

**NEW YORK UNIVERSITY**  
**Stern School of Business**

**PRINCIPLES OF MANAGERIAL ACCOUNTING ACCT-UB.0004**

**Fall 2012. Sections 01 and 02**

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**Course Overview and Objectives**

This course explores the use of accounting information for *internal* planning, analysis, and decision-making. The *main objective* of the course is to equip you with the knowledge to prepare, understand, evaluate, and act upon the many financial and non-financial reports used in managing modern firms.

Managing and evaluating the modern firm requires financial and non-financial information about the firm's products, processes, assets, and customers. This information is a key input into a wide range of analytical tools to support decisions: analyzing profitability of various products, managing product-line portfolios, setting prices, measuring and managing profitability of customers, making operational and strategic decisions, evaluating investments, investigating efficiency, and so on.

The focus of this course is on information generated by internal accounting systems. Along the way, we will discover that many companies have not provided their managers with useful information. These managers have to rely on information systems designed years ago for very different business processes and with very different technologies. We will take a look at a number of pitfalls that these systems can induce and at the dangers in using these systems to make business decisions. We will also investigate some modern ideas in how an organization's information system should be designed.

To attain the right level of understanding, you will need to be familiar with the mechanics of the many techniques used to prepare management reports. But the emphasis in this course is very much on interpretation, evaluation, and decision-making.

## **Teaching Materials**

The *required* textbook is a custom text based on *Managerial Accounting*, by Garrison, Noreen, and Brewer, 14<sup>th</sup> edition, 2012. The custom text contains the relevant chapter from the Garrison-Noreen-Brewer text. It is available at the bookstore.

Roughly half the course sessions will rely on pre-readings from this text. Also, for most course topics, I will suggest several problems from the text for self-study and self-evaluation.

There are two copyrighted cases we will use: *Seligram ETO* and *Infinity Bank (A)*. These are available for purchase in an electronic coursepack from the bookstore.

I will post reading materials not requiring copyrights and lecture slides on Blackboard.

I will also post any important announcements on Blackboard (and send an email to the class list). Please be sure to check Blackboard site regularly; also make sure that your email address on Blackboard is correct.

## **Feedback**

I encourage you to provide feedback on class topics, content, and cases. I appreciate any concerns, questions, or opinions regarding the course. I would like to continue to improve this course; participants' feedback is critical.

## **Class Meetings**

In each class, we focus on the management aspects of the topic. To prepare for class, you should go through the readings and prepare the case questions (for classes where we discuss cases).

Case discussion will take up approximately half of the course. I have found that a mix of lectures, cases, and discussions provides an interactive learning environment allowing for greater understanding of the managerial implications of information-system design and use.

Students will be active participants in case discussions, providing summaries of issues, analyses, and recommendations. This involves the preparation of the case and reading assignments before class and the active sharing of your insights during class.

*Note that many of the managerial problems I will address through cases will not have clear-cut or "correct" solutions; do not let this discourage you.*

Each student should carefully prepare the assigned case and be ready to be called on to present their analysis or to comment on others' analyses. You are encouraged to prepare for cases in teams. I will randomly call on students when discussing cases.

## Grading

The course grade will be based on class participation, one closed-book midterm, and a closed-book final examination:

- Class participation 10%;
- Midterm 45%;
- Final examination 45%.

*Class participation.* The grade for class participation will depend on the quality of your interaction and participation in class discussions. The following factors will be considered:

- Case preparation. You should prepare answers to the case questions. I encourage you to prepare for cases in small groups. ***I will randomly call on students to contribute to case discussion.***
- Contributing to the in-class case analysis by making comments to move the discussion toward an understanding of the company and its issues.

*Midterm.* There will be one in-class, closed-book midterm.

*Final exam.* The final exam will be in-class and closed-book. It will primarily cover material after the midterm.

## Grading Policy

At NYU Stern we seek to teach challenging courses that allow students to demonstrate differential mastery of the subject matter. Assigning grades that reward excellence and reflect differences in performance is important to ensuring the integrity of our curriculum.

In core courses, our faculty have adopted a standard of rigor for teaching where:

- 25-35% of students can expect to receive A's for excellent work;
- 50-70% of students can expect to receive B's for good or very good work;
- 5-15% of students can expect to receive C's or less for adequate or below work.

Note that while we use these ranges as a guide, the actual distribution for this course and your own grade will depend upon how well each of you actually performs in this course.

Please see "Teaching and Grading at the NYU Stern Undergraduate College" for more information:

[http://www.stern.nyu.edu/UC/CurrentStudents/Academics/PoliciesAndProcedures/CON\\_021884](http://www.stern.nyu.edu/UC/CurrentStudents/Academics/PoliciesAndProcedures/CON_021884).

Please note the following grading-related policies:

- There will be *no make-up midterm examinations* under any circumstances. If you miss the midterm because of a medical or family emergency, you will need to provide me with documentation; in this case, the weight of the midterm will be added to the weight of the final (i.e., the course grade will be based 10% on participation and 90% on the final exam).
- The weights, in “Grading” above, are identical for everyone. *It is not possible to make up for poor performance by doing extra work.*
- *Re-Grading.* In line with Grading Guidelines for the NYU Stern Undergraduate College, the process of assigning of grades is intended be one of unbiased evaluation. This means that students are encouraged to respect the integrity and authority of the professor’s grading system and discouraged from pursuing arbitrary challenges to it.

If a student feels that an inadvertent error has been made in the grading of an individual assignment or in assessing an overall course grade, a request to have that the grade be re-evaluated may be submitted. Students should submit such requests in writing to the professor within 7 days of receiving the grade, including a brief written statement of why he or she believes that an error in grading has been made.

## **Academic Integrity**

Integrity is critical to the learning process and to all that we do here at NYU Stern. All students are expected to abide by the **NYU Stern Student Code of Conduct**. A student’s responsibilities include, but are not limited to:

- A duty to acknowledge the work and efforts of others when submitting work as one’s own. Ideas, data, direct quotations, paraphrasing, creative expression, or any other incorporation of the work of others must be clearly referenced.
- A duty to exercise the utmost integrity when preparing for and completing examinations, including an obligation to report any observed violations.

For more information, please see:

<http://www.stern.nyu.edu/UC/CurrentStudents/Academics/PoliciesAndProcedures/index.htm>

## **Students with Disabilities**

Students whose class performance may be affected due to a disability should notify the professor early in the semester so that arrangements can be made, in consultation with the Henry and Lucy Moses Center for Students with Disabilities, to accommodate their needs.

Please see [www.nyu.edu/csd](http://www.nyu.edu/csd) for more information.

## **How to Do Well in this Course**

- This will be a challenging course. I strongly advise you to read each assigned text chapter before each lecture.
- Although the solutions to the self-study homework problems will be made available, you should work diligently through each problem before consulting its solution. Do not be misled into thinking that because you understand the solution you have mastered the material.
- The self-study homework assignments are a minimum. I strongly recommend that you work through as many of the exercises and problems at the end of each chapter as possible.

## **Other**

I expect you to come to every class, to arrive on time, and to stay through the entire class. If you miss a class, it is your responsibility to find out what you may have missed from a fellow student.

You should turn off your cell phones during class time. Laptops are only allowed for taking or viewing class notes.

## Course Calendar At-A-Glance

Session	Topic	Case to prepare
1 Tuesday 9/4/2012	Introduction to the course	
2 Thursday 9/6/2012	Managerial information systems: theory and practice	
3 Tuesday 9/11/2012	Normal absorption costing	
4 Thursday 9/13/2012	Cost estimation and process complexity	<b>Seligram ETO</b>
5 Tuesday 9/18/2012	Measuring and managing the costs of capacity (introduction)	<b>Adapconn</b>
6 Thursday 9/20/2012	Measuring and managing the costs of capacity (conclusion)	
7 Tuesday 9/25/2012	Activity-based costing (introduction)	<b>Coffee Services</b>
8 Thursday 9/27/2012	Activity-based costing (conclusion)	
9 Tuesday 10/2/2012	From activity-based costing to customer profitability analysis	
10 Thursday 10/4/2012	Estimating and managing customer profitability (introduction)	<b>Infinity Bank</b>
11 Tuesday 10/9/2012	Estimating and managing customer profitability (conclusion)	
12 Thursday 10/11/2012	Review for midterm	
13 Thursday 10/18/2012	Midterm	
14 Tuesday 10/23/2012	Wrap-up of Course Part 1	
15 Thursday 10/25/2012	Budgeting	
16 Tuesday 10/30/2012	Standard costs and variance analysis	
17 Thursday 11/1/2012	Decentralization and performance evaluation	
18 Tuesday 11/6/2012	Guest speaker	
19 Thursday 11/8/2012	Incentive effects of absorption costing	<b>Western Chipsets</b>
20 Tuesday 11/13/2012	Introduction to business decisions: CVP analysis	
21 Thursday 11/15/2012	Introduction to business decisions: CVP analysis (cont'd)	
22 Tuesday 11/20/2012	Business decisions: Relevant costs and relevant revenues	
23 Tuesday 11/27/2012	Analyzing business decisions	<b>Falco Scooters (A)</b>
24 Thursday 11/29/2012	Business decisions: Asset-related costs and strategic issues	<b>Falco Scooters (B)</b>
25 Tuesday 12/4/2012	Transfer pricing	
26 Thursday 12/6/2012	Transfer pricing (cont'd)	
27 Tuesday 12/11/2012	Transfer pricing and decision analysis	<b>LTC</b>
28 Thursday 12/13/2012	Course takeaways. Review for final	

# Course Outline

## ***Part I. Estimating and managing costs and revenues.***

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*Sessions 1 and 2. Introduction to the course. Managerial information systems: theory and practice.*

*September 4  
September 6*

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### **Topics**

- Course objectives – yours and mine.
- What is management accounting and why do we need it?
- Management accounting, strategy, and value.
- Multiple objectives of managerial-information systems.
- Direct and absorption costing.

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### **Textbook**

Chapter 1, pages 1-19 (take a quick glance through this background info);  
Chapter 2, pages 24-34, 42-47 (***make sure you understand the terminology – we will use it throughout the course.***)

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### **Self-study Problems**

Exercises 2-1, 2-2, 2-3, 2-6; Problem 2-16.

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### **Session Plan**

Unlike financial accounting, managerial accounting is not subject to governmental or legal requirements. Firms design their information systems to suit very specific purposes. Consequently, there are as many information systems as there are firms.

Complexity of the modern firm requires managers to rely on aggregated reports, both to make decisions and to manage costs. You must understand how these reports are prepared in order to use them. This requires you to comprehend how information is aggregated and presented. This is the main topic of the session.

We will also discuss the “big picture” of the course, course objectives (both yours and mine), and key dates in the course.

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- Topics**
- Overhead cost allocations.
  - Overhead rates.
  - Links to financial accounting.
  - The flow of costs in service and manufacturing companies.
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**Textbook** Chapter 3, pages 83-108 (do **not** spend too much time on journal entries and T-accounts).

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**Self-study Problems** Exercises 3-1, 3-3, 3-10, 3-12, 3-15; Problem 3-26.

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**Session Plan** The most common modern approach to estimate unit costs is *normal absorption costing*. We will investigate the key components of this approach.

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- Topics**
- Cost estimation and cost management.
  - Two-stage structure of costing systems.
  - Selection of allocation bases.
  - Failure of “traditional” costing systems.
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- Prepare** Case study *Seligram, Inc.: Electronic Testing Operations*. Address the following questions:
1. How has ETO’s competitive environment changed?
  2. What caused the existing system at ETO to fail?
  3. Calculate the reported costs of the five components described as computed by
    - a. the existing system;
    - b. the system proposed by the accounting manager;
    - c. the system proposed by the consultant.
  4. Which system is preferable? Why?
  5. Would you treat the new machine as a separate cost center or as part of the main test room? Why? Compute the first-year overhead rate for the new machine if it were treated as a separate cost center.
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**Session Plan** We will start examining the issues of information-system design affecting an organization’s strategy and performance. The information system at *Seligram* is an extremely common one in practice. As many as 60% of publicly-traded firms rely on similar systems in the majority of their operations. Smaller firms are far more likely to use these “traditional” systems.

We will take a look at what is wrong with the information system, what dysfunctional behavior it can induce, and some proposed solutions.

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*Sessions 5 and 6. Measuring and managing the costs of capacity.  
Adapconn case.*

*September 18  
September 20*

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**Topics**

- Costs of capacity resources.
- Allocating capacity costs using practical and budgeted capacity utilization.
- The “death spiral” – dangerous reporting-system-induced phenomenon in cyclical industries.

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**Prepare**

Case study *Adapconn*. Address the questions in the case.

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**Session  
Plan**

We will spend the majority of the sessions discussing the *Adapconn* case and some modern enhancements to *Adapconn*'s reporting system.

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- Topics**
- Activity-based costing.
  - Differences from and advantages over “traditional” costing systems.
  - Hierarchy of activities.
  - Translating activity-based costing into improved profitability.
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**Textbook** Chapter 7, pages 272-298 of the original text (pages 230-256 of the custom edition). Don’t get overwhelmed by the details; we’ll clarify the main ideas in the class session.

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**Read** *Coffee Services Company* case. This is pretty light reading. Get to know the facts and think through the two questions in the case.

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**Self-study Problems** Exercises 7-1, 7-6, 7-12, 7-14; Problem 7-17; and the review problem on pages 298-300 (pages 256-258 of the custom edition).

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**Session Plan** We will begin our discussion of activity-based costing (ABC) and activity-based management (ABM). These information-system tools have become generally accepted as the solutions to many of the problems of “traditional” costing systems.

However, there is no general agreement about how ABC and ABM should be implemented for a given firm. Even more problematically, there is no general agreement about what an economic model of the firm must include to qualify for the title *activity-based*.

We will investigate exactly how ABC and ABM differ from the “traditional” systems. We will also look at what the activity-based models have to offer firms. Along the way, we’ll focus on several disadvantages of the “modern” systems.

We will do most of this in the context of the *Coffee Services Company* case.

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**Session 9. *From activity-based costing to customer profitability analysis.***

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***October 2***

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**Topics** Analyzing profitability of customers.

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**Readings** I will post several readings on Blackboard.

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**Self-study Problems** Exercises 7-5, 7-9.

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**Session Plan** We will begin our discussion of an important management tool – customer profitability analysis.

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**Topics** Analyzing and managing customer profitability.

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**Read** A good background is in “Retail renaissance”, a special report in *The Economist*, May 19, 2012. The library has full text from *The Economist* in numerous e-journal sources.

Currently, it is available for free at: <http://www.economist.com/node/21554742> (note the numerous links to the articles in this special report under the heading “In this special report” in the middle of the web page).

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**Prepare** Case study *Infinity Bank (A)*. Address the following questions:

1. Summarize Infinity Bank’s competitive environment. What are the major issues facing the bank? How has the bank performed in 1998-2003?
2. What were the conclusions of the product-profitability project? What were the surprises?
3. What are the potential advantages of the “supermarket” strategy? What are the potential disadvantages of the strategy?
4. What are the objectives of customer-profitability analysis (at Infinity and in general)? What does it add to the product-profitability system? Is it important? How should Philippa Smith’s customer-profitability pilot study be improved / extended?
5. What were the conclusions of Philippa Smith’s customer-profitability pilot study? What were the major sources of variation in customer profitability?
6. Examine the customer-profitability database. Construct a graph to communicate the profitability of the 2,205 customers in the *Weighted Sample* sheet, ranked from best to worst.
7. Given the customer-profitability analysis, does the “supermarket” strategy make sense?
8. How should the customer-profitability information be used? What should we do about the large number of unprofitable customers?
9. Overall, what are your recommendations for Infinity Bank’s managers?

**NOTE: See the course web page for Excel spreadsheet with case data.**

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**Session Plan** We will devote these sessions to the discussion of the *Infinity Bank* case and customer-profitability analysis.

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*Session 12. Review for Midterm*

*October 11*

The midterm exam covers materials from sessions 1-11. I will post sample questions (and, later, answers) to help you prepare for the midterm.

To prepare for the review session (and for the midterm), it is crucial that you attempt to solve the sample-midterm problems.

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*Session 13. Midterm*

*October 18*

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*Session 14. Wrap-up of Course Part 1*

*October 23*

We will wrap up our discussion of part 1 of the course.

## ***Part II. Performance Evaluation. Tactical and Strategic Decisions.***

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***Session 15. Budgeting.***

***October 25***

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- Topics**
- Profit planning.
  - Sales budgets.
  - Cash budgets.

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**Textbook** Chapter 8, pages 335-359 of the original text (pages 293-317 of the custom edition).

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**Self-study Problems** Exercises 8-1, 8-2, 8-3, 8-4, 8-5, 8-6, 8-7, 8-8.

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**Session Plan** We will discuss budgeting: a key planning, performance-evaluation, and decision-analysis tool.

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- Topics**
- Standard costs.
  - Quantity and price variances.
  - Investigating variances.
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**Textbook** Chapter 10, pages 418-441 of the original text (pages 376-399 of the custom edition).

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**Self-study Problems** Exercises 10-2, 10-3, 10-4, 10-5; Problems 10-13, 10-14.

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**Session Plan** We will take a look at standards and variances – two important components of budgeting and management by exception.

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- Topics**
- Decentralization.
  - Evaluating investment centers: ROI and Residual Income.

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**Textbook** Chapter 11, pages 472-482 of the original text (pages 430-440 of the custom edition).

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**Self-study Problems** Exercises 11-2, 11-7, 11-8, 11-12; Problem 11-15.

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**Session Plan** We will begin our discussion of decentralization and performance evaluation.

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- Topics**
- Incentive effects of absorption costing.
  - Variable costing and contribution format income statements.
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**Textbook** Chapter 6, pages 229-239 of the original text (pages 187-197 of the custom edition).

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**Prepare** Case study *Western Chipsets*. Provide the analysis requested in the case.

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**Self-study Problems** Exercises 6-1, 6-2, 6-12; Problem 6-22.

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**Session Plan** We will focus on the incentive and decision-relevance aspects of absorption and variable costing methods. We will discuss the *Western Chipsets* case.

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- Topics**
- Variable and fixed costs.
  - The profit equation.
  - The break-even point.
  - The relevant range of analysis.
  - General cost-volume-profit analysis.
  - Contribution margin ratio analysis.

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**Textbook** Chapter 5, pages 183-203 and 207-208 of the original text (pages 141-161 and 165-166 of the custom edition).

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**Self-study Problems** Exercises 5-4, 5-5, 5-9, 5-11, 5-18(a); Problem 5-29.

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**Session Plan** We will discuss a decision-analysis tool frequently used (and misused) in practice – cost-volume-profit analysis.

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- Topics**
- Relevant costs and relevant revenues.
  - Opportunity costs.
  - Asset-related costs.
  - Routine and non-routine business decisions.
  - Strategic considerations.
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**Textbook** Chapter 12, pages 527-553 of the original text (pages 485-511 of the custom edition). You can skip the *Managing Constraints* section on pages 546-548 of the original text (pages 504-506 of the custom text).

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**Self-study Problems** Exercises 12-3, 12-4, 12-5, 12-10, 12-12, 12-14, 12-16; Problem 12-25.

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**Session Plan** We will begin our exploration of general decision analysis. We will do a number of examples, focusing on the following question: how do we use various management reports to extract data and analyze implications of decisions?

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- Topics**
- Illustration of relevant-cost and relevant-revenue analysis in a rich setting.
  - Constraints and opportunity costs.
  - Dealing with more than two alternatives.

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**Prepare** Case study *Falco Scooters (A)*. Address the questions in the case. **Note:** I would like you to be very familiar with the information in this case, so that we can work on it in class together. Make sure you read the case carefully and work with the numbers, but please don't feel that you need to get the "right" answers.

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**Session Plan** We will continue our exploration of decision analysis. We will analyze the *Falco Scooters (A)* case.

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- Topics**
- Implications of changes in inventories, receivables, and payables.
  - Erosion and cannibalization issues.
  - Strategic issues.
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**Prepare** Case study *Falco Scooters (B)*. Address the questions in the case. **Note:** The discussion of *residual income* and *EVA*<sup>®</sup> from Chapter 11 is useful for doing the *Falco Scooters (B)* case.

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**Session Plan** We will continue our exploration of decision analysis. We will analyze the *Falco Scooters (B)* case.

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- Topics**
- Transfer pricing – key method in evaluating the performance of managers in integrated organizations.
  - Various methods of pricing intrafirm transactions.
  - Aligning incentives of divisional managers.
  - International considerations.
  - Strategic considerations.
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**Textbook** Chapter 11 Appendix 11A, pages 507-513 of the original text (pages 465-471 of the custom edition).

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**Self-study Problems** Exercises 11A-1, 11A-3; Problems 11A-5; 11A-6.

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**Session Plan** We will begin our discussion of transfer pricing.

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- Topics**
- Aligning incentives of divisional managers and the firm’s owners.
  - Using transfer prices to guide decisions.
  - Capacity and “correct” cost-based transfer prices.
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**Prepare** Case study *LTC Transfer Pricing and Divisional Performance Evaluation*.  
Address the questions in the case.

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**Session Plan** We will continue our discussion of transfer pricing, focusing on the *LTC* case.

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- Topics**
- Course takeaways.
  - Preparing for the final.
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**Prepare** Sample final exam (posted on the course web site).

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**Session Plan** We will start the session with a review of the key takeaways from the course. We will then take a look at the sample final and discuss final-exam preparation.

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