

MT425 Managerial Financial Accounting-1101A-02 / Chapter 12***AP12-18****Comparing Performance Evaluation Methods [LO 4,5,6]**

Top management of the Gates Corporation is trying to construct a performance evaluation system to use to evaluate each of its three divisions. This past year's financial data are as follows:

	Division A	Division B	Division C
Total assets	\$510,000	\$10,600,000	\$6,040,000
Noninterest-bearing current liabilities	29,900	1,170,000	650,000
Net income	102,000	1,040,000	750,000
Interest expense	29,700	1,020,000	680,000
Tax rate	40%	40%	40%
Required rate of return	9.50%	12.00%	15.70%

How would the divisions be ranked (from best to worst performance) if the evaluation were based on net income?

	Net Income	Rank
Division A	\$ <input type="text"/>	<input type="text"/>
Division B	\$ <input type="text"/>	<input type="text"/>
Division C	\$ <input type="text"/>	<input type="text"/>

How would the divisions be ranked (from best to worst performance) if the evaluation were based on ROI? (*Enter answer to 2 decimal places, e.g. 5.25.*)

	ROI	Rank
Division A	<input type="text"/> %	<input type="text"/>
Division B	<input type="text"/> %	<input type="text"/>
Division C	<input type="text"/> %	<input type="text"/>

How would the divisions be ranked (from best to worst performance) if the evaluation were based on residual income? (*Round calculations and final answer to 0 decimal places, e.g. 5,025.*)

	Residual Income	Rank
Division A	\$ <input type="text"/>	<input type="text"/>
Division B	\$ <input type="text"/>	<input type="text"/>
Division C	\$ <input type="text"/>	<input type="text"/>

MT425 Managerial Financial Accounting-1101A-02 / Chapter 12**P12-6 (a, b)****Return on Investment, Profit Margin, and Investment Turnover [LO 4]**

Consider the following information for HandyCraft Stores for 2011 and 2012.

	2011	2012
Total assets	\$45,000,000	\$51,300,000
Noninterest-bearing current liabilities	4,000,000	4,500,000
Net income	3,500,000	4,500,000
Interest expense	2,200,000	2,700,000
Sales	60,000,000	87,500,000
Tax rate	40%	40%

Compute ROI for both years. (*Round answer for ROI to 4 decimal places, e.g. 0.1234.*)

ROI for 2011		
ROI for 2012		

Break ROI down into profit margin and investment turnover. (*Round answers to 4 decimal places, e.g. 0.1234.*)

	2011	2012
Profit margin		
Investment turnover		

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AP12-7*ROI and EVA [LO 6]**

ELN Waste Management has a subsidiary that disposes of hazardous waste and a subsidiary that collects and disposes of residential garbage. Information related to the two subsidiaries follows:

	Hazardous Waste	Residential Waste
Total assets	\$12,900,000	\$69,600,000
Noninterest-bearing current liabilities	3,060,000	11,800,000
Net income	1,680,000	6,130,000
Interest expense	1,250,000	7,390,000
Required rate of return	13%	14%
Tax rate	30%	30%

Calculate ROI for both subsidiaries. (*Round answers to 2 decimal places, e.g. 5.25%.*)

Hazardous Waste		<input type="text"/> %
Residential Waste		<input type="text"/> %

Calculate EVA for both subsidiaries. Note that since no adjustments for "accounting distortions" are being made, EVA is equivalent to residual income.

Hazardous Waste	\$ <input type="text"/>
Residential Waste	\$ <input type="text"/>

Which subsidiary has added the most to shareholder value in the last year?

Based on the limited information, which subsidiary is the best candidate for expansion?