

Instructions

Prepare a sales budget for the 2 quarters ending June 30, 2014. List the products and show for each quarter and for the 6 months, units, selling price, and total sales by product and in total.

Prepare a sales budget for 4 quarters.
(LO 3, 6), AP



E9-3 Garza and Neely, CPAs, are preparing their service revenue (sales) budget for the coming year (2014). The practice is divided into three departments: auditing, tax, and consulting. Billable hours for each department, by quarter, are provided below.

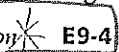
Department	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Auditing	2,300	1,600	2,000	2,400
Tax	3,000	2,200	2,000	2,500
Consulting	1,500	1,500	1,500	1,500

Average hourly billing rates are auditing \$80, tax \$90, and consulting \$100.

Instructions

Prepare the service revenue (sales) budget for 2014 by listing the departments and showing for each quarter and the year in total, billable hours, billable rate, and total revenue.

Prepare quarterly production budgets.
(LO 3), AP



E9-4 Turney Company produces and sells automobile batteries, the heavy-duty HD-240. The 2014 sales forecast is as follows.

Quarter	HD-240
1	5,000
2	7,000
3	8,000
4	10,000

The January 1, 2014, inventory of HD-240 is 2,000 units. Management desires an ending inventory each quarter equal to 40% of the next quarter's sales. Sales in the first quarter of 2015 are expected to be 25% higher than sales in the same quarter in 2014.

Instructions

Prepare quarterly production budgets for each quarter and in total for 2014.

Prepare a direct materials purchases budget.
(LO 3), AP

E9-5 Dallas Industries has adopted the following production budget for the first 4 months of 2014.

Month	Units	Month	Units
January	10,000	March	5,000
February	8,000	April	4,000

Each unit requires 2 pounds of raw materials costing \$2 per pound. On December 31, 2013, the ending raw materials inventory was 4,000 pounds. Management wants to have a raw materials inventory at the end of the month equal to 20% of next month's production requirements.

Instructions

Prepare a direct materials purchases budget by month for the first quarter.

Prepare production and direct materials budgets by quarters for 6 months.
(LO 3), AP

E9-6 On January 1, 2014, the Hardin Company budget committee has reached agreement on the following data for the 6 months ending June 30, 2014.

Sales units: First quarter 5,000; second quarter 6,000; third quarter 7,000.

Ending raw materials inventory: 40% of the next quarter's production requirements.

Ending finished goods inventory: 25% of the next quarter's expected sales units.

Third-quarter production: 7,200 units.

The ending raw materials and finished goods inventories at December 31, 2013, follow the same percentage relationships to production and sales that occur in 2014. Three pounds of raw materials are required to make each unit of finished goods. Raw materials purchased are expected to cost \$4 per pound.

Instructions

(a) Prepare a production budget by quarters for the 6-month period ended June 30, 2014.

(b) Prepare a direct materials budget by quarters for the 6-month period ended June 30, 2014.

- incurs \$64,000 of indirect labor while working 45,000 direct labor hours. Is this a favorable or unfavorable performance? Why?
8. A static overhead budget based on 40,000 direct labor hours shows Factory Insurance \$6,500 as a fixed cost. At the 50,000 direct labor hours worked in March, factory insurance costs were \$6,300. Is this a favorable or unfavorable performance? Why?
 9. Megan Pedigo is confused about how a flexible budget is prepared. Identify the steps for Megan.
 10. Cali Company has prepared a graph of flexible budget data. At zero direct labor hours, the total budgeted cost line intersects the vertical axis at \$20,000. At 10,000 direct labor hours, the line drawn from the total budgeted cost line intersects the vertical axis at \$85,000. How may the fixed and variable costs be expressed?
 11. The flexible budget formula is fixed costs \$50,000 plus variable costs of \$4 per direct labor hour. What is the total budgeted cost at (a) 9,000 hours and (b) 12,345 hours?
 12. What is management by exception? What criteria may be used in identifying exceptions?
 13. What is responsibility accounting? Explain the purpose of responsibility accounting.
 14. Eve Rooney is studying for an accounting examination. Describe for Eve what conditions are necessary for responsibility accounting to be used effectively.
 15. Distinguish between controllable and noncontrollable costs.
 16. How do responsibility reports differ from budget reports?
 17. What is the relationship, if any, between a responsibility reporting system and a company's organization chart?
 18. Distinguish among the three types of responsibility centers.
 19. (a) What costs are included in a performance report for a cost center? (b) In the report, are variable and fixed costs identified?
 20. How do direct fixed costs differ from indirect fixed costs? Are both types of fixed costs controllable?
 21. Jane Nott is confused about controllable margin reported in an income statement for a profit center. How is this margin computed, and what is its primary purpose?
 22. What is the primary basis for evaluating the performance of the manager of an investment center? Indicate the formula for this basis.
 23. Explain the ways that ROI can be improved.
 24. Indicate two behavioral principles that pertain to (a) the manager being evaluated and (b) top management.
 - *25. What is a major disadvantage of using ROI to evaluate investment and company performance?
 - *26. What is residual income, and what is one of its major weaknesses?

BRIEF EXERCISES

Prepare static budget report.
(LO 2), AP

BE10-1 For the quarter ended March 31, 2014, Maris Company accumulates the following sales data for its product, Garden-Tools: \$310,000 budget; \$305,000 actual. Prepare a static budget report for the quarter.

Prepare static budget report for 2 quarters.
(LO 2), AP

BE10-2 Data for Maris Company are given in BE10-1. In the second quarter, budgeted sales were \$380,000, and actual sales were \$384,000. Prepare a static budget report for the second quarter and for the year to date.

Show usefulness of flexible budgets in evaluating performance.
(LO 3), E

BE10-3 In Paige Company, direct labor is \$20 per hour. The company expects to operate at 10,000 direct labor hours each month. In January 2014, direct labor totaling \$204,000 is incurred in working 10,400 hours. Prepare (a) a static budget report and (b) a flexible budget report. Evaluate the usefulness of each report.

Prepare a flexible budget for variable costs.
(LO 3), AP

BE10-4 Gundy Company expects to produce 1,200,000 units of Product XX in 2014. Monthly production is expected to range from 80,000 to 120,000 units. Budgeted variable manufacturing costs per unit are direct materials \$5, direct labor \$6, and overhead \$8. Budgeted fixed manufacturing costs per unit for depreciation are \$2 and for supervision are \$1. Prepare a flexible manufacturing budget for the relevant range value using 20,000 unit increments.


Prepare flexible budget report.
(LO 3), AN

BE10-5 Data for Gundy Company are given in BE10-4. In March 2014, the company incurs the following costs in producing 100,000 units: direct materials \$525,000, direct labor \$596,000, and variable overhead \$805,000. Actual fixed costs were equal to budgeted fixed costs. Prepare a flexible budget report for March. Were costs controlled?

Prepare a responsibility report for a cost center.
(LO 5), AP

BE10-6 In the Assembly Department of Hannon Company, budgeted and actual manufacturing overhead costs for the month of April 2014 were as follows.

QUESTIONS

1. (a) What is a statement of cash flows?
(b) Nick Johns maintains that the statement of cash flows is an optional financial statement. Do you agree? Explain.
2. What questions about cash are answered by the statement of cash flows?
3. Distinguish among the three types of activities reported in the statement of cash flows.
4. (a) What are the major sources (inflows) of cash in a statement of cash flows?
(b) What are the major uses (outflows) of cash?
5. Why is it important to disclose certain noncash transactions? How should they be disclosed?
6. Wilma Flintstone and Barney Rublestone were discussing the format of the statement of cash flows of Saltwater Candy Co. At the bottom of Saltwater Candy's statement of cash flows was a separate section entitled "Noncash investing and financing activities." Give three examples of significant noncash transactions that would be reported in this section.
7. Why is it necessary to use comparative balance sheets, a current income statement, and certain transaction data in preparing a statement of cash flows?
8. Contrast the advantages and disadvantages of the direct and indirect methods of preparing the statement of cash flows. Are both methods acceptable? Which method is preferred by the FASB? Which method is more popular?
9. When the total cash inflows exceed the total cash outflows in the statement of cash flows, how and where is this excess identified?
10. Describe the indirect method for determining net cash provided (used) by operating activities.
11. Why is it necessary to convert accrual-based net income to cash-basis income when preparing a statement of cash flows?
12. The president of Ferneti Company is puzzled. During the last year, the company experienced a net loss of \$800,000, yet its cash increased \$300,000 during the same period of time. Explain to the president how this could occur.
13. Identify five items that are adjustments to convert net income to net cash provided by operating activities under the indirect method.
14. Why and how is depreciation expense reported in a statement prepared using the indirect method?
15. Why is the statement of cash flows useful?
16. During 2014, Singletree Company exchanged \$1,700,000 of its common stock for land. Indicate how the transaction would be reported on a statement of cash flows, if at all.
- *17. Why is it advantageous to use a worksheet when preparing a statement of cash flows? Is a worksheet required to prepare a statement of cash flows?
- *18. Describe the direct method for determining net cash provided by operating activities.
- *19. Give the formulas under the direct method for computing (a) cash receipts from customers and (b) cash payments to suppliers.
- *20. Aloha Inc. reported sales of \$2 million for 2014. Accounts receivable decreased \$200,000 and accounts payable increased \$300,000. Compute cash receipts from customers, assuming that the receivable and payable transactions related to operations.
- *21. In the direct method, why is depreciation expense not reported in the cash flows from operating activities section?
22.  **PEPSICO** In its 2010 statement of cash flows (see www.pepsico.com), what amount did PepsiCo report for net cash (a) provided by operating activities, (b) used for investing activities, and (c) used for financing activities?

BRIEF EXERCISES

Indicate statement presentation of selected transactions.

(LO 2), AP

BE13-1 Each of the items below must be considered in preparing a statement of cash flows for Alpha-Omega Co. for the year ended December 31, 2014. For each item, state how it should be shown in the statement of cash flows for 2014.

- (a) Issued bonds for \$150,000 cash.
- (b) Purchased equipment for \$200,000 cash.
- (c) Sold land costing \$50,000 for \$50,000 cash.
- (d) Declared and paid a \$20,000 cash dividend.

Classify items by activities.

(LO 2), C

BE13-2 Classify each item as an operating, investing, or financing activity. Assume all items involve cash unless there is information to the contrary.

- | | |
|----------------------------|--------------------------------|
| (a) Purchase of equipment. | (d) Depreciation. |
| (b) Sale of building. | (e) Payment of dividends. |
| (c) Redemption of bonds. | (f) Issuance of capital stock. |

BE13-3 The following T-account is a summary of the Cash account of Wiegman Company.

Identify financing activity transactions.

(LO 2), AP

Cash (Summary Form)			
Balance, Jan. 1	8,000		
Receipts from customers	364,000	Payments for goods	200,000
Dividends on stock investments	6,000	Payments for operating expenses	140,000
Proceeds from sale of equipment	36,000	Interest paid	10,000
Proceeds from issuance of bonds payable	500,000	Taxes paid	8,000
		Dividends paid	60,000
Balance, Dec. 31	496,000		

What amount of net cash provided (used) by financing activities should be reported in the statement of cash flows?

BE13-4 Mokena, Inc. reported net income of \$2.0 million in 2014. Depreciation for the year was \$160,000, accounts receivable increased \$350,000, and accounts payable increased \$280,000. Compute net cash provided by operating activities using the indirect method.

Compute cash provided by operating activities—indirect method. (LO 3), AP

BE13-5 The net income for Lodi Co. for 2014 was \$250,000. For 2014, depreciation on plant assets was \$70,000, and the company incurred a gain on disposal of plant assets of \$12,000. Compute net cash provided by operating activities under the indirect method.

Compute cash provided by operating activities—indirect method. (LO 3), AP

BE13-6 The comparative balance sheets for Tobemory Company show these changes in noncash current asset accounts: accounts receivable increase \$80,000, prepaid expenses decrease \$28,000, and inventories decrease \$30,000. Compute net cash provided by operating activities using the indirect method assuming that net income is \$250,000.

Compute net cash provided by operating activities—indirect method.

(LO 3), AP

BE13-7 The T-accounts for Equipment and the related Accumulated Depreciation—Equipment for Ada Company at the end of 2014 are shown here.

Determine cash received from sale of equipment.

(LO 3), AN

Equipment		Accumulated Depreciation—Equipment	
Beg. bal.	80,000	Disposals	8,500
Acquisitions	41,600		
End. bal.	99,600	Beg. bal.	44,500
		Depr. exp.	12,000
		End. bal.	48,000

In addition, Ada Company's income statement reported a loss on disposal of plant assets of \$6,500. What amount was reported on the statement of cash flows as "cash flow from disposal of plant assets"?

BE13-8 In a recent year, Cypress Semiconductor Corporation reported cash provided by operating activities of \$155,397,000, cash used in investing of \$207,628,000, and cash used in financing of \$33,372,000. In addition, cash spent for fixed assets during the period was \$130,820,000. No dividends were paid. Calculate free cash flow.

Calculate free cash flow.

(LO 4), AN

BE13-9 Wruck Corporation reported cash provided by operating activities of \$450,000, cash used by investing activities of \$150,000, and cash provided by financing activities of \$80,000. In addition, cash spent for capital assets during the period was \$250,000. No dividends were paid. Calculate free cash flow.

Calculate free cash flow.

(LO 4), AN

BE13-10 In a recent quarter, Alliance Atlantis Communications Inc. reported cash provided by operating activities of \$45,000,000 and revenues of \$265,800,000. Cash spent on plant asset additions during the quarter was \$1,400,000. Calculate free cash flow.

Calculate free cash flow.

(LO 4), AN

BE13-11 The management of Russel Inc. is trying to decide whether it can increase its dividend. During the current year, it reported net income of \$875,000. It had cash provided by operating activities of \$643,000, paid cash dividends of \$80,000, and had capital expenditures of \$280,000. Compute the company's free cash flow, and discuss whether an increase in the dividend appears warranted. What other factors should be considered?

Calculate and analyze free cash flow.

(LO 4), AN

***BE13-12** During the year, prepaid expenses decreased \$6,500, and accrued expenses increased \$2,000. Indicate how the changes in prepaid expenses and accrued expenses payable should be entered in the reconciling columns of a worksheet. Assume that beginning balances were prepaid expenses \$18,600 and accrued expenses payable \$8,200.

Indicate entries in worksheet.

(LO 5), AP