$1,500
Direct labour (\$8.50 ÷ 1,000 hours)	8,500
Variable overhead (1,000 hours ÷ \$4.00)*	4,000
Fixed overhead**	1,400
Total	\$15,400

*Applied on the basis of direct labour hours.

**Applied at the rate of 10% of variable cost.

If an 80% learning curve is applicable, Moss Points total cost on this order would be estimated

- (a) \$26,400
- (b) \$32,000
- (c) \$38,000
- (d) \$41,800

40. Flexible budgets

- (a) Accommodate changes in activity levels.
- (b) Are used to evaluate capacity use.
- (c) Are static budgets that have been revised for changes in prices.
- (d) Accommodate changes in the inflation rate.

41. Bright Co. manufactures light bulbs. The following salaries were included in Bright's manufacturing costs of the year:

Machine operators	\$145,000
Factory supervisors	60,000
Machinery mechanics	25,000

What is the amount of Bright's direct labour for the year?

- (a) \$230,000
- (b) \$205,000
- (c) \$170,000
- (d) \$145,000

42. During the month of May, Tyler Company experienced a significant unfavourable material efficiency variance in the production of its single product at one Tyler's plants. Which one of the following reasons would be least likely to explain why the unfavourable variance arose?

- (a) Replacement production equipment had just been installed
- (b) Inferior materials were purchased
- (c) Workers used were less skilled than expected
- (d) Actual production was lower than planned production.

43. Polk Retailers is developing cash and other budget information for July, August, and September. At June 30, Polk had cash of \$6,600, accounts receivable of \$524,000, inventories of \$371,280, and accounts payable of \$159,666. The budget is to be based on the following assumptions:

Purchases

60% of all purchases of materials and selling, general, and administrative expenses are paid in the month purchased and the remainder in the following month. Each month ending inventory in units is equal to 120% of the next month's units of sales. The cost of each unit of inventory is \$25. Selling, general, and administrative expenses, of which \$3,000 is depreciation, are equal to 20% of the current months sales.

Actual and projected sales are as follows:

	Dollars	Units
May	\$424,000	10,600
June	436,000	10,900
July	428,000	10,700
August	408,000	10,200
September	432,000	10,800
October	440,000	11,000

The budgeted number of units of inventory Polk will purchase during September is

- (a) 13,200
- (b) 10,560
- (c) 10,800
- (d) 11,040

44. When compared with ideal standards, practical standards

- (a) Produce lower per-unit product costs.
- (b) Result in a less desirable basis for the development of budgets.
- (c) Incorporate very generous allowances for spoilage and worker inefficiencies.
- (d) Serve as a better motivating target for manufacturing personnel.

45. A manufacturing firm planned to manufacture and sell 100,000 units of product during the year at a variable cost per unit of \$4.00 and a fixed cost per unit of \$2.00. The firm fell short of its goal and only manufactured 80,000 units at a total incurred cost of \$515,000. The firms manufacturing cost variance was

- (a) \$85,000 favourable.
- (b) \$35,000 unfavourable.
- (c) \$5,000 favourable.
- (d) \$5,000 unfavourable.

46. A company manufacturers one product and has a standard cost system. In April the company had the following experience:

	<u>Direct Materials</u>	<u>Direct Labour</u>
Actual \$/unit of input (lbs. & hrs.)	\$28	\$18
Standard price/unit of input	\$24	\$20
Standard inputs allowed per unit of output	10	4
Actual units of input	190,000	78,000
Actual units of output	20,000	20,000

The direct materials efficiency variance for April is:

- (a) \$760,000 unfavourable
- (b) \$156,000 favourable
- (c) \$240,000 favourable
- (d) \$240,000 unfavourable

47. Vincent Hospital has installed a new computer system. The system was designed and constructed based on the anticipated number of hours of usage required by the various hospital departments according to projections made by the departmental managers. Virtually all of the operating costs of the system are fixed. What would be the most systematic and rational manner in which to allocate the new computer system costs to the various hospital departments?

- a. To each department equally.
- b. By the anticipated number of hours of usage.
- c. By actual usage by each department.
- d. By the revenue generated in each department.

48. A company has a fixed overhead volume variance that is \$10,000 unfavourable. The **most** likely cause for this variance is that

- a. the production supervisory salaries were greater than planned.
- b. the production supervisory salaries were less than planned.
- c. more was produced than planned.
- d. less was produced than planned.

49. A company has recently implemented responsibility accounting in all 7 segments of the company. The following information is available for Segment W for the last quarter.

Net working capital	\$1,200,000
Property, plant and equipment, net	3,175,000
Revenues	8,000,000
Cost of sales	6,350,000
General and administrative expenses	180,000

Based on the information provided, if the company treats Segment W as an investment centre, what is the return on investment for the last quarter?

- a. 33.6%.
- b. 37.7%.
- c. 46.3%.
- d. 74.4%.

50. P.C. Programs Inc. produces software for individual users and small businesses. Rita Morgan manages the customer hot line department for the firm and is responsible for answering customer questions related to software products produced by all divisions of the firm. For purposes of promoting goal congruence, which one of the following would be the least appropriate measure of her performance?

- a. Average time to provide an answer or solution to a customer.
- b. Number of calls to the hot line for each new release of software.

- c. Average time a customer is on hold.
- d. Number of customer complaints due to incorrect responses given to customers.

51. Morrison's Plastics Division, a profit centre, sells its products to external customers as well as to other internal profit centres. Which one of the following circumstances would justify the Plastics Division selling a product internally to another profit centre at a price that is below the market-based transfer price?

- a. The buying unit has excess capacity.
- b. The selling unit is operating at full capacity.
- c. Routine sales commissions and collection costs would be avoided.
- d. The profit centre's managers are evaluated on the basis of unit operating income.

52. Consider the following categories of performance measures.

- I. Profitability measures.
- II. Customer-satisfaction measures.
- III. Efficiency, quality, and time measures.
- IV. Innovation measures.

A cruise line operates on a national scale in a very competitive marketplace. In view of this information, which measures should the company use in the evaluation of its managers?

- a. I only.
- b. I and II.
- c. II and III.
- d. I, II, III, and IV.

53. Manhattan Corporation has several divisions that operate as decentralized profit centres. At the present time, the Fabrication Division has excess capacity of 5,000 units with respect to the UT-371 circuit board, a popular item in many digital applications. Information about the circuit board follows.

- Market price \$48
- Variable selling/distribution costs on external sales 5
- Variable manufacturing cost 21
- Fixed manufacturing cost 10

Manhattan's Electronic Assembly Division wants to purchase 4,500 circuit boards either internally, or else use a similar board in the marketplace that sells for \$46. The Electronic Assembly Division's management feels that if the first alternative is pursued, a price concession is justified, given that both divisions are part of the same firm. The **best** process to determine the price ultimately charged by the Fabrication Division to the Assembly Division for the circuit board is to

- a. establish the price by top management.
- b. establish the price by an arbitration committee.
- c. establish the price through negotiations between the Fabrication's and Electronic Assembly's Division management.
- d. set the price equal to the price that would be charged if the Fabrication Department had no excess capacity.

54. Most firms allocate corporate and other support costs to divisions and departments for all of the following reasons except to

- a. reminds profit-centre managers that earnings must be adequate to cover some share of the indirect costs.
- b. stimulates profit-centre 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 centres.

55. 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 centre is the production manager in charge of?

- a. Cost centre.
- b. Investment centre.
- c. Profit centre.
- d. Revenue centre.

56. When using a flexible budgeting system, the computation for the variable overhead spending variance is the difference between
- actual variable overhead and the previously budgeted amount.
 - the previously budgeted amount and actual inputs times the budgeted rate.
 - the amount applied to work-in-process and actual variable overhead.
 - actual variable overhead and actual inputs times the budgeted rate.
57. Randall Company uses standard costing and flexible budgeting and is evaluating its direct labour. The total budget variance can usually be broken down into two other variances identified as the
- direct labour rate variance and direct labour efficiency variance.
 - direct labour cost variance and the direct labour volume variance.
 - direct labour rate variance and direct labour volume variance.
 - direct labour cost variance and direct labour efficiency variance.
58. A major disadvantage of a static budget is that
- it is more difficult to develop than a flexible budget.
 - it is made for only one level of activity.
 - variances tend to be smaller than when flexible budgeting is used.
 - variances are more difficult to compute than when flexible budgeting is used.
59. The balanced scorecard provides an action plan for achieving competitive success by focusing management attention on critical success factors. Which one of the following is not one of the competitive success factors commonly focused upon in the balanced scorecard?
- Competitor business strategies.
 - financial performance measures.
 - Internal business processes.
 - Employee innovation and learning.
60. In order to analyze sales as a function of advertising expenses, the sales manager of Smith Company developed a simple regression model. The model included the following equation, which was based on 32 monthly observations of sales and advertising expenses with a related coefficient of determination of .90.
- $$S = \$10,000 + \$2.50A$$
- S = Sales
A = Advertising expenses
- If Smith Company's advertising expenses in one month amounted to \$1,000, the related point estimate of sales would be
- \$11,250
 - \$2,500
 - \$12,250
 - \$12,500
61. The letter x in the statement regression equation is best described as a(n)
- Independent variable
 - Dependent variable
 - Coefficient of determination
 - Constant coefficient
62. Many companies recognize three major categories of costs of manufacturing a product. These are direct materials, direct labour, and overhead. Which of the following is an overhead cost in the production of an automobile?
- The cost of small tools used in mounting tires on each automobile.
 - The cost of the tires on each automobile.
 - The cost of the laborers who place tires on each automobile.
 - The delivery costs for the tires on each automobile.
63. Atlantic Co used \$200,000 of direct materials during June. At June 30, Atlantic's direct materials inventory was \$30,000 more than it was a June 1. What were Atlantic's direct materials purchases during June?
- \$30,000
 - \$170,000
 - \$200,000
 - \$230,000

64. Which one of the following is not an advantage of a participatory budgeting process?
- Coordination between departments.
 - Communication between departments.
 - Goal congruence.
 - Control of uncertainties.
65. Kern Manufacturing has several divisions and evaluates performance using segment income. Since sales include transfers to other divisions, Kern has established a price for internal sales as cost plus 10%. Red Division has requested 10,000 units of Green Division's product. Green Division is selling its product externally at a 60% mark-up over cost. The corporate policy will encourage the Green Division to
- transfers the product to the Red Division because all costs are being covered and the division will earn a 10% profit.
 - rejects the sale to the Red Division because it does not provide the same mark-up as external sales.
 - accepts the sale to the Red Division if it is operating at full capacity and the sale will contribute to fixed costs.
 - transfers the product to the Red Division if it does not require the Green Division to give up any external sales.
66. A restaurant chain has 30 different hamburger choices and has recently added the Come Hungry, a quadruple burger, to its menu for a three-month trial period. The product's partial income statement after three months is shown below.
- | | |
|---|-------------|
| Sales | \$ 550,000 |
| Variable costs | 375,000 |
| Product advertising (2/3 for product launch, 1/3 ongoing) | 180,000 |
| Allocated fixed direct restaurant costs | 120,000 |
| Profit (loss) before allocation of corporate costs | \$(125,000) |
- The effect on the company's profit because of the addition of this new product was to
- decrease income by \$5,000.
 - increase income by \$115,000.
 - decrease income by \$125,000.
 - increase income by \$175,000.
67. Frisco Company recently purchased 108,000 units of raw material for \$583,200. Three units of raw materials are budgeted for use in each finished good manufactured, with the raw material standard set at \$16.50 for each completed product. Frisco manufactured 32,700 finished units during the period just ended and used 99,200 units of raw material. If management is concerned about the timely reporting of variances in an effort to improve cost control and bottom-line performance, the materials purchase price variance should be reported as
- \$6,050 unfavourable.
 - \$9,920 favourable.
 - \$10,800 unfavourable.
 - \$10,800 favourable.
68. Each unit of Product XK-46 requires three direct labour hours. Employee benefit costs are treated as direct labour costs. Data on direct labour are
- Number of direct employees: 25
 Weekly productive hours per employee: 35
 Estimated weekly wages per employee: \$245
 Employee benefits (related to weekly wages): 25%
- The standard direct labour cost per unit of Product XK-46 is
- \$29.40
 - \$21.00
 - \$36.75
 - \$26.25
69. Lee manufacturing uses a standard cost system with overhead applied based on direct labour hours. The manufacturing budget for the production of 5,000 units for the month of June included 10,000 hours of direct labour at \$15 per hour, \$150,000. During June, 4,500 units were produced, using 9,600 direct labour

hours, incurring \$39,360 of variable overhead, and showing a variable overhead efficiency variance of \$2,400 unfavourable. The standard variable overhead rate per direct labour hour was

- a. \$3.85.
- b. \$4.00.
- c. \$4.10.
- d. \$6.00.

70. Which one of the following should be used for evaluating the performance of the Repair and Maintenance Department that repairs production equipment in a firm devoted to making keyboards for computers?
- a. The variance between the firm's budgeted and actual net income.
 - b. The total factory overhead variances.
 - c. The fixed overhead volume variances.
 - d. The response time and degree of satisfaction among the production departments.
71. 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.
72. A company is concerned that its divisional managers are not making decisions that are in the best interests of the overall corporation. In order to prevent this, the company should use a performance evaluation system that focuses on
- a. flexible budget variances.
 - b. operating income.
 - c. controllable costs.
 - d. residual income.
73. 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.
74. A project manager has been asked to provide an explanation regarding a \$2,220 favourable material variance on a playground equipment project. After further analysis, the project manager was able to break down the material variance to an unfavourable price variance of \$1,700 and a favourable quantity variance of \$3,920. The best explanation of the variances is that the
- a. decision by the purchasing department to use a new supplier resulted in the purchase of the materials for a lower price.
 - b. excellent scheduling by the production department enabled the purchasing department to reduce shipping costs.
 - c. purchasing department purchased a higher quality material, resulting in less wasted materials.
 - d. human resources department failed to hire adequately trained workers causing materials to be wasted.

75. Which one of the following statements is correct concerning a flexible budget cost formula? Variable costs are stated

- a. per unit and fixed costs are stated in total.
- b. in total and fixed costs are stated per unit.
- c. in total and fixed costs are stated in total.
- d. per unit and fixed costs are stated per unit.

SECTION - B

Answer all the questions (25 Marks)

76. Cayne 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)	30,000,000
Gross profit	20,000,000
Selling and administrative costs (all fixed)	12,000,000
Operating income	\$8,000,000

Cayne 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, Cayne's sales totaled \$55,000,000. There were no variable cost variances, and the company's operating income was \$7,500,000.

REQUIRED:

- 1. Identify and explain three benefits of using a flexible budget. **(5 marks)**
- 2. Prepare Cayne's flexible budget through operating income, at the \$55,000,000 sales level. **(5 marks)**
- 3. Identify and explain three possible reasons Biscayne's sales increased, but the company's operating income decreased. **(5 marks)**
- 4. Define zero-based budgeting. **(4 marks)**
- 5. Explain continuous budgeting & Project based budgeting along with examples. **(6 marks)**

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