

# Management accounting system



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## Question 1

(a) Simons (1999, pg 768) describes intrinsic motivation as “ desire to engage in behaviors or actions in anticipation of internally- generated rewards such as personal feelings of accomplishment” and extrinsic motivation Simons describes as (1999, pg 766) “ desire to engage in behaviors or actions in anticipation of tangible rewards, such as money or promotion”. Extrinsic motivation is created by financial incentives. An incentive as Simons (1999, 767) describes as being “ a reward or payment that is used to motivate performance.

The two types of motivation mentioned above can be used to design a rewards package for the product center managers. First I will discuss intrinsic motivation; this type of motivation is “ from within” (as Simon states (1999, pg 245)) rather than external. Managers can improve intrinsic motivation, Simon’s (1999, pg 245) states “ they can make people proud of where they work” and also “ they can involve subordinates in the goal-setting process to increase the likelihood that subordinates will see the goals as legitimate.

If subordinates are included in the process of setting goals-asked to provide input and information -they are more likely to feel that the goals are legitimate and work more diligently to achieve them”. The motivation is aligned to Air Tex Aviation’s performance goals, which are, the granting of credit but managers have performance goals set by Ted, monthly charges against their departmental profits, managers are more likely to stick to the rules set by Ted because they are in control of credit.

Also, the purchasing of capital equipment and operating supplies but having predetermined limits gives the managers a sense of control and able to make decisions without having to ask permission whenever a purchase was to be made. Moreover, product managers are allowed to set policies such as pricing for products or services. They also have the power to hire, fire, and administer the salary. Product center managers can be rewarded because they have the responsibility to do the above and are free to make choices within set boundaries. Other rewards can be meaningful managers may feel they are doing something important.

Also, another reward is having the competence, managers can feel satisfied. Lastly, another reward is having a sense of progress, product center managers will feel they have gained something. I will now discuss the extrinsic incentives, Simons (1999 pg 245-246) states “ financial performance awards-typically in the form of bonuses-can be linked explicitly to the achievement of goals and targets. Since incentives are to motivate performance Ted has allocated a 10% bonus to managers.

(b) Simon’s four levers of control can be used in the implementation of the strategy for Air Tex Aviation. Simon states “ Strategic control is not achieved through new and unique performance measurement and control system, but through belief systems, boundary systems, diagnostic control systems, and interactive control systems working together to control both the implementation of intended strategies and the formation of emergent strategies”. Simon (1999, pg 763) describes belief systems as an “ explicit set of organizational definitions that senior managers communicate formally

and reinforce systematically to provide basic values, purpose, and direction for the organization”.

Figure 14-2 Levers of control (Simon’s pg, 305) shows belief systems as “strategy as Perspective” and “Obtaining Commitment to the Grand Purpose, this in the context of Airtex Aviation is firstly Ted and Frank have taken control of the business, Ted is President and chief operating officer and Frank is chairmanship. They also have the vision to grow at a rate of 20% per year for the first five years. To implement strategy Ted and Frank decentralized authority and made each operating activity a profit center and grouped them by departments.

Departments were given authority over his operations. This creates shared beliefs and missions within the business. Employees will be more motivated because of the more control they have and they will have a sense of belonging to the business. Simon’s (1999, pg 764) describes boundary systems as “explicit statements embedded informal information systems that define and communicate specific risks to be avoided”. Boundary Systems in the situation of Air Tex Aviation is, Simon’s (1999, pg 297) described as “rules, limits and prescriptions”.

Rules in Airtex Aviation are decentralizing the business, installing a control system. Limits introduced are profit center’s having the authority to buy operating supplies and capital equipment with purchase order limits. A reason for limits is described by Simon’s (1999, pg 297) as “to allow individual creativity within defined limits of freedom”. Proscriptions include removing Sarah Arthur and her accounting system as it was not working and

introduce a control system that supports management and provides information needed in order to make decisions.

The accounting system before gave employees a lack of motivation because they were not involved in the decision-making process. Also Simon's (1999, pg 279) states "communicate standards of business conduct for all employees", that's what the new control system does, involves all employees. My recommendation to Airtex Aviation would be to use all four levers of control together as one can't work without the others. Also I would recommend the company when financially able to perhaps train managers, as most employees have only studied up to high school.

Another recommendation would be for the department managers to set out goals for their own departments, use a balanced scorecard, or something similar. Moreover, I would also recommend the business owners to draw up perhaps a mission statement or a statement of purpose and distribute it to each manager, so they know the objective and purpose of the business. Overall, the owners have turned the business around and should carry on as they have done so.

## Question 2

(a) In the article by Jones, T. C. and Dugdale, D. (1994), most of the interviewees agreed, the net present value is superior to payback.

I will summarise the views of the five interviewees below. Adam a lecturer was one of those that thought that NPV is better than PB. Adam does however think that payback, in Jones, T. C., and Dugdale, D. (1994) "works fine for simple, straightforward projects", but does say how useless it is and

NPV gives the right answer and considers time value for money. He also thinks that NPV has no disadvantage whatsoever. He also goes on to say that calculating NPV is easy because of the use of computers. Hisacademicgroup also agrees with him that NPV is superior.

Frank's chief accountant was one of those interviewed who were against NPV and suspicious of it, describing it as “ dangerous” Jones, T. C. and Dugdale, D. (1994). He has been using PB for many years and says it is simple to use and NPV is complicated, time-consuming, and “ conveys spurious accuracy” Jones, T. C. and Dugdale, D. (1994). He also says that NPV is hard for managers to understand they prefer PB. Simon a seniorfinancemanager thought no appraisal method has “ importance” but believes “ NPV only relevant with high-interest rates & long time periods”, Jones, T. C. and Dugdale, D. (1994). He believes that information given to managers should be what they want and accountants should help in making investment decisions not decide which appraisal method to use. Judy a junior finance manager prefers to use NPV rather than PB because it considers time value for money which is important in her view. She also says “ NPV gives the ability to alter assumptions & identify different outcomes” Jones, T. C. and Dugdale, D. (1994). She has very strong views for NPV and thinks managers should use this technique only.

Managers have studied MBA's so thinks it will be easy for them to understand. But “ She fears that she may be ‘ a victim of my training’ which might have been academic ‘ brainwashing’”, Jones, T. C. and Dugdale, D. (1994). Len a finance officer also says the net present value is superior to payback. He doesn't agree with Adam's suggestion that “ PB figures might

be adjusted to reflect more clearly the results of NPV analysis” Jones, T. C., and Dugdale, D, because of ethical rules. (1994).

He too like Adam finds calculating NBV easy because of the use of computers. The interviewee’s which I mostly agree with are Len, Judy, and Adam this is because they believe that NPV is superior to PB. Also, NPV considers time value of money and is easy to calculate because of the use of computers. I also agree with Judy that managers should be taught NPV because PB is simple and as Adam said NPV should be used for minor projects.

(b) Pure reasoning in my view would be coming up with answers which would be the norm and what most people would agree to.

An example in B321 case studies would have to be that of Classic Pen Company: Developing an ABC Model. Jane Dempsey came up with information by using methods such as activity-based costing used by accountants. Overall, I think pure reasoning would have the most influence on someone’s decision-making process this is because most people adhere to the norm they don’t want to be seen as deviant. Also, most people would be scared to do otherwise just in case the decision doesn’t turn out to be as expected, which may get them into a lot of trouble.

(c) My views have changed since reading the article because before I thought that calculating the net present value for investment appraisal was complex and very complicated but both Adam and Len find it easy because of the use of computers. Also before reading the article, I thought payback was completely useless and unreliable for investment appraisal but as Adam points out it is fine to use on simple projects. Also, another benefit for NPV is <https://assignbuster.com/management-accounting-system/>

that it “ gives the ability to alter assumptions & identify different outcomes”, Jones, T. C. and Dugdale, D. (1994) as Judy points out.

Both appraisal methods have their benefits, net present value has more benefits overall.