# Lesson 4.2 Practice Quiz

**4/4** points earned (100%)

Excellent!

Retake

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Correct

1 / 1 points

1. Return on investment can be manipulated due to the number of choices to use as profit and/or investment measures.

1. **True**

**Correct Response**

Correct! When used for internal purposes, managers can use whatever measures they like to represent profit and/or investment.

1. False

Correct

1 / 1 points

2. Which of the following best describes return on investment?

1. **Focuses on a particular accounting period**

**Correct Response**

Correct! Return on investment – like many financial measures – focuses on a particular time period.

1. Fails to consider whether assets are being used effectively
2. Is difficult to manipulate

Correct

1 / 1 points

3. A difference between return on investment and residual income is that return on investment is communicated in currency terms and residual income is communicated in percentage terms.

1. True
2. **False**

**Correct Response**

Correct! Return on investment is reported as a percentage, while residual income is reported in currency terms.

Correct

1 / 1 points

4. Which of the following is false about residual income?

1. It creates the underinvestment problem.

**Correct Response**

Correct! This statement is false, as residual income helps to reduce or eliminate the underinvestment problem.

1. It can be used at the division-level within an organization.
2. It is calculated by subtracting the cost of capital (in $) from accounting-based profit.