

Chapters 22 – 24

Test Review

Johnson

Chapter 22 – Decentralization and Performance Evaluation

- Lots of terms and definitions. Reasons for departmentalization and reporting challenges
- Direct and Indirect Expenses
- Allocating Indirect Expenses and Allocation basis. Be able to calculate and interpret.
- Departmental Expense Allocations
- ROI calculation
- Residual Income Calculation
- Nonfinancial measures
- Responsibility Accounting and reports
- Knowledge of expanded ROI

Chapter 23 – Relevant Costing for Managerial Decisions

- Lots of Terms and Definitions
- Steps in Decision Process – Define Decision, ID alternatives, Collect and Analyze
- Decisions
 - Accept special orders
 - Make or Buy
 - Scrap or Rework
 - Sell as is or process
 - Sales Mix
 - Elimination of segment
- Qualitative Factors

Chapter 24 – Capital Budgeting and Investment Analysis

- Capital budgeting – what is it and what are challenges?
- What is the time value of money?
- Compute payback period with different scenarios (equal and unequal) & transforming net income into a cash basis
- Accounting Rate of return – different scenarios
- Net Present Value Method- what the method is, what the time value of money is, how to use a simple calculator to present value back a dollar
- Internal Rate of return – how to calculate and how it's used
- Advantages and Disadvantages of each method

10 Point Problems

1. Computation of expanded ROI and Residual Income
2. Departmental Income statement with direct and indirect cost allocations
3. Accept Special Business
4. Sales Mix Considerations with constraints
5. Capital Budgeting using non PV Methods
6. Capital Budgeting using PV Methods