Practical Budgeting for Health Care 1st edition Ross Test Bank

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Practical Budgeting for Health Care, A Concise Guide, First Edition
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Multiple Choice

1. The role of the chart of accounts is to:
A) summarize financial transactions into homogeneous categories.
B) determine if revenues exceed expenses.
C) determine if assets exceed liabilities.
D) summarize organizational progress towards goals.
Ans: A

2. When revenue exceeds expenses, an organization's equity (or net worth):
A) should increase.
B) should decrease.
C) should remain unchanged.
D) cannot be predicted.
Ans: A

3. An income statement reports:
A) revenues, expenses, and profit during an accounting period.
B) assets, liabilities, and equity at the end of an accounting period.
C) the flow of cash into and out of an organization during an accounting period.
D) an organization's operating plan for the next fiscal year.
Ans: A

4. A balance sheet reports:
A) revenues, expenses, and profit during an accounting period.
B) assets, liabilities, and equity at the end of an accounting period.
C) the flow of cash into and out of an organization during an accounting period.
D) an organization's operating plan for the next fiscal year.
Ans: B

5. The focus of an incremental budget is on:
A) control of inputs.
B) control over processes.
C) efficiency.
D) effectiveness.

E) All of these are correct.
Ans: A

6. Which of the following is a problem with using current year-to-date expenses as the expenditure base?
A) It does not provide a complete year of information.
B) The information it provides is up to 2 years out-of-date.
C) It is forecasted information rather than actual expenses.
D) All of these are correct.
Ans: A

7. Which expenditure base provides the most up-to-date information to construct a budget?
A) Current year-to-date actual
B) Current year budget
C) Last full year actual
D) A combination of year-to-date actual, current year budget, and the last full year actual
Ans: A

8. Which of the following is a problem with using actual expenses from the last full year as the expenditure base?
A) Changes in output
B) Changes in input prices
C) Evolution in production technology
D) All of these are correct.
Ans: D

9. When current year-to-date expenditures encompassing the first 7 months of the fiscal year are used as the expenditure base, and $35,000 was expended, the projected actual for the entire year would be:
A) $60,000.
B) $70,000.
C) $84,000.
D) $100,000.
E) None of these is correct.
Ans: A

10. Assume the projected actual expense for labor in the current year is $1,000,000, and a 5.0% across-the-board salary increase will be given to employees on the first day of the new fiscal year. How much should be budgeted for salaries and wages in the next fiscal year?
A) $1,000,000
B) $1,000,500
C) $1,005,000
D) $1,050,000
E) None of these is correct.
Ans: D

11. Assume 100,000 units of an input currently costing $2.00 per unit are required to produce the forecasted output, and a 10% price increase is expected in the sixth month of the budget year. How much should be budgeted for the input for the next fiscal year?
A) $200,000
B) $205,000
C) $210,000
D) $220,000
E) None of these is correct.
Ans: C

12. Assume 30,000 units of an input currently costing $2.00 per unit were used to produce 6,000 outputs in the first 6 months of the fiscal year. How much should be budgeted for next year, assuming output remains at 1,000 units per month and a 10% price increase is expected in the first month of the budget year?
A) $66,000
B) $120,000
C) $132,000
D) $220,000
E) None of these is correct.
Ans: C

13. Which of the following can a budget manager do to increase their budget in an incremental budgeting system?
A) Select the expenditure base that produces the highest possible starting point for estimating the next year's budget.
B) Select the highest possible inflation factor for estimating next year's input prices.
C) Incorporate input price increases in the first month of the budget year.
D) All of these are correct.

Ans: D

14. Before a budget is submitted, the budget preparer should:
A) recheck their math to ensure it is free of error.
B) review the budget to ensure it meets budget directives.
C) review the amounts requested to ensure increases are reasonable.
D) All of these are correct.
Ans: D

15. Which of the following cannot be considered a strength of incremental budgeting?
A) Provides a fixed target for managers to work toward
B) Ease of preparation
C) Allows managers to focus on change between the expenditure period and budget year
D) Focuses managerial attention on one year (i.e., the budget year)
Ans: D

16. Which of the following cannot be considered a weakness of incremental budgeting?
A) Provides a fixed target for managers to work toward
B) Budget allocations are independent of work performed
C) Institutionalizes past spending patterns
D) Encourages managers to over-estimate budget year output
Ans: A

17. Which of the following is a reason why employees will work harder or smarter when gain-sharing is used?
A) To reduce costs because they receive a portion of the cost savings
B) To reduce costs because they receive a portion of profits
C) They are paid for piece work rather than on salary
D) They all employees receive equal wages
E) All of these are correct.
Ans: A

18. An effective gain-sharing program requires all of the following, *except:*
A) an easy to understand gain-sharing formula.

B) gain-sharing payments are a supplement of (rather than replacement for) current compensation.
C) employees are given a say in establishing targets and gain-sharing payments.
D) the majority of cost savings be distributed to workers (rather than owners).
Ans: D

19. Which of the following is a primary measure of superior performance when an incremental budget?
A) Are total actual expenses less than or equal to the budget?
B) Is actual cost per output less than or equal to the budget?
C) Is marginal cost per output less than or equal to the budget?
D) Is actual cost per outcome less or equal to the budget?
Ans: A

20. The primary drawback of incremental budgeting is that it encourages managers to:
A) spend more than they are budgeted.
B) spend their entire budget.
C) adopt cost-increasing technology.
D) All of these are correct.
Ans: B

True/False

1. True or False? Incremental budgets are also known as fixed or static budgets.
Ans: True

2. True or False? Expenses in incremental budgets are increased or decreased if actual output is higher or lower than forecasted output.
Ans: False

3. True or False? Incremental budgets encourage managers to over-estimate output to increase their budgets.
Ans: True

4. True or False? Incremental budgets encourage managers to spend less than they are budgeted.
Ans: False

5. True or False? The income statement reports the assets and liabilities of an organization.
Ans: False

6. True or False? The income statement reports the revenues and expenses of an organization.
Ans: True

7. True or False? The balance sheet reports the assets and liabilities of an organization.
Ans: True

8. True or False? The balance sheet reports the revenues and expenses of an organization.
Ans: False

9. True or False? Every object code must use the same inflation rate when increasing expenditure base outlays for expected price increases.
Ans: False

10. True or False? The main idea behind gain-sharing programs is to encourage workers to reduce production costs by sharing a portion of any cost savings with them.
Ans: True