

Solutions Chapter 1

Fundamental Review Material

1-A1 (10–15 min.)

Information is often useful for more than one function, so the following classifications for each activity are not definitive but serve as a starting point for discussion:

1. Scorekeeping. A depreciation schedule is an exercise in preparing financial statements to report the results of activities.
2. Problem solving. Helps a manager assess the impact of a purchase decision.
3. Scorekeeping. Reports on the results of an operation. Could also be attention directing if scrap is an area that might require management attention.
4. Attention directing. Focuses attention on areas that need attention.
5. Attention directing. Helps managers learn about the information contained in a performance report.
6. Scorekeeping. The statement reports what has happened. Could also be attention directing if the report highlights a problem or issue.
7. Problem solving. Assuming the cost comparison is to help the manager decide between two alternatives, this is problem solving.
8. Attention directing. Variances point out areas where results differ from expectations. Interpreting them directs attention to possible causes of the differences.
9. Problem solving. Aids a decision about where the parts should be made.
10. Attention directing and problem solving. Budgeting involves making decisions about planned activities—hence, aiding problem solving. Budgets also direct attention to areas of opportunity or concern—hence, directing attention. Reporting against the budget also has a scorekeeping dimension.

1-A2 (15–20 min.)

1.

	Budgeted Amounts	Actual Amounts	Deviations or Variances
Room rental	\$ 140	\$ 140	\$ 0
Food	700	865	165 U
Entertainment	600	600	0
Decorations	220	260	40 U
Total	<u>\$1,660</u>	<u>\$1,865</u>	<u>\$205 U</u>
2. Because of the management-by-exception rule, room rental and entertainment require no explanation. The actual expenditure for food exceeded the budget by \$165. Of this \$165, \$150 is explained by attendance of 15 persons more than budgeted (at a budget of \$10 per person for food) and \$15 is explained by expenditures above \$10 per person.

Actual expenditures for decorations were \$40 more than the budget. The decorations committee should be asked for an explanation of the excess expenditures.

1-A3 (10 min.)

All of the situations raise possibilities for violation of the integrity standard. In addition, the manager in each situation must address an additional ethical standard:

1. The General Mills manager must respect Article V, the confidentiality principle. He should not disclose any information about the new cereal.
2. Felix must address his level of competence for the assignment, Article I. If his supervisor knows his level of expertise and wants an analysis from a “layperson” point of view, he should do it. However, if the supervisor expects an expert analysis, Felix must disclose his lack of competence.
3. This situation is covered by Article II on the relationship of the accountant to the profession. The Code of Ethical Conduct explains this principle further in its rules, which state that accountants shall not be associated with written or verbal statements they believe are false or misleading. It is relevant information, and its omission may mislead readers of the budget.

1-B1 (15–20 min.)

Information is often useful for more than one function, so the following classifications for each activity are not definitive but serve as a starting point for discussion:

1. Problem solving. Provides information for deciding between two alternative courses of action.
2. Scorekeeping. Recording what has happened. If amounts are compared with expectations, this could also serve an attention-directing function.
3. Problem solving. Helps a manager decide between alternatives.
4. Attention directing. Directs attention to the use of overtime labour. Also scorekeeping.
5. Problem solving. Provides information to managers for deciding whether to move corporate headquarters.
6. Attention directing. Directs attention to why nursing costs increased.
7. Attention directing. Directs attention to areas where actual results differed from the budget.
8. Problem solving. Helps the vice president decide which course of action is best.
9. Problem solving. Produces information to help the marketing department make a decision about a marketing campaign.
10. Scorekeeping. Records actual overtime costs. If results are compared with expectations, also attention directing.
11. Attention directing. Directs attention to stores with either high or low ratios of advertising expenses to sales.
12. Attention directing. Directs attention to causes of returns of the drugs.
13. Attention directing or problem solving, depending on the use of the schedule. If it is to identify areas of high fuel usage it is attention directing. If it is to plan for purchases of fuel, it is problem solving.
14. Scorekeeping. Records items needed for financial statements.

1-B2 (10–15 min.)

1 & 2.	Budget	Actual	Variance
Sales	\$75,000	\$74,600	\$ 400 U
Costs:			
Fireworks	\$36,000	\$35,500	\$500 F
Labour	15,000	18,000	3,000 U
Other	8,000	7,910	90 F
Total cost	59,000	61,410	2,410 U
Profit	\$16,000	\$13,190	\$2,810 U

3. The cost of fireworks was $\$500 \div \$36,000 = 1.4$ percent under budget, while sales were just $\$400 \div \$75,000 = 0.5$ percent under budget. Did fireworks suppliers lower their prices? Were selling prices set higher than expected? There should be some explanation for the lower cost of fireworks.
The labour cost was $\$3,000 \div \$15,000 = 20$ percent over budget. Sales and other costs were close to budget in percentage terms. Why was labour cost much higher than expected?

1-B3 (15–20 min.)

1. (a) Article II on the relationship of the accountant to the profession might apply in cases of inappropriate dress so extreme that the profession is discredited.
- (b) Article II applies more clearly in this case than with respect to the possible dress code violation. The risk of discrediting the profession is much greater.
- (c) Article I on competence applies; there is more discussion of this principle in the Code's rules section regarding professionalism, which includes "being conscientious, diligent and efficient in providing services."
- (d) Article I on competence applies; there is more discussion of this principle in the Code's rules section regarding professionalism, which includes "being conscientious, diligent and efficient in providing services."
- (e) Article V on confidentiality is relevant.
- (f) Article IV on conflict of interest also applies to accountants.
- (g) Article II on relationship to the profession applies; the Code's rules section explains further but the Article specifically mentions crime and fraud.
- (h) Again, Article II applies. The Code's guidelines section states that an accountant "has a responsibility to avoid even the appearance of impropriety, and to act in a manner that encourages the confidence, respect and trust of society."
- (i) Article II is relevant to this "whistleblower" provision. The Code's rules section requires accountants to report violations of the Code to the Registrar of CMA Alberta, except for matters that are trivial or covered by solicitor–client privilege.

2. Simply having a code of conduct does not guarantee ethical behaviour by employees. As Section 1.4 on the need for the Code states (Exhibit 1-13), a code of ethics only sets out a minimum standard of behaviour and a greater sense of responsibility is often required. Top management's ethical example and its support of the code of conduct are important. A company's performance evaluation and reward system must be consistent with its code of conduct. If unethical actions are rewarded, they will be encouraged even if they violate the code of conduct.

Questions

Q1-1 Two major themes are cost-benefit and behavioural effects. Cost-benefit refers to how well an accounting system helps achieve management's goals in relation to the cost of the system. The behavioural consideration specifies that an accounting system should be judged by how it will affect the behaviour (that is, decisions) of managers.

Q1-2 Organizations invest resources in accounting systems to accomplish three broad purposes:

1. Internal reporting to managers for planning and controlling operations.
2. Internal reporting to managers for special decision-making and long-range planning.
3. External reporting to shareholders, government, and other interested parties.

Q1-3 The emphasis of financial accountants has traditionally been on the historical data presented in the external reports. Management accounting emphasizes planning and control purposes.

Q1-4 Scorekeeping is the recording of data for a later evaluation of performance. Attention directing is the reporting and interpretation of information for the purpose of focusing on inefficiencies of operation or opportunities for improvement. Problem solving presents a concise analysis of alternative courses of action.

Q1-5 Some examples of special non-recurring decisions and of long-range planning are decisions to make or buy products, replace equipment, drop product lines, or merge with another company.

Q1-6 Planning is much more vital than control because without planning there is no logical basis for control or any index of the effectiveness of control. Flawless execution of faulty plans is fruitless.

Q1-7 A budget is a prediction and guide; a performance report is a tabulation of actual results; and a variance reconciles the difference between the two.

Q1-8 No. Management by exception means that management spends more effort on those areas that seem to deviate from plan and less on areas that are functioning as planned. This method is an efficient way for managers to decide where to put their time and effort.

Q1-9 No. There is no perfect system of automatic control, nor does accounting control anything. Accounting is a tool used by managers in their control of operations.

Q1-10 Key success factors are those issues within an organization that must be managed well in order for the organization to succeed.

Q1-11 The six functions are: (1) research and development; (2) product, service, and process design; (3) production; (4) marketing; (5) distribution; and (6) customer service.

Q1-12 The controller exercises control over the accounting and reporting systems in line departments by virtue of the approval given to his efforts and recommendations by top line management. He also exercises direct control over his own department.

Q1-13 Three examples of service organizations are banks, insurance companies, and universities. Such organizations tend to be labour intensive, have outputs that are difficult to measure, and have inputs and outputs that are difficult or impossible to store.

Q1-14 Yes. The act of recording events has become as much a part of operating activities as the act of selling or buying. For example, cash receipts and disbursements must be traced, and receivables and payables must be recorded or else gross confusion would ensue.

Q1-15 The essence of the JIT philosophy is the elimination of waste, accomplished by reducing the time products spend in the production process and by trying to eliminate non-value-added processes.

Q1-16 Management accountants have access to confidential information and are involved with significant decisions in an organization. It is impossible to establish a set of rules to deal with all potentially unethical situations. Thus, a code of ethics provides guidance to management accountants.

Exercises

E1-1 (15–20 min.)

This problem can form the basis of an introductory discussion of the entire field of management accounting.

1. The focus of management accounting is on helping internal users to make better decisions, whereas the focus of financial accounting is on helping external users to make better decisions. Management accounting helps in making a host of decisions, including pricing, product choices, investments in equipment, making or buying goods and services, and manager rewards.
2. Generally accepted accounting standards or principles affect both internal and external accounting. However, change in internal accounting is not inhibited by generally accepted principles. For example, if an organization wants to report

cash receipts rather than accrual revenues on income statements for internal purposes, no outside agency can prohibit such accounting. Of course, this means that organizations may have to keep more than one set of records. There is nothing immoral or unethical about having multiple sets of books, but they are expensive. Accounting data are commodities, just like butter or eggs. Innovations in internal accounting systems must meet the same cost-benefit tests that other commodities endure. That is, their perceived increases in benefits must exceed their perceived increases in costs. Ultimately, benefits are measured by whether better decisions are forthcoming in the form of increased net profits or cost savings.

3. Budgets, the formal expressions of management plans, are a major feature of management accounting, whereas they are not as prominent in financial accounting. Budgets are major devices for compelling and disciplining management planning.
4. Evaluation of performance, which often takes the form of comparison of actual results against budgets, provides incentive and feedback to improve future decisions.
5. Accounting systems have enormous influence on the behaviour of individuals affected by them. Management accounting is concerned with the likely behavioural effects of various accounting alternatives that may be adopted.

E1-2 (10 min.)

The main point of this question is that cost information is crucial for decisions regarding which products and services should be emphasized or de-emphasized. The incentives to allocate costs precisely are far greater when flat fees are being received instead of reimbursements of costs.

Note, too, that not-for-profit organizations have similar desires as profit-seeking organizations regarding management accounting. Accountability is now in fashion for many purposes, including justification of prices, cost control, and response to criticisms by investors (whether they be donors, taxpayers, or others).

E1-3 (10–15 min.)

1. Treasurer. Allowing credit is a financial decision.
2. Controller. Advising managers aids operating decisions.
3. Controller. Advice on cost analysis aids managers' operating decisions.
4. Controller. Divisional financial statements report on operations. Financial statements are generally produced by the controller's department.
5. Treasurer. Financing the business is the responsibility of the treasurer.
6. Controller. Tax returns are part of the accounting process overseen by the controller.
7. Treasurer. Insurance, as with other risk management activities, is usually the responsibility of the treasurer.

8. Treasurer. Analysts affect the company's ability to raise capital, which is the responsibility of the treasurer.

E1-4 (10 min.)

Paperwork and systems often seem to become ends in themselves. However, the rationale that should underlie systems design is the cost-benefit philosophy that is implied in the text of the exercise. The aim is for the improvement in revenue and/or reduction in costs due to better decisions to outweigh the costs of the accounting system.

Marks & Spencer should look at each of the management accounting reports it produces with an eye toward how it helps managers make better decisions. Does it provide needed scorekeeping? Does it direct attention to aspects of operations that might need altering? Does it provide information for specific management decisions? These types of questions will help identify the benefit of the information in the report.

Then the company must consider the cost—not just the cost of collecting the data and preparing the reports, but the cost of educating managers to use the information and the cost of the time to read, digest, and act on the information. Too much information may be costly because it makes it time-consuming (and thus costly) to sift through the reams of information to find the few items that are important. An additional cost may be the loss of important information because the total volume of information makes it too difficult to ferret out the important items.

E1-5 (5 min.)

- | | | |
|--------------------|---------------------|---------------------|
| 1. Line, support | 3. Staff, marketing | 5. Staff, support |
| 2. Line, marketing | 4. Staff, support | 6. Line, production |

E1-6 (30 min.)

Microsoft is a company that most students will know and they will have some understanding of what functions its managers perform. Nevertheless, this may not be an easy exercise for those who have little knowledge of how companies operate.

Research and Development—Because software companies must continually come out with new products and upgrades to their current products, this is a critical function for Microsoft. More than one-fourth of Microsoft's operating expenses is devoted to R&D.

Product (service) and process design—For Microsoft, the design and R&D process overlap considerably. Product design is critical; process design is probably less critical. One essential part of design is beta testing, that is, field testing of new software. This quality-control step is essential to prevent customer dissatisfaction with new products.

Production—Microsoft produces discs and CD-ROMs and the manuals and packaging to go with them. However, software is increasingly delivered and updated over the Internet, which takes an initial process design and then few resources. Thus, production of physical items is becoming a less important focus for Microsoft.

Marketing—Microsoft spends more on sales and marketing than on any other operating expense. Increasing competition in software sales makes marketing essential to the company's future. This function includes advertising and direct marketing activities, but it also includes activities of the company's sales force.

Distribution—This function is becoming simpler for Microsoft as it delivers more and more software over the Internet. As long as the company does not fall behind competitors in delivery methods, this is not likely to create a major competitive advantage or disadvantage for Microsoft.

Customer service—Customer service is important, but Microsoft tries to minimize costs in this area by good product design—making things work right for customers without deep computer expertise. Poor customer service can severely impact a company, so Microsoft must attend to it.

Support functions—Most of the time these are not a major focus. One major exception for Microsoft is legal support—the future of the company depended on some recent court decisions.

E1-7 (5 min.)

- | | | |
|---------------|---------------|--------------|
| 1. Management | 4. Management | 7. Financial |
| 2. Management | 5. Management | |
| 3. Financial | 6. Financial | |

Problems

P1-1 (10 min.)

Anderson implies that technical skills are not enough for successful management. The understanding of the financial implications of management decisions is also required, particularly in a competitive environment.

Management accounting helps managers to weigh their alternatives in light of financial and non-financial considerations.

P1-2 (10–15 min.)

1. Boeing's competitive environment and manufacturing processes changed greatly in recent years. An accounting system that served them well in their old environment would not necessarily be optimal today. Boeing's management probably thought that changes in the accounting system were necessary to produce the kind of information necessary to remain competitive.
2. A cost-benefit criterion was probably used. Boeing's management may not have quantified all the costs and benefits, but they certainly assessed whether the new system would help decisions enough to warrant the cost of the system.

Many of the benefits of a better accounting system are hard to measure. They affect many strategic decisions of an organization. Without accurate product costs, management will find it difficult to accurately assess the consequences of their decisions.

3. More accurate product costs will usually result in better management decisions. But if the cost of the accounting system that produces the more accurate costs is too high, it may be best to forgo increased accuracy. The benefit of better decisions must exceed the added cost of the system for a change to be desirable.

P1-3 (10 min.)

1. There are many possible activities for each function of Nike's value chain. Some possibilities are:

Research and development—Determining changes in customers' tastes and preferences for shoes and sportswear to come up with new products (maybe the next Air Jordans).

Product, service, and process design—Design a shoe to meet the increasing demands of competitive athletes.

Production—Determine where to produce products and negotiate contracts with the companies producing them.

Marketing—Signing prominent athletes to endorse Nike's products.

Distribution—Select the best locations for warehouses for distribution to retail outlets.

Customer service—Formulate return policies for products that customers perceive to be defective.

2. Accounting information that aids managers' decisions includes:

Research and development—Trends in sales for various products, to determine which are becoming more and less popular.

Product, service, and process design—Production costs of various shoe designs.

Production—Measure total costs, including both production costs and transportation costs, for production in various parts of the world.

Marketing—The added profits generated by the added sales due to product endorsements.

Distribution—Storage and shipping costs for alternative warehouse locations.

Customer service—The net cost of returned merchandise, to be compared with the benefits of better customer relations.

P1-4 (10–15 min.)

This problem can lead to a long discussion. Pointing out the problems can be done reasonably quickly but formulating solutions can take much longer.

1. The appropriate accounting information presented correctly should be helpful to managers. It is clear that Belton does not regard the accounting performance reports as helpful. Some key problems are:

- Belton refers to “their” budget, meaning that the budget belongs to the controller’s department, not to him and his department. Managers should be involved in formulating the budget so that they accept it as a reasonable target.
- The controller’s office shows up only when costs are over budget. Controllers should not be “police officers.” They should be business advisers who provide continual assistance, not occasional reprimands.
- Belton clearly does not understand the performance reports. An important role for the controller is education of managers on how to use accounting information.
- Belton believes the performance report has nothing to do with what happens on the shop floor. He may be right. Accounting reports often arrive too late and are not specific enough to be useful to front-line managers. If so, the reports should be changed or the results used differently.
- Paperwork takes time away from other activities. This is especially a problem when the numbers have little value to those putting in the time.
- Budgeting is not taken seriously, so the numbers reported by Belton and his subordinates are not reliable.
- Things have gotten so bad that Belton has an attitude problem toward the controller’s office. Tanaka is meeting him for the first time, and he is already disrespectful of her.

2. Tanaka has major problems. Her first task is to get the cooperation of Belton and his subordinates. This will probably involve changing the accounting reports received by the line managers, and it will certainly involve changes in how these

reports are presented and used. If the reports are not useful, she needs to find out why. Then she can change the reports so that the managers find them helpful. She needs to show managers how they can use information to make better decisions.

Foremost, Tanaka has to change the attitudes of the line managers toward the controller's department. This will take time, and it will require some specific instances where the controller or her staff provides information that the managers perceive as useful. To do this, she may need to change the accounting system to produce better information, and she needs to teach her controller's department staff how to present information in a nonthreatening way.

There is no one solution to Tanaka's problems. Different managers would handle it in different ways. If students have had experience, there will be many suggestions about how to proceed. For students with little experience, it may be sufficient to point out the variety of possible approaches.

P1-5 (10–15 min.)

1. Line authority is held by those managers directly responsible for the production and sales of goods or services. Staff authority is held by persons who have an indirect responsibility for the production and sale of goods and services. Staff provide expertise, advice, and support for line positions; line managers are directly responsible for achieving the basic objectives of the organization.

Conflicts between line and staff can arise for many reasons, ranging from the types of people that are generally attracted to each type of position to their responsibilities in the organization. Among the reasons are:

- Staff personnel tend to be younger, better educated, more professionally established.
 - Line managers see staff managers as threats to their authority.
 - Line managers are uncomfortable when they must rely on the knowledge and expertise of staff.
 - Line managers often think staff managers overstep their authority and have a narrow view of the world.
 - Staff managers often think line managers ignore their advice and resist their ideas.
2. Biddle has a staff position, providing advice to the controller. His main conflicts will probably arise with the chief accountant and the managers under him. He reports to the chief accountant's superior, but he prepares reports that affect the operations in the chief accountant's area of responsibility.

Kelly is in a line position because she is an integral part of the company's main line of business, leasing equipment. Her main conflicts are likely to arise in areas such as requisitioning of equipment and billing of customers, where she must rely on other departments over which she has no authority.

Dukes is in a staff position because accounting is not directly involved with sales or delivery of leasing services. He provides counsel and advice to all the line managers and most of the staff managers in the company. Conflicts may arise if he tries to exert authority instead of just giving advice or if the other managers ignore his advice.

Sefcik is in a staff position and offers advice to most other managers in the company. Conflicts might arise if managers perceive her advertising of positions or screening of candidates as not fulfilling their needs, or if she tries to exert her preferences instead of the hiring department's preferences into the advertising and screening activities. Conflicts can also arise in the performance evaluation functions, where she may be enforcing an unpopular policy.

P1-6 (15–20 min.)

1. Because of the principle of confidentiality, the information in the geologist's report should not be revealed.
2. From Exhibit 1-13, Article II on the relationship of the accountant to the profession requires a standard of integrity that would require one to reject the invitation.
3. This is a difficult ethical problem, one that deserves discussion. Two ethical standards apparently conflict. Confidentiality (Article V in Exhibit 1-13) would lead to nondisclosure, provided there was no legal requirement to do so. However, there may be negative consequences for the accounting profession arising from failing to disclose the information about additional losses, and Article II on relationship to the profession should also be considered.
4. Article I in Exhibit 1-13 on competence and proficiency would apply, leading one to research the tax law before deciding whether to deduct the item.

Cases

C1-1 (20–30 min.)

1. In accordance with textbook Exhibit 1-13, "Code of Professional Ethics, and Rules and Guidelines of Professional Conduct," management accountants should not condone the commission of acts by their organization that violate the standards of ethical conduct. Management accountants have a responsibility to:
 - refrain from either actively or passively subverting the attainment of the organization's legitimate and ethical objectives.
 - communicate favourable as well as unfavourable information and professional judgments or opinions.
 - refrain from engaging in or supporting any activity that would discredit the profession.

2. The first alternative being considered by Rebecca Long, seeking the advice of her boss, is appropriate. To resolve an ethical conflict, the first step recommended is to discuss the problem with the immediate superior, unless it appears that this individual is involved in the conflict. In this case, it does not appear that Long's boss is involved.

Releasing the information to the local newspaper would be an inappropriate course of action. Communication of confidential information to anyone outside of the company is inappropriate unless there is a legal obligation to do so, in which case Long should contact the proper authorities.

Contacting a member of the board of directors would be an inappropriate action at this time. Long should report the conflict to successively higher levels within the organization and turn to the board of directors only if the problem is not resolved at lower levels.

3. Assuming there is no established company policy in place to resolve the conflict, Long should report the problem to successively higher levels of management until it is satisfactorily resolved. There is no requirement for Long to inform her immediate supervisor of this action, because he is involved in the conflict. Long could also clarify the situation by confidential discussion with an objective adviser to obtain an understanding of possible courses of action. If the conflict is not resolved after exhausting all courses of internal review, Long may have no other recourse than to resign from the organization and submit an informative memorandum to an appropriate representative of the organization.

C1-2 (45–60 min.)(CICA)

This case can serve as a general introduction to the subject of management accounting, even though a thorough response would go well beyond the students' capabilities at this time. Instructors may wish to return to this case at a later point.

1. In all cases it is important to first focus on the company's key success factors (KSFs). This will assist in keeping the attention on those issues of most importance.

Earthstone Clays Ltd. (ECL) began as a small pottery studio, selling pottery on consignment. At this time its KSFs could have been:

1. contacts with local craftspeople,
2. good inventory records to recognize those artisans' products that sold,
3. reputation for creative and innovative products, and
4. location with high-volume traffic.

With these KSFs, ECL's information system needs would be quite simple.

ECL has now grown and changed considerably and its KSFs are now very different, as follows:

1. maintain a wide product line,
2. maintain sufficient inventory levels, recognizing the cost of carrying inventory and the product line's profits,
3. cash management
4. accounts receivable management,
5. supplier and purchasing decisions,
6. maintain good personnel and performance evaluation, etc.

An information system would assist ECL's president in managing many of these KSFs.

2. A management accounting information system assists management by providing information useful for decision making, planning, and control. ECL is a relatively small business and, except for a small amount of manufacturing, is primarily an intermediary between manufacturers and consumers. Therefore, the company's key concerns should lie in inventory and product-line control and cash management.

The first component of a management information system would provide information on the profitability of the company's products. Many businesses are unaware that some products make large contributions to the success of the company, while others may, in fact, cost the company money to carry them. A useful approach is to use a contribution margin analysis (which is the difference between selling price and variable costs). This will tell what amount a product contributes to the fixed costs of the business. If a product does not have a positive contribution margin, the selling price should be increased; or, if that is impossible, the product should be deleted from the line.

It is important to note that contribution margin is a short-run concept and that, over a longer period, the company's products must cover all the fixed costs of the business and contribute to profitability. Therefore, when using the contribution margin information, one must ensure that the margins over the entire product line will cover fixed costs and leave a profit.

Also necessary is information on the sales level of each item. A high contribution margin for a product is fine, but if none are sold there is no benefit in having the item. Therefore, the system should accumulate information on a product-by-product basis to allow for making decisions on whether a product should be deleted from the line. Remember that the cost of carrying inventory is, in part, a function of the number of items carried; if one can reduce the number of items carried without affecting one's business, one should do so.

An inventory monitoring system by store location will also assist in inventory control. By centralizing such information, it may be possible to reduce inventory levels by transferring inventory between stores rather than having one store order inventory when another has a large supply. It should also assist in unnecessary buildups due to poor recordkeeping.

Cash management is one of the key functions of a business, especially a smaller one. To plan for periods of cash shortages, annual and monthly cash budgets (perhaps weekly should be considered as well) should be prepared to monitor whether the actual cash position is in line with expectations. Such a budgetary system allows management to respond to problems before they become crises.

Similarly, operating budgets should be prepared on an annual and monthly basis, so that performance can be monitored and reacted to. The emphasis must be placed on the cash management aspect, however.

Because the company has a number of stores, a system of performance evaluation for each store will probably be beneficial. Such information will help determine if and why some stores are doing better than others. In part, such information can be integrated into the product information discussed earlier. Information on sales by product by store can give information on the product emphasis at that location and should assist in making decisions on the products that should be carried in each store. Profitability information will help assess the viability of locations and identify areas requiring cost cutting. Without store-by-store information, such analysis is not possible.

C1-3 (30 min. preparation time and 20 min. debate time)

Some arguments, not an exhaustive list:

In favour of the resolution:

It is not difficult to argue, based on the newspaper article, that Mr. Crothers suffered harm to his career and financial loss. He said, "I've taken a lot of personal pain and agony over this." It is more difficult to argue that his actions created more harm for the accounting profession, but it can be asserted that if his designation were reported in media coverage, guilt by association with corporate espionage could result. It appears from the story that WestJet lawyers investigated his personal finances, and related coverage by media may have suggested that he had financial motives for blowing the whistle.

Opposed to the resolution:

Mr. Crothers may well have suffered more if he had not blown the whistle. He might not have paid a financial or career cost, assuming that the spying would never be revealed, but he had a strong sense of duty. It would have upset him not to live up to the standards of his father. Regarding harm to the profession, media coverage of whistleblowers is usually favourable, so reporting the spying probably would have raised the profession's public standing. Harm to the profession may well have been greater if he had not blown the whistle, but if spying had been exposed later by some other means, the profession could have been discredited through his continued association with the airline and his silence.

The debate is framed in terms of harm rather than what the correct ethical decision would be, regardless of consequences. The purpose of this frame is to show that even though ethical choices may appear obvious, they are not cost-free, and personal costs differ from professional costs.

Excel Application Exercise

Please refer to the solution provided for 1-A2.