

MBA 504 – COURSE WAIVER PACKET FOR ASSISTING STUDENTS IN DECIDING WHETHER TO WAIVE OR TO COMPLETE MBA 504

MATERIALS FOR SELF-ASSESSMENT OF COURSE MATERIAL PREPAREDNESS

I. Preface

1. If you have completed a previous course in Managerial Accounting, you may choose to waive MBA 504, depending on your level of preparedness for using the material from MBA 504 in all subsequent course work in the MBA program.
2. The decision whether or not to waive MBA 504 is yours (assuming that you have completed a similar course in the past).
3. The responsibility for assessing your current mastery of MBA 504 material is also yours.
4. This packet is intended to assist you in a self-assessment of your current preparedness in material that we cover in MBA 504.
5. It is mutually understood that you will progress to all subsequent MBA courses only with an appropriate mastery of material included in MBA 504. Your decision to waive MBA 504 is a statement that you have assessed your working knowledge of MBA 504 material and have concluded that it is appropriate for subsequent course work in the MBA program. Implicit in this decision is the clear understanding that MBA 504 material will be used not only in subsequent courses in accounting and finance, but in the development of case analyses in all subsequent integrative MBA courses.

II. Suggestions for Self-Assessment

A. Included in this packet for self-assessment are the following:

1. Course outline for MBA 503 for Winter Quarter 2004
2. Self assessment exam. You will receive the answer key at the Advising Session.

B. *Schaum's Guideline of Managerial Accounting*, by Jae K. Shim, 1998 is a useful review and self-assessment tool for the basic concepts in managerial accounting. This booklet is available in the SU bookstore and most other college bookstores. This edition suffers only in the lack of any discussion of activity-based costing.

C. You may refresh your understanding of managerial accounting by reviewing recent texts. The following accounting texts are used in graduate/undergraduate managerial accounting classes at Seattle University:

James Jiambalvo, *Managerial Accounting*, Third Edition (John Wiley and Sons 2007)

Ray H. Garrison, et al., *Managerial Accounting*, McGraw Hill/Irwin, 2002.

D. For self-assessment, take the Self-Assessment Examination and compare your answers to the key. If you judge that you correctly answered less than 70% of the exam, you need additional preparation or additional review.

E. For an additional self-evaluation of your mastery of basic Managerial Accounting material, use the Shim and Siegel booklet from the Schaum Outline Series (McGraw-Hill). As you complete the various chapter segments, take each of the Examinations to assess your mastery of those chapters.

Examination I over chapters 1-4, page 84

Examination II over chapters 5-7, page 177

Examination III over chapters 8-13, page 352

The material in the Schaum Outline Chapters 9-11 is not covered in MBA 504.

As a guide in assessing your results from the Shim and Siegel examinations, a score of less than 80% would suggest the need for additional preparation in those topics, or that you need to take MBA 504.

MBA 504
Managerial Accounting
Thursdays . . . 5:30-8:10pm . . . Bellevue

Fall Quarter 2008
Professor David E. Tinius
Thursdays before class in Bellevue
Mondays & Wednesdays, 3:45-5pm in Seattle, Pigott 510
or by appointment
206-296-5692
dtinius@seattleu.edu
<http://fac-staff.seattleu.edu/dtinius/>

Text: James Jiambalvo, *Managerial Accounting*, Third Edition (John Wiley and Sons 2007)

Course Objective: Managerial Accounting is concerned with information needed to effectively plan and control company operations and make good business decisions. The overall objective of this course is to provide you with the concepts and tools needed for planning, control, and decision-making.

Relation to other disciplines: Managerial Accounting is linked to other disciplines. As you go through this course, think about linkages to your other areas of study. How does *Strategy* affect the choice of performance measures? How can accounting information support a *Marketing* plan that is based on meeting customer expectations for quality and delivery performance. How have recent trends in *Operations Management* affected the cost structure of firms and their break-even points? Will managers use the capital budgeting techniques discussed in *Finance* if they are evaluated in terms of accounting profit? I believe you will significantly enhance your understanding of both managerial accounting and your other areas of study by making the connections needed to answer these and other interesting questions.

Grading:	Homework	10%
	Midterm exam	35%
	Final	40%
	Quizzes	<u>15%</u>
	Total	<u>100%</u>

Participation: A great deal of learning takes place when you articulate your views on issues, problems and cases. Thus, class participation is very beneficial (as well as expected!). I will routinely call on students to participate in the discussion of issues, problems, and cases. If you are not prepared to participate in a particular session, please contact me before class.

Assignments: All assignments on the following pages should be completed **before** the start of the meeting indicated, except for our first meeting on January 9th. The case assignments, the text of which should be word-processed, will be collected and evaluated with respect to level of effort and accomplishment.

Expectations: Working and studying together is encouraged, but individual students are expected to be the sole authors of the homework materials prepared and examinations taken for evaluation. The honesty code of the student handbook – http://seattleu.edu/regis/Policies/Policy_2004-01.htm -- will be the guide for any disciplinary action with respect to homework and testing.

Learning Accounting: Accounting concepts are most effectively learned through problem solving.

Completion of all the homework assignments will prepare you for success in this course. For your convenience the solutions to all of the homework, except for the cases to be handed in each session, are available to you at my website: <http://fac-staff.seattleu.edu/dtinius/> and on the Angel site.

MBA 504 Assignment Schedule Fall Quarter 2008

September 25 — Class Organization and Introduction to Managerial Accounting: Managerial Accounting in the Information Age

There is no assignment for the first class. However, during the session, we will discuss and cover Chapter 1 concepts, including:

- The goal of managerial accounting
- How budgets are used in planning
- How performance reports are used in control
- What is meant by incremental analysis in decision-making
- What is meant by "You get what you measure!"

To become familiar with some cost terminology, we will discuss the Case 1-1 & 1-2, so please bring your textbook to the first meeting.

We will cover as much of the remaining **Chapter 1** material below as we have time for:

Questions: 1, 8, 9

Exercises: 3, 4, 15, 16

Problems: 1, 5, 6

Cases: 1-1 Local 635

1-2 Boswell Plumbing Products

Introduction to Chapter 2

October 2 — Job-Order Costing for Manufacturing and Service Companies

Reading: Chapter 2

Self Assessment: Answer all Chapter 2 self assessment multiple choice questions and work through the solved review problem.

Questions: 3, 4, 7, 8, 10

Exercises: 2, 4, 5, 12, 15

Problems: 1, 4, 5, 15

Cases: 2-2 YSL Marketing Research

2-3 DuPage Powder Coating

Introduction to Chapter 4

October 9 — Cost-Volume-Profit Analysis

Reading: Chapter 4: CVP Analysis

Self Assessment: Answer all Chapter 4 self assessment multiple choice questions and work through the solved review problem.

Questions: 4, 5

Exercises: 6, 9, 12, 16, 17, 18

Problems: 2, 5, 7, 11

Cases : 4-1 Rothmueller Museum

4-3 Krogs Metalfab, Inc.

Introduction to Chapter 6

October 16 — Cost Allocation and Activity-Based Costing

Reading: Chapter 6

Self Assessment: Answer all Chapter 6 self assessment multiple choice questions and work through the solved review problem.

Questions: 1, 8, 9

Exercises: 5, 9, 12, 14, 17

Problems: 1, 4, 7, and 9

Cases: 6-1 Eastside Medical Testing
6-2 Quantum TM

Introduction to Chapter 7, including the Appendix (The Theory of Constraints)

Quiz #1 – Chapters 1, 2 & 4

October 23 — The Use of Cost Information in Management Decision Making

Reading: Chapter 7

Self Assessment: Answer Chapter 7 self assessment multiple choice questions and work through the solved review problem.

Questions: 1, 2, 3, 4, 9

Exercises: 4, 5, 6, 7, 15, 16

Problems: 3, 4, 7, 10, 12

Cases: 7-1 Primus Consulting Group
7-2 Five Star Tools (theory of constraints)

Introduction to Chapter 8

Midterm Review

October 30 — Midterm Examination – Chapters 1, 2, 4, 6 & 7

November 6 -- Pricing Decisions, Customer Profitability, Activity Based Pricing

Reading: Chapter 8

Self Assessment: Answer Chapter 8 self assessment multiple choice questions and work through the solved review problem.

Questions: 2, 3, 4

Exercises: 4, 5, 8, 9

Problems: 2, 7, 10, 11, 12

Case: 8-1 Preston Concrete
8-2 Galloway University Medical Center Pharmacy

Introduction to Chapter 9

November 13 — Capital Budgeting and Other Long Range Decisions

Reading: Chapter 9

Self Assessment: Answer all Chapter 9 self assessment multiple choice questions and work through the solved review problem.

Questions: 1, 4, 6, 8

Exercises: 11, 13, 15

Reading: Appendix A, Chapter 9

Problems: 1, 11, 12, 14, 15

Cases: Fruit o' Forest Furniture, Inc. (handout)
9-2 Sergio Games (read only)

Introduction to Chapter 10

November 20 — Budgetary Planning and Control

Reading: Chapter 10

Self Assessment: Answer all Chapter 10 self assessment multiple choice questions and work through the solved review problem.

Questions: 1, 2, 10

Exercises: 5, 7, 10, 11

Problems: 1, 16, 17

Cases: Pasy Corporation (handout)

Introduction to Chapter 12

Quiz #2 – Chapters 8, 9 & 10

November 27 – THANKSGIVING BREAK

December 4 — Decentralization and Performance Evaluation

Reading: Chapter 12

Self Assessment: Answer all Chapter 12 self assessment multiple choice questions and work through the solved review problem.

Questions: 1, 2, 5, 6

Exercises: 6, 13, 14

Problems: 7, 10, 11, 12

Case: 12-1 Home Value Stores

Problem 12-8, Atomic Electronics

Course Wrap Up, Review for the Final Exam

December 11, Thursday – Final Examination, Comprehensive . . . 6-7:50

MBA 504-Managerial Accounting Self Assessment Test

1. The goal of managerial accounting is to provide information that managers need for
 - a. planning.
 - b. control.
 - c. decision making.
 - d. All of these answers are correct.

2. Which of the following is not a difference between financial accounting and managerial accounting?
 - a. Financial accounting is primarily concerned with reporting the past, while managerial accounting is more concerned with the future.
 - b. Managerial accounting uses more nonmonetary information than is used in financial accounting.
 - c. Managerial accounting is primarily concerned with providing information for external users while financial accounting is concerned with internal users.
 - d. Financial accounting must follow GAAP while managerial accounting is not required to follow GAAP.

3. Which of the following statements regarding direct and indirect costs is true?
 - a. The amount of direct costs in a department is always less than the amount of indirect costs in that department.
 - b. A department with no variable costs will also have no direct costs.
 - c. The distinction between a direct and indirect cost depends on the object of the cost tracing.
 - d. If a cost is indirect to a department within a plant, it will also be indirect for the plant as a whole.

4. Which of the following costs is not part of manufacturing overhead?
 - a. Electricity for the factory
 - b. Depreciation of factory equipment
 - c. Salaries for the sales staff
 - d. Health insurance for factory workers

5. Companies that use process costing systems
 - a. generally produce large quantities of identical items.
 - b. do not trace costs to specific items produced.
 - c. accumulate costs by operation rather than by the job.
 - d. All of these answers are correct.

6. As work is completed on a job, costs for the job are collected in which of the following accounts?
- Raw Materials Inventory
 - Work in Process Inventory
 - Finished Goods Inventory
 - Cost of Goods Sold
7. Predetermined overhead rates use
- actual overhead costs and actual levels of the allocation base.
 - estimated overhead costs and estimated levels of the allocation base.
 - actual overhead costs and estimated levels of the allocation base.
 - estimated overhead costs and actual levels of the allocation base.
8. The Sienna Company has a beginning balance in Finished Goods Inventory of \$20,000 and an ending balance in Finished Goods Inventory of \$22,000. If the cost of goods manufactured is \$380,000, what is the cost of goods sold?
- \$382,000
 - \$422,000
 - \$378,000
 - \$338,000
9. Red Company's Work in Process Inventory account has a beginning balance of \$20,000 and an ending balance of \$30,000. Current manufacturing costs total \$25,000. What is the cost of goods manufactured?
- \$45,000
 - \$15,000
 - \$25,000
 - \$35,000
10. The following information has been collected from Green Company's accounting records for the month of April:

Direct materials added to Work in Process Inventory	\$160,000
Indirect materials added to Manufacturing Overhead	40,000
Direct labor added to Work in Process Inventory	150,000
Indirect labor added to Manufacturing Overhead	65,000
Manufacturing overhead added to Work in Process Inventory	100,000
Depreciation Expense added to Manufacturing Overhead	50,000
Cost of Goods Sold	340,000
Cost of Goods Manufactured	380,000

- What is the amount of the current manufacturing costs?
- a. \$410,000
 - b. \$565,000
 - c. \$500,000
 - d. \$550,000
11. Ruby Company has a cost of goods manufactured of \$700,000. If manufacturing costs for the current period total \$750,000 and the ending balance in Work in Process Inventory is \$630,000, what was the beginning balance in Work in Process Inventory?
- a. \$770,000
 - b. \$680,000
 - c. \$820,000
 - d. \$580,000
12. Diamond Company estimates that its employees will work 200,000 direct labor hours during the coming year. Total overhead costs for the year are estimated to be \$1,200,000 and the direct labor costs are expected to be \$2,400,000. If the company allocates overhead based on direct labor hours, what is the predetermined overhead rate?
- a. \$12.00 per direct labor hour
 - b. \$6.00 per direct labor hour
 - c. \$2.00 per direct labor hour
 - d. \$0.17 per direct labor hour
13. Timber Company uses a predetermined overhead rate of \$6.00 per machine hour. If 60,000 machine hours were worked this year and actual overhead costs of \$380,000 were incurred, what was the amount of underapplied or overapplied overhead?
- a. \$360,000 overapplied
 - b. \$360,000 underapplied
 - c. \$20,000 overapplied
 - d. \$20,000 underapplied
14. Which of the following components are included in a mixed cost?
- a. a sunk cost and an opportunity cost
 - b. a fixed cost and a variable cost
 - c. a manufacturing cost and a selling cost
 - d. a product cost and a period cost
15. The number of units that must be sold in order for a company to exactly cover its fixed and variable costs is the
- a. contribution margin.
 - b. break-even point.
 - c. relevant range.

d. margin of safety.

16. Operating leverage is related to which of the following?

- a. manufacturing costs versus selling costs
- b. estimated costs versus actual costs
- c. total revenues versus total costs
- d. fixed costs versus variable costs

17. Gilbert's Palace has collected the following production data for the past four months:

Units produced	Total cost
7,000	\$16,500
10,000	22,500
8,500	17,750
9,000	21,000

If the high-low method is used, what is the monthly total cost equation?

- a. Total cost = \$2,500 + (\$2.00 * units produced)
- b. Total cost = \$3,750 + (\$2.75 * units produced)
- c. Total cost = \$1,500 + (\$ 2.17 * units produced)
- d. Total cost = \$500 + (\$2.25 * units produced)

18. At Wolfe's Wearables, the break-even point is 1,500 units. If fixed costs total \$210,000 and variable costs are \$24 per unit, what is the selling price per unit?

- a. \$140
- b. \$164
- c. \$48
- d. \$336

19. Hocking Company produces a single product that is sold for \$85 per unit. If variable costs per unit are \$23 and fixed costs total \$42,408, how many units must Hocking sell in order to earn a profit of \$48,670?

- a. 1,843
- b. 785
- c. 1,469
- d. 2,116

20. Canoe Company has two products. In the past, Canoe has averaged sales of four standard models at a price of \$250 and one deluxe model at a price of \$750 each day. Variable costs total \$75 for the standard model and \$200 for the deluxe model. If fixed costs

are \$281,250, how many canoes must be sold in order for the company to break even?

- a. 1,125
- b. 225
- c. 1,607
- d. 511

21. The overriding concern in forming a cost pool is to ensure that
- a. there are no variable costs in the cost pool.
 - b. the total amount in the cost pool is less than the direct costs for the product.
 - c. only costs which have been budgeted are included in the cost pool.
 - d. the costs in the pool are homogeneous or similar.

22. Maintenance costs at Chain Company are allocated to the production departments based on area occupied. Maintenance costs of \$280,000 are budgeted to maintain a 56,000 square foot production area. If the finishing department occupies 20,000 square feet, how much of the maintenance department costs will be allocated to the finishing department?
- a. \$50,000
 - b. \$4,000
 - c. \$100,000
 - d. \$104,000

23. Morning Company produces baked goods. Utility costs are allocated to the products based on the baking time required for the product. Utility costs of \$225,000 are budgeted in a period when 450,000 total minutes of baking time are anticipated. If a batch of rolls bakes for 20 minutes, what amount of utility cost will be allocated to the rolls?
- a. \$10
 - b. \$40
 - c. \$50
 - d. \$45

Questions 24-26 are based on the following information:

Oatwell Company manufactures plates and platters in the same facility. Planned production in 2001 consists of 2,000 platters and 16,000 plates. Each platter requires 1.5 minutes of machine time and each plate requires 1 minute of machine time. Each piece must be inspected twice. Inspection-related costs are expected to total \$54,000 and manufacturing overhead that is allocated based on machine time is budgeted at \$47,500.

24. How much of the inspection costs will be allocated to each platter?
- a. \$3.00
 - b. \$6.00
 - c. \$11.38
 - d. \$27.00
25. What is the amount of manufacturing overhead that will be allocated to each platter?
- a. \$3.75
 - b. \$6.00
 - c. \$2.64
 - d. \$1.58
26. What is the total amount of inspection costs that will be allocated to plates?
- a. \$48,000
 - b. \$27,000
 - c. \$45,474
 - d. \$50,750
27. A company is trying to decide whether to sell partially completed goods in their current state or incur additional costs to finish the goods and sell them as complete units. Which of the following is not relevant to the decision?
- a. the selling price of the completed units
 - b. the costs incurred to process the units to this point
 - c. the selling price of the partially completed units
 - d. the costs that will be incurred to finish the units
28. Joint costs are
- a. the cost of the common inputs for joint products.
 - b. greater when there are more joint products.
 - c. unnecessary if the accounting system is more sophisticated.
 - d. only used when there are no opportunity costs involved in the decision.
29. The sunk cost effect
- 1. is irrational economic behavior.
 - 2. causes people to make poor decisions based on a desire not to appear wasteful.
- a. 1
 - b. 2
 - c. Both 1 and 2 are correct.
 - d. Neither 1 nor 2 is correct.

30. Production of all the joint products should cease if
- any of the individual products sells for less than its joint cost.
 - the joint cost is less than the total revenue generated when the joint products are sold.
 - any of the products have a negative gross margin after the joint costs have been allocated.
 - total revenue from the sale of all the joint products is less than the joint cost.

Questions 31-32 are based on the following information:

The raw material, Grover, is processed into two joint products, Bert and Ernie. When processed, each pound of Grover yield six units of Bert and eight units of Ernie. Bert sells for \$3 per unit and Ernie sells for \$2.50 per unit. The total cost to process a 10-pound batch of Grover is \$280.

31. If the physical quantities method is used to allocate the \$280 in joint costs, how much will be allocated to Bert?
- \$180
 - \$140
 - \$120
 - \$80
32. If the relative sales value method is used to allocate the joint costs, how much will be allocated to Bert?
- \$132.63
 - \$140.00
 - \$120.00
 - \$152.73
33. The person evaluating a manager should consider
- any deviation from budgeted amounts as an item that should be investigated.
 - all favorable variances as indications of good performance.
 - that managers will focus their attention on those measures that they know will be part of their evaluation.
 - All of these are true.
34. Which of the following is a reasonable order in which to prepare budgets?
- budgeted income statement, sales budget, cash receipts and disbursements budget
 - capital acquisitions budget, labor budget, cash receipts and disbursements budget
 - sales budget, production budget, material purchases budget

- d. labor budget, budgeted income statement, sales budget
35. If the number of units in beginning inventory is less than the number of units in ending inventory, the number of units sold is
- less than the number of units produced.
 - greater than the number of units produced.
 - less than the number of units in beginning inventory.
 - greater than the number of units in ending inventory.
36. The main difference between a static budget and a flexible budget is that the static budget is
- constructed using a top-down approach while the flexible budget uses a bottom-up approach.
 - for units produced while a flexible budget is for units sold.
 - for a single level of activity while a flexible budget can be adjusted for different activity levels.
 - used only for selling and administrative costs while the flexible budget is used for manufacturing costs.
37. If beginning inventory consists of 1,000 units, sales are projected at 7,200 units, and the desired ending inventory is 1,500 units, how many units should be produced?
- 7,700
 - 6,700
 - 9,700
 - 4,700
38. Volckmann Company's policy is to keep 25% of the next month's sales in ending inventory. If there are 1,200 units in inventory at the end of March, sales in April are expected to be 4,800 units, and sales in May are expected to be 9,000 units, how many units should be produced in April?
- 6,000
 - 7,050
 - 5,850
 - 3,750
39. In recent years, Princess Company has collected 20% of its sales in the month of the sale and the other 80% in the following month. During the first three months of 2002, Princess is anticipating sales of \$350,000; \$403,000; and \$389,000, respectively. What is the amount of cash receipts budgeted for March?
- \$301,200
 - \$360,600
 - \$400,200
 - \$391,800

40. The overhead volume variance is favorable when
- more units are produced than were originally planned.
 - actual overhead costs are less than the flexible budget.
 - the predetermined overhead rate was set too low.
 - there are units remaining in ending inventory.
41. The material price variance is recorded
- when the invoice for the material is paid.
 - at the end of the year.
 - at the beginning of the standard-setting period.
 - when the material is purchased.
42. In a standard costing system, when materials are used in production, Work in Process Inventory is debited for the
- actual quantity of material used times the standard cost per unit.
 - actual quantity of material used times the actual cost per unit.
 - standard quantity of material used times the actual cost per unit.
 - standard quantity of material used times the standard cost per unit.
43. Green Company manufactures a single product, the AZQR. The standards for materials for each unit have been set as 5 pounds of KR-27 at a standard cost of \$35.00 per pound. During May, the company purchased and used 512 pounds of KR-27 to make 100 units of the AZQR. Green paid \$33.00 per pound for the material. What is the material price variance?
- \$1,024 favorable
 - \$420 unfavorable
 - \$24 favorable
 - \$200 unfavorable
44. CMMC Company manufactures baskets. When the standards for the covered basket were developed, it was determined that four hinges were needed for each basket and the standard cost for each hinge was \$0.32. During the month, 450 covered baskets were produced and 1806 hinges were used. (Six hinges were broken while they were being attached to the baskets.) CMMC Company had paid \$0.33 for each hinge. What is the material quantity variance?
- \$1.98 unfavorable
 - \$1.92 unfavorable
 - \$1.98 favorable
 - \$1.92 favorable

45. Superior Corporation has determined that it takes an employee 0.25 hour to process a claim and the standard wage rate is \$13.00 per hour. During the last month, employees spent a total of 640 hours processing 2,700 claims. Employees were paid a total of \$8,000. Calculate Superior's labor rate variance.
- a. \$675.00 favorable
 - b. \$320.00 favorable
 - c. \$337.50 favorable
 - d. \$35.56 favorable
46. Northern Lights Company has a standard wage rate of \$9.50 per hour. It has determined that the standard time to assemble one versascope is 2.75 hours. During August, Northern Lights employees assembled 600 versascopes. They were paid \$15,974 for 1,630 hours of work. What is Northern Light's labor efficiency variance?
- a. \$489.00 favorable
 - b. \$299.00 favorable
 - c. \$271.00 favorable
 - d. \$190.00 favorable

Questions 47-49 are based on the following information:

When Galbus Corporation prepared its budget for 2002, it estimated fixed overhead of \$540,000 (\$45,000 per month) and variable overhead at \$3.00 per unit produced. The company planned to produce 48,000 units during the year at a rate of 4,000 units each month. During April, the company produced 3,800 units and total overhead costs were \$58,000.

47. What is the amount of overhead in the flexible budget for April's level of production?
- a. \$57,000
 - b. \$45,000
 - c. \$46,000
 - d. \$56,400
48. What is the controllable overhead variance for the month?
- a. \$12,000 unfavorable
 - b. \$1,600 unfavorable
 - c. \$600 favorable
 - d. \$2,850 favorable

49. What is the overhead volume variance?

- a. \$2,250 unfavorable
- b. \$2,850 unfavorable
- c. \$1,000 unfavorable
- d. \$1,600 unfavorable

The gift wrap division of Berg Paper Company has invested capital of \$800,000. The division has earned an income of \$80,000 on sales of \$320,000.

50. What is the gift wrap division's profit margin?

- a. 25%
- b. 10%
- c. 40%
- d. 4%

51. What is the gift wrap division's turnover?

- a. 1.00
- b. 2.50
- c. 0.25
- d. 0.40

52. What is the gift wrap division's return on investment (ROI)?

- a. 25%
- b. 2.5%
- c. 10%
- d. 40%

53. Which of the following statements is true?

1. Managers have a tendency to underinvest when ROI is used as a performance measure.
2. Managers have a tendency to overinvest when profit is used as a performance measure.

- a. 1
- b. 2
- c. Both 1 and 2 are true.
- d. Neither 1 nor 2 is true.

54. Which of the following transfer prices is usually closest to the opportunity cost of the product?

- a. variable costs less savings in shipping costs
- b. market price
- c. variable cost
- d. full cost plus profit

55. Different tax rates in different countries encourage companies to use
- a. high transfer prices when goods are transferred to profit centers in a country with a low tax rate.
 - b. high transfer prices when goods are transferred to profit centers in a country with a high tax rate.
 - c. low transfer prices when goods are transferred to profit centers in a country with a high tax rate.
 - d. low transfer prices when goods are transferred from profit centers in a country with a low tax rate.