Module 4 Quiz

12 questions

Correct  
1 / 1 points

1. Which of the following best describes decentralization?

1. A static (i.e., unchanging) feature of the organization
2. **Extent to which decision-making rights are distributed to managers and employees**
3. A poor choice when local knowledge is important
4. How wide the organizational hierarchy is

1   
point

2. Which of the following is an advantage of decentralization?

1. Reduces information costs
2. Motivates managers and employees
3. **Simplifies decision-making process**
4. Eliminates inefficiencies and redundancies

Correct  
1 / 1 points

3. As an organization becomes more decentralized, there is less need for performance measures and incentives.

1. True
2. **False**

Correct  
1 / 1 points

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

1. **True**
2. False

Correct  
1 / 1 points

5. The manager of the Wales division of NLH, Inc. is considering making an investment to expand operations.

The investment has the following projections:

* Revenues = $100,000
* Cost of goods sold = $60,000
* Operating expenses = $25,000
* Income taxes = $5,000
* Investment = $180,000

The required rate of return is 8%.

The manager has a personal preference to make the investment, and is about to make a presentation about the investment to upper management.

Which of the following is true?

1. The manager will not use either net income amount as the profit measure.
2. The manager will use either net income before taxes or net income after taxes as the profit measure.
3. **The manager will use net income before taxes as the profit measure, but not net income after taxes.**
4. The manager will use net income after taxes as the profit measure, but not net income before taxes.

1   
point

6. Two division managers in NLH, Inc. are individually considering whether to invest in a new product.

Before the investment, the Wales division manager earns an average return on investment of 11%. The Campbell division manager earns an average of 9.5%. Managers are compensated based on improving return on investment.

Projected profit from the investment is $20,000. The investment required for the project is $200,000.

The cost of capital at NLH, Inc. has been set by upper management at 9.5%.

Which manager(s) will exhibit behavior consistent with the underinvestment problem?

1. Only the Wales division manager
2. Only the Campbell division manager
3. Both division managers
4. **Neither division manager**

Correct  
1 / 1 points

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

1. It is calculated by subtracting the cost of capital (in $) from accounting-based profit.
2. It can be used at the division-level within an organization.
3. **It creates the underinvestment problem.**
4. It is used sparingly by organizations.

Correct  
1 / 1 points

8. The Central division of NLH, Inc. is considering an investment, which has the following projected information:

* Revenues = $100,000
* All expenses = $85,000
* Investment value = $140,000

Upper management of NLH, Inc. has established the cost of capital at 10%.

If the manager is compensated based on residual income, will she make the investment?

1. No, because the residual income percentage is less than the cost of capital percentage.
2. **Yes, because the residual income from this investment is $1,000.**
3. Yes, because the residual income is $15,000
4. No, because the cost of capital is positive.

1   
point

9. Which of the following is a quality of financial performance measures that creates a disadvantage?

1. **Subjective/noisy**
2. **Overly context-specific**
3. Forward-looking
4. Outcome-based

Correct  
1 / 1 points

10. Which of the following is a key purpose of strategic performance measurement systems?

1. Communicate strategy
2. Inform strategy evolution
3. Evaluate strategy
4. **All of the above**
5. None of the above

Correct  
1 / 1 points

11. Which of the following performance measurement issue best reflects the following scenario:

A division employee does not expend a lot of effort in his job because other employees are not expending effort.

1. Alignment
2. **Interdependence**
3. Controllability

Correct  
1 / 1 points

12. Which of the following is true about subjective performance evaluation?

1. **Overcomes obstacles of purely objective evaluation.**
2. Usually involves a single mechanism.
3. Is usually implemented at the beginning of an accounting period.
4. Reduces potential for bias.

13. Which of the following is a disadvantage of decentralization?

1. Overly focuses on learning and development
2. Makes managers and employees move quickly
3. Potentially creates inefficiencies
4. **Increases responsiveness**

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Correct  
1 / 1 points

15. The Balanced Scorecard establishes multiple alternative perspectives of the firm with the financial perspective, and establishes the connections between the goals, objectives, and measures within each of these perspectives.

1. **True**
2. False

16. Which of the following performance measurement issue best reflects the following scenario:

An employee focuses on only a few of his important tasks and responsibilities. When asked why, he replied, "Because the other stuff doesn't influence profit, and that's how I get paid!"

1. Alignment
2. **Interdependence**
3. Controllability

17. Which of the following is true about subjective performance evaluation?

1. Limited by objective measures
2. Subject to bias
3. Ignores relevant information
4. **Backward looking**

18.