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# Question 1

**Question Type:** **MultipleChoice**

A health plan's costs can be classified as committed costs or discretionary costs. An example of a discretionary cost for a health plan is the cost of its

## Options:

**A-** Facilities

**B-** Executive salaries

**C-** Employee training

**D-** Equipment

## Answer:

A

# Question 2

**Question Type:** **MultipleChoice**

A health plan can use cost accounting in order to

A) Determine premium rates for its products

B) Match the costs incurred during a given accounting period to the income earned in, or attributed to, that same period

## Options:

**A-** Both A and B

**B-** A only

**C-** B only

**D-** Neither A nor B

## Answer:

A

# Question 3

**Question Type:** **MultipleChoice**

The following statements are about a health plan's evaluation of its responsibility centers. Select the answer choice containing the correct statement.

## Options:

**A-** When analyzing budget variances, a health plan's management should pay attention to unfavorable variances only.

**B-** A health plan can reduce the problem of unattainable goals by involving responsibility managers in the preparation of their centers' budgets.

**C-** One reason that a health plan would use cost-based transfer prices to evaluate the performance of its profit centers and investment centers is because, under this method of setting transfer prices, the selling center has maximum incentive to operate effectively and control costs.

**D-** In responsibility accounting, all employees who have any influence over a health plan's department are held equally accountable for the operations and financial outcomes of that department.

## Answer:

B

# Question 4

**Question Type:** **MultipleChoice**

The Puma health plan uses return on investment (ROI) and residual income (RI) to measure the performance of its investment centers. Two of these investment centers are identified as X and Y. Investment Center X earns $10,000,000 in operating income on controllable investments of $50,000,000, and it has total revenues of $60,000,000. Investment Center Y earns $2,000,000 in operating income on controllable investments of $8,000,000, and it has total revenues of $10,000,000. Both centers have a minimum required rate of return of 15%.

One difference between the RI method and the ROI method is that

### Options:

**A-** The RI method demands greater goal congruence from Puma's managers than does the ROI method

**B-** The RI method favors Puma's small investment centers more than does the ROI method

**C-** Only RI can lead to decisions that improve Puma's short-term profits at the expense of its long-term objectives

**D-** Only RI is useful to Puma for comparing investment centers of different sizes

### Answer:

A

## Question 5

**Question Type:** MultipleChoice

The Puma health plan uses return on investment (ROI) and residual income (RI) to measure the performance of its investment centers. Two of these investment centers are identified as X and Y. Investment Center X earns $10,000,000 in operating income on controllable investments of $50,000,000, and it has total revenues of $60,000,000. Investment Center Y earns $2,000,000 in operating income on controllable investments of $8,000,000, and it has total revenues of $10,000,000. Both centers have a minimum required rate of return of 15%.

One likely way in which Investment Center X or Y could effectively increase its ROI is by

## Options:

**A-** Focusing only on increasing its total revenues

**B-** Increasing its controllable investments

**C-** Increasing total revenues, accompanied by a proportionate increase in operating income

**D-** Increasing expenses in order to increase operating income

## Answer:

C

# Question 6

**Question Type:** MultipleChoice

The Puma health plan uses return on investment (ROI) and residual income (RI) to measure the performance of its investment centers. Two of these investment centers are identified as X and Y. Investment Center X earns $10,000,000 in operating income on controllable investments of $50,000,000, and it has total revenues of $60,000,000. Investment Center Y earns $2,000,000 in operating income on controllable investments of $8,000,000, and it has total revenues of $10,000,000. Both centers have a minimum required rate of return of 15%.

The following statements are about Puma's evaluation of these investment centers. Select the answer choice containing the correct statement.

## Options:

**A-** Investment Center Y's RI is greater than Investment Center X's RI.

**B-** The ROI for Investment Center X is 16.7%, and the ROI for Investment Center Y is 20.0%.

**C-** Because Investment Centers X and Y are different sizes, Puma should not use ROI to compare these investment centers.

**D-** According to the evaluation of ROI, Investment Center Y achieves a higher return on its available resources than does Investment Center X.

## Answer:

D

# Question 7

**Question Type:** MultipleChoice

A health plan can use segment margins to evaluate the profitability of its profit centers. One characteristic of a segment margin is that this margin

## Options:

**A-** Is the portion of the contribution margin that remains after a segment has covered its direct fixed costs

**B-** Incorporates only the costs attributable to a segment, but it does not incorporate revenues

**C-** Considers only a segment's costs that fluctuate in direct proportion to changes in the segment's level of operating activity

**D-** Evaluates the profit center's effective use of assets employed to earn a profit

## Answer:

A

# Question 8

**Question Type:** MultipleChoice

One true statement about variance analysis is that

## Options:

**A-** A price variance is the difference between the budgeted quantities to be sold and the actual quantities sold, multiplied by the budgeted amount

**B-** Variance analysis suggests solutions to a particular problem

**C-** Positive variances generally are favorable, from a health plan's point of view, for the plan's expenses but unfavorable for the plan's revenues

**D-** An effective variance system typically focuses on matters that require management's attention

## Answer:

D

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