

The director of Donny Co is reviewing the performance of its division.

The following information is available for the year ending 31 March 20X9 for its South division.

	South division
	\$
Sales	50,000
Operating profit	700
Capital employed	3,500

South division operates in the food retail industry. The total food retail industry sales for the year ending 31 March 20X9 were \$1,250,000.

Task 2

Is each of the following an advantage of residual income as a measure of divisional performance over return on investment?

It helps in comparing performance of the managers of divisions of different sizes

Yes No

It is directly related to net present value (NPV)

Yes No

It gives an absolute measure of performance

Yes No

It avoids short term dysfunctional decision making

Yes No

It relates the size of the division's income to the size of the investment

Yes No

It is more easily understood by divisional managers

Yes No

It makes divisional managers aware of the cost of financing their divisions

Yes No

It ensures that managers will select projects with positive net present values (NPV)

Yes No