21 March 2016 **DUE DATE: 28 March 2016 (in-class)**

ACC4201: MANAGERIAL ACCOUNTING

ASSIGNMENT #2

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Please complete and hand in the following case problems from the textbook:

a) *CP 8-1 Ethics and Professional Conduct in Business "C.S. Technology Company"*

   Please ensure your response is typed and should be about 1/2 of a page in length. No marks will be awarded for hand-written responses. (5 marks)

b) *CP 8-3 Evaluating Divisional Performance "Tasty Goodness Foods"*

   Please ensure you show your work for all calculations.

   Question #1: 5 marks
   Question #2: 2 marks
   Question #3: 3 marks (Hint: consider profit margin and investment turnover in your response)

CP 8-1 Ethics and professional conduct in business

C.S. Technology Company has two divisions, the Semiconductor Division and the PC Division. The PC Division may purchase semiconductors from the Semiconductor Division or from outside suppliers. The Semiconductor Division sells semiconductor products both internally and externally. The market price for semiconductors is $100 per 100 semiconductors. Frank Hoffman is the controller of the PC Division, and Lisa Henderson is the controller of the Semiconductor Division. The following conversation took place between Frank and Lisa:

Frank: I hear you are having problems selling semiconductors out of your division. Maybe I can help.

Lisa: You've got that right. We're producing and selling at about 90% of our capacity to outsiders. Last year we were selling 100% of capacity. Would it be possible for your division to pick up some of our excess capacity? After all, we are part of the same company.

Frank: What kind of price could you give me?

Lisa: Well, you know as well as I that we are under strict profit responsibility in our divisions, so I would expect to get market price, $100 for 100 semiconductors.

Frank: I'm not so sure we can swing that. I was expecting a price break from a "sister" division.

Lisa: Hey, I can only take this "sister" stuff so far. If I give you a price break, our profits will fall from last year's levels. I don't think I could explain that. I'm sorry, but I must remain firm—market price. After all, it's only fair—that's what you would have to pay from an external supplier.

Frank: Fair or not, I think we'll pass. Sorry we couldn't have helped.

Was Frank behaving ethically by trying to force the Semiconductor Division into a price break? Comment on Lisa's reactions.

CP 8-3 Evaluating divisional performance

The three divisions of Tasty Goodness Foods are Snack Goods, Cereal, and Frozen Foods. The divisions are structured as investment centers. The following responsibility reports were prepared for the three divisions for the prior year:

	Snack Goods	Cereal	Frozen Foods
Revenues	$1,800,000	$2,100,000	$1,650,000
Operating expenses	1,039,500	872,000	668,000
Income from operations before service department charges	$ 760,500	$1,228,000	$ 982,000
Service department charges:			
Promotion	$ 250,000	$ 500,000	$ 390,000
Legal	114,500	203,000	196,000
	$ 364,500	$ 703,000	$ 586,000
Income from operations	$ 396,000	$ 525,000	$ 396,000
Invested assets	$1,800,000	$1,750,000	$1,500,000

1. Which division is making the best use of invested assets and thus should be given priority for future capital investments?
2. Assuming that the minimum acceptable rate of return on new projects is 15%, would all investments that produce a return in excess of 15% be accepted by the divisions?
3. Can you identify opportunities for improving the company's financial performance?