ACCT2121 Introductory Management Accounting

2021 – 2022 1st Term

Suggested Solution

Question 2

a.

Schedule of Expected Cash Collection for November

Accounts receivable balance from last month	$	74,000
From sales in November ($360,000 x 0.75)		270,000
	$	344,000

b.

Merchandise Purchase Budget for November

Budgeted cost of goods sold ($360,000 x 0.65)	$	234,000
Purchase to be made for December ($380,000 x 0.65 x 0.6)		148,200
Total required purchase		382,200
Less: Beginning inventory ($360,000 x 0.65 x 0.6)		140,400
Budgeted purchases	$	241,800

c.

Weldon Industrial Gas Corporation

Cash Budget for November

Cash balance, beginning	$	16,000
Add receipts:		
Collection from customers		344,000
Total cash available for needs		360,000
Cash disbursement		
Purchases ($74000 / 0.2 x 0.65 x 0.4 + 140,400)		236,600
Non-manufacturing expenses		21,900
Total cash disbursement		258,500
Cash balance, ending	$	101,500

d.

Weldon Industrial Gas Corporation

Budgeted Income Statement for the month ended 31 November

Revenue		$ 360,000
Cost of goods Sold ($360,000 x 0.65)		234,000
Gross Margin		126,000
Non-manufacturing expenses	$ 21,900	
Allowance for uncollectible accounts ($360,000 x 0.05)	18,000	
Depreciation	20,000	59,900
Net Profit		66,100

e.

Weldon Industrial Gas Corporation

Budgeted Balance Sheet as at 31 November

Assets	
Cash	$ 101,500
Accounts receivables ($360,000 x 0.2)	72,000
Inventory	148,200
Property, plant and equipment ($1,066,000 - 20,000)	1,046,000
Total Assets	$1,367,700
Liabilities and Stockholders' Equity	
Accounts payable ($240,000 + 241,800 - 236,600)	$ 245,200
Common stock	640,000
Retained earnings ($416,400 + 66,100)	482,500
Total Liabilities and stockholders' equity	$1,367,700

Question 3

If we drop Product C:

	$
Sales (70,000 + 97,000)	167,000
Variable costs (37,000 + 46,000)	83,000
Contribution	84,000
Fixed costs	
Avoidable (10,000+20,000)	30,000
Unavoidable (7,000+12,000+9,400)	28,400
Operating income	25,600

	Contribution	Operating income
New	$84,000	$25,600
Old	$33,000 + 46,000 + 8,000 = $87,000	$16,000 + 14,000 – 3,400 = $26,600
Change	($3,000)	($1,000)

From the above table, the contribution is decreased by $3,000 and the operating income is decreased by $1,000 if the company drop the production of Product C. Therefore, Giant Company should not drop Product C in order to earn more.

Question 4

1)

Flexible-budget variance for direct material

= (Actual direct material cost per unit – Standard direct material cost per unit) x Actual output quantity

= ($3.75 x 1.4 - $3.60 x 1.5) x 500,000

= $75,000F

Price variance for direct materials

= (Actual cost per direct material – Standard cost per direct material) x Actual input quantity

= ($3.75 - $3.60) x 500,000 x 1.4

= $105,000U

Efficiency variance for direct materials

= (Actual input quantity – Standard input quantity) x Standard cost per direct material

= (500,000 x 1.4 – 500,000 x 1.5) x $3.60

= $180,000F

2)

Flexible-budget variance for fixed overhead

= 500000 x 0.6 x $1.5 – 600000 x 0.5 x $2.00

= $150,000F

Production-volume variance for fixed overhead

= 600,000 x 0.5 x $2.00 - 500,000 x 0.5 x $2.00

= $100,000U

3)

The purchase of direct materials:

Plush Toys plc.		
Journal		
	Dr	Cr
DM Control (500,000 x 1.4 x $3.60)	$2,520,000	
Price Variance	$105,000	
Accounts Payable		$2,625,000

The use of direct materials:

Plush Toys plc.		
Journal		
	Dr	Cr
WIP (500,000 x 1.5 x $3.60)	$2,700,000	
Efficiency Variance		$180,000
DM Control		$2,520,000