

Exercise 12-9 (15 minutes)

1.

	<i>Division A</i>	<i>Division B</i>	<i>Total Com- pany</i>
Sales	<u>\$2,500,000</u> ¹	<u>\$1,200,000</u> ²	<u>\$3,200,000</u> ³
Less expenses:			
Added by the division ...	1,800,000	400,000	2,200,000
Transfer price paid	<u> </u>	<u>500,000</u>	<u> </u>
Total expenses	<u>1,800,000</u>	<u>900,000</u>	<u>2,200,000</u>
Net operating income	<u>\$ 700,000</u>	<u>\$ 300,000</u>	<u>\$1,000,000</u>

¹20,000 units × \$125 per unit = \$2,500,000.

²4,000 units × \$300 per unit = \$1,200,000.

³Division A outside sales

(16,000 units × \$125 per unit) \$2,000,000

Division B outside sales

(4,000 units × \$300 per unit) 1,200,000

Total outside sales \$3,200,000

Note that the \$500,000 in intracompany sales has been eliminated.

2. Division A should transfer the 1,000 additional circuit boards to Division B. Note that Division B's processing adds \$175 to each unit's selling price (B's \$300 selling price, less A's \$125 selling price = \$175 increase), but it adds only \$100 in cost. Therefore, each board transferred to Division B ultimately yields \$75 more in contribution margin (\$175 – \$100 = \$75) to the company than can be obtained from selling to outside customers. Thus, the company as a whole will be better off if Division A transfers the 1,000 additional boards to Division B.