

# [Cost implications](https://assignbuster.com/cost-implications/)

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The importance of a change in accounting standards must be weighed against personnel costs. It would appear Bob Hager needs the cooperation of NuTone management, accounting and manufacturing staff since they set the labour standards. This will inevitably cause confrontation with Jim Rankin. Rankin is " well liked by employees at all levels" 33. This emotional attachment to the organisation may have clouded NuTone employee judgement34 in support of Rankin; especially that of P. Dionne, NuTone's Director ofFinanceand Controller.

Thus implementing actual cost accounting may cause anti-Scovill sentiment within the ranks of NuTone. Further it is a " monumental job... to change these standards" 35 and " running with two sets of books" 36 will be costly in terms of personnel and duration. This will inevitably " cost NuTone margin" 37. Scovill must also consider the implications for their other operating units. A change to actual costs sets a precedent for minimum reporting requirements for the " full absorption method" 38.

Therefore other operating units will have to adhere to actual cost standards. For Actual Labour Costs: A confrontation with Rankin seems inevitable. Anti-Scovill sentiment can be eliminated by introducing employee compensation incentives for senior management39 focused on a change in accounting standards and long term strategy. This will effectively appease resistance while motivating a gradual change in accounting standards. Recommendations: It is effective to analyse why the problem exists before making recommendations.

It seems management compensation incentive is solely focused on a financial scorecard, they over compensate favourable variances to balance out their unfavourable variances since their manufacturing controls are weal while labour efficiency standards are out of date. Implement actual labour costs concurrently with standard labour costs: Here Bob Hager will raise the issue with the audit committee. NuTone will adopt dual accounting standards in an attempt to phase out the actual cost basis. The advantages will significantly outweigh the disadvantages. Advantages: 1. Strategy: a.

Maintain NuTone's autonomy and allow them to slowly modify their strategy as markets become increasingly competitive. b. Maintain Scovill's decentralized nature by encouraging NuTone to independently change their strategy. 2. Philosophy: a. Short term: NuTone may continue to be the 'jewel' of Scovill. 3. Manufacturing: a. Long Term: The dual system will provide the requisite " reality check" on long term investment decisions. Long term implementation of actual costs will provide certainty and accuracy in financial statements. 4. Cost implication: a. Employeemotivationwill outweigh possible anti-Scovill sentiment.

Disadvantages: 1. Cost implication: a. Increased cost of personnel. This is to be considered a long term investment and can be offset against the benefit of increased margins as a result of better long term decisions. b. Possible confrontation with Jim Rankin. This can be offset with compensation schemes to appease and motivate the dual system and long term change. 2. Manufacturing: a. Short Term Effects: increasing CCA, increasing distortion of actual costs, more bad decisions, increased focus on financial measures, warping of NuTone's performance scorecard and loss of profits in competitive markets.

Recommendations: 1. Incentive Compensation: a. Adopt non-financial incentive plans to balance a compensation scoreboard. b. Minimise focus on short term financials (EPS, Performance, Sales). c. Reward compliance and performance with implementation of actual cost basis. d. Increase the bonus for achieving an additional 100 percent efficiency over standard after updating the standard to a lower percentage level. 2. Controls: a. Tighten controls to minimise unfavourable variances and reduce the pressure of satisfying the little costs at year end. b. Track scrap to avoid further losses.

c. Reduce shrinkage and employee theft. d. Standardise labour costs to avoid differences in day work rates and overtime 3. Labour Efficiency: a. Frequent reviews and updates need to be made on labour efficiency standards. b. Tighter control over labour efficiencies The actual cost basis should phase out the standard basis over time. Scovill should budget for increased personnel to join NuTone to implement the change. Incentive compensation schemes40 should be used to encourage NuTone employees and managers to adopt the dual system and slowly phase out standard costs.

This is the preferred course of action. It is like taking a long trip. You would set your clock as you passed through the relevant time zones. By the time you arrive at your destination, your body(system) will have adjusted to the change. Therefore it seems Bob Hager, as corporate controller must exercise his discretion in an objective manner. It seems there is one preferable course of action that will benefit both Scovill and NuTone. Thiscase studyhighlights the importance of a controller and an effective Management Control System. Further it shows how today's control (actual cost basis) can become tomorrow's strategy for NuTone.

Bibliography: List of Articles and Books: Books: 1. Robert N. Anthony, Vijay Govindarajan, Management Control Systems (11th ed, 2004) 2. Kenneth A. Merchant, Modern Management Control Systems: Text and Cases (1998) Articles: 3. Merchant, Kenneth A. , and Lourdes Ferreira. Scovill Inc. : NuTone Housing Group. Boston, HarvardBusiness School Publishing, 1993 at p6 according to Bob Hager