Assessment

Basics of Budgeting

Second Edition

Complete this book, and you'll know how to:

1) Understand the principles of strategic planning.
2) Build a strategic plan starting with a mission statement.
3) Create an annual operating plan.
4) Budget sales and cost of sales.
5) Budget labor expense.
6) Budget depreciation and other expenses.
7) Create and interpret a balance sheet.
8) Review financial and presentation aspects of budget plans.
9) Create an adjusted plan and forecasts.

Assessment Questions for
Basics of Budgeting, *Second Edition*

Select the best response.

1. In the equation Data + Assumptions = Projections, you should:
    A. Not base projections on other projections
    B. Strive for balance (equal strength) between data and assumptions
    C. Both of the above
2. Company planning philosophies differ, and any variation may be as valid as any other.
    A. True
    B. False
3. A budget planner should:
    A. Plan alone but give budget control to others
    B. Plan with others but keep control of the plan
4. A mission statement should:
    A. Express the long-range goals of the organization
    B. State what the organization does and why it does it
5. In drafting annual goals, you should:
    A. Have a longer rather than a shorter list
    B. State the goal, the people to achieve it, and a due date
    C. Begin with the numbers
6. In modern organizations, jobs and responsibilities tend to be:
    A. Static
    B. Fluid
7. Days in an organization's fiscal calendar should be:
    A. Business days
    B. Payroll days
8. Sales history should be:
    A. Normalized for unusual situations
    B. Adjusted for seasonality
    C. Considered unreliable if only for a year
    D. All of the above
    E. A and B

9. Gross margin is:
   A. Sales less all other expenses
   B. Value of inventory less sales
   C. Sales less cost of sales
10. The Fair Labor Standards Act defines monthly salaried employees as:
    A. Exempt
    B. Non-exempt
11. Salary policy should be based on the value of the position to the organization rather than on the value of the individual.
    A. True
    B. False
12. In an organization of 100 or more employees, payroll budgets can be reduced slightly because of:
    A. Temporary employees
    B. Vacancies
    C. Use of consultants
    D. Absenteeism
13. The entire cost of an asset cannot be written off because it will always have a salvage value.
    A. True
    B. False
14. Depreciation may be calculated as:
    A. A straight line (the same amount each year)
    B. Greater depreciation earlier in the aging process
    C. Either of the above
15. Depreciation may be calculated on land.
    A. True
    B. False
16. Which of the following is more complicated to plan?
    A. Balance sheets
    B. Income statements
17. Money that comes to a business from its owners is called:
    A. Liability
    B. Equity

18. What a business owns at one point in time is shown on a:
    A. Balance sheet
    B. Income statement
    C. Cash-flow statement
19. Every change between accounts on successive balance sheets can be viewed as either an increase or decrease to cash.
    A. True
    B. False
20. To generate a cash-flow statement, you will need:
    A. Two successive balance sheets
    B. An income statement for the period
    C. Capital spending and depreciation
    D. All of the above
21. If you make changes in your credit policies, your plan for accounts receivable must:
    A. Be changed
    B. Remain the same
22. A good budget review requires each reporting entity to use:
    A. Standard budget forms
    B. Any appropriate budget form
23. If you are unsure where to cut, it makes sense to simply take a certain percentage from everyone's budget.
    A. True
    B. False
24. An adjusted plan is useful when:
    A. Change makes an original plan irrelevant
    B. There are increased or decreased performance requirements
    C. The stability of the organization is unclear
    D. Any of the above
25. A forecast should:
    A. Contain action plans
    B. Be more complex than an operating plan
    C. Focus on variances
    D. All of the above
    E. A and C

26. A good plan is like a pyramid with four sides.
    A. True
    B. False

27. In a plan, if the discussion is “the story,” then the business indicators are:
    A. The characters
    B. The story behind the story
    C. The happy ending

28. Which type of budget contains a “laundry list” that is evaluated one by one?
    A. Sales budgets
    B. Zero-based budgets
    C. Line-item budgets
    D. Stress budgets

29. Knowing who is responsible for particular lines on financial statements is called:
    A. Information Frontier
    B. Standards of Precision
    C. Jungle Fighters
    D. Line and Level Control

30. The benefits of the five-minute budget are:
    A. Structured effort
    B. Increased efficiency
    C. Improved focus
    D. Realistic results
    E. All of the above

31. When developing a strategic plan, the strategic direction should flow up and the strategic ideas should flow down.
    A. True
    B. False

32. Markets, culture, and the government are considered to be part of the external environment.
    A. True
    B. False

33. Which of the following is considered to be part of the internal capabilities?
    A. Industry
    B. Finance
    C. Production
    D. Demographics
    E. B and C
    F. All of the above

34. Fiscal managers are responsible for:
    A. The fiscal calendar
    B. The budget
    C. The mission statement
    D. The resource checklist

35. To make sound assumptions about your organization’s future, you should:
    A. Listen to customers
    B. Research the environment
    C. Research your market
    D. All of the above

36. Policy always precedes planning.
    A. True
    B. False

37. Which of the following might require wage adjustments?
    A. Cost of living
    B. Merit
    C. Promotion
    D. Seniority
    E. All of the above

38. The parts that must “balance” in a balance sheet are:
    A. Assets, liabilities, and equity
    B. Assets, depreciation, and equity
    C. Equipment, liabilities, and income
    D. Building, loans, and equity

39. Labor expense is a key item in the annual budget because:
    A. Payroll is one of the largest controllable expenses
    B. Headcount affects many of the other expenses in an organization
    C. Labor is highly leveraged
    D. All of the above

40. A budget center never incurs expenses.
    A. True
    B. False

Assessment Answer Key for *Basics of Budgeting*, *Second Edition*

Recommended response (Corresponding workbook page)

1. C (9)
2. A (12)
3. B (15)
4. B (32)
5. B (47)
6. B (49)
7. B (52)
8. E (59–61)
9. C (68)
10. A (77)
11. A (80)
12. B (81)
13. A (92)
14. C (92)
15. B (93)
16. A (99)
17. B (100)
18. A (100)
19. A (102)
20. D (105)
21. A (106)
22. A (111)
23. B (113)
24. D (123–124)
25. E (127)
26. A (11)
27. B (11)
28. C (12)
29. D (17)
30. E (26)
31. B (31)
32. A (34)
33. E (35)
34. B (54)
35. D (62)
36. A (75)
37. E (79)
38. A (100–103)
39. D (75)
40. A (126)