A Profitable Division with Weak Controls

Controlling & Management Accounting | Advanced | 90 minutes (estimate) | Cost allocation and close basics

Worked numerical schedule

Measure	Value	Unit
A reported profit	35,000.00	USD
B reported profit	20,000.00	USD
A corrected profit	21,000.00	USD
B corrected profit	22,000.00	USD
Corrected group profit	43,000.00	USD
Group profit correction	-12,000.00	USD
Allocation share residual	0.00	fraction
Group correction reconciliation	0.00	USD

Interpretation and recommended actions

Reported profit A $35,000 and B $20,000 becomes A $21,000 and B $22,000. Group profit falls from $55,000 to $43,000 solely from $8,000 cutoff and $4,000 inventory corrections. Allocation shifts $6,000 from A to B. Controls: revenue override approval tied to service evidence, independent count review and reconciliation, and a version-controlled allocation schedule tied to tickets with reviewer approval. These are proposals; do not claim they operated effectively.

Scoring rubric - 100 points

Dimension	Points	Awarding guidance
Calculation	40	Reported view 8; measurement corrections 12; allocation bridge 12; group result 8.
Interpretation	25	Correct application of the case rules 10; explain the business decision 10; identify evidence or limitations 5.
Controls / audit trail	20	Traceable formulas 8; independent reconciliation 8; explicit units and signs 4.
Communication	15	Decision and numerical headline 5; actions with owners and evidence 5; concise response covering all required deliverables 5.

Award method credit after an isolated arithmetic error rather than repeatedly deducting for it. Equivalent account labels and well-supported alternative recommendations are acceptable. Numerical tolerance is 0.01 in the stated units; no universal passing score is prescribed.

Common mistakes

Calling allocation changes a group saving; correcting A revenue twice; declaring a control effective from its description alone.

Staged hints

First correct measurement under the old 50/50 allocation. Then change only the key. The second step must net to zero across divisions.

Instructor notes

Prerequisites: Cost allocation and close basics. Suggested use of the estimated 90 minutes: spend roughly 15% on the lesson and smaller example, 55% on the independent task, 20% on comparing approaches and 10% on the decision discussion. Timing is untested. Ask learners to explain why the numerical check is necessary but not sufficient.

For a simpler class, provide the model structure and work through one driver. For an extension, change one operational assumption and require a new reconciliation and recommendation. Verify the new key before distributing any variant. Open files in the intended spreadsheet application before class. Solutions are learning resources, not secure hiring examinations. Expert review remains pending.