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Question 1

Question Type: **MultipleChoice**

An appropriate transfer price between two divisions of The Stark Company can be determined from the following data:

What is the natural bargaining range for the two divisions?

Options:

A- Between $20 and $50.

B- Between $50 and $70.

C- Any amount less than $50.

D- $50 is the only acceptable price.

Answer:

A

Explanation:

An ideal transfer price should permit each division to operate independently and achieve its goals while functioning in the best interest of the overall company. Transfer prices can be determined in a number of ways, including normal market price, negotiated price, variable costs, or full absorption costs. The capacity of the selling division is often a determinant of the ideal transfer price. If the Fabricating Division had no excess capacity, it would charge the Assembling Division the regular market price. However, given excess capacity of 1.000 units, negotiation is possible because any transfer price greater than the variable cost of $20 would absorb some fixed costs and result in increased divisional profits. Thus, any price between $20 and $50 is acceptable to the Fabricating Division. Any price under $50 is acceptable to the Assembling Division because that is the price that would be paid to an outside supplier. Parkside, Inc. has several divisions that operate as decentralized profit centers. Parkside's Entertainment Division manufactures video arcade equipment using the products of two of Parkside's other divisions. The Plastics Division manufactures plastic components, one type that is made exclusively for the Entertainment Division, while other less complex components are sold to outside markets. The products of the Video Cards Division are sold in a competitive market; however, one video card model is also used by the Entertainment Division. The actual costs per unit used by the Entertainment Division are presented in the next column.

The Plastics Division sells its commercial products at full cost plus a 25% markup and believes the proprietary plastic component made for the Entertainment Division would sell for $6.25 per unit on the open market. The market price of the video card used by the Entertainment Division is $10.98 per unit.

Question 2

Question Type: **MultipleChoice**

A company has two divisions, A and B, each operated as a profit center. A charges B $35 per unit for each unit transferred to B. Other data follow:

A is planning to raise its transfer price to $50 per unit Division B can purchase units at $40 each from outsiders, but doing so would idle A's facilities now committed to producing units for B. Division A cannot increase its sales to outsiders. From the perspective of the company as a whole, from whom should Division B acquire the units, assuming B's market is unaffected?

Options:

A- Outside vendors

B- Division A, but only at the variable cost per unit

C- Division A, but only until fixed costs are covered, then from outside vendors,

D- Division A, despite the increased transfer price.

Answer:

D

Explanation:

Opportunity costs are $0 because A's facilities would be idle if B did not purchase from A. Assuming fixed costs are not affected by the decision, the intracompany sale is preferable from the company's perspective because A's $30 variable unit cost is less than the outside vendors price of $40.

Question 3

Question Type: MultipleChoice

Which of the following is false about international transfer prices for a multinational firm?

Options:

A- Allows firms to attempt to minimize worldwide taxes.

B- Allows the firm to evaluate each division.

C- Provides each division with a profit-making orientation

D- Allows firms to correctly price products in each country in which it operates.

Answer:

D

Explanation:

The calculation of transfer prices should be unique to each country A scheme for calculating transfer prices for a firm may correctly price the firm's product in Country A but not in Country B. The product may be overpriced in Country B, and sales will be lower than anticipated. Alternatively, the product may be underpriced in Country B, and the authorities may allege that the firm is dumping its product there.

Question 4

Question Type: **MultipleChoice**

The Eastern division sells goods internally to the Western division of the same company. The quoted external price in industry publications from a supplier near Eastern is $200 per ton plus transportation. It costs $20 per ton to transport the goods to Western. Eastern's actual market cost per ton to buy the direct materials to make the transferred product is $100. Actual per-ton direct labor is $50. Other actual costs of storage and handling are $40. The company president selects a $220 transfer price. This is an example of

Options:

A- Market-based transfer pricing

B- Cost-based transfer pricing

C- Negotiated transfer pricing.

D- Cost plus 20% transfer pricing.

Answer:

A

Explanation:

A transfer price is the price charged by one segment or an organization for a product or service supplied to another segment of the same organization. The three basic criteria that the transfer pricing system in a decentralized company should satisfy are to (1) provide information allowing central management to evaluate divisions with respect to total company profit and each division's contribution to profit, (2) stimulate each manager's efficiency without losing each division's autonomy, and (3) motivate each divisional manager to achieve his/her own profit goal in a manner contributing to the company's success. Because the $220 transfer price selected is based on the quoted external price (market), it is an example of market-based transfer pricing.

Question 5

Question Type: **MultipleChoice**

A large manufacturing company has several autonomous divisions that sell their products in perfectly competitive external markets as well as internally to the other divisions of the company. Top management expects each of its divisional managers to take actions that will maximize the organization's goals as well as their own goals. Top management also promotes a sustained level of management effort of all of its divisional managers. Under these circumstances, for products exchanged between divisions, the transfer price that will generally lead to optimal decisions for the manufacturing company would be a transfer price equal to the

Options:

A- Full cost of the product.

B- Full cost of the product plus a markup

C- Variable cost of the product plus a markup.

D- Market price of the product.

Answer:

D

Explanation:

A market-based transfer price promotes goal congruence and sustained management effort. It is also consistent with divisional autonomy. A market transfer price is most appropriate when the market is competitive. interdivisional dependency is low, and busing in the market involves no marginal costs or benefits.

Question 6

Question Type: MultipleChoice

Which of the following is the most significant disadvantage of a cost-based transfer price?

Options:

A- Requires internally developed information

B- Imposes market effects on company operations.

C- Requires externally developed information.

D- May not promote long-term efficiencies.

Answer:

C, D

Explanation:

A cost-based transfer price is a price charged in an intracompany transaction that covers only the selling subunits costs. However, by ignoring relevant alternative market prices, a company may pay more than is necessary to produce goods and services internally.

Question 7

Question Type: **MultipleChoice**

Brent Co. has intracompany service transfers from Division Core, a cost center, to Division Pro, a profit center. Under stable economic conditions, which of the following transfer prices is likely to be most conducive to evaluating whether both divisions have met their responsibilities?

Options:

A- Actual cost.

B- Standard van able cost.

C- Actual cost plus markup

D- Negotiated price.

Answer:

B

Explanation:

A cost center is responsible for costs only. A profit center is responsible for costs and revenues. Hence, the transfer from the cost center must, by definition, be at a cost-based figure The transfer should be at standard variable cost so as to isolate any variance resulting from Core's operations. Assuming fixed costs are not controllable in the short run, the relevant variance is the difference between actual cost and the standard vanable cost.

Question 8

Question Type: **MultipleChoice**

A limitation of transfer prices based on actual cost is that they

Options:

A- Charge inefficiencies to the department that is transferring the goods

B- Can lead to suboptimal decisions for the company as a whole.

C- Must be adjusted by some markup

D- Lack clarity and administrative convenience.

Answer:

B

Explanation:

The optimal transfer price of a selling division should be set at a point that will have the most desirable economic effect on the firm as a whole while at the same time continuing to motivate the management of every division to perform efficiently Setting the transfer price based on actual costs rather than standard costs would give the selling division little incentive to control costs.

Question 9

Question Type: MultipleChoice

A proposed transfer price may be based upon the full-cost price Full-cost price is the

price

Options:

A- On the open market.

B- Representing the cash outflows of the supplying division plus the contribution to the supplying division from an outside sale.

C- Usually set by an absorption-costing calculation

D- Set by charging for variable costs plus a lump sum or an additional markup, but less than full markup

Answer:

C

Explanation:

Full-cost price is the price usually set by an absorption-costing calculation and includes materials, labor, and a full allocation of manufacturing O/H. This full-cost price may lead to dysfunctional behavior by the supplying and receiving divisions, e g., purchasing from outside sources at a slightly lower price that is substantially above the variable costs of internal production.

Question 10

Question Type: **MultipleChoice**

A proposed transfer price may be a cost-plus price. Variable-cost-plus price is the price

Options:

A- On the open market

B- Representing the cash outflows of the supplying division plus the contribution to the supplying division from an outside sale.

C- Usually set by an absorption-costing calculation

D- Set by charging for variable costs plus a lump sum or an additional markup, but less than full markup

Answer:

D

Explanation:

The variable-cost-plus price is the price set by charging for variable cost plus either a lump sum or an additional markup but less than the lull markup price. This permits top management to enter the decision process and dictate that a division transfer at variable cost plus some appropriate amount.