**Exam 4 Pro - 1 true false - 1 essay, 3 problems**

1) I agree to the following statement: I am enrolled in this course and completing this exam for myself. I am completing my own work and not discussing the content of this exam with anyone. I understand that violations of this policy will result in a 0.0 in the course.

2) In a brief but complete paragraph using your OWN words explain the importance and benefits of the budgeting process. I expect to see at least four factual statements within your paragraph.

3) The Bee Gees cultivate and sell honey. They provide you the following data with respect to the upcoming year.

Budgeted variable costs (per jar):

Cost of the jar & label $1.50

Labor 2.40

First aid supplies .25

Budgeted fixed costs:

Salaries: $50,000

Lease expense: 10,000

Other fixed costs 15,000

Relevant range over which these cost relationships are expected to hold: zero to 50,000 jars. Average sales price per jar is $7.00.

Required: Prepare three flexible budgets, showing operating income, for the following levels of sales (assume sales equals production):

A) 20,000 jars

B) 40,000 jars

C) 50,000 jars

4) The Pretenders, Inc., produces exercise equipment for dogs. The following information pertains to variable manufacturing overhead, which is allocated using machine hours.

|  |  |  |
| --- | --- | --- |
|  | Budget | Actual |
| Units produced  Machine hours  Variable manufacturing overhead | 15,000  5,000  $161,250 | 22,000  7,500  $242,000 |

Required: Calculate the flexible budget variance.

5) The Big Loud Audio Company produces a deluxe eight-track cassette tape recorder. Several functional levers on the face of the recorder are used in its operation. These levers have been purchased from an outside supplier for $216 per twelve-case lot. Each case contains 144 levers. The Lever Supply Company has just informed Big Loud that their price must be increased by 100% immediately. Big Loud has idle equipment that could be converted to produce these levers. Big Loud estimates production costs as follows:

Direct materials $10 per 100 levers

Direct labor standards 120 levers per hour @ $14 per hour

Variable manufacturing overhead $0.05 per lever

Fixed manufacturing overhead:

Depreciation $1,260

Other $945

The fixed manufacturing overhead would be incurred whether or not Big Loud produces the levers. They estimate that they will produce 63,000 levers annually.

Prepare a memorandum to the management of Big Loud recommending whether or not to accept the price increase from the Lever Supply Company.