LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – **ACCOUNTING AND FINANCE**

FIRST SEMESTER – **APRIL 2025**

UAF 1502 – FINANCIAL PLANNING AND PERFORMANCE

Date: 29-04-2025 Dept. No. Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

PART – A	
Q. No	**Answer ALL Multiple Choice Questions (70 x1= 70 Marks)**
1	A company uses participative budgeting. In order to more easily meet budgetary goals, the controller underestimates the amount of revenue and overestimates fixed selling and administrative expenses. This is an example of A. Flexible budgeting. B. Budgetary slack. C. C. Zero-based budgeting. D. Budgetary variance.
2	Ineffective budget control systems are characterized by A. Use of budgets as a planning but not a control tool. B. Use of budgets for harassment of individuals rather than motivation. C. Lack of timely feedback in the use of the budget. D. All of the answers are correct.
3	Diana Stinson, Cherry Valley Inc.'s factory manager, had lost her patience. Six months ago, she had appointed a team from the production and service departments to finalize the allocation of costs and setting of standard costs. They were still feuding, and so she had hired Brennan and Rose, a large consulting firm, to resolve the matter. All of the following are potential consequences of having the standards set by Brennan and Rose except that A. Brennan and Rose may not fully understand Cherry Valley's manufacturing process, resulting in suboptimal performance. B. The standards may appear to lack management support. C. Employees could react negatively since they did not participate in setting the standards. D. There could be dissatisfaction if the standards contain costs which are not controllable by the unit held responsible.
4	Which one of the following items would most likely cause the planning and budgeting system to fail? The lack of A. Historical financial data. B. Top management support C. Input from several levels of management. D. Adherence to rigid budgets during the year.
5	The average labor cost per unit for the first batch produced by a new process is \$120. The cumulative average labor cost after the second batch is \$72 per product. Using a batch size of 100 and assuming the learning curve continues, the total labor cost of four batches will be A. \$ 4,320 B. \$ 10,368 C. \$ 2,592 D. \$ 17,280
6	Which one of the following is not an advantage of activity-based budgeting? A. Better identification of resource needs B. Linking of costs to outputs C. Waste elimination D. Reduction of planning uncertainty
7	After leading the market for the past decade, the growth of product ABC is slowing down. In this stage of its life cycle, the product is still generating significant amounts of cash flows that cover the

	company's investment into new product innovations. According to the BCG Growth-Share Matrix, product ABC is most likely an example of a A. Star. B. Cash cow C. Question mark. D. Dog.
8	A company produces and sells eight different varieties of cereal. The company has eight marketing managers, each of whom is responsible for advertising one of the varieties. Historically, the company has budgeted advertising costs as 10% of each product's anticipated revenues, and actual advertising costs have been very close to budgeted amounts, yielding very insignificant variances. In order to provide for a more efficient allocation of resources available for its advertising, the company should A. Implement zero-based budgeting. B. Implement flexible budgeting. C. Implement a balanced scorecard. D Maintain the current system.
9	A company's board of directors has requested a full in-depth review of all budgeted items for next fiscal year's operating budget. The controller of the company subsequently advised all business unit heads that the company will not automatically approve operating budget items for next fiscal year simply because they were approved in the past, and that all operating budget items for next fiscal year will need to be justified. Based on the above information, which one of the following budgeting systems is the company most likely using? A. Activity-based budgeting B. Zero-based budgeting C. C. Project budgeting D. Flexible budgeting.
10	In competing as a subcontractor on a military contract, Aerosub Inc. has developed a new product for spacecraft that includes the manufacturing of a complex part. Management believes there is a good opportunity for its technical force to learn and improve as they become accustomed to the production process. Accordingly, management estimates an 80% learning curve would apply to this unit. The overall contract will call for supplying eight units. Production of the first unit requires 10,000 direct labor hours. The estimated total direct labor hours required to produce the seven additional units would be A. 30,960 hours. B. 40,960 hours. C. 56,000 hours. D. 70,000 hours.
11	Black Co.'s breakeven point was $780,000. Variable expenses averaged 60% of sales, and the margin of safety was $130,000. What was Black's contribution margin? A. $364,000. B. $546,000. C. $910,000. D. $1,300,000.
12	Outlet Company makes and distributes beach equipment. Last year its sales were $15,000,000, net income was $1,500,000, and the assets used were $35,000,000. The return on investment was A. 10%. B. 4.3%. C. 43%. D. None of the answer choices are correct.
13	A company is projecting its sales for the upcoming year, based on the current year sales of $500,000 and next year growth targets. It is projected that next year sales has a 25% chance of growing by 25%, 60% chance of growing by 40% and 15% chance of growing by 15%. Gross profit ratio is 25% of sales. What is the company's expected gross profit for the next year? A. $162,500 B. $662,500 C. $165,625 D. $32,500
14	A manufacturing company required 800 direct labor hours to produce the first lot of four units of a new motor. Management believes that a 90% learning curve will be experienced over the next four lots of production. How many direct labor hours will be required to manufacture the next 12 units? A 1,792. B 1,944. C 2,016. D 2,160
15	Which one of the following best describes the order in which budgets should be prepared when developing the annual master operating budget A Production budget, direct material budget, revenue budget B Production budget, revenue budget, direct material budget

	C Revenue budget, production budget, direct material budget D Revenue budget, direct material budget, production budget
16	Gift & Gift Shop maintains a 35% gross profit margin percentage, and carries an ending inventory balance each month sufficient to support 30% of the next month's expected sales. Anticipated sales for the fourth quarter are as follows October $42,000 November 58,000 December 74,000 What amount of goods should Gift Shop plan to purchase during the month of November? A $40,820. B $51,220. C $52,130. D $62,800.
17	All of the following are disadvantages of authoritative budgeting as opposed to participatory budgeting, except that it A. May result in a budget that is not possible to achieve B. Reduces the time required for budgeting. C. May limit the acceptance of proposed goals and objectives D. Reduces the communication between employees and management
18	Increases in sales generally cause spontaneous increases in some liability and net worth lines on the balance sheet. The liability and net worth items that increase spontaneously with increases in sales include all of the following except A Accounts payable. B Notes payable. C Accrued salaries and wages. D Retained earnings
19	A proforma income statement for a manufacturing company is built on projections of all of the following except A Marketing costs B Production overhead C Cash balances. D Ending inventory.
20	Fortune Corporation's Marketing Department recently accepted a rush order for a nonstock item from a valued customer. The Marketing Department filed the necessary paperwork with the Production Department, which complained greatly about the lack of time to do the job the right way. Nevertheless, the Production Department accepted the manufacturing commitment and filed the required paperwork with the Purchasing Department for the needed raw materials. A purchasing clerk temporarily misplaced the paperwork. By the time the paperwork was found, it was too late to order from the company's regular supplier. A new supplier was located, and that vendor quoted a very attractive price. The materials arrived and were rushed into production, bypassing the normal inspection processes (as directed by the Production Department supervisor) to make up for lost time. Unfortunately, the goods were of low quality and created considerable difficulty for Fortune's assembly-line personnel. Which of the following best indicates the responsibility for the materials usage variance in this situation A Purchasing B Purchasing and Marketing C Marketing and Production D Purchasing, Marketing, and Production
21	Which of the following equations is the least accurate formula for calculating residual income? A Residual income = EBIT – Interest expense – Tax expense – (minimum return that an investor is expecting to receive for their investment) B Residual income = EBIT – Interest expense – Tax expense – (Debt capital × required rate of return). C Residual income = EBIT – Interest expense – Tax expense – (Invested capital × Required rate of return).

	D Residual income = Net Income – (Required rate of return × Invested capital).
22	Johnson Company's master budget shows straight-line depreciation on factory equipment of \$258,000. The master budget was prepared at an annual production volume of 103,200 units of product. This production volume is expected to occur uniformly throughout the year. During September, Johnson produced 8,170 units of product, and the accounts reflected actual depreciation on factory machinery of \$20,500. Johnson controls manufacturing costs with a flexible budget. The flexible budget amount for depreciation on factory machinery for September would be A. \$21,500.00 B. \$20,425.00 C. \$20,500.00 D. \$19,475.00
23	A company is anticipating that a major supplier might experience a strike this year. Because of the nature of the product and emphasis on quality, extra production cannot be stored as finished goods inventory. When developing a contingency budget that would anticipate a direct materials buildup, the two most significant items that will be affected are A Production volume and direct material. B Sales and ending inventory. C Production and cash flow. D Direct materials and cash flow.
24	A particular manufacturing job is subject to an estimated 90% learning curve. The first unit required 50 labor hours to complete. What is the cumulative average time per unit after four units are completed? A. 40.0 hours. B. 45.0 hours. C. 50.0 hours. D. 40.5 hours.
25	Akshaya homes offers its customers the choice of 1 of 12 home designs on lots located in several developing areas. During its 15-year existence, the company created its annual budget by adjusting the prior year's actual results for changes in inflation as well as in projected volume. During this time, the company's profit margins have been among the lowest of all of the local home builders. Ownership of the company recently changed. New management believes there has been significant unnecessary spending in many areas of the company, although they do not know exactly where or to what extent overspending occurred. To improve profitability, the type of budgeting system the company's new management should implement is A. Zero-based budgeting. B. Continuous budgeting. C. Project budgeting. D. Activity-based budgeting.
26	Which one of the following describes what an organization wants to accomplish and leads to the formulation of long-term business objectives? A. Values. B. Strategy. C. Mission Statement D. Competency
27	Which of the following is not a significant reason for planning in an organization A. Promoting coordination among operation units. B. Forcing managers to consider expected future trends and conditions. C. Enabling selection of personnel for open positions. D. Developing a basis for controlling operations.
28	Products that are identified in the BCG Growth-Share Matrix as Cash Cows possess relatively A. high market share in a high growth market. B. low market share in a high growth market. C. high market share in a low growth market. D. low market share in a low growth market.
29	The efficiency variance for either labor or materials can be divided into A. Spending variance and yield variance. B. Yield variance and price variance. C. Volume variance and mix variance. D. Yield variance and mix variance
30	If a manufacturing company uses responsibility accounting, which one of the following items is least likely to appear in a performance report for a manager of an assembly line?

	A. Supervisory salaries. B. Materials. C. Repairs and maintenance. D. Machinery depreciation.
31	A segment of an organization is referred to as a profit center if it has A. Authority to make decisions affecting the major determinants of profit including the power to choose its markets and sources of supply. B. Authority to make decisions affecting the major determinants of profit including the power to choose its markets and sources of supply and significant control over the amount of invested capital. C. Authority to make decisions over the most significant costs of operations including the power to choose the sources of supply. D. Authority to provide specialized support to other units within the organization.
32	A major disadvantage of a static budget is that A. It is more difficult to develop than a flexible budget. B. It is made for only one level of activity. C. Variances tend to be smaller than when flexible budgeting is used. D. Variances are more difficult to compute than when flexible budgeting is used.
33	Which of the following factors should not be considered when deciding whether to investigate a variance? A. Magnitude of the variance. B. Trend of the variances over time. C. Likelihood that an investigation will eliminate future occurrences of the variance. D. Whether the variance is favorable or unfavorable.
34	A company has the following budget formula for annual electricity expense in its shop: Expense = $7,200 + (Units produced * $0.50) If management expects to produce 20,000 units during February, for the purpose of performance evaluation, what amount of expenses should the company expect to incur in February? A. $12,600 B. $10,600 C. $10,000 D. $17,200
35	Which one of the following is an incorrect description of transfer pricing? A. It measures exchanges between a company and external customers. B. It measures the value of goods or services furnished by a profit center to other responsibility centers within a company. C. If a market price exists, that price may be used as a transfer price. D. If no market price exists, the transfer price may be based on cost
36	Ron Bagley is contemplating whether to investigate a labor efficiency variance in the Assembly Department. It will cost $6,000 to undertake the investigation and another $18,000 to correct operations if the department is found to be operating improperly. If the department is operating improperly and Bagley failed to make the investigation, operating costs from the various inefficiencies are expected to amount to $33,000. Bagley would be indifferent between investigating and not investigating the variance if the probability of improper operation is A. 0.29. B. 0.40. C. 0.60. D. 0.71.
37	Which of the following would be most impacted by the use of the percentage of sales forecasting method for budgeting purposes? A. Accounts payable. B. Mortgages payable. C. Bonds payable. D. Common stock.
38	Prudent Corporation’s budget for the upcoming accounting period reveals total sales of $700,000 in April and $750,000 in May. The sales cash collection pattern is 20% of each month’s sales are cash sales. 5% of a month’s credit sales are uncollectible. 70% of a month’s credit sales are collected in the month of sale.

	25% of a month's credit sales are collected in the month following the sale. If Prudent anticipates the cash sale of a piece of old equipment in May for $25,000, May's total budgeted cash receipts would be A. $560,000. B. $702,500. C. $735,000. D. $737,500.
39	A company's need for external financing depends on several factors. A factor that does not affect the company's need for external financing is A. Rapid sales growth. B. The company's profit margin C. Unrealized holding gains and losses on the company's portfolio of available-for-sale securities. D. The company's retention ratio.
40	Garland Company uses a standard cost system. The standard for each finished unit of the product allows for 3 pounds of plastic at $0.71 per pound. During December, Garland bought 4,500 pounds of plastic at $0.75 per pound and used 4,100 pounds in the production of 1,300 finished units of product. What is the materials purchase price variance for the month of December? A. $117 unfavorable. B. $123 unfavorable. C. $135 unfavorable. D. $180 unfavorable.
41	A favorable materials price variance coupled with an unfavorable materials usage variance would most likely result from A. Machine efficiency problems. B. Product mix production changes. C. The purchase and use of higher than standard quality materials D. The purchase of lower than standard quality materials.
42	An example of an item that would fall under the customer perspective on the balanced scorecard of an airline is A. Customer complaints will decrease by 10%. B. Customers will have to wait no longer than 15 minutes to check their bags. C. 90% of the flights will arrive on time. D. Three new in-flight meals will replace existing offerings that are unpopular with customers.
43	When contemplating between two projects, a firm's goal to maximize residual income will be achieved by: A. By accepting a project which involves higher amount of capital investment. B. By accepting a project which earns higher returns on capital invested. C. By accepting a project which involves lower amount of capital investment. D. By accepting a project which earns lower returns on capital invested.
44	The management of a food-processing company is analyzing its internal strengths and weaknesses as part of its strategic planning process. Which one of the following is most likely considered a strategic internal variable for the company? A. Changes in the legal code for food processors. B. The economic forces that regulate the local labor supply. C. The culture at the company's food-processing plant. D. Technological changes in food-processing methods.
45	The board of a manufacturing company is reviewing a proposal to merge with a similar smaller company. The proposal has listed several synergies that should occur if the merger goes through. The purpose of the merger is to create competitive advantage. Which of the following would be most likely to improve the competitiveness of the merged company? A. Management staff could be cut by 4%. B. Revenue would increase by $10 million. C. Production cost per unit would decrease by more than 15%. D. Production would increase by 15%.

46	Fargo, Mfg., a small business, is developing a budget for next year. Which of the following steps should Fargo perform first? A. Forecast Fargo's sales volume. B. Determine the price of Fargo's products. C. Identify costs of Fargo's forecasted sales volume. D. Compute the dollar amount of Fargo's forecasted sales.
47	To avoid failure, a company must maintain a constant focus on all of the following except: A. Identification and adoption of the best industrial practices. B. Continuous improvement and learning. C. The nature of the organization's previous strategy and strategic commitments. D. The foundation and practices of competitive advantage.
48	Paul Cooper, shipping manager for DFG Distributors, is responsible for managing the staff and all related transportation equipment to fill orders for bakery products from local retailers and deliver the products to those retailers. Which one of the following groups of three performance measures most likely would result in the highest level of goal congruence? A. Labor cost per order; transportation cost per order; number of orders completed per day B. The percentage of orders filled on time; the percentage of orders filled accurately; average cost to fill and deliver an order C. Customer satisfaction; elapsed time to complete an order; percentage of orders filled accurately D. Orders completed per employee per day; employee injuries per hour worked; number of vehicle accidents per year.
49	Rehal Corporation's management has determined that the company's required rate of return on new projects is 6%. The Doodle Division, a highly profitable division, has a current Return on Investment of 14%. The Doodle Division's manager is considering a new project that would involve manufacturing frazzles. The project is expected to require an investment of $1 million and to have an annual Return on Investment of 10%. What is the project's projected Residual Income? A $(40,000) B $40,000. C $100,000. D $30,000
50	During the month of May, Doubton Company experienced a significant unfavorable material efficiency variance in the production of its single product at one of Tyler's plants. Which one of the following reasons would be least likely to explain why the unfavorable variance arose? A. Inferior materials were purchased. B. Actual production was lower than planned production. C. Workers used were less skilled than expected. D. Replacement production equipment had just been installed.
51	Zolo company produces widgets with budgeted standard direct materials of 2 pounds per widget at $6 per pound. Standard direct labor was budgeted at 0.5 hour per widget at $15 per hour. The actual usage in the current year was 25,000 pounds and 3,000 hours to produce 10,000 widgets. What was the direct material usage variance? A. $25,000 favorable. B. $25,000 unfavorable. C. $30,000 favorable. D. $30,000 unfavorable.
52	One of the primary advantages of budgeting is that it A. Does not take the place of management and administration. B. Bases the profit plan on estimates C. Is continually adapted to fit changing circumstances.

	D. Requires departmental managers to make plans in conjunction with the plans of other interdependent departments.
53	A company's production manager is accountable for controlling costs while manufacturing quality products. The manager also provides recommendations for equipment improvements and replacements. In this market, customers are very sensitive to the product's quality. What type of responsibility center is the production manager in charge of? A. Cost center B. Investment center. C. Profit center D. Revenue center
54	A company's management is planning on making an investment of UAE Dirham (AED) 1,000,000 to establish a new division in the United Arab Emirates. The new division is expected to generate sales of AED 720,000 and net income of AED 225,000 in Year 1. If the company's required rate of return is 10%, what is the division's residual income in Year 1? A. AED 100,000. B. AED 125,000. C. AED 225,000. D. AED 620,000.
55	Division Z of a company produces a component that it currently sells to outside customers for $20 per unit. At its current level of production, which is 60% of capacity, Division Z's fixed cost of producing this component is $5 per unit and its variable cost is $12 per unit. Division Y of the same company would like to purchase this component from Division Z for $10. Division Z has enough excess capacity to fill Division Y's requirements. The managers of both divisions are compensated based on reported profits. Which of the following transfer prices will maximize total company profits and be most equitable to the managers of Division Y and Division Z? A. $12 per unit. B. $17 per unit. C. $20 per unit. D. $22 per unit.
56	Sara Bellows, manager of the telecommunication sales team, has the following department budget. Billings - long distance $350,000 Billings - phone card 75,000 Billings - toll free 265,000 Her responsibility center is best described as a A Cost center B Revenue center. C Profit center. D Investment center
57	A continuous (rolling) budget A. Presents planned activities for a period but does not present a firm commitment. B. Drops the current month or quarter and adds a future month or quarter as the current month or quarter is completed. C. Presents the plan for only one level of activity & does not adjust to changes in the level of activity. D. Presents the plan for a range of activity so that the plan can be adjusted for changes in activity.
58	Profitability is derived from three basic factors. Which of the following is not one of those? A. The price that the company charges for its products and services. B. The amount of value placed on the company's products or services by the customer C. Research and development that is highly innovative D. The costs of creating the company's products or services.
59	Which one of the following schedules would be the last item to be prepared in the normal budget preparation process? A. Direct labor budget. B. Cash budget. C. Cost of goods sold budget. D. Manufacturing overhead budget.
60	Most firms allocate corporate and other support costs to divisions and departments for all of the following reasons except to A Remind profit-center managers that earnings must be adequate to cover some share of the indirect costs B. Stimulate profit-center managers to put pressure on central managers to control service costs C. Create competition between divisions and departments, and their managers

	D. Fix accountability and evaluate profit centers.
61	David Burke is manager of claims processing for Continental Health Care System. His performance is evaluated using various measures agreed upon in advance with Diane Lewis, general manager. Lewis asked Burke to recommend several measures to evaluate the performance of his unit next year. Which one of the following performance measures would likely have the least positive effect on Burke's motivation and performance? A. Processing cost per claim. B. Average processing time per claim. C. Percentage of claims processed accurately the first time D. Total dollar amount of claims processed per month.
62	The imputed interest rate used in the residual income approach to performance evaluation can best be described as the A. Average lending rate for the year being evaluated. B. Historical weighted-average cost of capital for the company. C. Target return on investment set by the company's management. D. Average return on investments for the company over the last several years
63	A company has two divisions. Division A has operating income of $500 and total assets of $1,000. Division B has operating income of $300 and total assets of $1,600. The required rate of return for the company is 10%. The company's residual income would be which of the following amounts? A. $0 B. $260 C. $640 D. $540
64	The standard direct material cost per unit for a product is calculated as follows: 10.5 litres at $2.50 per litre. Last month the actual price paid for 12,000 litres of material used was 4% above standard and the direct material usage variance was $1,815 favorable. No inventory of material is held. What was the actual production last month (in units)? A. 726 units. B. 1,142 units. C. 1,212 units D. 1,188 units.
65	ABCD company produces widgets with budgeted standard direct materials of 2 pounds per widget at $5 per pound. Standard direct labor was budgeted at 0.5 hour per widget at $15 per hour. The actual usage in the current year was 25,000 pounds and 3,000 hours to produce 10,000 widgets. What was the direct labor usage variance? A $25,000 favorable. B $25,000 unfavorable. C $30,000 favorable. D $30,000 unfavorable
66	For a given time period, a company had a favorable material quantity variance, a favorable direct labor efficiency variance, and a favorable fixed overhead volume variance. Of the following, the one factor that could not have caused all three variances is A The purchase of higher quality materials. B. The use of lower-skilled workers. C The purchase of more efficient machinery. D. An increase in production supervision.
67	Which of the following types of variances would a purchasing manager most likely influence? A. Direct materials price. B. Direct materials quantity. C. Direct labor rate. D. Direct labor efficiency.
68	In competing as a subcontractor on a military contract, SpaceX Inc. has developed a new product for spacecraft that includes the manufacturing of a complex part. Management believes there is a good opportunity for its technical force to learn and improve as they become accustomed to the production process. Accordingly, management estimates an 80% learning curve would apply to this unit. The overall contract will call for supplying eight units. Production of the first unit requires 10,000 direct labor hours. The estimated total direct labor hours required to produce the eight units would be A 30,960 hours. B 40,960 hours. C 56,000 hours. D 70,000 hours
69	Bret Lee manufacturing uses a standard cost system with overhead applied based on direct labor hours. The manufacturing budget for the production of 5,000 units for the month of June included 10,000 hours of direct labor at $15 per hour, $150,000. During June, 4,500 units were produced,

	using 9,600 direct labor hours, incurring $39,360 of variable overhead, and showing a variable overhead efficiency variance of $2,400 unfavorable. The standard variable overhead rate per direct labor hour was A. $3.85 B. $4.00. C. $4.10. D. $6.00.
70	The balanced scorecard provides an action plan for achieving competitive success by focusing management attention on a few performance indicators. Which one of the following is not one of the broad categories of performance indicators, also known as perspectives, commonly focused on in the balanced scorecard? A. Competitor business strategies. B. Financial performance measures. C. Internal processes D. Learning and growth.
	PART – B
	COMPULSORY QUESTION (2 x 15 = 30 Marks)
71.	Shane McCarthy, Modular's CFO, has determined that the Motor Division has purchased switches for its motors from an outside supplier during the current year rather than buying them from the Switch Division. The Switch Division is operating at full capacity and demanded that the Motor division pay the price charged to outside customers rather than the actual full manufacturing costs as it has done in the past. The Motor Division refused to meet the price demanded by the Switch Division. The Switch Division contracted with an outside customer to sell its remaining switches and the Motor division was forced to purchase the switches from an outside supplier at an even higher price. Shane is reviewing Modular's transfer pricing policy because she believes that sub-optimization has occurred. While Shane believes the Switch Division made the correct decision to maximize its divisional profit by not transferring the switches at actual full manufacturing cost, this decision was not necessarily in the best interest of Modular. Shane has requested that the corporate Accounting Department study alternative transfer pricing methods that would promote overall goal congruence, motivate divisional management performance, and optimize overall company performance. The three transfer pricing methods being considered are listed below. One of these methods will be selected, and will be applied uniformly across all divisions. Standard full manufacturing costs plus markup. Market selling price of the products being transferred. Outlay (out-of-pocket) costs incurred to the point of transfer plus opportunity cost per unit. A. Identify and explain two positive and two negative behavioral implications that can arise from employing a negotiated transfer price system for goods that are exchanged between divisions. **(5 marks)** B. Identify and explain two behavioral problems most likely to arise if Modular Corporation changes from its current transfer pricing policy to a revised transfer pricing policy that it applies uniformly to all divisions. **(5 marks)** C. Discuss the likely behavior of both "buying" and "selling" divisional managers if Modular Corporation uses standard full manufacturing costs plus markup. **(5 marks)**
72.	MG Mechanical Inc. specializes in servicing central air conditioning units. MG Mechanical employs licensed HVAC technicians and apprentices. Each service call requires a combination of both types of labor.

MG's standard time and cost for each service call are as follows

	Time	Wage
HVAC technician	1.0 hour	$30/hour
Apprentice	3.0 hours	$14/hour

During the month of May, MG serviced 1,500 air conditioning units. HVAC technicians worked a total of 1,900 hours with a total labor cost of $60,800

Apprentices worked a total of 4,000 hours with a total labor cost of $52,000. The service calls require a certain amount of direct materials. For the month of May, MG experienced a favorable direct materials price variance of $5,000 and an unfavorable direct materials usage variance of $8,000.

A. Calculate MG's total direct labor rate variance for the month of May. Show your calculations. **(4 marks)**

B. Calculate MG's total direct labor efficiency variance for the month of May. Show your calculations. **(4 marks)**

C. Without performing any calculations, explain how MG could further analyze the labor efficiency variance **(4 marks)**

D. Explain how MG could use management by exception. **(3 marks)**

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