

ACCTG 501 Managerial Accounting

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I. 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).

The first part of the course will be focused on cost measurement and reporting. After an introduction of the main cost concepts, we will address topics such as ‘how costs behave in terms of fluctuating activity levels’ and ‘how to determine the profitability of a product’. The second part will be focused on accounting for decision making. Here, we discuss topics such as ‘how much will a company save or lose if it eliminates a product, service or activity’ and ‘whether acceptance of a special, one-time order improves the operating performance’. The third and final part of the course will be focused on the use of management accounting for planning and control purposes. Here, we discuss topics such as ‘in the case of transactions between units within an organization, which transfer price should be used’ and ‘what are the benefits and drawbacks of evaluating and rewarding managers on the basis of accounting performance measures such as Return on Investment (ROI), Residual Income (RI), and Economic Value Added (EVA)’. The three parts of this course are related as topics that are discussed later in the course build on knowledge attained earlier.

Upon completion of the course, you must be able to:

1. Define the terms and concepts used by 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, 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.

II. Course Materials

The textbook that we use during this course is: Introduction to Management Accounting, 16thed. (2014) by Horngren/Sundem/Burgstahler/Schatzberg [HSBS]. The course pack contains the cases that will be discussed during class. The course pack can be found at: <https://cb.hbsp.harvard.edu:443/cbmp/access/26378815>. Finally, supplementary material is distributed by means of Canvas (<https://apps.canvas.uw.edu/wayf>).

III. Requirements and Grading.

Midterm Exam	25%
Final Exam	45%
Team Case Write-Ups	20%
Case Polls and Class Participation	<u>10%</u>
	100%

Midterm Exam

There will be a take-home midterm exam in the middle of the quarter covering topics discussed in the first six class sessions. The midterm questionnaire will be available at 9:00 am on Thursday, April 24. Answers will be due at 11:59 pm on Saturday, April 26. 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 6:00 pm on Sunday, June 1. Answers will be due at 11:59 pm on Thursday, June 12. Again, use student ID numbers to identify yourselves—no names.

Team Case Write-Ups

There will be three short team case write-ups due throughout the quarter. The first case, Kanthal, refers to cost allocations. The second case, Musimundo, refers to variance analysis. The third case, TD Canada Trust, refers to performance measurement. Each write-up is limited to five pages (double-spaced), excluding any exhibits. The first case will be due in class on Monday, April 21, the second case will be due in class on Wednesday, May 21, and the third case will be due at 11:59 pm on Saturday, June 14.

Case Polls and Class Participation

You are expected to submit your answers to polls on the cases assigned for each (except for the first) class session. The polls are posted on Canvas and responses are due at 3.00 pm on the day of the discussion. The responses to the polls are graded on a 'check-plus, check, check-minus' system.

A great deal of learning takes place when you articulate your views on the cases. In addition, 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.

IV. Other Concerns.

The class sessions will be mainly geared towards discussing the cases and introducing managerial accounting concepts. Notwithstanding that the focus of this course will be on the managerial applications of the concepts discussed in class, this inevitably requires some technical skills (i.e., calculations). In class sessions, several management accounting techniques will be illustrated by means of stylized problems. Furthermore, you are encouraged to work on the assigned textbook problems (see schedule) for practice. Although you may work out the problems before each class, it is suggested that the textbook problems 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.

V. Summary Course Schedule

Class	Date	Topic	Cases	Due
1	Mon 31-Mar	Introduction to Managerial Accounting	Votre Sante: Product Costing	
2	Wed 2-Apr	Cost Volume Profit Analysis / Cost Behavior	Ned's New Wave Barber Shop	
3	Mon 7-Apr	Traditional Costing and Cost Allocation	Seligram	
4	Wed 9-Apr	Activity Based Costing and Management	Owens and Minor (A)	
5	Mon 14-Apr	Cost Allocation: Capacity	Anagene	
6	Wed 16-Apr	Cost Allocation: Joint Costs	Wendy's Chili	
7	Mon 21-Apr	Relevant Cost Analysis: Pricing	Harlan Foundation / Western Components	Team case #1
8	Wed 23-Apr	Relevant Cost Analysis: Operations	The Publications Department at FBC	
	Sat26-Apr	Take Home Midterm Exam Due 11.59 pm		
9	Mon 28-Apr	Management Control Systems	ATH Microtechnologies (A) & (B)	
10	Wed 30-Apr	Budgeting: An Overview	Hala Madrid	
11	Mon 5-May	Preparing a Cash Budget	Robot Technologies Inc (A)	
12	Wed 7-May	Variance Analysis (1)	Danshui Plant No. 2	
13	Mon 12-May	Variance Analysis (2)	Compagnie Du Froid	
14	Wed 14-May	Transfer Pricing	Birch Paper Company	
15	Mon 19-May	Performance Assessment: Financial Measures	Vyaderm	
16	Wed 21-May	Design of Compensation Systems	Nordstrom	Team case #2
	Mon 26-May	Memorial Day Holiday		
17	Wed 28-May	Subjective Performance Assessment	Massachusetts Financial Services	
18	Mon 2-Jun	The Balanced Scorecard	TWA Parts (A)	
19	Wed 4-Jun	Corporate Governance	Lehman Brothers: Crisis in CG	
	Thu12-Jun	Take Home Final Exam Due 11.59 pm		
	Sat 14-Jun			Team case #3

VI. Course Schedule and Course Work.

Class 1: Monday March 31

Topic: Introduction to Managerial Accounting: Introduction to Cost Behavior.

Recommended reading: HSBS Chapters 1, 2.

Textbook Problems: 2A-1, 2A-2, 2A-3, 2A-4.

Case: Votre Sante: Product Costing in the Wine Industry.

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

Class 2: Wednesday April 2

Topic: Cost-Volume-Profit Analysis and Cost Behavior.

Recommended reading: HSBS Chapter 3.

Textbook 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 7

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

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

Textbook 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?

Class 4: Wednesday April 9

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

Recommended reading: HSBS Chapter 4, pp. 134-151.

Textbook 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 5: Monday April 14

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?

Class 6: Wednesday April 16

Topic: Allocation of Joint and Common Costs.

Recommended reading: Joint Cost Allocation (Canvas).

Case: Wendy's Chili: A Costing Conundrum.

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

Class 7: Monday April 21

Topic: Relevant Cost Analysis: Pricing Decisions.

Recommended reading: HSBS Chapter 5.

Textbook Problems: 5A-2, 5A-3, 5A-4, 5-30, 5-36, 5-56. 5-57.

Cases: i) Harlan Foundation, ii) Western Components Inc.

Discussion Questions: Questions are found at the end of each of the two cases.

Team case #1 (Kanthal) Due Monday April 21 in class

Class 8: Wednesday April 23

Topic: Relevant Cost Analysis: Operating Decisions.

Recommended reading: HSBS Chapter 6.

Textbook Problems: 6A-1, 6A-2, 6A-3, 6A-4, 6B-3, 6-48, 6-61, 6-62.

Case: The Publications Department at FBC Insurance Agency.

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

Take-Home Midterm Due Saturday April 26 at 11.59 pm

Class 9: Monday April 28

Topic: Management Control Systems.

Recommended reading:

- Evolution and Revolution as Organizations Grow.
- Control in an Age of Empowerment.

Cases: ATH MicroTechnologies (A) and (B).

Discussion Questions: Questions are found at the end of each of the two cases.

Class 10: Wednesday April 30

Topic: Budgeting: An Overview.

Recommended reading: HSBS Chapter 7, pp. 270-278.

Textbook Problems: 7-4, 7-7, 7-8, 7-9, 7-10, 7-11.

Case: Hala Madrid: Managing Real Madrid Club de Futbol.

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?

Class 11: Monday May 5

Topic: Preparing a Cash Budget.

Recommended reading: HSBS Chapter 7 pp. 279-294.

Textbook Problems: 7-36, 7-37, 7-44.

Case: Robot Technologies Inc. (A).

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

Class 12: Wednesday May 7

Topic: Variance Analysis (1).

Recommended reading: HSBS Chapter 8.

Textbook 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.

Class 13: Monday May 12

Topic: Variance Analysis (2).

Recommended reading: HSBS Chapter 8.

Case: Compagnie Du Froid S.A.

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?

Class 14: Wednesday May 14

Topic: Decentralization and Transfer Pricing.

Recommended reading: HSBS Chapter 10 pp. 390-396; 404-412.

Textbook 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.

Class 15: Monday May 19

Topic: Performance Assessment: Financial Measures.

Recommended reading: HSBS Chapter 10 pp. 396-404.

Textbook 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 16: Wednesday May 21

Topic: Design of Compensation Systems.

Recommended reading: The 7 Deadly Sins of Performance Measurement.

Case: Nordstrom: Dissension in the Ranks? (A).

Discussion Questions:

1. What is the cause of the problems described in the case? How serious are these problems?
2. Are Nordstrom employees pressured inappropriately by the sales per hour system? By management?
3. How effective is the memo reproduced as Exhibit 3 in clarifying the distinction between "sell" and "nonsell" time?
4. Would you change management systems at Nordstrom? If so, how? If not, why not?

Team case #2 (Musimundo) Due Wednesday May 21 in class

Class 17: Wednesday May 28

Topic: Subjective Performance Assessment.

Recommended reading: HSBS Chapter 9.

Case: Massachusetts Financial Services.

Discussion Questions:

1. Why do MFS managers characterize the labor market for portfolio managers as a “star” system? What factors, if any, differentiate this labor market from other labor markets?
2. What are the characteristics of the MFS anti-star system? What types of workers does the MFS system attract?
3. Does the MFS system have weak or strong pay-for-performance? What type of behavior does the MFS system motivate?
4. What are the potential problems and major challenges created by the MFS performance evaluation system? What are your suggestions for managing these problems and challenges?
5. What are the challenges of transporting the MFS system to another company?
6. Do you think that MFS will be successful in using their system for their hedge fund managers?

Class 18: Monday June 2

Topic: The Balanced Scorecard.

Recommended reading:

- The Balanced Scorecard: Measures that Drive Performance.
- Coming Up Short on Nonfinancial Performance Measurement.

Case: TWA Parts (A).

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

Class 19: Wednesday June 4

Topic: Corporate Governance.

Recommended reading:

- Executive Compensation and the Credit Crisis of 2008.
- Seven Myths of Corporate Governance (Canvas).

Case: Lehman Brothers: Crisis in Corporate Governance.

Discussion Questions:

1. What is the financial condition of Lehman Brothers as of September 14th? How serious is the firm's liquidity problem? What are your conclusions about its ability to function as an ongoing enterprise?
2. What are the fiduciary obligations and responsibilities of Lehman Brothers' Board of Directors?
3. Richard "Dick" Fuld was both the chairman of the board and also the CEO. How did CEO/chairman duality at Lehman Brothers help or hurt the company?
4. Consider the options that faced the board of Lehman Brothers at their final meeting on September 14, 2008. What should the board do?

Take-Home Final Exam Due Thursday June 12 at 11.59 pm

Team case #3 (TD Canada Trust) Due Saturday June 14 at 11.59 pm