Course Objectives

This course is a broad introduction to managerial accounting, and focuses on information and decision-making within an organization (in contrast to financial accounting, which focuses on accounting information for decision-makers external to the firm).

Upon completion of the course, you must be able to:
1. Define the terms and concepts used by internal management to aid in costing, planning, controlling, and decision-making activities.
2. Apply analytical tools and technical skills in a variety of management decisions such as costing, pricing, product mix, improving productivity, product design, and performance measurement.
3. Use accounting data to identify and analyze alternatives with the purpose of making managerial choices to maximize (primarily) economic benefits to a firm.
4. Evaluate important characteristics of effective cost accounting and performance measurement systems.

Course Materials

- Recommended Textbook: *Introduction to Management Accounting, 16th ed. (2014)* by Horngren/Sundem/Burgstahler/Schatzberg [HSBS]
- Course Pack on HBSP - [https://cb.hbsp.harvard.edu/cbmp/access/34111652](https://cb.hbsp.harvard.edu/cbmp/access/34111652)
- Canvas site - [https://canvas.uw.edu/](https://canvas.uw.edu/)

Requirements and Grading

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Points</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Midterm Exam</td>
<td>100</td>
<td>25%</td>
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<tr>
<td>Final Exam</td>
<td>180</td>
<td>45%</td>
</tr>
<tr>
<td>Team Projects</td>
<td>40</td>
<td>10%</td>
</tr>
<tr>
<td>Class Participation/Homework/Case Polls</td>
<td>80</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>400</strong></td>
<td><strong>100%</strong></td>
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**Midterm Exam.** There will be 2½-hour midterm examination on Wednesday, April 29 covering topics discussed in the first six class sessions. During the exam, you will be allowed to refer to an 8½ × 11 sheet (you may use both sides) with any information that you deem to be important. Please use student numbers to identify yourselves—no names will be allowed on any page of the submitted answers.

**Final Exam.** There will be a comprehensive take-home final exam. The exam questionnaire will be available at noon on Monday, June 1. Answers will be due at 11:59 pm on Monday, June 8. Again, use student ID numbers to identify yourselves—no names.

**Team Projects.** There will be three short team projects due throughout the quarter. The first project is a case write up and is due at 11:59 pm on Thursday, April 16. This write-up is limited to five pages (double-spaced), excluding any exhibits. The next two projects are based on the cases that we will discuss on Tuesday May 12 and Monday, May 18. More details will be provided as we approach those dates.

**Homework and Case Polls.** You are expected to submit your answers to online polls on the cases assigned for each class session. Links to the polls are posted on Blackboard, and responses are due at 11:59 pm on the day prior to the class discussion. Note that there will be polls due for most cases (see schedule for exceptions). Also, there will be several homework assignments required throughout the course. Both the polls and homework assignments are graded on a “check-plus, check, check-minus” system.
Class Participation. A great deal of learning takes place when you articulate your views on issues and cases. Furthermore, participating provides an opportunity for you to practice skills in public speaking and listening, as well as to hone your ability to logically develop arguments supporting your line of reasoning. Thus, you are strongly encouraged to actively participate by asking questions and contributing to discussions. I will assess class participation by combining my subjective assessment with your self-assessment which I will solicit toward the end of the quarter.

Other Concerns

Homework problems. You are encouraged to work on the assigned textbook problems (listed on the schedule detailed on the following pages) for practice, in addition to the required problem sets you will be submitting throughout the quarter. Although you may work out the problems before each class, it is suggested that homework assignments be done after the topics are discussed in class.

Attendance. I do not formally take attendance; however, it is strongly encouraged that students attend each class—and be on time. Should you miss a class, you will be held responsible for the material covered during that class. And, as a matter of common courtesy, please inform me if you will not be able to make it to class.

Office hours. If you have any questions about the course, or if you have any other questions beyond the material covered in the course (such as career and other concerns), or if you’d just like to chat, feel free to drop by my office, or send me a quick email or voicemail beforehand and I will do my best to be available.

Preparing for Class

Cases. The following approach to the analysis of cases has proven to be successful.

1. In preparing a case of more than a couple of pages, read the first few paragraphs, and then quickly scan the rest of the case (including the exhibits). This overview reading gives a feel for what the case is about and what types of analyses will be possible. The assignment questions also provide a guide to the major issues that will be discussed in class.

2. Read the entire case more carefully, underlining the material that is potentially most useful to the key issues or problems at hand. To improve understanding, some students find it helpful to translate text into visually-oriented diagrams, particularly where processes or procedures are described. Alternatively, you can prepare a preliminary analysis—bullet points will most likely suffice.

3. If assignment questions are given, try to answer them. The questions may ask for analyses, solutions, and/or action plans or may require finding or defining the problem. You are expected to, as much as possible, stick with the facts presented in the case. However, as decision-makers in actual practice don’t have perfect information, cases are also intentionally incomplete and may often be ambiguous. You are free to make reasonable assumptions when analyzing a case. However, you must also be wary of making unreasonable and unwarranted assumptions. Try to recognize the assumptions that you are making, because that recognition may help them understand why other students reached different conclusions. In many cases, differences in assumptions are revealed during the class. Clarifying the assumptions before class starts helps in understanding the class discussion.

4. In the first three steps, students’ best results will come if they have worked by themselves. The next step is to for them to discuss the case with other students. These discussions will lead, almost invariably, to a broader perspective than that which any student could achieve individually. It may also uncover errors and will often lead to an improved set of assumptions, or at least a better understanding of the assumptions made.

5. Participate actively in the class discussion of the case. Learning through the case method occurs at two different levels: on your own, as you read and analyze the case, and with the members of your class, as you are able to listen to, and critically evaluate, alternative points of view.
## COURSE SCHEDULE (in a nutshell)

<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Day</th>
<th>Topic</th>
<th>Cases</th>
<th>Due</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Mar 30</td>
<td>Mon</td>
<td>Introduction to Managerial Accounting</td>
<td>Chateau Jean Leon: Product Costing in the Wine Industry*</td>
<td>HW # 1</td>
</tr>
<tr>
<td>2</td>
<td>Apr 1</td>
<td>Wed</td>
<td>Cost Volume Profit Analysis / Cost Behavior</td>
<td>Ned’s New Wave Barbershop</td>
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<tr>
<td>3</td>
<td>Apr 6</td>
<td>Mon</td>
<td>Traditional Costing and Cost Allocation</td>
<td>Seligram</td>
<td>HW # 2</td>
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<tr>
<td>4</td>
<td>Apr 8</td>
<td>Wed</td>
<td>Cost Allocation: Capacity</td>
<td>Anagene</td>
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<tr>
<td></td>
<td>Apr 16</td>
<td>Thu</td>
<td><strong>No Accounting Class; Case due 11:59 pm</strong></td>
<td>Forrest Gump*</td>
<td>Team Project # 1</td>
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<tr>
<td>5</td>
<td>Apr 21</td>
<td>Tue</td>
<td>Activity Based Costing and Management</td>
<td>Owens and Minor (A)</td>
<td>HW # 3</td>
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<tr>
<td>6</td>
<td>Apr 24</td>
<td>Fri</td>
<td>Relevant Cost Analysis</td>
<td>Western Components/Publications Dept. at FBC Insurance</td>
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<tr>
<td></td>
<td>Apr 29</td>
<td>Wed</td>
<td>In-Class Midterm Exam</td>
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<tr>
<td>7</td>
<td>May 1</td>
<td>Fri</td>
<td>Allocating Joint and Service Department Costs</td>
<td>Wendy's Chili</td>
<td>HW # 4</td>
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<tr>
<td>8</td>
<td>May 8</td>
<td>Fri</td>
<td>Budgeting: An Overview</td>
<td>Hala Madrid!</td>
<td></td>
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<tr>
<td>9</td>
<td>May 12</td>
<td>Tue</td>
<td>Preparing a Cash Budget</td>
<td>Robot Technologies, Inc. (A)*</td>
<td>Team Project # 2</td>
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<tr>
<td>10</td>
<td>May 14</td>
<td>Thu</td>
<td>Variance Analysis (1)</td>
<td>Danshui Plant No. 2</td>
<td></td>
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<tr>
<td>11</td>
<td>May 18</td>
<td>Mon</td>
<td>Variance Analysis (2)</td>
<td>Compagnie du Froid*</td>
<td>Team Project # 3</td>
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<tr>
<td>13</td>
<td>May 28</td>
<td>Thu</td>
<td>The Balanced Scorecard</td>
<td>TWA Parts (Abridged)</td>
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<tr>
<td>14</td>
<td>Jun 1</td>
<td>Mon</td>
<td>Transfer Pricing</td>
<td>Birch Paper</td>
<td>HW # 5</td>
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<tr>
<td>15</td>
<td>Jun 3</td>
<td>Wed</td>
<td>Management Control Systems</td>
<td>ATH Microtechnologies (A) &amp; (B)</td>
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<tr>
<td></td>
<td>Jun 8</td>
<td>Mon</td>
<td>Take Home Final Exam Due 11:59 pm</td>
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There are no polls due for cases marked with an (*)
COURSE SCHEDULE AND ASSIGNMENTS

CLASS 1: MONDAY, MARCH 30

Topic: Introduction to Managerial Accounting; Introduction to Cost Behavior

Recommended Reading: HSBS Chapters 1, 2

Practice Problems: 2A-1, 2A-2, 2A-3, 2A-4

Case: Chateau Jean Leon: Product Costing in the Wine Industry [NO POLL DUE]

Discussion Questions: Questions are found at the end of the case.

Due: Homework # 1 – Answer questions at the end of the case.

CLASS 2: WEDNESDAY, APRIL 1

Topic: Cost-Volume-Profit Analysis and Cost Behavior

Recommended Reading: HSBS Chapter 3

Practice Problems: 2-47, 2-49, 2-55, 2-62, 3-46, 3-50

Case: Ned’s New Wave Barbershop

Discussion Questions: Questions are found at the end of the case.

CLASS 3: MONDAY, APRIL 6

Topic: Traditional Costing and Cost Allocation; Introduction to Activity-Based Costing

Recommended Reading: HSBS Chapter 4, pp. 122-134

Practice Problems: 4B-1, 4B-2

Case: Seligram: Electronic Testing Operations

Discussion Questions:
1. What caused the existing system at ETO to fail?
2. Calculate the reported costs of the five components described in Exhibit 6 under (a) the existing cost system; (b) the existing proposed by the accounting manager; (c) the system proposed by the consultant.
3. Which system do you prefer? Would you recommend any changes to the system you prefer?
4. Would you treat the new machine as a separate cost center or as part of the main test room?

Due: Homework # 2

Cases can be found on HBS Publishing Website [https://cb.hbsp.harvard.edu/cbmp/access/34111652](https://cb.hbsp.harvard.edu/cbmp/access/34111652)
CLASS 4: WEDNESDAY, APRIL 8

**Topic:** Issues in Cost Allocation: Capacity

**Recommended Reading:** Activity-Based Costing and Capacity

**Case:** Anagene, Inc.

**Discussion Questions:**
1. What has caused the fluctuating margins for Anagene’s cartridges?
2. Should Kelly even be concerned with the assignment of overhead costs to cartridges and gross margins that allocate overhead? Why not use variable contribution margin for management decision-making and reporting?
3. What approach do you recommend that Daniel Yeltin adopt? For your recommended approach, what will be the cartridge product costs and margins?

Team Project # 1 Due Thursday, April 16 at 11:59 pm

CLASS 5: TUESDAY, APRIL 21

**Topic:** Activity-Based Management and Activity-Based Pricing

**Recommended Reading:** HSBS Chapter 4, pp. 134-151

**Practice Problems:** 4-41, 4-42, 4-43, 4-48, 4-49

**Case:** Owens & Minor, Inc (A)

**Discussion Questions:**
1. What are the services rendered by the distributor to manufacturers and hospitals? How has the nature of distribution changed over time? What is the value-added by O&M?
2. Evaluate the impact cost-plus pricing has on distributors, customers, and suppliers.
3. What effect will ABP have on customer behavior?
4. Explain Exhibit 5. How does the pricing matrix work?
   a) How do the costs in Exhibit 5 correspond to the costs shown in the customer profitability statement in Exhibit 4?
   b) Why doesn’t the matrix comprise all the costs shown in Exhibit 4?
5. What are the obstacles to successful implementation of ABP? How would you address these obstacles?
6. What type of customers will adopt ABP first?
7. How difficult or easy is it for O&M’s rivals to adopt ABP?
8. What are the risks associated with ABP for Owens and Minor?
9. Why is Owens and Minor adopting a cost-based pricing strategy rather than value-based pricing strategy?
**CLASS 6: FRIDAY, APRIL 24**

**Topics:** Relevant Cost Analysis

**Recommended Reading:** HSBS Chapters 5 and 6

**Practice Problems:** 5A-2, 5A-3, 5A-4, 5-30, 5-36, 5-56, 5-57, 6A-1, 6A-2, 6A-3, 6A-4, 6-48, 6-61, 6-62

**Case # 1:** Western Components, Inc.

**Case # 2:** The Publications Department at FBC Insurance Agency

**Discussion Questions:** Questions are found at the end of each case.

**Due:** Homework #3

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**Midterm on Wednesday, April 29**

*Section A: 8:00 am – 10:30 am in Paccar 392*  
*Section B: 10:00 am – 12:30 pm in Paccar 390*

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**CLASS 7: FRIDAY, MAY 1**

**Topic:** Allocation of Service Department and Joint Costs

**Recommended Reading:** Chapter on Service Department and Joint Cost Allocation – on Canvas

**Practice Problems:** *(from Chapter on Canvas)* 11-24, 11-26, 11-29, 11-30, 11-32, 11-53, 11-54

**Case:** Wendy’s Chili: A Costing Conundrum

**Discussion Questions:** Questions are found at the end of the case.

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**CLASS 8: TUESDAY, MAY 8**

**Topics:** Budgeting: An Overview

**Recommended Reading:** HSBS Chapter 7, pp. 270-278

**Practice Problems:** 7-4, 7-7, 7-8, 7-9, 7-10, 7-11

**Case:** Hala Madrid: Managing Real Madrid Club de Futbol, the Team of the Century

**Discussion Questions:**

1. With the information in the case, please prepare a draft for the 2004/2005 season budget. Be aware that the figures in the case do not include the effect of the expected “galáctico” acquisition for the 2004/2005 season. When preparing the budget, consider the following decisions:

   a) With respect to the policy of new player acquisition Real Madrid is considering two options: (i) Acquiring two megastars at an estimated cost of €40 million each in transfer fees and an annual salary of €10 million, or (ii) Acquiring four rising stars, young players with enormous potential at an estimated cost of €15 million each in transfer fees and an annual salary of €3 million.
b) The new players will most likely affect the sale of team jerseys. New players’ names will be popular in the sale of new jerseys. However, some of these sales will come at the expense of cannibalizing sales of existing players’ jerseys. The marketing department has estimated that if the team acquires two megastars, additional royalties will amount to €9 million, and if the team acquires four rising stars, additional royalties are estimated to be €1 million.

c) The acquisition strategy will affect the sport potential of the team. Most sport analysts believe the rising stars strategy will have a more positive impact in the chances of advancing further in the Champions League and winning the Spanish La Liga. The immediate economic implications of sport performance are the following:

i) Advancing one more round in the Champions League increases Real Madrid’s revenue by €5 million partly for additional ticket revenue and partly for increased participation in the UEFA marketing pool. Winning the Champions League only produces a €3.5 million increase over qualifying for the semifinal (as the final, played in a neutral stadium, only increases participation in the pool).

ii) Advancing one more round in the Champions League increases salary expenses by €1 million and winning the competition will trigger bonus payments to players for €14 million.

d) On October 29, 2004 the Spanish newspaper El Mundo announced that an online betting firm, Betandwin.com had offered Barcelona C.F. €15 million a year for having its logo in the team jersey. Respected sport journalist Josep María Casanovas wrote the same day in the Barcelona C.F. friendly newspaper Sport that this was an opportunity that cannot be missed. Would you recommend to José Ángel Sánchez that he should consider signing a sponsorship contract with Betandwin.com?

e) Real Madrid does not officially decide on the accelerated amortization until the end of the fiscal year. However, you can hypothesize what would you recommend for the 2004/05 season.

2. Why do you think the budgetary process is structured the way it is (see Exhibit 7)? Thinking about the budget at your company and comparing it to the budgetary process at Real Madrid, could you assess the differences and similarities between the preparation and use of the budget at your company and its preparation and use at Real Madrid?

3. What do you think of the public nature of budget discussions at Real Madrid?

4. There is a stream of thought in business literature that recommends abandoning budgets. Do you think Real Madrid could or should abandon budgets?

Due: Homework # 4

CLASS 9: TUESDAY, MAY 12

Topic: Preparing a Cash Budget

Recommended Reading: HSBS Chapter 7, pp. 279-294

Practice Problems: 7-36, 7-37, 7-44

Case: Robot Technologies, Inc. (A)

Discussion Questions: Questions are found at the end of the case. [NO POLL DUE]

Due: Team Project # 2
**CLASS 10: THURSDAY, MAY 14**

**Topic:** Variance Analysis (1)

**Recommended Reading:** HSBS Chapter 8

**Practice Problems:** 8-26, 8-27, 8-35, 8-43, 8-44, 8-51, 8-55

**Case:** Danshui Plant No. 2

**Discussion Questions:** Questions are found at the end of the case.

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**CLASS 11: MONDAY, MAY 18**

**Topic:** Variance Analysis (2)

**Recommended Reading:** Chapter on Additional Topics in Variance Analysis (pp. 632-636) – on Canvas

**Practice Problems:** *(from Chapter on Canvas)* 17-15, 17-16, 17-18, 17-29, 17-33, 17-34

**Case:** Compagnie du Froid, S. A. [NO POLL DUE]

**Discussion Questions:**

1. How would you explain the difference between the Italian region’s expected and actual profit? Particularly, can you identify the impact of the changes in (a) sales volume, (b) prices charged for ice cream and specialties, (c) costs of raw materials, labor, and fixed costs?
2. How would you evaluate the performance of the manager of the Italian region?
3. How would you evaluate the performance of the French and Spanish managers?
4. What problems is Jacques Trumen facing? What would you recommend to him?

**Due:** Team Project #3

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**CLASS 12: WEDNESDAY, MAY 20**

**Topic:** Performance Evaluation: Financial Measures

**Recommended Reading:** HSBS Chapter 10, pp. 396-404

**Practice Problems:** 10-29, 10-30, 10-39, 10-41

**Case:** Vyaderm Pharmaceuticals

**Discussion Questions:**

1. Using the data from Exhibit 8, calculate the following items:
   a) 2000 EVA for the North American Dermatology division.
   b) 2000 EVA bonus payout for a manager earning $200,000, assuming that the manager’s bonus is based 100% on the division’s EVA.
   c) 2001 EVA and estimated bonus payout for the same manager, assuming that Vyaderm profits fall back to historical levels and the EVA improvement goal remains constant.
2. Based on your analysis, what would you recommend to Mr. Vedrine?
**CLASS 13: THURSDAY, MAY 28**

**Topic:** The Balanced Scorecard  
**Recommended Reading:** The Balanced Scorecard: Measures that Drive Performance  
**Practice Problem:** 9B-3  
**Case:** TWA Parts (A)  
**Discussion Questions:** Questions are found at the end of the case.

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**CLASS 14: MONDAY, JUNE 1**

**Topics:** Decentralization and Transfer Pricing  
**Recommended Readings:** HSBS Chapter 10, pp. 390-396; 404-412  
**Practice Problems:** 10-34, 10-36, 10-47, 10-49, 10-50  
**Case:** Birch Paper  
**Discussion Questions:**  
1. What will Birch Paper Company’s overall out-of-pocket costs be if Northern accepts West’s bid? Eire’s bid? Thompson’s bid? What is the effect of each alternative on each division involved?  
2. How would you, as commercial vice president, settle the issue? Be specific including both your recommendation for the sourcing decision and the transfer price.  
**Due:** Homework #5

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**CLASS 15: WEDNESDAY, JUNE 3**

**Topic:** Management Control Systems  
**Recommended Readings:**  
- HSBS Chapter 9  
- Control in an Age of Empowerment  
- Evolution and Revolution as Organizations Grow  
**Case:** ATH MicroTechnologies (A) and (B)  
**Discussion Questions:** Questions are found at the end of each case.

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**Take-Home Final due Monday, June 8 at 11:59 pm**