SOLUTION 7.1

	Division X	Division Z
ROI	15,000/65,000= 23.08%	29,500/150,000 = 19.67%
Residual income	15,000 – 10% 65,000 = €8,500	29,500 – 10% 150,000 = €14,500

Division X has a higher ROI but a lower residual income. Why? Because residual income is an absolute measure, making it difficult to compare divisions with different sizes: a large division (Z) is more likely to earn a larger residual income than a small division (X).