Financial & Managerial Accounting for Undergraduates

2nd Edition

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PRACTICE QUIZ

Chapter 24: Flexible Budgets, Segment Reporting, and Performance Analysis

1. What is true regarding static budgets?

a. It is the budgeted amount used to calculate standard costs.
b. It is the budgeted amount used to calculate the actual costs.
c. It is also called moving or nonstationary budgets.
d. All of the above

2. How is the return on investment (ROI) calculated?

a. Operating income divided by the investment in operating assets
b. Operating income divided by sales
c. Sales divided by investment
d. All of the above

3. Return on Sales (ROS) is a measure of which of the following?

a. Operating income as a percentage of assets
b. The number of pennies left over from each dollar of sales after covering all costs
c. The amount of extra income after a division earns a minimum ROI
d. None of the above

4. Which of the following is false regarding residual income?

a. It is similar to ROI in that it takes the size of the division into account.
b. It is a ratio like ROI.
c. A variation of residual income is Economic Value Added (EVA).
d. All of the above are false.

5. Which of the following is not a type of business segment?

a. Cost Center
b. Investment Center
c. Management Center
d. Profit Center

Reference the following information for Questions 6-9.

Amos Manufacturing has two major departments. Management wants to compare their relative performance. Information related to the two departments is as follows:

Department 1:	
Sales:	$400,000
Expenses:	250,000
Asset investment:	950,000
Department 2:	
Sales:	$75,000
Expenses:	45,000
Asset investment:	400,000

6. What is the Return on Investment (ROI) for Department 1?

a. 15.8%
b. 16.8%
c. 17.8%
d. 18.8%

7. What is the Return on Sales (ROS) for Department 2?

a. 20%
b. 30%
c. 40%
d. 50%

8. Which department is most efficient at using their operating assets to generate sales (asset utilization)?

a. Department 1
b. Department 2
c. Both departments have the same asset utilization

9. Amos currently requires investments to meet a rate of return on asset investment of 7%. Which division has the greatest level of "residual income"?

a. Department 1
b. Department 2
c. Both departments have the same residual income

10. The following information is available for O'Neal Shopping Carts for this last year:

Budgeted Production:	7,000 units
Standard Direct Labor rate:	$20/hour
Standard Direct Labor usage:	6 hours/unit
Standard Direct Material price:	$1,300/cart
Standard Direct Material usage:	0.25 cart/unit
Standard Variable Overhead rate:	$25/direct labor hour
Actual Production:	6,800 units
Actual Direct Labor rate:	$24/hour
Actual Direct Labor Usage:	23,000 hours
Actual Direct Material price:	$890/cart
Actual Direct Material usage:	1,200 carts (amounts used and purchased are the same)
Actual Variable Overhead incurred:	$900,000

What is the Direct Material Static Budget Variance?

a. $1,068,000 Favorable
b. $1,207,000 Favorable
c. $2,275,000 Favorable
d. $3,068,000 Favorable

SOLUTIONS

Chapter 24: Flexible Budgets, Segment Reporting, and Performance Analysis

1. a

2. a

3. b

4. b

5. c

6. a

7. c

8. a

9. a

10. b