5. a. What is the range of possible negotiated transfer prices that would be [illegible] able for Hi-Tech Electronics, Inc.?
   b. Assuming that the managers of the two divisions cannot agree on a transfer price, what price would you suggest as the transfer price?

Special Activities

SA 24-1
Ethics and professional conduct in business

ETHICS

Micro Tech Company has two divisions, the Semiconductor Division and the PC Division. The PC Division may purchase semiconductors from the Semiconductor Division or from outside suppliers. The Semiconductor Division sells semiconductor products both internally and externally. The market price for semiconductors is $250 per 100 semiconductors. Michael Blount is the controller of the PC Division, and Lynn Williams is the controller of the Semiconductor Division. The following conversation took place between Michael and Lynn:

Michael: I hear you are having problems selling semiconductors out of your division. Maybe I can help.
Lynn: You've got that right. We're producing and selling at about 80% of our capacity to outsiders. Last year we were selling 100% of capacity. Would it be possible for your division to pick up some of our excess capacity? After all, we are part of the same company.
Michael: What kind of price could you give me?
Lynn: Well, you know as well as I that we are under strict profit responsibility in our divisions, so I would expect to get market price, $250 for 100 semiconductors.

Michael: I'm not so sure we can swing that. I was expecting a price break from a "sister" division.
Lynn: Hey, I can only take this "sister" stuff so far. If I give you a price break, our profits will fall from last year's levels. I don't think I could explain that. I'm sorry, but I must remain firm—market price. After all, it's only fair—that's what you would have to pay from an external supplier.
Michael: Fair or not, I think we'll pass. Sorry we couldn't have helped.

Was Michael behaving ethically by trying to force the Semiconductor Division into a price break? Comment on Lynn's reactions.

SA 24-2
Service department charges

The Customer Service Department of Grand Lakes Technologies asked the Publications Department to prepare a brochure for its training program. The Publications Department delivered the brochures and charged the Customer Service Department a rate that was 25% higher than could be obtained from an outside printing company. The policy of the company required the Customer Service Department to use the internal publications group for brochures. The Publications Department claimed that it had a drop in demand for its services during the fiscal year, so it had to charge higher prices in order to recover its payroll and fixed costs.

Should the cost of the brochure be transferred to the Customer Service Department in order to hold the department head accountable for the cost of the brochure? What changes in policy would you recommend?

SA 24-3
Evaluating divisional performance

The three divisions of Monster Foods are Snack Goods, Cereal, and Frozen Foods. The divisions are structured as investment centers. The following responsibility reports were prepared for the three divisions for the prior year:

	Snack Goods	Cereal	Frozen Foods
Revenues	$1,050,000	$2,450,000	$ 875,000
Operating expenses	420,000	1,400,000	175,000
Income from operations before service department charges	$ 630,000	$1,050,000	$ 700,000
Service department charges:			
Promotion	$ 175,000	$ 350,000	$ 308,000
Legal	87,500	70,000	140,000
	$ 262,500	$ 420,000	$ 448,000
Income from operations	$ 367,500	$ 630,000	$ 252,000