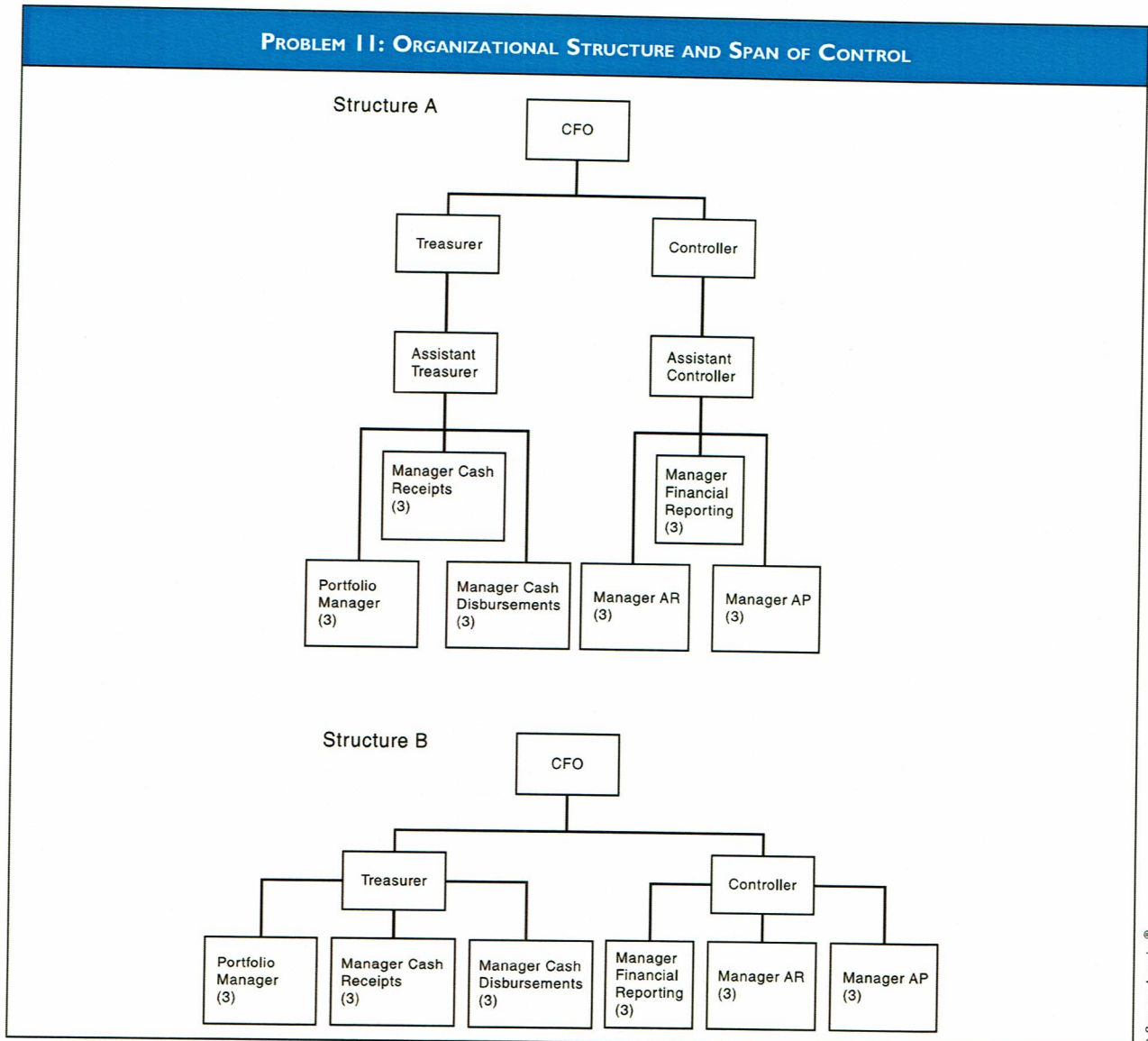


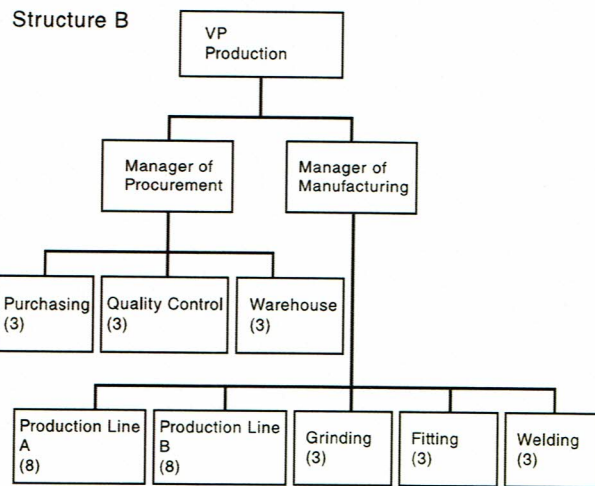
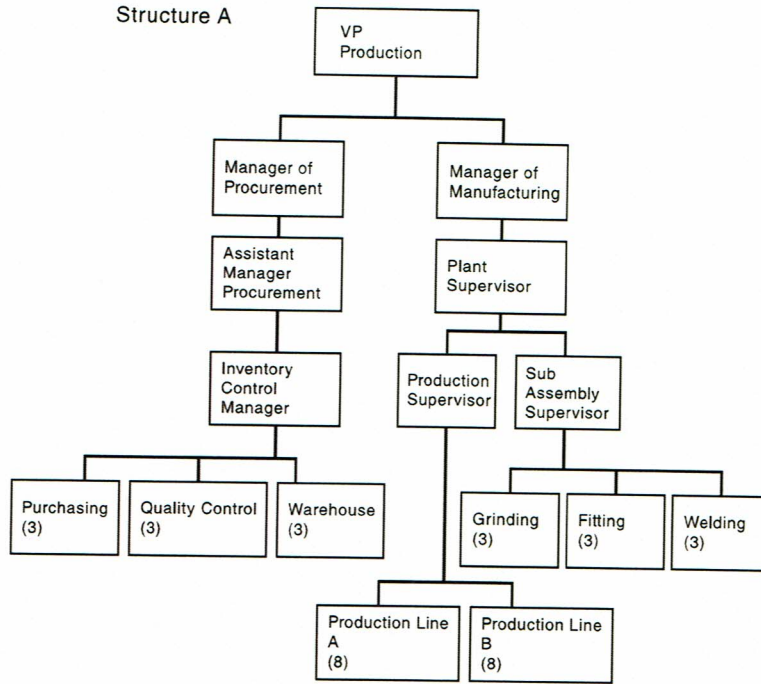
**PROBLEM 11: ORGANIZATIONAL STRUCTURE AND SPAN OF CONTROL**


### 13. CMA ADAPTED— ORGANIZATIONAL STRUCTURE

While attending night school to earn a degree in computer engineering, Stan Wilson worked for Morlot Container Company (MCC) as an assembly line supervisor. MCC was located near Wilson's hometown and had been a prominent employer in the area for many years. MCC's main product was milk cartons that were distributed throughout the Midwest for milk processing plants. The technology at MCC was stable, and the assembly lines were monitored closely. MCC employed a standard cost system because cost control was considered important. The employees who manned the assembly

lines were generally unskilled workers who had been with the company for many years; the majority of these workers belonged to the local union. Wilson was glad he was nearly finished with school because he found the work at MCC to be repetitive and boring, even as a supervisor. The supervisors were monitored almost as closely as the line workers, and standard policies and procedures existed that applied to most situations. Most of MCC's management had been with the company for several years and believed in clear lines of authority and well-defined responsibilities. Whereas he knew he had performed well against the company's standards, Wilson also knew that there probably would be little opportunity for advancement or significant compensation increases.

PROBLEM 12: ORGANIZATIONAL STRUCTURE AND SPAN OF CONTROL



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After receiving his degree, Wilson went to work in the research and development department of Alden Computers, a five-year-old company specializing in educational computer systems for elementary schools. The company was customer-oriented and willing to tailor its computer systems to the needs of the end users. The customization of its systems, combined with continual changes in technology,

resulted in a job-shop orientation in the company's production facility. The employees who assembled Alden's systems were skilled technicians who worked closely with the engineering staff.

Wilson was gratified by the respect and authority his newly acquired knowledge and skills afforded him at Alden. If changes were required in his area of expertise, Wilson often made recommendations

about how the work should proceed and was involved in decisions on new product development. The company's management team frequently "rolled up its sleeves" and worked alongside the technicians when production problems arose; the lines of authority were sometimes difficult to distinguish, and decisions were often made by the expert on the spot. Wilson believed that his skills were appreciated at Alden and he would be fairly compensated for his professional expertise.

### Required

- a. Morlot Container Company and Alden Computers represent two different types of organizational structures. In terms of each of the following points, explain how MCC differs from Alden Computers.
  1. General organizational structure and climate
  2. Bases of authority
  3. Evaluation criteria
  4. Bases of compensation
- b. Both structures have potential benefits or can create problems. Discuss the features of the structure used by
  1. Alden Computers that might benefit MCC.
  2. Alden that might create problems for Alden.
  3. MCC that might benefit Alden Computers.

## 14. CMA-ADAPTED PERFORMANCE MEASURES

The Star Paper Division of Royal Industries is located near Los Angeles. A major expansion of the division's only plant was completed in April 2015. The expansion consisted of an addition to the existing building, additions to the production-line machinery, and the replacement of obsolete and fully depreciated equipment that was no longer efficient or cost-effective.

On May 1, 2015, George Harris became manager of Star. Harris had a meeting with Marie Fortner, vice president of operations for Royal, who explained to Harris that the company measured the performance of divisions and division managers on the basis of return on gross assets (ROA). When Harris asked if other measures were used in conjunction with ROA, Fortner replied, "Royal's top management prefers to use a single performance measure. Star should do well this year now that it has expanded and replaced all of that old

equipment. You should have no problem exceeding the division's historical rate. I'll check with you at the end of each quarter to see how you are doing."

Fortner called Harris after the first quarter results were completed because Star's ROA was considerably below the historical rate for the division. Harris told Fortner that he did not believe that ROA was a valid performance measure for Star. Fortner indicated that she would discuss this with others at headquarters and get back to Harris. However, there was no further discussion of the use of ROA but only reports on divisional performance at the end of the second and third quarters. Now that the fiscal year has ended, Harris has received the memorandum in the figure designated Problem 14.

Harris is looking forward to meeting with Fortner as he plans to pursue the discussion about the appropriateness of ROA as a performance measure for Star. While the ROA for Star is below historical levels, the division's profits for the year are higher than at any previous time. Harris is going to recommend that ROA be replaced with multiple criteria for evaluating performance—namely, dollar profit, receivable turnover, and inventory turnover.

### PROBLEM 14: PERFORMANCE MEASURES

TO: George Harris, Star Paper Division  
 FROM: Marie Fortner, Royal Industries  
 SUBJECT: Divisional Performance

The operating results for the fourth quarter and for our fiscal year ended on April 30 are now complete. Your fourth quarter return on gross assets was only 9 percent, resulting in a return for the year of slightly under 11 percent. I recall discussing your low return after the first quarter and reminding you after the second and third quarters that this level of return is not considered adequate for the Star Paper Division.

The return on gross assets at Star has ranged from 15 to 18 percent for the past five years. An 11 percent return may be acceptable at some of Royal's other divisions, but not at a proven winner like Star, especially in light of your recently improved facility. Please arrange to meet with me in the near future to discuss ways to restore Star's return on gross assets to its former level.

**Required**

- a. Identify general criteria that should be used in selecting performance measures to evaluate operating managers.
- b. Describe the probable cause of the decline in the Star Paper Division’s return on gross assets during the fiscal year ended April 30, 2007.
- c. On the basis of the relationship between Fortner and Harris, as well as the memorandum from Fortner, discuss apparent weaknesses in the performance evaluation process at Royal Industries.
- d. Discuss whether the multiple performance evaluation criteria that Harris suggested would be appropriate for the evaluation of the Star Paper Division.

Family Resorts has just concluded its annual meeting of regional and district managers. This meeting is held each November to review the results of the previous season and to help the managers prepare for the upcoming year. Before the meeting, the managers submitted proposed budgets for their districts or regions, as appropriate. These budgets are reviewed and consolidated into an annual operating budget for the entire company. The 2015 budget has been presented at the meeting, and the managers accepted it.

To evaluate the performance of its managers, Family Resorts uses responsibility accounting. Therefore, the preparation of the budget is given close attention at headquarters. If major changes need to be made to the budgets that the managers submitted, all affected parties are consulted before the changes are incorporated. The two figures designated Problem 15 present two reports from the budget booklet that all managers received at the meeting.

**15. CMA-ADAPTED RESPONSIBILITY ACCOUNTING**

Family Resorts, Inc., is a holding company for several vacation hotels in the northeastern and mid-Atlantic states. The firm originally purchased several old inns, restored the buildings, and upgraded the recreational facilities. Vacationing families have been well pleased with the inns because many services are provided that accommodate children and afford parents time for themselves. Since the completion of the restoration 10 years ago, the company has been profitable.

**Required**

- a. Responsibility accounting has been used effectively by many companies, both large and small.
  - 1. Define responsibility accounting.
  - 2. Discuss the benefits that accrue to a company using *responsibility accounting*.
  - 3. Describe the advantages of responsibility accounting for the managers of a firm.

**PROBLEM 15: RESPONSIBILITY ACCOUNTING**

**FAMILY RESORTS, INC.  
RESPONSIBILITY SUMMARY  
(\$000 omitted)**

Reporting Unit: Family Resorts		Reporting Unit: Maine District	
Responsible Person: President		Responsible Person: District Manager	
Mid-Atlantic Region	\$ 605	Harbor Inn	\$ 80
New England Region	365	Camden Country Inn	60
Unallocated costs	<u>(160)</u>	Unallocated costs	<u>(35)</u>
Income before taxes	<u>\$ 810</u>	Total contribution	<u>\$ 105</u>
Reporting Unit: New England Region		Reporting Unit: Harbor Inn	
Responsible Person: Regional Manager		Responsible Person: Innkeeper	
Vermont	\$ 200	Revenue	\$ 600
New Hampshire	140	Controllable costs	(455)
Maine	105	Allocated costs	<u>(65)</u>
Unallocated costs	<u>(80)</u>	Total contribution	<u>\$ 80</u>
Total contribution	<u>\$ 365</u>		

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**PROBLEM 15: RESPONSIBILITY ACCOUNTING**

**FAMILY RESORTS, INC.  
CONDENSED OPERATING BUDGET—MAINE DISTRICT  
FOR THE YEAR ENDING DECEMBER 31, 2015  
(\$000 OMITTED)**

	Region			New England District			Maine District Inns		
	Family Resorts	Mid-Atlantic	New England	Vermont	New Hampshire	Maine	Not Allocated <sup>2</sup>	Harbor	Camden Country
Net sales	\$7,900	\$4,200	\$3,700	\$1,400	\$1,200	\$1,100		\$600	\$500
Cost of sales	4,530	2,310	2,220	840	720	660		360	300
Gross margin	<u>\$3,370</u>	<u>\$1,890</u>	<u>\$1,480</u>	<u>\$ 560</u>	<u>\$ 480</u>	<u>\$ 440</u>		<u>\$240</u>	<u>\$200</u>
Controllable expenses:									
Supervisory	\$ 240	\$ 130	\$ 110	\$ 35	\$ 30	\$ 45	\$ 10	\$ 20	\$ 15
Training	160	80	80	30	25	25		15	10
Advertising	500	280	220	55	60	55	15	20	20
Repairs and maintenance	480	225	255	90	85	80		40	40
Total controllable expenses	<u>\$1,380</u>	<u>\$ 715</u>	<u>\$ 665</u>	<u>\$ 210</u>	<u>\$ 200</u>	<u>\$ 205</u>	<u>\$ 25</u>	<u>\$ 95</u>	<u>\$ 85</u>
Controllable contribution	<u>\$1,990</u>	<u>\$1,175</u>	<u>\$ 815</u>	<u>\$ 350</u>	<u>\$ 280</u>	<u>\$ 235</u>	<u>\$(25)</u>	<u>\$145</u>	<u>\$115</u>
Expenses controlled by others:									
Depreciation	\$ 520	\$ 300	\$ 220	70	\$ 60	\$ 60	\$ 10	\$ 30	\$ 20
Property taxes	200	120	80	30	30	20		10	10
Insurance	300	150	150	50	50	50		25	25
Total expenses controlled by others	<u>\$1,020</u>	<u>\$ 570</u>	<u>\$ 450</u>	<u>\$ 150</u>	<u>\$ 140</u>	<u>\$ 130</u>	<u>\$ 10</u>	<u>\$ 65</u>	<u>\$ 55</u>
Total contribution	<u>\$ 970</u>	<u>\$ 605</u>	<u>\$ 365</u>	<u>\$ 200</u>	<u>\$ 140</u>	<u>\$ 105</u>	<u>\$(35)</u>	<u>\$ 80</u>	<u>\$ 60</u>
Unallocated costs <sup>3</sup>	160								
Income before taxes	<u>\$ 810</u>								

<sup>1</sup>Unallocated expenses include a regional advertising campaign and equipment used by the regional manager.  
<sup>2</sup>Unallocated expenses include a portion of the district manager's salary, district promotion costs, and a district manager's car.  
<sup>3</sup>Unallocated costs include taxes on undeveloped real estate, headquarters' expense, legal fees, and audit fees.

- b. The regional and district managers accepted Family Resort's budget. Based on the facts presented, evaluate the budget process Family Resorts employs by addressing the following:
1. What features of the budget presentation shown are likely to make the budget attractive to managers?
  2. What recommendations, if any, could be made to the budget preparers to improve the budget process? Explain your answer.

## 16. MANAGEMENT BY EXCEPTION

A variety of quantitative measures are used to evaluate employee performance, including standard costs, financial ratios, human resource forecasts, and operating budgets.

### Required

- a. Discuss the following aspects of a standard cost system.
  1. Discuss the characteristics that should be present to encourage positive employee motivation.
  2. Discuss how the system should be implemented to positively motivate employees.
- b. The use of variance analysis often results in management by exception.
  1. Explain the meaning of *management by exception*.
  2. Discuss the behavioral implications of management by exception.
- c. Explain how employee behavior could be adversely affected when actual-to-budget comparisons are used as the basis for performance evaluation.

## 17. CMA-ADAPTED VARIANCE ANALYSIS

Engineers Education Association (EEA) is a volunteer membership organization providing educational and professional services to its members. The professional staff is organized into four divisions with a total of 14 operating departments.

EEA adopted an annual budget program many years ago as a means for planning and controlling activities. Each department of EEA prepares an annual budget in consultation with its respective volunteer committee(s). After a series of reviews by both the professional staff and the volunteer structure, the budget is adopted. The professional staff is expected to comply with the budget in conducting its activities and operations.

The EEA's accounting department generates monthly income statements that present actual performance as compared to budget for each EEA department. The November 2015 statement for the publications department is shown in the first figure designated Problem 17. Accompanying the report this month was a memorandum from EEA's president, Daniel Riley, which is shown in the second figure designated as Problem 17.

Marie Paige, publications manager, was having lunch with Jon Franklin, continuing education manager, when the following conversation about Riley's memorandum took place.

PROBLEM 17: VARIANCE ANALYSIS				
EEA—PUBLICATIONS DEPARTMENT INCOME STATEMENT FOR THE MONTH ENDED NOVEMBER 30, 2015 (\$000 OMITTED)				
	Budget	Actual	Variance	
			Dollar	Percent
<b>Revenues</b>				
Subscriptions	\$ 9.5	\$ 8.4	\$ (1.1)	(11.6)
Library				
subscriptions	3.4	3.3	(.1)	(2.9)
Research				
publications	13.6	15.2	1.6	11.8
Advertising	64.0	50.1	(13.9)	(21.7)
List rentals	15.2	13.9	(1.3)	(8.6)
Total revenue	<u>\$105.7</u>	<u>\$90.9</u>	<u>\$(14.8)</u>	<u>(14.0)</u>
<b>Operating expenses</b>				
Salaries and				
wages	\$ 24.0	\$ 22.0	\$ 2.0	8.3
Employee				
benefits	4.8	4.4	.4	8.3
Temporary help	0.0	1.5	(1.5)	(ERR)
Outside services	1.0	2.5	(1.5)	(150.0)
Education and				
training	0.5	0.0	.5	100.0
Promotion and				
advertising	7.5	4.0	3.5	46.6
Typesetting	8.0	12.0	(4.0)	(50.0)
Production				
printing	46.0	40.4	5.6	12.2
Postage, freight,				
and handling	12.0	11.0	1.0	8.3
Supplies	1.0	.8	.2	20.0
Total expenses	<u>\$104.8</u>	<u>\$ 98.6</u>	<u>\$ 6.2</u>	<u>5.9</u>
Contribution	<u>\$ .9</u>	<u>\$(7.7)</u>	<u>\$(8.6)</u>	<u>(955.6)</u>