

# Instructor's Manual

## Management Control Systems

Third Edition

**Kenneth A. Merchant**  
**Wim A. Van der Stede**

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# Contents

Chapters	Pages
<b>I Introduction</b>	
1. Introduction	6
2. Model Syllabi	9
3. Case Matrix	70
4. The Case Method of Instruction: Suggestions for Students	75
<b>II Teaching Notes for Cases</b>	
1. Leo's Four-Plex Theater	81
2. Wong's Pharmacy	83
3. Private Fitness, Inc.	84
4. Atlanta Home Loan	86
5. Armco, Inc.: Midwestern Steel Division	91
6. Loctite Company De Mexico, S.A. de C. V.	97
7. Puente Hills Toyota	101
8. Houston Fearless 76, Inc.	106
Includes (1) Teaching Note Addendum: Student Exam Assignment and Report; (2) the Houston Fearless 76, Inc. (A): Aftermath case; and (3) the Houston Fearless 76, Inc. (B) case.	
9. The Platinum Pointe Land Deal	125
10. Axelon N.V.	130
11. Alcon laboratories, Inc.	139
12. Controls at the Bellagio Casino Resort	143
13. The Lincoln Electric Company	149
14. PCL: A Breakdown in the Enforcement of Management Control	154
15. Philip Anderson	155
16. Sunshine Fashion: Fraud, Theft and Misbehavior Among Employees	161
17. Fit Food, Inc.	162
18. Diagnostic Products Corporation	168
19. Game Shop, Inc.	174
20. Family Care Specialists Medical Group, Inc.	182
21. AirTex Aviation	188
22. Kranworth Chair Corporation	195
23. Toyota Motor Sales	203
24. Zumwald, AG (with Erratum on page 208)	209
25. Global Investors, Inc.	213
26. Citibank Indonesia	219
27. HCC Industries	226
28. Patagonia, Inc.	232
29. VisuSon, Inc.: Business Stress Testing	238
Two VisuSon, Inc. databases are available online on the publisher's website – one for instructors, and one for students.	
30. Harwood Medical Instruments PLC	244
31. Superconductor Technologies, Inc.	248

32.	Tsinghua Tongfang Co. Ltd.	256
33.	Raven Capital, LLC	262
34.	Behavioral Implications of Airline Depreciation Accounting Policy Choices	273
35.	Las Ferreterías de México, S.A. de C.V.	277
36.	Industrial Electronics, Inc.	282
37.	Haengbok Bancorp	286
38.	Berkshire Industries PLC	290
39.	Catalytic Solutions, Inc.	299
40.	First Commonwealth Financial Corporation	307
41.	Statoil	315
42.	Olympic Car Wash	324
43.	Southern California Edison	327
44.	Beifang Chuang Ye Vehicle Group	335
45.	Hoffman Discount Drugs, Inc.	338
46.	Formosa Plastics Group	342
47.	Bank of the Desert The teaching notes for Bank of the Desert (A) and (B) are combined. Includes Bank of the Desert: Appendix. The Bank of the Desert database and a set of teaching slides are available online on the publisher's website.	348
48.	Vector Aeromotive Corporation	361
49.	Golden Parachutes?	367
50.	Pacific Sunwear of California, Inc.	371
51.	Entropic Communications, Inc.	376
52.	Financial Reporting Problems at Molex, Inc.	382
53.	Don Russell: Experiences of a Controller/CFO Includes the Don Russell (A) case.	390
54.	Desktop Solutions, Inc. (A): Audit of the St. Louis Branch (B): Audit of Operations Group Systems	400
55.	Landale PLC	405
56.	Two Budget Targets	408
57.	Conservative Accounting in the General Products Division	411
58.	Education Food Services at Central Maine State University	416
59.	The Sales Acceleration Program	420
60.	Expiring Software License	424
61.	Lernout & Hauspie Speech Products	427
62.	ConAgra Grocery Products Company	434
63.	Lincoln Electric: Venturing Abroad	439
64.	TECO Electric & Machinery Co. Ltd.	451
65.	Kooistra Autogroep	455
66.	City of Yorba Linda, California	464
67.	Waikerie Co-Operative Producers Ltd.	469
68.	Boston Lyric Opera	473
69.	University of Southern California: Responsibility Center Management System	492

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#### **For instructors**

- A complete, downloadable Instructor's Manual
- PowerPoint slides that can be downloaded and used for presentations

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# Introduction

One constant in the teaching of virtually all courses in management control systems (MCSs) is their heavy use of the case method of instruction. Even instructors who are most comfortable lecturing and/or who like to describe the management control issues through relatively formal (for example, agency theory) models find it useful to use cases to illustrate the lecture points or the key parameters in the models. This textbook is set up to facilitate the teaching of MCS cases. In addition to the text material, the book includes 71 cases of great variety. Thus, it can be used in courses in which instructors use a case in virtually every class, or it can be used in courses in which only a few cases are used.

Our own teaching style involves the use of many cases, with considerable student participation in the discussions. This type of course makes some students, particularly those who have not experienced a case course before, quite uncomfortable. We thus sometimes find it necessary to “sell” the advantages of the case method. To this end, instructors can use the note called “The Case Method of Instruction: Suggestions for Students” which can be handed out either in or before the first day of class. This note is included in this manual for your consideration and possible use.

As for course organization, there is no one “template” approach. Management control is a complex, multidimensional subject, and courses in MCSs can be organized in many ways. The outline of the textbook provides one way that we have found useful for organizing the materials.

Even with the same outline, instructors can choose to use quite different sets of cases and different case orderings. This is because, unlike simple problems, most of the cases included in the book describe rich real-world examples, and real-world examples usually do not illustrate just one point.

Consider, for example, the new Statoil case which is included in Chapter 11 (Remedies to the Myopia Problem) because Statoil uses a key-performance-indicator (KPI) structure that is Balanced Scorecard-like to deal with some issues associated with more traditional approaches to performance measurement, as discussed in Chapter 10 (Financial Performance Measures and Their Effects). But the case can also be used effectively with Chapter 8 (Planning and Budgeting) because Statoil separates the functions of target setting, forecasting, and resource allocation using the principles of ‘Beyond Budgeting’. Statoil also relies quite substantially on subjective performance evaluations in determining incentives as discussed in Chapter 9 (Incentive Systems). Finally, students have to consider the industry characteristics, the organization structure, the characteristics of the people in key positions, and the company’s history (e.g., a recent merger), some of which are dealt with in Chapter 16 (The Influences of Environmental Uncertainty, Organizational Strategy, and Multinationality on Management Control Systems). All told, the case can not only be used to focus on any of these issues but also as a powerful integrative case cutting across several topics related to the design and operation of a management control system.

Similarly, take the Toyota Motor Sales case which we included in Chapter 7 (Financial Responsibility Centers) because it illustrates a possible change from a revenue center structure to a profit center structure. However, this case can also be used effectively in Chapter 10 (Financial Performance Measures and Their Effects) because an important concern in the case is whether a focus on accounting profits will make the new profit center managers (regional general managers) excessively short-term oriented (myopic); in Chapter 12 (Using Financial

Results Controls in the Presence of Uncontrollable Factors) because controllability is a critical issue that must be considered in deciding whether to give the regional general managers profit responsibility; or in Chapter 16 because it illustrates how external forces, in this case changes in the competitive environment, affect business strategies and, in turn, MCSs.

To give yet another example, the Catalytic Solutions case, which is included in Chapter 11 (Remedies to the Myopia Problem) to illustrate the use of nonfinancial performance measures, also can be effectively used in Chapter 2 (Results Controls), Chapter 6 (Designing and Evaluating MCSs), and Chapter 9 (Incentive Systems). It deals with designing and evaluating a new, first-time incentive system (Chapter 6) to motivate employees toward generating desired organizational outcomes (Chapter 2) that are primarily nonfinancial and long-term in nature (Chapter 11). The case can also be used in Chapter 16 because of the critical importance in this start-up company of meticulously executing strategy and dealing with the high uncertainty and risk in the environment.

To help instructors with their case choice decisions, we included in this manual a so-called “Case Matrix” showing the multiple links between cases and chapters.

The following pages also show several course organizations we use in various teaching programs. The first syllabus (**Model Syllabus 1**) is for an undergraduate half-semester course taught in a two-classes-per-week format over 7 weeks. The second syllabus (**Model Syllabus 2**) shows the contents of a 5-week module focused on management control as part of a senior undergraduate management accounting course taught in a two-classes-per-week format (through a combination of weekly lectures and seminars). The third syllabus (**Model Syllabus 3**) is for a 15-week semester-long elective course in the MBA program, thus providing 30 sessions (2 class meetings per week) of materials in this topic area. The fourth syllabus (**Model Syllabus 4**) shows a 10-week term format to offer these materials to MSc students, again through two meetings (one lecture and one seminar) per week. The final syllabus (**Model Syllabus 5**) is essentially Model Syllabus 3 but offered as a single 3-hour class meeting per week. A format with one long class each week makes it difficult, but not impossible, to use two cases each week. Instead of using two cases, instructors may choose to use lectures, in-class exercises, video clips, and so on, to break up the format.

You will also see that we used some cases “out of order;” that is, in conjunction with a chapter reading different from the chapter in which the case is included in the book. That is why we emphasize that both the inclusion of the cases in the chapters and these guides are merely illustrative. We encourage instructors to adapt the materials to their own organization and teaching emphasis. In so doing, we hope that the alternatives illustrated in the case matrix will prove helpful.

Finally, some teaching materials have been made available electronically on the publisher’s website ([www.pearsoned.co.uk/merchant](http://www.pearsoned.co.uk/merchant)). These include, particularly, instructional transparencies for each chapter of the book developed by Wim A. Van der Stede, as well as databases (Excel spreadsheets) for the Bank of the Desert (A) and (B) and the VisuSon, Inc. case studies.

June 2011

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# Model Syllabus 1

## Accounting 476—Performance Measurement Issues

### Leventhal School of Accounting, University of Southern California

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<b>Class Hours</b>	T/Th 2:00–3:50 p.m.
<b>Classroom</b>	ACC 310
<b>Office Hours</b>	By appointment. Arrange by e-mail. I will do my best to accommodate your schedule.
<b>Prerequisites</b>	ACCT 372
<b>Honor Code</b>	The Leventhal School Student Honor Code took effect on September 1, 1993. All students are subject to the Code and are responsible for familiarizing themselves with it. If needed, copies may be obtained from the receptionist in ACC 101.
<b>Text</b>	K. A. Merchant & W. A. Van der Stede (2012), <i>Management Control Systems: Performance Measurement, Evaluation and Incentives</i> . London: Financial Times/Prentice-Hall, 3 <sup>rd</sup> edition.

### Course Objectives

This course is designed to broaden and deepen your conceptual and technical understanding of accounting as it is used for management purposes. The emphasis in the course is on *financial controls*, which dominate in importance at managerial levels in all but the smallest organizations. Using financial controls requires managers to make decisions about: (1) responsibility structures (e.g., cost centers, profit centers), (2) performance measures (e.g., market, financial, and/or nonfinancial measures, and their combinations), (3) performance evaluations, which take into consideration performance targets or other benchmarks, and (4) rewards (including performance-dependent compensation). The course is issue-oriented, with current and emerging issues as a major focus.

Merchant & Van der Stede, *Management Control Systems*, 3<sup>rd</sup> edition, Instructor's Manual

The course is built around a textbook—Merchant and Van der Stede's *Management Control Systems*. The text will be supplemented with some additional materials that will be distributed via Blackboard.

The focus of most of the classes will be on a case that brings the topics “to life” and provides issues for us to discuss. The readings are intended to provide background that is useful for informing the case discussions. For each case, I will provide some Discussion Questions. These questions are intended to help frame and focus your reading and consideration of the course materials.

The cases require advance preparation and thought. I encourage you to prepare the cases in a study group. Much of the learning comes from sharing and discussing your ideas with your peers.

## Grading

In-class quizzes	50 points
E-mail questions and class participation	50 points
Final exam	<u>100 points</u>
<i>Total</i>	<i>200 points</i>

The **quizzes** will be given in a few classes on an unannounced basis. As protection against the possibility of a bad day or an unlucky absence, in computing my course grades I will disregard the lowest quiz score.

On the bottom of many of the class assignments, you will see that I have included an “**e-mail question**.” Prior to noon before our class pertaining to that assignment, please send me an e-mail message answering the question(s) for that day's class. This is not intended to be a time-consuming obligation. Your answers should be brief—**three sentences or less** for each question.

Your answers to the e-mail questions serve multiple purposes. First, they help me to get to know you and to see how you think. Second, these messages open the communication channels between us. Since you have to send me a message, it is easy to append another thought. In the past, some students have used this opportunity to ask a question on another topic or to give me some feedback about the course. I welcome this. I might also respond immediately to your e-mail question answer. Third, your e-mail answers help me orient the class discussion. For example, they help me both to judge the mindset of the class and to find people with unique perspectives. Finally, the questions are functional because they encourage good advance preparation. The regularity with which you input your e-mail question answers on a timely basis and the quality of your answers will form part of your participation grade.

I assign a material proportion of the grade based on **class participation**. I do this for several reasons. First, it improves my grading accuracy. I think I can learn more from hearing you share your ideas in a long series of classes than I can from reading what you write in a short exam session. I keep track of participation in every class.

But perhaps more important than that, grading class participation motivates class participation, and having highly interactive class sessions helps the learning process. Active class