

ACCT 431 - Section 81
Management Accounting
Spring 2009
Tuesdays 6:30-9:30PM

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1. Class Objectives

The objective of this course is to introduce the design of firm's internal reporting systems. A large corporation is the sum of many different components, which can have access to different information and, as they efficiently use this information, may have interests that are not fully aligned with the overall strategy of the organization. For the firm to be worth more than the sum of its parts, it must set up an effective reporting system that distributes information in a timely manner, is precise and remains constantly responsive to changes to the economic environment. Throughout this class, we will examine how information can be organized and how it should be interpreted, in order to improve managerial decision-making. First, we introduce a number of cost allocation methodologies, and link these methodologies to particular decision problems. Second, we will apply these methodologies to implement budgeting/planning and performance control. As we pursue this objective, we will develop a consistent framework to respond to situations in which past historical data is incomplete or unreliable for the decision at hand, and develop reporting systems that are effective in less-than-perfect information environments.

The problems involved in building an appropriate information system constitute one of the unresolved questions in modern management. In a survey of manufacturing companies, one out of two managers complained that the reporting system was not well-suited to product design and pricing, with one out of three complaining that it was not well-suited for performance evaluation. Academics in the early nineties noted that reporting systems have not been drastically transformed since the innovations of the 1930s. More recently, modern information

management techniques have allowed firms to implement more sophisticated information systems. In this class, we will discuss the economic logic which is the backbone of these systems. The most successful organizations continuously update their reporting systems, as a function of the environment. Further, there are a number of events in a firm's life in which the reporting systems needs to be closely examined and possibly reshaped. Examples include new acquisitions, litigations, changes in macroeconomic conditions and financing, innovations in technology, among numerous examples. The class provides an analysis of reporting systems that view them as a dynamic evolving system, rather than a static set of rules. Among other things, we will reintroduce financial concepts such as cost of capital to better capture the value of a firm's assets.

We begin the class with an introduction to the terminology, the basic economic ideas, as well as how such ideas translate into the accounting information system. As we progress through the concepts, we will identify methods for cost allocation, and drivers for cost that cannot be directly traced to a product. We will also discuss methodologies to use existing data to decompose cost into variable and fixed components, and how these methodologies can be applied in situations with bad data. We then introduce costing under incomplete information, before or after actual costs are known. This process will provide us with methods for budgeting and timely costing systems. The analysis of costs will then be completed by an analysis of the relationships between a firm and its subsidiaries. In particular, we will discuss methods for cost allocation between subsidiaries, and actual methods for determining transfer prices.

The class will be complemented by a set of lecture notes (class slides), a packet of readings, discussion cases, assigned write-ups, class and group discussions, and numerical problems.

2. Course Documents

A web page devoted to this course is located at:

Blackboard: <https://courses.northwestern.edu/webapps/login/>

This webpage is updated on Wednesdays with a set of slides for the next class, assigned readings and a set of completed (after-class) slides for the previous class. Since last year, press articles are being sold for extra cost to you if they are incorporated in the course packet. Therefore, to avoid such costs, these articles will be available as part of the readings on Blackboard, in accordance with the university library license. From this web page, you can: (1) e-mail me directly, (2) view a list of handouts by class session, and (3) download the syllabus, certain handouts from class, the exhibits from the discussion cases, additional sample problems, and the class notes after the session (in Adobe Acrobat format).

The course packet can be purchased for the Northwestern bookstore. It contains the cases, additional readings, sample problems, and sample exam questions. Each class, I will bring paper copies of the slides for the class, so that you do not need to print them in advance.

Optional text: *Cost Accounting: A Managerial Emphasis*, Twelfth Edition, by Horngren, Foster, and Datar (with Solutions Manual).

A thirteenth edition is now available which you may use as well.

3. Evaluation

The class presents a relatively moderate workload. Your grade in this course will be based on classroom participation, case preparation, and two exams. It will be determined as follows:

<u>Percent of Grade</u>	<u>Component</u>
30%	Five case write-ups and class participation
30%	Midterm exam
40%	Final exam

The first component is classroom participation and case write-ups. To benefit from the course, you should actively prepare each class by reading the course slides in advance, and preparing assigned cases. Participation is a combination of voluntary responses, as well as some cold-calling to motivate those of you that have not yet participated. While participation remains the most important factor for evaluation, I will give extra credit for students who volunteer and make correct contributions to the class. On the other hand, I will not penalize volunteers who make an incorrect answer; I may however consider incorrect answer on topics previously covered in class if I have to cold-call someone. For obvious reasons, then, it is a dominant strategy for anyone to volunteer even if they are not certain of their answers.

Cases are the next component of your grade. The course involves three types of cases “self-study cases”, “in class cases”, and “discussion cases”. The “self-study cases” (mainly consisting of problems assigned in past classes) are not to be turned in for a grade, and are provided at the end of course pack. You should practice on these, in addition to the problems discussed in class, to prepare for the midterm and the final. “In class cases” are shorter cases that I will use to introduce a particular topic during class. These are not to be turned in for a grade; however, you are expected to prepare them in advance to discuss in class. “Discussion cases” are a set of cases for which you will need to turn in a write-up for a grade. You should form groups of 3 to 4 people to work through each case. Your group must answer the questions that are in the course packet. The write-up needs to be well-written and clear, with explicit supporting derivations that may be checked. I expect a typical write-up to include up to 3 pages of discussion with, if necessary, some appendices with Excel tables and/or figure. Each group will turn in a single write-up.

Importantly, a case is not an opportunity to minimize effort by using division of labor. I expect all group members to work on each case, and be familiar with the resolution of the case. For similar reasons, I use a peer evaluation system in which students at the end of course evaluate the participation of members of their group, which guarantees that all students will provide equal effort on the cases. In some situations, a case may have more than one acceptable answer; for reasons of representation, I cannot answer questions relating to discussion cases prior to the date in which they will be turned in. When in doubt, you are expected to clearly lay down the assumptions or logic that you are using and provide a clear justification.

The midterm will be held during the fifth week of class. It will be held for 1 hour and 30 minutes, and is designed to test proper knowledge of the material covered in class. The focus of the midterm is knowledge acquisition, and not complementary in-depth analysis. The midterm is closed notes and you are only allowed to use a calculator but no laptop. The final will be held for 2 hours, and its content will be tilted toward the material covered in the second half of the class (although some material of the first half may still be asked). It will be open-book, open-notes and you will be allowed but not required to use a computer.

4. Tentative Topic Outline - (Using 12th edition of Horngren, Datar and Foster)

Module I: Cost behavior and decision making in the short run

<u>Date</u>	<u>Topic</u>	<u>Assignments*</u>
Mar. 31	Introduction & Cost Concepts	Text: chapter 1 Article: "One Cost System Isn't Enough" Article: "F.A.A.'s Accounting Project..." Self-study cases (pp. 1-4): DSW Corp., Douglass Co.
	Product Costing: Cost Inclusion	Text: chapter 2 Supplemental material (chapter 3, p. 65-73) Self-study cases (pp. 5-10): Williams Co., Vanderbilt Corp., Keegan Co.
Apr. 7	Product Costing: Issues Related to Cost Inclusion & Cost Allocation	In class case: Bridgeton Article: "Overhead Can Kill You" Article: "GM Net Rises 7.7% to Record" Article: "Toyota to Raise Output..." Article: "WorldCom Moved Some Costs to MCI" Self-study case (pp. 11-12): Linda Co.
	CVP Analysis: Basics & Cost Estimation	Text: chapter 3 and chapter 10 (skim) Article: "Economics Textbook Is Getting..."

* Text refers to the relevant chapters from Horngren, Datar, and Foster. Articles, supplemental readings, cases, and self-study cases are all contained in the course packet. You are expected to read the articles and readings before coming to class. You should also skim the self-study cases before class, and then work them after each class to ensure that you have mastered the material (solutions are provided for self-check).

Self-study cases (pp. 53-64): Interpreting Regression Output, Peecher, CVP Problem, Abel Co., Hulbert Publishing, Gothic Gargoyles

Apr. 14 CVP Analysis, Cont.

Discussion case: Prestige Telephone Company
 Article: "H-P Outsourcing: Beyond China"
 Article: "ACS Finds Profits in..."
 Article: "Blame the Profit Dive..."

Module II: Cost accounting and decision making in the long run

<u>Date</u>	<u>Topic</u>	<u>Assignments</u>
	Product Costing: Cost Measurement	Text: chapter 4 Supplemental material (chapter 3) Self-study cases (pp. 17-22): BNL Corp., Mannix Co., Tiger Corp.
Apr. 21	Product Costing: Cost Accumulation	Text: chapter 17 Self-study cases (pp. 23-26): Grable & Daughters, Slam Dunk
	Product Costing, Cont. & Review	Self-study cases: Sample exam problems
Apr. 28	IN-CLASS MIDTERM	
	Joint Costs, Spoilage, Rework and Scrap	Text: chapter 16 and chapter 18 Supplemental material (pages 169-174, 180) Self-study cases (pp. 33-42): Hirsch Co., Bower Chemical, Cinnamon Refining, Jo-By Co., Newcastle
May 5	Nontraditional Costing Systems	Discussion case: John Deere Components (A) Text: chapter 5 and chapter 14 (pp. 492-501) Article: "How Cost Accounting Distorts..." Article: "Distorted Numbers" Article: "FedEx Is To Adopt Rate Structure..." Self-study case (pp. 27-28): Attaway Co.
	Other Cost Allocations: Service Cost	Text: chapter 15 Supplemental material (pp. 161-169, 176-180) Self-study cases (pp. 43-52): Pineno Co., Keaton Co., Castleford Eng., PHB Mfg., Penfolds Mfg
May 12	Nontraditional Cost Systems, Cont.	Discussion case: RBC Financial group Text: chapter 14 (pp. 501-508) Article: "Alienating Customers..."

Article: "Getting the Most Out of All Your Customers"

Article: "New UPS Delivery Service Sends..."

Article: "Analyzing Customers, Best Buy Decides..."

Self-study cases (pp. 29-32): Kupchella, Steven

Inc.

Module III: Performance Evaluation and Management Control

<u>Date</u>	<u>Topic</u>	<u>Assignments</u>
	Control & Performance Evaluation	Text: chapter 23 Article: "Control in the Age of ..." Article: "Using the Balanced Scorecard ..." Article: "Coming up Short ..." Article: "Real Key to Creating Wealth ..." Self-study case (pp. 73-74): Garcia
May 19	Budgeting	Discussion case: Cafes Monte Bianco Text: chapter 6 Article: "Budgeting in the Real World" Article: "Tie Salesmen's Bonuses ..." Article: "Corporate Budgeting is Broken ..."
	Variance Analysis	Text: chapter 7 and chapter 14 (pp. 508-514)
May 26	Variance Analysis, Cont.	Discussion case: Musimundo Text: chapter 8 Self-study cases (pp. 65-72): Zork Co., Walther Machine Co., Zoe Co., Regional Co.
	Decentralization & Transfer Pricing	Text: chapter 22 Article: "Transfer Pricing in the 1990s" Self-study cases (pp. 75-80): Acme Electric, Coastal Motor Co., TMC Corp.
Jun. 2	Transfer Pricing, Cont. & Multinational Tax Issues	In class case: National Youth Association Article: "Tax Officials Will Target Intercompany..." Article: "How Xerox's Plan to Reduce Taxes..." Article: "A New Twist in Tax Avoidance..." Article: "Haven or Hell?" Self-study case (pp. 81-82): Interstate
	Multinational Tax Issues, Cont. & Review	Sample exam problems
Jun.9	FINAL EXAM	