

Chapter 23—Segment Reporting, Transfer Pricing, and Balanced Scorecard

Practice Quiz

1. Mid-Atlantic Communications, Inc. has two divisions (Individual and Business) and has the following information available for the current year:

Sales revenue—Individual	\$4,000,000
Sales revenue —Business	6,000,000
Variable costs—Individual	2,200,000
Variable costs—Business	3,250,000
Direct fixed costs, Individual	500,000
Direct fixed costs, Business	650,000
Allocated fixed costs—Individual	350,000
Allocated fixed costs—Business	450,000
Unallocated common fixed costs	250,000

Mid-Atlantic Communications' Individual segment income is

- a. \$1,800,000
b. \$2,750,000
c. \$1,650,000
d. \$ 950,000
2. Refer to the previous question. The following information is available for the Business Division, which has two product lines (Land and Mobile):

Sales revenue—Land	\$3,500,000
Sales revenue—Mobile	2,500,000
Variable costs—Land	1,850,000
Variable costs—Mobile	1,400,000
Direct fixed costs—Land	375,000
Direct fixed costs—Mobile	275,000
Allocated fixed costs—Land	275,000
Allocated fixed costs—Mobile	175,000
Unallocated common fixed costs	185,000

The product margin for Land is:

- a. \$1,100,000
b. \$1,650,000
c. \$ 925,000
d. \$1,275,000

3. In a first-level segment report for a company with two divisions, the sum of the division incomes for the two divisions is equal to:
- The net income for the company
 - The net income for the company plus unallocated common fixed costs
 - The total contribution margin for the company less the sum of the direct fixed costs for the two divisions
 - The total company division margin plus the total allocated segment costs for the two divisions
4. In the short-term, a strategic segment should be continued as long as:
- Contribution margin is positive
 - Segment margin is positive
 - Segment income is positive
 - Net income is positive
5. Boler, Inc. is currently acquiring a key component from its sister company, Soler, Inc. at a transfer price of \$15 per unit. Soler's variable cost of purchasing the unit is \$6, and its fixed cost per unit is \$5 per unit. Soler does not have any excess capacity and can sell all it makes to external customers at \$15 per unit. Boler has been offered a price of \$13 per unit for the component from another vendor and is insisting that Soler reduce its price to \$13.

Which of the following statements below is *false* regarding this scenario?

- Boler should not accept the outside offer because the variable cost of purchasing it inside is only \$6 per unit.
- Boler should purchase the unit externally because the internal cost of purchasing the unit internally is a variable cost of \$6 per unit plus an opportunity cost of \$9 per unit, or \$15.
- The company will be better off if Soler rejects Boler's demand and instead sells the units that Boler would buy to outside customers.
- Since Soler is operating at full capacity and has other external customers ready to purchase additional units, the best transfer price is its regular market price.

6. Sorensen's Sod Supply Company has recently acquired a lawn sod company that grows turf grasses for lawns. Previously, Sorensen's was purchasing sod from other suppliers at 40 cents per square foot. The new sod division, which has substantial excess capacity, is able to produce grass sod at a cost of 25 cents per square foot, including direct materials and direct labor cost of 15 cents, variable overhead of 5 cents, and fixed overhead of 5 cents per square foot. The supply division manager argues that the transfer price should be no more than 25 cents per square foot.

What transfer price between the sod and the supply divisions will lead the manager of the supply division to act in a manner that will maximize company profits?

- a. 40 cents
 - b. 20 cents
 - c. 25 cents
 - d. 35 cents
7. LLG, Inc., which is a division of EPG, Inc., had sales of \$3,000,000, total assets of \$1,000,000, and net income of \$250,000. Which of the following is not a correct calculation of ROI?
- a. Net income / Total assets
 - b. (Sales / Total assets) x (Net income / Sales)
 - c. Return on sales x Investment turnover
 - d. Net income x Total assets
8. LLG, Inc., which is a division of EPG, Inc., had sales of \$3,000,000, total assets of \$1,000,000, and net income of \$250,000. Senior management of EPG, Inc. has set a target minimum rate of return for LLG, Inc. of 16%.

Calculate LLG's residual income.

- a. \$90,000
- b. \$160,000
- c. \$230,000
- d. None of the above

9. The balanced scorecard comprises several categories of performance measurements, which typically includes all but which of the following?
- a. Financial
 - b. Employee morale
 - c. Customer satisfaction
 - d. Innovation
10. Which of the following is an accurate statement about balanced scorecards?
- a. The balanced scorecard is a performance measurement system that includes multiple financial and operational measures related to a firm's goals and strategies.
 - b. Balanced scorecard measures should include both trailing and leading indicators
 - c. A balanced scorecard system of performance measurement can be a vehicle for translating strategy into action and establishing accountability for performance.
 - d. All of the above are accurate statements about balanced scorecards