A Profitable Division with Weak Controls

Controlling & Management Accounting | Advanced | 90 minutes (estimate)

Learning outcomes

Correct segment profit and separate control failures from allocation choices. Calculate the result, reconcile it and communicate its limitations.

Method

Segment profit depends on both measurement and allocation. Correct unsupported revenue and inventory cost before applying the agreed overhead key. An allocation change redistributes group profit but cannot create it. Rank controls by the risk they address, evidence needed and operational owner.

Smaller worked example

Two divisions share $10,000 overhead. Changing A’s share from 40% to 60% lowers A profit $2,000 and raises B profit $2,000; group profit is unchanged.

Business context and rules

Fictional Summit Distribution, September 2026. A reported revenue 120,000 and direct cost 70,000; B revenue 100,000 and direct cost 65,000. Shared overhead 30,000 was allocated equally. Evidence: A includes 8,000 October services incorrectly recognized in September; assume no associated direct cost. B inventory count identifies 4,000 additional September cost not recorded. Final signed allocation policy uses service tickets: A 70%, B 30%. The revenue override lacked approval; inventory count lacked independent sign-off; allocation file was manually overwritten. Use these explicit case adjustments, not a universal accounting conclusion.

Original synthetic inputs

Input	Value	Unit
A reported revenue	120000	USD
A reported direct cost	70000	USD
B reported revenue	100000	USD
B reported direct cost	65000	USD
Shared overhead	30000	USD
A revenue cutoff correction	8000	USD
B additional inventory cost	4000	USD
A final allocation share	0.7	fraction
B final allocation share	0.3	fraction

Required deliverables

Produce a reported-to-corrected segment bridge separating measurement from allocation. Deliver a three-row control register: failure, risk, preventive / detective action, owner and evidence of operation.

Use formulas for derived amounts and preserve source data. Put narrative deliverables in the workbook response area; expand it as needed. Compare amounts within 0.01 of the stated unit and percentages within 0.1 percentage point. No unsupported balancing plugs.

Workbook structure

The student workbook intentionally leaves the analysis structure open. Build the schedules required above, retain the source inputs, and add formula-based checks. You may add worksheets. The worked solution is one acceptable structure, not the only correct layout.