

**ADM 2341 Managerial Accounting**  
Chapter 11 Capstone problems

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**Question 1**

Financial data for Beaker Company for last year appear below:

Beaker Company  
Statements of Financial Position

	<i>Ending Balance</i>	<i>Beginning Balance</i>
<b>Assets:</b>		
Cash	\$ 70,000	\$ 50,000
Accounts receivable	25,000	20,000
Inventory	35,000	30,000
Plant and equipment (net)	110,000	120,000
Investment in Cedar Company	100,000	80,000
Land (undeveloped)	<u>170,000</u>	<u>170,000</u>
Total assets	<u>\$510,000</u>	<u>\$470,000</u>
<b>Liabilities and owners' equity:</b>		
Accounts payable	\$ 90,000	\$ 70,000
Long-term debt	250,000	250,000
Owners' equity	<u>170,000</u>	<u>150,000</u>
Total liabilities and owners' equity	<u>\$510,000</u>	<u>\$470,000</u>

Beaker Company  
Income Statement

Sales		\$414,000
Less operating expenses		<u>351,900</u>
Net operating income		62,100
<b>Less interest and taxes:</b>		
Interest expense	\$30,000	
Tax expense	<u>10,000</u>	<u>40,000</u>
Net Income		<u>\$ 22,100</u>

The company paid dividends of \$2,100 last year. The “Investment in Cedar Company” on the statement of financial position represents an investment in the stock of another company.

Required:

- a. Compute the company's margin, turnover, and return on investment for last year.
- b. The Board of Directors of Beaker Company have set a minimum required return of 20%. What was the company's residual income last year?

## Question 2

The Halifax division of Canadian Controls (CC) produces a digital thermometer. The thermometer can be sold on the open market for \$75 each, or it can be used by the Ottawa division in the production of a temperature control gauge. The Halifax division is currently operating at 70% of its capacity of 2,000 digital thermometers per month. Following are average costs per unit at this level of capacity:

	<b>Average Cost</b>
Direct materials	\$20
Variable supplies	10
Fixed costs	<u>33</u>
Total average cost per thermometer	<u>\$63</u>

If a digital thermometer is sold on the open market, the shipping cost is \$5, paid by Halifax Division. The cost of shipping a digital thermometer internally from Halifax to Ottawa Division is \$1, also paid by the Halifax Division.

- a. What is the best transfer price – or range of transfer prices - for Canadian Controls overall if a digital thermometer is transferred to Ottawa and the Halifax division is operating at 70% of capacity? Will transfers occur? What is the maximum number of units that could be transferred at this range of prices?
- b. What is the best transfer price - or range of transfer prices - for Canadian Controls overall if a digital thermometer is transferred to Ottawa, but the Halifax division is operating at full capacity and the digital thermometer could have been sold on the open market? Will transfers occur?
- c. Suppose the Ottawa division can purchase a substitute for the digital thermometer from an outside supplier for \$70 (including shipping costs). What transfer price, if any, would motivate the managers to transfer internally i) per part a? ii) per part b? above.