

ADM 2341X
2018 SPRING/SUMMER SEMESTER

Capstone Question – Chapter 11 (Appendix A)

The Vega Division of Ace Company makes wheels that can either be sold to outside customers or transferred to the Walsh Division of Ace Company. Last month, the Walsh Division bought all 4,000 of its wheels from the Vega Division for \$42 each. The following data are available from last month's operations for the Vega Division:

Capacity	12,000 wheels
Selling Price per Wheel to Outside Customers	\$45
Variable Costs per Wheel Sold to Outside Customers	\$30

If the Vega Division sells wheels to the Walsh Division, Vega can avoid \$2 per wheel in sales commissions. An outside supplier has offered to supply wheels to the Walsh Division for \$41 each.

Required: (Show calculations)

- (a) If the Vega Division has enough idle capacity so that transfers to the Walsh Division would not cut into its sales to outside customers what should be the lowest acceptable transfer price from the perspective of the Vega Division?
- (b) What is the maximum price per wheel that Walsh should be willing to pay Vega?
- (c) Suppose that Vega is able to sell 9,000 wheels each month to outside consumers. As a result, transfers to the Walsh Division will cut into outside sales. What should be the lowest acceptable transfer price from the perspective of the Vega Division?