Subject : **Behavioural Accounting**

Time : Thursday, 17 April 2014

Cases From Siegel And Marconi (1989), page 118 and 156.

1. Sellum Real Estate Company is an urban real estate sales and building management firm. the total number of employees is twenty six. Sellum derives its revenues from real estate commissions, building management fees (a fixed percentage of gross total monthly rental revenues) and insurance commissions (mainly homeowners' policies).

   The company is divided into four departements: (1) real estates sales, (2) building management, (3) insurance, and (4) administrative (which includes the accounting and data processing functions).

   **Dilemma:**

   The managers of three revenue producing departments receive commissions on their sales or fees. The managers of the administrative department receives a lower annual salary than the other manager and unlike the other managers, no commission.

   The size of the firm should indicate that transfer pricing for the accounting and data processing services rendered by the administrative department would be too cumbersome given the dollars and number of people involved.

   Turnover in the administrative manager's position has been extremely high. Managers left as a result of the inequity in the payscale. This managerial position is now vacant. In a brainstorming session, the department managers presented the following proposals.

   **Proposal 1**

   Do not hire an administrative managers. As best as possible assign the accounting, administrative, and data processing function to the real estate, building management and insurance departments.

   **Proposal 2**

   Hire a new administrative manager. Offer a certain base salary and add to it a percentage of each of the other manager's commissions.

   **Proposal 3**

   Do not hire an administrative manager. Assign the administrative responsibilities to the remaining department managers and have accounting and data processing performed by an outside firm.

   **Required:**

   Which of the proposals has the greatest merit considering the various internal and external environmental factors?

2. Sleepytime Hotel Corporation (SHC) owns 100 hotels located in the west and southwest regions of the Unites States. Sleepytime hotels average 200 rooms with restaurant/bar and banquet facilities. SHC has been in the hotel business for over fifty years.

   Two years ago, due to intense competition in some of the major markets where Sleepytime hotels are located, Mr. Harmon, president of SHC, decided to add gift shops to these hotels. He had observed that SHC's biggest competitor had gift shops in all of its hotels and that they seemed to draw business from the surrounding hotels.

   **Dilemma:**

   Annual budget are reviewed and approved two months prior to the beginning of the fiscal year. Each hotel that houses a gift shop is required to include that shop in its budget. The operating results of the gift shop are included in the computation of the bonus for the hotel's general manager.

   SHC employs a corporate supervisot for the twenty five company owned gift shops. This supervisor is responsible for purchasing merchandise for the shops as well as hiring and firing the gift shop managers.

   Several of the hotel general managers have complained at budget meetings that they do not want the gift shops included in their budgets. The gift shops generally meet the budget in terms of gross sales but fail to meet their profit goals. The general managers stated that:

   a. General managers are trained in hotel/restaurant management and are not familiar enough with retail operations to give adequate supervision to the gift shops.
   b. The gift shop managers are selected by the corporate supervisor and report to that supervisor. For the most part, they operate independently of the hotel general manager.

   Confronted with these issues, the corporate gift shop supervisor replied that there is no possible way he can be in twenty five gift shops at the same time. He stressed his need for cooperation from the general managers because budget constraints do not allow him to hire seasoned gift shop managers.

   **Proposal 1**

   Keep the gift shops in the hotel bidgets, but eliminate them as criteria in the computation of general manager's bonus.

   **Proposal 2**

   Set up budgets for each of the gift shops and make the corporate supervisor responsible for the profit performance of each shop. There should be a bonus set up for the supervisor based on profit.

   **Required:**

   Discuss the merits of each proposal!