Chapter 04

1. In using a systems approach to financial planning, it is not necessary to develop a:
A. pro forma income statement.
B. cash budget.
C. pro forma balance sheet.
D. contingent liability plan.

2. The key initial element in developing pro forma statements is:
A. a cash budget.
B. an income statement.
C. a sales forecast.
D. a collections schedule.

3. Ideally, sales projections should be derived from:
A. an external viewpoint.
B. an internal viewpoint.
C. both internal and external viewpoints.
D. the marketing department.

4. Required production during a planning period will depend on the:
A. cost of beginning inventory of products.
B. credit sales during the period.
C. desired level of beginning inventory.
D. desired level of ending inventory.

5. A firm has forecasted sales of $4,000 in January, $6,000 in February, and $5,500 in March. All sales are on credit. 40% is collected the month of sale and the remainder the following month. How much is collected from accounts receivable in February?
A. $5,400
B. $4,800
C. $6,000
D. $3,000

6. A firm has forecasted sales of $3,000 in April, $4,500 in May, and $6,500 in June. All sales are on credit. 30% is collected the month of sale and the remainder the following month. What will be the balance in accounts receivable at the end of June?
A. $1,950
B. $6,500
C. $4,550
D. $5,100

7. XYZ Co. has forecasted June sales of 600 units and July sales of 1000 units. The company maintains ending inventory equal to 125% of next month's sales. June beginning inventory reflects this policy. What is June's required production?
A. 1,100 units
B. -0- units
C. 500 units
D. 400 units

8. In the construction of the cash payments schedule, the major cash payment is generally:
A. the general and administrative expense.
B. costs associated with inventory manufactured.
C. interest and dividends.
D. payments for new plant and equipment.

9. A firm has beginning inventory of 300 units at a cost of $11 each. Production during the period was 650 units at $12 each. If sales were 700 units, what is the cost of goods sold (assume FIFO)?
A. $9,000
B. $8,000
C. $7,700
D. $8,100

10. A firm has beginning inventory of 300 units at a cost of $11 each. Production during the period was 650 units at $12 each. If sales were 700 units, what is the value of the ending inventory using FIFO?
A. $2,750
B. $3,000
C. $3,300
D. $2,550

11. The difference between total receipts and total payments is referred to as:
A. cumulative cash flow.
B. beginning cash flow.
C. net cash flow.
D. cash balance.

12. The percent-of-sales method of financial forecasting:
A. is more detailed than a cash budget approach.
B. requires more time than a cash budget approach.
C. assumes that balance sheet accounts maintain a constant relationship to sales.
D. provides a month-to-month breakdown of data.

13. In the percent-of-sales method:
A. as the dividend payout ratio goes up, the required new funds also rise.
B. as the dividend payout ratio rises, required new funds decline.
C. the dividend payout ratio does not affect new funds.
D. a change to the ex-dividend date causes the required new funds to change.

14. In forecasting a firm's cash needs for some future period:
A. the percent-of-sales method is a detailed approach.
B. cash budgets are less exact than the percent-of-sales method.
C. a cash budget approach cannot deal effectively with both level and seasonal production schedules.
D. a cash budget approach can deal effectively with both level and seasonal production schedules.

15. When using the percent-of-sales method in forecasting funds needed, which of the following is not true?
A. As the dividend payout ratio decreases, the required new funds also decrease.
B. Required new funds decrease as profits margins increase.
C. Required new funds increase as accumulated amortization increases.
D. As the tax rate increases, the required new funds increase.

16. BHS Inc. determines that sales will rise from $300,000 to $500,000 next year. Spontaneous assets are 70% of sales and spontaneous liabilities are 30% of sales. BHS has a 10% profit margin and a 40% dividend payout ratio. What is the level of required new funds?
A. $50,000
B. $20,000
C. $100,000
D. BHS is in balance and no new funds are needed.

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17. In developing the pro forma income statement we follow four important steps: 1) compute other expenses, 2) determine a production schedule, 3) establish a sales projection, 4) determine profit by completing the actual pro forma statement. What is the correct order for these four steps?
A. 1, 2, 3, 4
B. 4, 3, 2, 1
C. 2, 1, 3, 4
D. 3, 2, 1, 4

18. In order to estimate production requirements, we:
A. add beginning inventory to projected sales in units and subtract desired ending inventory.
B. add projected sales in units to desired ending inventory and subtract beginning inventory.
C. add beginning inventory to desired ending inventory and divide by two.
D. add beginning inventory to desired ending inventory and subtract projected sales in units.

19. In general, the larger the portion of a firm's sales that are on credit, the:
A. lower will be the firm's need to borrow.
B. higher will be the firm's need to borrow.
C. more rapidly credit sales will be paid off.
D. more the firm can buy raw materials on credit.

20. Pro forma financial statements are not:
A. the most comprehensive means of financial forecasting.
B. often required by prospective creditors.
C. projections of financial statements for a future period.
D. part of the year end filing with the securities regulator.

21. The need for an increase or decrease in short-term borrowing can be predicted by:
A. ratio analysis.
B. trend analysis.
C. a cash budget.
D. an income statement.

22. A firm utilizing FIFO inventory accounting would, in calculating gross profits, assume that:
A. all sales were from current production.
B. all sales were from beginning inventory.
C. sales were from beginning inventory until it was depleted, and then use sales from current production.
D. all sales were for cash.

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23. A firm has targeted a 40% growth in sales this year. Last year's cash as a percent of sales was 15%, accounts receivable 30%, and inventory 35%. What percentage growth in current assets is required to support the growth in sales under the percent-of-sales forecasting method?
A. 32%
B. 26%
C. 18%
D. Not enough information to tell.

24. A rapid rate of growth in sales and profits may require:
A. higher dividend payments to shareholders.
B. increased borrowing by the firm to support the sales increase.
C. the firm to be less lenient with credit customers.
D. sales forecasts to be made less frequently.

25. Firms that successfully increase their rates of inventory turnover will, among other things,:
A. be able to reduce their borrowing needs.
B. be able to reduce their dividend payments to shareholders.
C. find it more difficult to be given credit by their resource suppliers.
D. have a greater need for high balances in their cash accounts.

26. In financial statements, the number of units shown in cost of goods sold as compared to the number of the units actually produced:
A. is always higher.
B. is always lower.
C. is always the same.
D. can be either higher or lower.

27. The pro forma income statement is important to the overall process of constructing pro forma statements because it allows us to determine a value for:
A. change in retained earnings.
B. gross profit.
C. interest expense.
D. prepaid expenses.

28. Net cash flow is equal to:
A. income after taxes minus amortization.
B. income after taxes minus dividends.
C. cash receipts minus cash payments.
D. cash receipts minus cash payments minus amortization.

29. In developing data for accounts receivable for the pro forma balance sheet, the analyst is most likely to turn to the:
A. pro forma income statement.
B. cash budget.
C. prior balance sheet.
D. statement of retained earnings.

30. Which of the following is most likely to increase the final number for notes payable in the pro forma balance sheet?
A. Decrease in inventory.
B. Increase in retained earnings.
C. Decrease in accounts payable.
D. Decrease in accounts receivable.

31. In the development of the pro forma financial statements, the last step in the process is the development of the:
A. cash budget.
B. pro forma balance sheet.
C. pro forma income statement.
D. capital budget.

32. In a cash budget, the cumulative cash balance is equal to:
A. net cash flow minus the beginning cash balance.
B. net cash flow plus the beginning cash balance.
C. cumulative loan balance minus the ending cash balance.
D. cumulative loan balance plus the ending cash balance.

33. In the percent-of-sales method, an increase in dividends:
A. will increase required new funds.
B. will decrease required new funds.
C. has no effect on required new funds.
D. more information is needed.

34. In the percent-of-sales method if (A/S_1) and L/S_1) both increase, then:
A. RNF stays the same.
B. RNF goes down.
C. RNF goes up.
D. more information is needed.

35. In using a systems approach to financial planning, it is necessary to develop everything *except*:
A. pro forma income statement.
B. cash budget.
C. pro forma balance sheet.
D. a collection schedule.

36. A firm has forecasted sales of $8,000 in January, $12,000 in February, and $11,000 in March. All sales are on credit. 40% is collected the month of sale and the remainder the following month. How much is collected from accounts receivable in February?
A. $10,800
B. $9,600
C. $12,000
D. $6,000

37. A firm has forecasted sales of $3,000 in April, $4,500 in May, and $12,000 in June. All sales are on credit. 30% is collected the month of sale and the remainder the following month. What will be the balance in accounts receivable at the end of June?
A. $1,950
B. $6,500
C. $8,400
D. $5,100

38. ABC Co. has forecasted June sales of 600 units and July sales of 900 units. The company maintains ending inventory equal to 130% of next month's sales. June beginning inventory reflects this policy. What is June's required production?
A. 990 units
B. -0- units
C. 1,000 units
D. 800 units

39. A firm has beginning inventory of 400 units at a cost of $11 each. Production during the period was 650 units at $12 each. If sales were 700 units, what is the cost of goods sold (assume FIFO)?
A. $9,000
B. $8,000
C. $7,700
D. $8,100

40. A firm has beginning inventory of 300 units at a cost of $11 each. Production during the period was 650 units at $12 each. If sales were 800 units, what is the value of the ending inventory using FIFO?
A. $1,800
B. $3,250
C. $3,600
D. $7,800

41. BHS Inc. determines that sales will rise from $300,000 to $700,000 next year. Spontaneous assets are 70% of sales and spontaneous liabilities are 30% of sales. BHS has a 10% profit margin and a 40% dividend payout ratio. What is the level of required new funds?
A. $118,000
B. $40,000
C. $70,000
D. BHS is in balance and no new funds are needed.

42. Firms that decrease their rates of inventory turnover will, among other things,:
A. have to increase their borrowing needs.
B. be able to reduce their dividend payments to shareholders.
C. find it easier to be given credit by their resource suppliers.
D. have a lesser need for high balances in their cash accounts.

43. Which of the following is most likely to decrease the final number for notes payable in the pro forma balance sheet?
A. Increase in inventory.
B. Decrease in retained earnings.
C. Increase in accounts payable.
D. Increase in accounts receivable.

44. In the development of the pro forma financial statements, the second step in the process is the development of the:
A. cash budget.
B. pro forma balance sheet.
C. pro forma income statement.
D. capital budget.

45. In the percent-of-sales method, a decrease in dividends:
A. will increase required new funds.
B. will decrease required new funds.
C. has no effect on required new funds.
D. more information is needed.

46. If the actual December 31st A/R balance was $12,000; projected sales in March are $50,000; 70% of sales are on credit; 60% of credit sales are collected in the month of sale and 40% are collected in the month after the sale, what is the projected A/R balance on the pro forma balance sheet for the end of March?
A. $26,000
B. $14,000
C. $20,000
D. $35,000

47. If projected net cash flow for November is ($10,000); beginning cash balance is $4,000; minimum cash balance is $3,000; beginning loan balance is $8,000, what will be the cumulative loan balance at the end of November?
A. $14,000
B. $5,000
C. $17,000
D. $22,000

48. If projected net cash flow for January is ($6,500); beginning cash balance is $16,000; minimum cash balance is $5,000; beginning loan balance is $4,500, what will be the cash balance on the pro forma cash budget at the end of January?
A. $5,000
B. $10,000
C. $12,000
D. $4,500

49. An increase in sales and/or profits means there is also an increase in cash on the balance sheet.
True False

50. An increase in sales and profits generates the necessary cash required for economic growth.
True False

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51. Profit is generally adequate to finance significant growth.
True False

52. Growth in sales volume precludes a shortage of funds.
True False

53. The primary purpose of the cash budget is to allow the firm to anticipate the need for outside funding.
True False

54. The primary purpose of the cash budget is to plan accounts payable payments.
True False

55. Pro forma income statements follow a sales forecast and production plan.
True False

56. Pro forma statements are generally prepared six months to a year into the future.
True False

57. Internal analysis for sales projections involves examining economic and industry conditions.
True False

58. Companies generally prefer to maintain some minimum cash balance.
True False

59. The main consideration in constructing the pro forma income statement is the costs specifically associated with the units sold during the period.
True False

60. The value of ending inventory should be equal to beginning inventory plus total production costs minus cost of goods sold.
True False

61. If inventory turnover is equal to 3, that means that the company keeps a three-month supply of inventory on hand.
True False

62. Level production schedules usually have the advantage of reducing overall production costs.
True False

63. The percent-of-sales method for financial forecasting assumes that balance sheet accounts maintain a constant relationship to sales.
True False

64. The percent-of-sales forecast is likely to be most accurate when used with cyclical companies.
True False

65. As the dividend payout ratio declines more external funds are required.
True False

66. The percent-of-sales method would be more accurate under a steady sales assumption than cyclical sales.
True False

67. A cash budget is unnecessary under level production since we know how much will be produced every month.
True False

68. It is helpful to break down the income statement into smaller monthly periods to enable evaluation of seasonal patterns of cash inflows and outflows.
True False

69. When sales volume varies from month to month it is not advisable to use level production.
True False

70. Pro forma income statements and balance sheets refer to projected financial statements.
True False

71. A pro forma balance sheet needs data from the prior balance sheet, pro forma income statement and the cash budget.
True False

72. When a financial manager calculates production requirements they add Projected Sales to desired ending inventory then subtract beginning inventory.
True False

73. The process of preparing a cash budget requires the financial manager translate the pro forma income statement into cash flows.
True False

74. The primary purpose of the cash budget is to forecast income.
True False

75. A firm's cash borrowing needs can be reduced if its inventory turnover rate can be increased.
True False

76. An increase in sales accompanied by an increase in accounts payable will reduce the amount of new external funds required.
True False

77. A lower dividend payout ratio will decrease the firm's need for borrowing.
True False

78. Lower profit margins resulting from increased competition would mean a lower need for external funds.
True False

79. A higher growth rate in sales will require more external funds.
True False

80. The generation of sales and profits ensures that there will be adequate cash on hand to meet financial obligations as they come due.
True False

81. Sales projections and the ability to accurately predict the future have a large impact on cash flow targets.
True False

82. Pro forma income statements anticipate sales, expenses, income and cost of goods sold.
True False

83. Strategic planning and the financial planning process usually involve 4 steps. List in order and briefly describe these 4 steps.

84. Without realistic financial forecasts, the small business in particular will likely experience which 4 problems?

85. What are the 4 steps in developing a pro forma income statement?

86. Explain how to best derive a sales projection.

87. The cost of oil is very important in projecting manufacturing, transportation, and production costs of a company. How would you propose reducing reliance on variable oil prices to improve financial forecasting?

88. The following is the balance sheet for 2015 for Marbell Inc.

Marbell Inc.
Balance Sheet
as at December 31, 2015

Assets		Liabilities and Stockholders' Equity	
Cash	$15,500	Accts. payable	$ 90,000
Accts. rec.	90,000	Notes payable (non-spontaneous)	30,000
Inventory	60,000	Accrued expenses	7,500
Current Assets	165,000	Current Liabilities	127,500
Fixed assets (non-spontaneous)	60,000	Common stock	75,500
		Retained earnings	22,500
Total Assets	$225,000	Total Liabilities + S.H. Equity	$225,000

Sales for 2015 were $500,000. Sales for 2016 have been projected to increase by 10%. Assuming that Marbell Inc. is operating below capacity, calculate the amount of new funds required to finance this growth. Marbell has an 8% return on sales and 80% is paid out as dividends.

89. The Amber Magic Shoppe has forecast its sales revenues and purchases for the last 5 months of 200x to be as follows:

	Sales	Purchases
August	$25,000	$17,000
September	15,000	19,500
October	25,000	29,000
November	30,000	20,000
December	26,000	24,000

65% of sales are on credit. On the basis of past experience, 50% of the accounts receivable are collected the month after the sale and the remainder are collected 2 months after the sale. Purchases are paid 30 days after they are incurred. The firm had a cash balance of $5,000 as of September 30th, and its minimum required cash balance is $4,000. It had no beginning loan balance. Prepare a cash budget for October, November and December.

90. Ellis Sport Shop projects the following sales:

April	May	June
$75,000	$95,000	$110,000

Ninety percent of Ellis' sales are on credit with 60 percent of receivables collected in the month after the sale and the rest of receivables collected in the second month after the sale. February sales were $60,000 and March sales were $70,000. In the past Ellis' bad debt percentage has been 0 and this rate is expected to continue.

A) Prepare a monthly schedule of cash receipts for April-June.
B) What is the balance of Receivables at the end of June?

91. Eddie's Bar and Restaurant Supplies expects its revenues and payments for the first part of the year to be:

	Sales	Payments
Jan.	$14,000	$18,000
Feb.	20,000	21,300
Mar.	26,000	19,100
April	22,000	22,400
May	18,000	14,700

Seventy percent of the firm's sales are on credit. Past experience shows that 40 percent of accounts receivable are collected in the month after sale, and the remainder are collected in the second month after sale. Prepare a schedule of cash receipts for March, April, and May. Eddie's pays its payments in the following month. Eddie's had a cash balance of $2,000 on March 1, which is also its minimum required cash balance. There is an outstanding loan of $2,000 on March 1. Prepare a cash budget for March, April, and May.

92. Frank's Sporting Goods projects sales for the second quarter of 2015 to be as follows:

April $100,000 May $120,000 June $110,000

Ten percent of Frank's sales are for cash, 70% of accounts receivable are collected one month following the sale, and the rest are collected two months following the sale. January sales were $40,000, February sales were $60,000, and March sales were $80,000.

A) Prepare a monthly schedule of cash receipts for the second quarter of 2015.
B) What is the balance in accounts receivable at the end of June?

93. During 2015, Baker Company and Baumer Company made the following identical purchases:

100 units @ $10.00
200 units @ $10.50
200 units @ $11.50
100 units @ $12.00

Each company sold 400 units, but Baker uses LIFO inventory valuation and Baumer uses FIFO inventory valuation. Assume there was no beginning inventory. Calculate cost of goods sold and ending inventory for each company. How will the difference in cost of goods sold affect net income?

94. The Amber Magick Shoppe has forecast its sales revenues and purchases for the last 5 months of 2005 to be as follows:

	Sales	Purchases
August	$22,000	$17,000
September	15,000	19,500
October	25,000	29,000
November	30,000	20,000
December	26,000	24,000

Sixty percent of sales are on credit. On the basis of past experience, 50% of the accounts receivable are collected the month after the sale and the remainder are collected 2 months after the sale. Purchases are paid 30 days after they are incurred. The firm has a cash balance of $5,000 on hand as of October 31, but its minimum required cash balance is $4,000

A) Prepare a schedule of cash receipts for October, November, and December.
B) Prepare a cash budget for the same period.

95. The following is the balance sheet for 2015 for Marbell Inc.

Marbell Inc.
Balance Sheet
as at December 31, 2015

Assets		Liabilities and Stockholders' Equity	
Cash	$15,500	Accts. payable	$ 90,000
Accts. rec.	90,000	Notes payable (non-spontaneous)	30,000
Inventory	60,000	Accrued expenses	7,500
Current Assets	165,000	Current Liabilities	127,500
Fixed assets (non-spontaneous)	60,000	Common stock	75,500
		Retained earnings	22,500
Total Assets	$225,000	Total Liabilities + S.H. Equity	$225,000

Sales for 2015 were $300,000. Sales for 2016 have been projected to increase by 20%. Assuming that Marbell Inc. is operating below capacity, calculate the amount of new funds required to finance this growth. Marbell has an 8% return on sales and 70% is paid out as dividends.

Chapter 04 Key

1. In using a systems approach to financial planning, it is not necessary to develop a:
A. pro forma income statement.
B. cash budget.
C. pro forma balance sheet.
D. contingent liability plan.

Accessibility: Keyboard Navigation
Block - Chapter 04 #1
Difficulty: Easy
Learning Objective: 04-02 Prepare the four financial statements for forecasting—the pro forma income statement; the pro forma statement of retained earnings; the cash budget; and the pro forma balance sheet.
Topic: 04-02 Constructing Pro Forma Statements
Type: Memory

2. The key initial element in developing pro forma statements is:
A. a cash budget.
B. an income statement.
C. a sales forecast.
D. a collections schedule.

Accessibility: Keyboard Navigation
Block - Chapter 04 #2
Difficulty: Easy
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Concept

3. Ideally, sales projections should be derived from:
A. an external viewpoint.
B. an internal viewpoint.
C. both internal and external viewpoints.
D. the marketing department.

Accessibility: Keyboard Navigation
Block - Chapter 04 #3
Difficulty: Easy
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Concept

4. Required production during a planning period will depend on the:
A. cost of beginning inventory of products.
B. credit sales during the period.
C. desired level of beginning inventory.
D. desired level of ending inventory.

Accessibility: Keyboard Navigation
Block - Chapter 04 #4
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

5. A firm has forecasted sales of $4,000 in January, $6,000 in February, and $5,500 in March. All sales are on credit. 40% is collected the month of sale and the remainder the following month. How much is collected from accounts receivable in February?
A. $5,400
B. $4,800
C. $6,000
D. $3,000

Accessibility: Keyboard Navigation
Block - Chapter 04 #5
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-09 Cash Receipts
Type: Concept

6. A firm has forecasted sales of $3,000 in April, $4,500 in May, and $6,500 in June. All sales are on credit. 30% is collected the month of sale and the remainder the following month. What will be the balance in accounts receivable at the end of June?
A. $1,950
B. $6,500
C. $4,550
D. $5,100

Accessibility: Keyboard Navigation
Block - Chapter 04 #6
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-09 Cash Receipts
Type: Concept

7. XYZ Co. has forecasted June sales of 600 units and July sales of 1000 units. The company maintains ending inventory equal to 125% of next month's sales. June beginning inventory reflects this policy. What is June's required production?
A. 1,100 units
B. -0- units
C. 500 units
D. 400 units

Accessibility: Keyboard Navigation
Block - Chapter 04 #7
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

8. In the construction of the cash payments schedule, the major cash payment is generally:
A. the general and administrative expense.
B. costs associated with inventory manufactured.
C. interest and dividends.
D. payments for new plant and equipment.

Accessibility: Keyboard Navigation
Block - Chapter 04 #8
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-10 Cash Payments
Type: Concept

9. A firm has beginning inventory of 300 units at a cost of $11 each. Production during the period was 650 units at $12 each. If sales were 700 units, what is the cost of goods sold (assume FIFO)?
A. $9,000
B. $8,000
C. $7,700
D. $8,100

Accessibility: Keyboard Navigation
Block - Chapter 04 #9
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

10. A firm has beginning inventory of 300 units at a cost of $11 each. Production during the period was 650 units at $12 each. If sales were 700 units, what is the value of the ending inventory using FIFO?
A. $2,750
B. $3,000
C. $3,300
D. $2,550

Accessibility: Keyboard Navigation
Block - Chapter 04 #10
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

11. The difference between total receipts and total payments is referred to as:
A. cumulative cash flow.
B. beginning cash flow.
C. net cash flow.
D. cash balance.

Accessibility: Keyboard Navigation
Block - Chapter 04 #11
Difficulty: Easy
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

12. The percent-of-sales method of financial forecasting:
A. is more detailed than a cash budget approach.
B. requires more time than a cash budget approach.
C. assumes that balance sheet accounts maintain a constant relationship to sales.
D. provides a month-to-month breakdown of data.

Accessibility: Keyboard Navigation
Block - Chapter 04 #12
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

13. In the percent-of-sales method:
A. as the dividend payout ratio goes up, the required new funds also rise.
B. as the dividend payout ratio rises, required new funds decline.
C. the dividend payout ratio does not affect new funds.
D. a change to the ex-dividend date causes the required new funds to change.

Accessibility: Keyboard Navigation
Block - Chapter 04 #13
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

14. In forecasting a firm's cash needs for some future period:
A. the percent-of-sales method is a detailed approach.
B. cash budgets are less exact than the percent-of-sales method.
C. a cash budget approach cannot deal effectively with both level and seasonal production schedules.
D. a cash budget approach can deal effectively with both level and seasonal production schedules.

Accessibility: Keyboard Navigation
Block - Chapter 04 #14
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

15. When using the percent-of-sales method in forecasting funds needed, which of the following is not true?
A. As the dividend payout ratio decreases, the required new funds also decrease.
B. Required new funds decrease as profits margins increase.
C. Required new funds increase as accumulated amortization increases.
D. As the tax rate increases, the required new funds increase.

Accessibility: Keyboard Navigation
Block - Chapter 04 #15
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

16. BHS Inc. determines that sales will rise from $300,000 to $500,000 next year. Spontaneous assets are 70% of sales and spontaneous liabilities are 30% of sales. BHS has a 10% profit margin and a 40% dividend payout ratio. What is the level of required new funds?

A. $50,000
B. $20,000
C. $100,000
D. BHS is in balance and no new funds are needed.

Accessibility: Keyboard Navigation
Block - Chapter 04 #16
Difficulty: Hard
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

17. In developing the pro forma income statement we follow four important steps: 1) compute other expenses, 2) determine a production schedule, 3) establish a sales projection, 4) determine profit by completing the actual pro forma statement. What is the correct order for these four steps?

A. 1, 2, 3, 4
B. 4, 3, 2, 1
C. 2, 1, 3, 4
D. 3, 2, 1, 4

Accessibility: Keyboard Navigation
Block - Chapter 04 #17
Difficulty: Easy
Learning Objective: 04-02 Prepare the four financial statements for forecasting—the pro forma income statement; the pro forma statement of retained earnings; the cash budget; and the pro forma balance sheet.
Topic: 04-03 Pro Forma Income Statement
Type: Concept

18. In order to estimate production requirements, we:

A. add beginning inventory to projected sales in units and subtract desired ending inventory.
B. add projected sales in units to desired ending inventory and subtract beginning inventory.
C. add beginning inventory to desired ending inventory and divide by two.
D. add beginning inventory to desired ending inventory and subtract projected sales in units.

Accessibility: Keyboard Navigation
Block - Chapter 04 #18
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

19. In general, the larger the portion of a firm's sales that are on credit, the:
A. lower will be the firm's need to borrow.
B. higher will be the firm's need to borrow.
C. more rapidly credit sales will be paid off.
D. more the firm can buy raw materials on credit.

Accessibility: Keyboard Navigation
Block - Chapter 04 #19
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-14 Analysis of Pro Forma Statement
Type: Concept

20. Pro forma financial statements are not:
A. the most comprehensive means of financial forecasting.
B. often required by prospective creditors.
C. projections of financial statements for a future period.
D. part of the year end filing with the securities regulator.

Accessibility: Keyboard Navigation
Block - Chapter 04 #20
Difficulty: Medium
Learning Objective: 04-02 Prepare the four financial statements for forecasting—the pro forma income statement; the pro forma statement of retained earnings; the cash budget; and the pro forma balance sheet.
Topic: 04-02 Constructing Pro Forma Statements
Type: Concept

21. The need for an increase or decrease in short-term borrowing can be predicted by:
A. ratio analysis.
B. trend analysis.
C. a cash budget.
D. an income statement.

Accessibility: Keyboard Navigation
Block - Chapter 04 #21
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

22. A firm utilizing FIFO inventory accounting would, in calculating gross profits, assume that:
A. all sales were from current production.
B. all sales were from beginning inventory.
C. sales were from beginning inventory until it was depleted, and then use sales from current production.
D. all sales were for cash.

Accessibility: Keyboard Navigation
Block - Chapter 04 #22
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Concept

23. A firm has targeted a 40% growth in sales this year. Last year's cash as a percent of sales was 15%, accounts receivable 30%, and inventory 35%. What percentage growth in current assets is required to support the growth in sales under the percent-of-sales forecasting method?
A. 32%
B. 26%
C. 18%
D. Not enough information to tell.

Accessibility: Keyboard Navigation
Block - Chapter 04 #23
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

24. A rapid rate of growth in sales and profits may require:
A. higher dividend payments to shareholders.
B. increased borrowing by the firm to support the sales increase.
C. the firm to be less lenient with credit customers.
D. sales forecasts to be made less frequently.

Accessibility: Keyboard Navigation
Block - Chapter 04 #24
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

25. Firms that successfully increase their rates of inventory turnover will, among other things,:

A. be able to reduce their borrowing needs.
B. be able to reduce their dividend payments to shareholders.
C. find it more difficult to be given credit by their resource suppliers.
D. have a greater need for high balances in their cash accounts.

Accessibility: Keyboard Navigation
Block - Chapter 04 #25
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

26. In financial statements, the number of units shown in cost of goods sold as compared to the number of the units actually produced:

A. is always higher.
B. is always lower.
C. is always the same.
D. can be either higher or lower.

Accessibility: Keyboard Navigation
Block - Chapter 04 #26
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

27. The pro forma income statement is important to the overall process of constructing pro forma statements because it allows us to determine a value for:

A. change in retained earnings.
B. gross profit.
C. interest expense.
D. prepaid expenses.

Accessibility: Keyboard Navigation
Block - Chapter 04 #27
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-07 Actual Pro Forma Income Statement
Type: Concept

28. Net cash flow is equal to:
A. income after taxes minus amortization.
B. income after taxes minus dividends.
C. cash receipts minus cash payments.
D. cash receipts minus cash payments minus amortization.

Accessibility: Keyboard Navigation
Block - Chapter 04 #28
Difficulty: Easy
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

29. In developing data for accounts receivable for the pro forma balance sheet, the analyst is most likely to turn to the:
A. pro forma income statement.
B. cash budget.
C. prior balance sheet.
D. statement of retained earnings.

Accessibility: Keyboard Navigation
Block - Chapter 04 #29
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

30. Which of the following is most likely to increase the final number for notes payable in the pro forma balance sheet?
A. Decrease in inventory.
B. Increase in retained earnings.
C. Decrease in accounts payable.
D. Decrease in accounts receivable.

Accessibility: Keyboard Navigation
Block - Chapter 04 #30
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-12 Pro Forma Balance Sheet
Type: Concept

31. In the development of the pro forma financial statements, the last step in the process is the development of the:
A. cash budget.
B. pro forma balance sheet.
C. pro forma income statement.
D. capital budget.

Accessibility: Keyboard Navigation
Block - Chapter 04 #31
Difficulty: Easy
Learning Objective: 04-02 Prepare the four financial statements for forecasting—the pro forma income statement; the pro forma statement of retained earnings; the cash budget; and the pro forma balance sheet.
Topic: 04-02 Constructing Pro Forma Statements
Type: Concept

32. In a cash budget, the cumulative cash balance is equal to:
A. net cash flow minus the beginning cash balance.
B. net cash flow plus the beginning cash balance.
C. cumulative loan balance minus the ending cash balance.
D. cumulative loan balance plus the ending cash balance.

Accessibility: Keyboard Navigation
Block - Chapter 04 #32
Difficulty: Hard
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Memory

33. In the percent-of-sales method, an increase in dividends:
A. will increase required new funds.
B. will decrease required new funds.
C. has no effect on required new funds.
D. more information is needed.

Accessibility: Keyboard Navigation
Block - Chapter 04 #33
Difficulty: Easy
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Memory

34. In the percent-of-sales method if (A/S_1) and L/S_1) both increase, then:
A. RNF stays the same.
B. RNF goes down.
C. RNF goes up.
D. more information is needed.

Accessibility: Keyboard Navigation
Block - Chapter 04 #34
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

35. In using a systems approach to financial planning, it is necessary to develop everything *except*:
A. pro forma income statement.
B. cash budget.
C. pro forma balance sheet.
D. a collection schedule.

Accessibility: Keyboard Navigation
Block - Chapter 04 #35
Difficulty: Easy
Learning Objective: 04-02 Prepare the four financial statements for forecasting—the pro forma income statement; the pro forma statement of retained earnings; the cash budget; and the pro forma balance sheet.
Topic: 04-02 Constructing Pro Forma Statements
Type: Memory

36. A firm has forecasted sales of $8,000 in January, $12,000 in February, and $11,000 in March. All sales are on credit. 40% is collected the month of sale and the remainder the following month. How much is collected from accounts receivable in February?
A. $10,800
B. $9,600
C. $12,000
D. $6,000

Accessibility: Keyboard Navigation
Block - Chapter 04 #36
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

37. A firm has forecasted sales of $3,000 in April, $4,500 in May, and $12,000 in June. All sales are on credit. 30% is collected the month of sale and the remainder the following month. What will be the balance in accounts receivable at the end of June?

A. $1,950
B. $6,500
C. $8,400
D. $5,100

Accessibility: Keyboard Navigation
Block - Chapter 04 #37
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

38. ABC Co. has forecasted June sales of 600 units and July sales of 900 units. The company maintains ending inventory equal to 130% of next month's sales. June beginning inventory reflects this policy. What is June's required production?

A. 990 units
B. -0- units
C. 1,000 units
D. 800 units

Accessibility: Keyboard Navigation
Block - Chapter 04 #38
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

39. A firm has beginning inventory of 400 units at a cost of $11 each. Production during the period was 650 units at $12 each. If sales were 700 units, what is the cost of goods sold (assume FIFO)?

A. $9,000
B. $8,000
C. $7,700
D. $8,100

Accessibility: Keyboard Navigation
Block - Chapter 04 #39
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

40. A firm has beginning inventory of 300 units at a cost of $11 each. Production during the period was 650 units at $12 each. If sales were 800 units, what is the value of the ending inventory using FIFO?

A. $1,800
B. $3,250
C. $3,600
D. $7,800

Accessibility: Keyboard Navigation
Block - Chapter 04 #40
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

41. BHS Inc. determines that sales will rise from $300,000 to $700,000 next year. Spontaneous assets are 70% of sales and spontaneous liabilities are 30% of sales. BHS has a 10% profit margin and a 40% dividend payout ratio. What is the level of required new funds?

A. $118,000
B. $40,000
C. $70,000
D. BHS is in balance and no new funds are needed.

Accessibility: Keyboard Navigation
Block - Chapter 04 #41
Difficulty: Hard
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

42. Firms that decrease their rates of inventory turnover will, among other things,:

A. have to increase their borrowing needs.
B. be able to reduce their dividend payments to shareholders.
C. find it easier to be given credit by their resource suppliers.
D. have a lesser need for high balances in their cash accounts.

Accessibility: Keyboard Navigation
Block - Chapter 04 #42
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

43. Which of the following is most likely to decrease the final number for notes payable in the pro forma balance sheet?
A. Increase in inventory.
B. Decrease in retained earnings.
C. Increase in accounts payable.
D. Increase in accounts receivable.

Accessibility: Keyboard Navigation
Block - Chapter 04 #43
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

44. In the development of the pro forma financial statements, the second step in the process is the development of the:
A. cash budget.
B. pro forma balance sheet.
C. pro forma income statement.
D. capital budget.

Accessibility: Keyboard Navigation
Block - Chapter 04 #44
Difficulty: Easy
Learning Objective: 04-02 Prepare the four financial statements for forecasting—the pro forma income statement; the pro forma statement of retained earnings; the cash budget; and the pro forma balance sheet.
Topic: 04-02 Constructing Pro Forma Statements
Type: Concept

45. In the percent-of-sales method, a decrease in dividends:
A. will increase required new funds.
B. will decrease required new funds.
C. has no effect on required new funds.
D. more information is needed.

Accessibility: Keyboard Navigation
Block - Chapter 04 #45
Difficulty: Easy
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Memory

46. If the actual December 31st A/R balance was $12,000; projected sales in March are $50,000; 70% of sales are on credit; 60% of credit sales are collected in the month of sale and 40% are collected in the month after the sale, what is the projected A/R balance on the pro forma balance sheet for the end of March?

A. $26,000
B. $14,000
C. $20,000
D. $35,000

A/R Bal. End of March = A/R Beg. Bal. + A/R from March sales
= $12,000 + (40% of March credit sales)
= $12,000 + ($35,000 x .4) = $26,000

Block - Chapter 04 #46
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-13 Explanation of Pro Forma Balance Sheet
Type: Concept

47. If projected net cash flow for November is ($10,000); beginning cash balance is $4,000; minimum cash balance is $3,000; beginning loan balance is $8,000, what will be the cumulative loan balance at the end of November?

A. $14,000
B. $5,000
C. $17,000
D. $22,000

Net cash flow	($10,000)
+ Beginning cash balance	4,000
Cumulative cash balance	(6,000)
Loan (Repayment)	9,000
Cum. Loan Bal.	17,000

Block - Chapter 04 #47
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

48. If projected net cash flow for January is ($6,500); beginning cash balance is $16,000; minimum cash balance is $5,000; beginning loan balance is $4,500, what will be the cash balance on the pro forma cash budget at the end of January?

A. $5,000
B. $10,000
C. $12,000
D. $4,500

Net cash flow	($6,500)
+ Beginning cash balance	16,000
Cumulative cash balance	9,500
Loan (Repayment)	(4,500)
Cum. Loan Bal.	0
Ending Cash. Bal.	$5,000

Block - Chapter 04 #48
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

49. An increase in sales and/or profits means there is also an increase in cash on the balance sheet.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #49
Difficulty: Easy
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

50. An increase in sales and profits generates the necessary cash required for economic growth.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #50
Difficulty: Easy
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

51. Profit is generally adequate to finance significant growth.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #51
Difficulty: Easy
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-14 Analysis of Pro Forma Statement
Type: Concept

52. Growth in sales volume precludes a shortage of funds.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #52
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

53. The primary purpose of the cash budget is to allow the firm to anticipate the need for outside funding.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #53
Difficulty: Easy
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

54. The primary purpose of the cash budget is to plan accounts payable payments.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #54
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

55. Pro forma income statements follow a sales forecast and production plan.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #55
Difficulty: Easy
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Concept

56. Pro forma statements are generally prepared six months to a year into the future.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #56
Difficulty: Easy
Learning Objective: 04-02 Prepare the four financial statements for forecasting—the pro forma income statement; the pro forma statement of retained earnings; the cash budget; and the pro forma balance sheet.
Topic: 04-02 Constructing Pro Forma Statements
Type: Memory

57. Internal analysis for sales projections involves examining economic and industry conditions.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #57
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Concept

58. Companies generally prefer to maintain some minimum cash balance.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #58
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

59. The main consideration in constructing the pro forma income statement is the costs specifically associated with the units sold during the period.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #59
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Concept

60. The value of ending inventory should be equal to beginning inventory plus total production costs minus cost of goods sold.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #60
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-06 Other Expense Items
Type: Concept

61. If inventory turnover is equal to 3, that means that the company keeps a three-month supply of inventory on hand.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #61
Difficulty: Easy
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

62. Level production schedules usually have the advantage of reducing overall production costs.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #62
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

63. The percent-of-sales method for financial forecasting assumes that balance sheet accounts maintain a constant relationship to sales.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #63
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

64. The percent-of-sales forecast is likely to be most accurate when used with cyclical companies.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #64
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

65. As the dividend payout ratio declines more external funds are required.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #65
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

66. The percent-of-sales method would be more accurate under a steady sales assumption than cyclical sales.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #66
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

67. A cash budget is unnecessary under level production since we know how much will be produced every month.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #67
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

68. It is helpful to break down the income statement into smaller monthly periods to enable evaluation of seasonal patterns of cash inflows and outflows.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #68
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

69. When sales volume varies from month to month it is not advisable to use level production.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #69
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-10 Cash Payments
Type: Concept

70. Pro forma income statements and balance sheets refer to projected financial statements.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #70
Difficulty: Easy
Learning Objective: 04-02 Prepare the four financial statements for forecasting—the pro forma income statement; the pro forma statement of retained earnings; the cash budget; and the pro forma balance sheet.
Topic: 04-02 Constructing Pro Forma Statements
Type: Concept

71. A pro forma balance sheet needs data from the prior balance sheet, pro forma income statement and the cash budget.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #71
Difficulty: Easy
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-12 Pro Forma Balance Sheet
Type: Concept

72. When a financial manager calculates production requirements they add Projected Sales to desired ending inventory then subtract beginning inventory.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #72
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

73. The process of preparing a cash budget requires the financial manager translate the pro forma income statement into cash flows.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #73
Difficulty: Easy
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

74. The primary purpose of the cash budget is to forecast income.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #74
Difficulty: Easy
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

75. A firm's cash borrowing needs can be reduced if its inventory turnover rate can be increased.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #75
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

76. An increase in sales accompanied by an increase in accounts payable will reduce the amount of new external funds required.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #76
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

77. A lower dividend payout ratio will decrease the firm's need for borrowing.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #77
Difficulty: Easy
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

78. Lower profit margins resulting from increased competition would mean a lower need for external funds.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #78
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

79. A higher growth rate in sales will require more external funds.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #79
Difficulty: Easy
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

80. The generation of sales and profits ensures that there will be adequate cash on hand to meet financial obligations as they come due.
FALSE

Accessibility: Keyboard Navigation
Block - Chapter 04 #80
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

81. Sales projections and the ability to accurately predict the future have a large impact on cash flow targets.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #81
Difficulty: Easy
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Memory

82. Pro forma income statements anticipate sales, expenses, income and cost of goods sold.
TRUE

Accessibility: Keyboard Navigation
Block - Chapter 04 #82
Difficulty: Easy
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Memory

83. Strategic planning and the financial planning process usually involve 4 steps. List in order and briefly describe these 4 steps.

• *Thinking*. Consideration of the firm's current businesses, as well as its challenges and opportunities. Careful collection of data and analysis is required.
• *Decisions*. Key directions, strategic resource commitments, and business models evolve. Finance should play an important role evaluating alternatives by modelling asset values and risk with long-term objectives.
• *Planning*. Priorities, objectives, and outcomes are established. Financial plans and budgets are developed with short-term objectives.
• *Performance*. Work plans and monitoring.

Block - Chapter 04 #83
Difficulty: Medium
Learning Objective: 04-01 Explain why financial forecasting is essential for the healthy growth of the firm.
Topic: 04-01 The Financial Planning Process
Type: Memory

84. Without realistic financial forecasts, the small business in particular will likely experience which 4 problems?

- Have liquidity problems
- Demonstrate poor management planning and control measures
- Have difficulty securing business loans
- Face possible business failure

Block - Chapter 04 #84
Difficulty: Medium
Learning Objective: 04-02 Prepare the four financial statements for forecasting—the pro forma income statement; the pro forma statement of retained earnings; the cash budget; and the pro forma balance sheet.
Topic: 04-02 Constructing Pro Forma Statements
Type: Memory

85. What are the 4 steps in developing a pro forma income statement?

1. Establish a sales projection.
2. Determine a production schedule and the associated use of new material, direct labour, and overhead to arrive at gross profit.
3. Compute other expenses.
4. Determine profit by completing the actual pro forma statement.

Block - Chapter 04 #85
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Memory

86. Explain how to best derive a sales projection.

Sales projections are best derived from both an external and an internal viewpoint. Using the former, we analyze our prospective sales in light of economic conditions affecting our industry and our company. Statistical techniques such as regression and time series analysis may be employed in the process. Internal analysis calls for the sales department to survey our own salespeople within their territories. Ideally, we would proceed along each of those paths in isolation of the other and then assimilate the results into one meaningful projection.

Block - Chapter 04 #86
Difficulty: Hard
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-03 Pro Forma Income Statement
Type: Concept

87. The cost of oil is very important in projecting manufacturing, transportation, and production costs of a company. How would you propose reducing reliance on variable oil prices to improve financial forecasting?

Answers will vary but could include seeking alternative sources (natural gas, propane, solar, geothermal, hybrid vehicles), long-term oil price contracts, hedging funds for future oil purchases.

Block - Chapter 04 #87
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-09 Cash Receipts
Type: Concept

88. The following is the balance sheet for 2015 for Marbell Inc.

Marbell Inc.
Balance Sheet
as at December 31, 2015

Assets		Liabilities and Stockholders' Equity	
Cash	$15,500	Accts. payable	$ 90,000
Accts. rec.	90,000	Notes payable (non-spontaneous)	30,000
Inventory	60,000	Accrued expenses	7,500
Current Assets	165,000	Current Liabilities	127,500
Fixed assets (non-spontaneous)	60,000	Common stock	75,500
		Retained earnings	22,500
Total Assets	$225,000	Total Liabilities + S.H. Equity	$225,000

Sales for 2015 were $500,000. Sales for 2016 have been projected to increase by 10%. Assuming that Marbell Inc. is operating below capacity, calculate the amount of new funds required to finance this growth. Marbell has an 8% return on sales and 80% is paid out as dividends.

Percent of Sales Table

Cash	5%	Accts. Payable	30%
Accts. Rec.	30%	Accrued expenses	2.5%
Inventory	20%		
Current Assets (spontaneous)	55%	Current Liabilities (spontaneous)	32.5%

Increased sales = 10% (500,000) = $50,000
New Sales level = 500,000 + 50,000 = $550,000

$$New\ funds\ required = \frac{A}{S_1}(\Delta S) - \frac{L}{S}(\Delta S) - PS_2(1 - D)$$

New funds Required
= 55% (50,000) – 32.5% (50,000) – 8% (550,000) (1 - .8)
= 27,500 – 16,250 – 8,800
= $2,450

Block - Chapter 04 #88
Difficulty: Hard
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

89. The Amber Magic Shoppe has forecast its sales revenues and purchases for the last 5 months of 200x to be as follows:

	Sales	Purchases
August	$25,000	$17,000
September	15,000	19,500
October	25,000	29,000
November	30,000	20,000
December	26,000	24,000

65% of sales are on credit. On the basis of past experience, 50% of the accounts receivable are collected the month after the sale and the remainder are collected 2 months after the sale. Purchases are paid 30 days after they are incurred. The firm had a cash balance of $5,000 as of September 30th, and its minimum required cash balance is $4,000. It had no beginning loan balance. Prepare a cash budget for October, November and December.

Sales	August $25,000	September $15,000	October $25,000	November $30,000	December $26,000
Credit (65%)	$ 16,250	9,750	16,250	19,500	16,900
Collections:					
Cash Sales			$8,750	$10,500	$9,100
50% in following month			4,875	8,125	9,750
50% in second month			8,125	4,875	8,125
Total Collections			$21,750	$23,500	$26,975
Cash Budget					
Collections			$21,750	$23,500	$26,975
- Payments			19,500	29,000	20,000
Cash Flow			$2,250	$(5,500)	$6,975
+ Beginning Cash Balance			5,000	7,250	4,000
Cumulative Cash Balance			$7,250	$1,750	$10,975
Loan (Repayment)			$0	$2,250	$(2,250)
Cumulative Loan Balance			0	2,250	0
Ending Cash Balance			$7,250	$4,000	$8,725

Block - Chapter 04 #89
Difficulty: Hard
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-09 Cash Receipts
Type: Concept

90. Ellis Sport Shop projects the following sales:

April	May	June
$75,000	$95,000	$110,000

Ninety percent of Ellis' sales are on credit with 60 percent of receivables collected in the month after the sale and the rest of receivables collected in the second month after the sale. February sales were $60,000 and March sales were $70,000. In the past Ellis' bad debt percentage has been 0 and this rate is expected to continue.

A) Prepare a monthly schedule of cash receipts for April-June.
B) What is the balance of Receivables at the end of June?

A)	February	March	April	May	June
Sales	$60,000	$70,000	$75,000	$95,000	$110,000
Credit Sales	54,000	63,000	67,500	85,500	99,000
Collections:					
Cash					
(10% of Sales)	6,000	7,000	7,500	9,500	11,000
60% first month after sale			37,800	40,500	51,300
40% second month after sale			21,600	25,200	27,000
Total Receipts			$66,900	$75,200	$89,300

B) Receivables End of June:

90% of June Sales	$99,000
40% of May Credit Sales	34,200
	$133,200

Block - Chapter 04 #90
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-09 Cash Receipts
Type: Concept

91. Eddie's Bar and Restaurant Supplies expects its revenues and payments for the first part of the year to be:

	Sales	Payments
Jan.	$14,000	$18,000
Feb.	20,000	21,300
Mar.	26,000	19,100
April	22,000	22,400
May	18,000	14,700

Seventy percent of the firm's sales are on credit. Past experience shows that 40 percent of accounts receivable are collected in the month after sale, and the remainder are collected in the second month after sale. Prepare a schedule of cash receipts for March, April, and May. Eddie's pays its payments in the following month. Eddie's had a cash balance of $2,000 on March 1, which is also its minimum required cash balance. There is an outstanding loan of $2,000 on March 1. Prepare a cash budget for March, April, and May.

	Jan	Feb.	March	April	May
Cash	$4,200	$6,000	$7,800	$6,600	$5,400
Credit	9,800	14,000	18,200	15,400	12,600
Collections:					
Cash			7,800	6,600	5,400
40% in following month			5,600	7,280	6,160
60% in second month			5,880	8,400	10,920
Total Collections			$19,280	$22,280	$22,480
Cash Budget:					
Collections			$19,280	$22,280	$22,480
− Payments			21,300	19,100	22,400
Cash Flow			(2,020)	3,180	80
+ Beg. Cash Bal.			2,000	2,000	2,000
Cum. Cash Bal.			(20)	5,180	2,080
Loan (Repayment)			2,020	(3,180)	(80)
Cum. Loan Bal.			4,020	840	760
Ending Cash Bal.			$2,000	$2,000	$2,000

Block - Chapter 04 #91
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-11 Actual Budget
Type: Concept

92. Frank's Sporting Goods projects sales for the second quarter of 2015 to be as follows:

April $100,000 May $120,000 June $110,000

Ten percent of Frank's sales are for cash, 70% of accounts receivable are collected one month following the sale, and the rest are collected two months following the sale. January sales were $40,000, February sales were $60,000, and March sales were $80,000.

A) Prepare a monthly schedule of cash receipts for the second quarter of 2015.
B) What is the balance in accounts receivable at the end of June?

A)	Feb	Mar	Apr	May	Jun
Sales	$60,000	$80,000	$100,000	$120,000	$110,000
Credit Sales	54,000	72,000	90,000	108,000	99,000
Collections:					
Cash (10% of sales)			10,000	12,000	11,000
70% one month following sale			50,400	63,000	75,600
30% two months following sale			16,200	21,600	27,000
Monthly cash receipts			$76,600	$96,600	$113,600

B) Accounts receivable at end of June:

90% of June Credit Sales	$99,000
30% of May Credit Sales	32,400
Total Receivables Balance	$131,400

Block - Chapter 04 #92
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-09 Cash Receipts
Type: Concept

93. During 2015, Baker Company and Baumer Company made the following identical purchases:

100 units @ $10.00
200 units @ $10.50
200 units @ $11.50
100 units @ $12.00

Each company sold 400 units, but Baker uses LIFO inventory valuation and Baumer uses FIFO inventory valuation. Assume there was no beginning inventory. Calculate cost of goods sold and ending inventory for each company. How will the difference in cost of goods sold affect net income?

		Baker (LIFO)			Baumer (FIFO)	
Beginning inventory		$0			$0	
+ purchases:						
	100 @ $10.00	1,000			1,000	
	200 @ $10.50	2,100			2,100	
	200 @ $11.50	2,300			2,300	
	100 @ $12.00	1,200			1,200	
Goods available for sale			$6,600			$6,600
− Ending inventory	100 @ $10.00	$1,000		100 @ $12.00	$1,200	
	100 @ $10.50	1,050		100 @ $11.50	1,150	
			2,050			2,350
Cost of Goods Sold			**$4,550**			**$4,250**

Lower cost of goods sold under FIFO generates a higher gross margin and net income, other things being equal.

Block - Chapter 04 #93
Difficulty: Medium
Learning Objective: 04-03 Perform the specific accounts method and the percent-of-sales method of forecasting on a less-precise basis.
Topic: 04-05 Determine a Production Schedule and the Gross Profit
Type: Concept

94. The Amber Magick Shoppe has forecast its sales revenues and purchases for the last 5 months of 2005 to be as follows:

	Sales	Purchases
August	$22,000	$17,000
September	15,000	19,500
October	25,000	29,000
November	30,000	20,000
December	26,000	24,000

Sixty percent of sales are on credit. On the basis of past experience, 50% of the accounts receivable are collected the month after the sale and the remainder are collected 2 months after the sale. Purchases are paid 30 days after they are incurred. The firm has a cash balance of $5,000 on hand as of October 31, but its minimum required cash balance is $4,000

A) Prepare a schedule of cash receipts for October, November, and December.
B) Prepare a cash budget for the same period.

	August	September	October	November	December
Cash	$8,800	$6,000	$10,000	$12,000	$10,400
Credit	13,200	9,000	15,000	18,000	15,600

Collections	**October**	**November**	**December**
Cash Sales	$10,000	$12,000	$10,400
50% in following month	4,500	7,500	9,000
50% in second month	6,600	4,500	7,500
Total Collections	$21,100	$24,000	$26,900
Cash Budget			
Collections	$21,100	$24,000	$26,900
-Payments	19,500	29,000	20,000
Cash Flow	$1,600	$(5,000)	$6,900
+Beginning Cash Balance	5,000	6,600	4,000
Cumulative Cash Balance	$6,600	$1,600	$10,900
Loan (Repayment)	$0	$2,400	$(2,400)
Cumulative Loan Balance	0	400	0
Ending Cash Balance	$6,600	$4,000	$8,500

Block - Chapter 04 #94
Difficulty: Medium
Learning Objective: 04-06 Assess and consider the effects of IFRS on forecasting financial statements.
Topic: 04-08 Cash Budget
Type: Concept

95. The following is the balance sheet for 2015 for Marbell Inc.

Marbell Inc.
Balance Sheet
as at December 31, 2015

Assets		Liabilities and Stockholders' Equity	
Cash	$15,500	Accts. payable	$ 90,000
Accts. rec.	90,000	Notes payable (non-spontaneous)	30,000
Inventory	60,000	Accrued expenses	7,500
Current Assets	165,000	Current Liabilities	127,500
Fixed assets (non-spontaneous)	60,000	Common stock	75,500
		Retained earnings	22,500
Total Assets	$225,000	Total Liabilities + S.H. Equity	$225,000

Sales for 2015 were $300,000. Sales for 2016 have been projected to increase by 20%. Assuming that Marbell Inc. is operating below capacity, calculate the amount of new funds required to finance this growth. Marbell has an 8% return on sales and 70% is paid out as dividends.

Percent of Sales Table
Sales = 20% (300,000) = $60,000
New sales level = 300,000 + 60,000 = $360,000

$$RNF = \frac{A}{S_1}(\Delta S) - \frac{L}{S_1}(\Delta S) - PS_1(1-D)$$
$$RNF = 55\%(60,000) - 32.5\%(60,000) - 8\%(360,000)(1-0.7)$$
$$RNF = 33,600 - 19,500 - 8,640$$
$$RNF = \$4,860$$

Block - Chapter 04 #95
Difficulty: Medium
Learning Objective: 04-04 Determine the need for new funding resulting from sales growth.
Learning Objective: 04-05 Calculate the required new funds (RNF) and sustainable growth rate (SGR).
Topic: 04-15 Percent-of-Sales Method
Type: Concept

Chapter 04 Summary

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