

NEW YORK UNIVERSITY
Stern School of Business
Spring 2018: Financial Planning and Analysis
ACCT-GB.3303.20: M-W: 3-4:20 pm

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Office Hrs: M-W 12:30-2:30 pm
Room 10-78 KMC

Course Description. This is an introductory course in financial planning & analysis, in short: FPA (a.k.a. managerial accounting). *A basic course in Financial Accounting is a prerequisite.* It addresses both managerial planning and control.

Planning encompasses short- and long-term operating, tactical, and strategic decision-making.

Control encompasses both Operational and Management Control.

Operational Control involves the ongoing monitoring of performance along the key dimensions critical to the success of the firm's operating and business strategy. Increasingly these relate not only to cost but also to quality, responsiveness, delivery, product lead times, etc. The focus is on *alerting managers to problems and fostering continuing improvement.*

Management Control involves the design and maintenance of "management control systems" incorporating appropriate financial and non-financial performance metrics and incentive mechanisms. The focus here is on *promoting goal congruence and coordination* between the various organizational actors in a decentralized enterprise.

The first part of the course is focused on decision-making and aims to have you develop the ability to structure business decisions systematically, identify needed information, draw it out from the firm's information base and reporting systems - in particular its cost accounting systems - and then conduct a logical analysis.

To this end we will study the processes of cost accumulation, assignment, allocation, and absorption that underlie cost accounting systems. These systems are commonly oriented towards external reporting and thus generate historical product costs as per the GAAP (Generally Accepted Accounting Principles).

From a decision-making standpoint, the cost of an alternative in a decision setting is the sacrifice involved in adopting it, which is context dependent. However detailed a reporting system, not every context can be anticipated and reported upon. Historical cost based periodic reporting systems can, at best, direct attention and support a preliminary conclusion. Managers generally need to access raw data and other information sources to conduct a sound and definitive analysis. Key notions here are those of *sunk costs, committed costs, out-of-pocket costs, incremental costs, relevant costs, and the opportunity costs of resource appropriation.*

The second part of the course is an introductory treatment of Management Control. In this context, responsibility centers within the organization (investment centers, profit centers, and cost centers) are characterized, the choice of appropriate performance metrics given the locus of control in each case is examined, and the role of budgets as devices for co-ordination, communication, and control is discussed.

Lastly we will look at the use of the Balanced Scorecard and other such frameworks for Operational Control.

Text: There is no required text for the course. Detailed handouts will be given for each class. These will also be subsequently posted on the **NYU Classes** course website.

Homework: Homework is intended for you to test your comprehension of the material covered in class and as such is assigned after class. Two sets of problems will generally be assigned – “Practice” and “Submission”. Solutions to the latter have to be turned in **electronically** by the beginning of the next class. Group work on homework is encouraged, but individual submissions are required. Solutions to Practice problems will be posted promptly to facilitate your learning. Solutions to Submission problems will be available after you turn them in. You must keep a copy of your homework and check it yourself against the posted solutions. Homework will not be graded or be a formal part of your evaluation. However, if you do poorly in the exams, or are on the borderline between letter grades, then before determining your final grade, I will review the quality and frequency of your homework submissions.

Group Project: You will develop a Balanced Scorecard for a company of your choice (in groups of three). Details will be discussed in the first class.

Attendance will taken at the beginning of class. I expect students to come on time and may deny admission five minutes after class commences. **Notebook computers or** other electronic devices **may not be used** in class unless you have a specific exemption.

It is important to keep up with the materials. Please make good use of my office hours for help if you are having difficulties.

Evaluation: The better of your grade from two alternative weightings (the latter to encourage improvement if you get off to a slow start). *The final exam will be cumulative in coverage (albeit with greater weight to the later material).*

	<i>Alt 1</i>	<i>Alt 2</i>
Balanced Scorecard group project	10%	10%
Mid-term exam (3/7)	40%	30%
Final exam (5/9)	50%	60%

SESSION OUTLINE

Sessions 1 to 3	Introduction Overview of managerial functions and managerial informational needs Cost Terms, Concepts & Classifications Costing objects; Direct vs. Indirect Costs; Product vs. Period Costs; Fixed vs. Variable Costs Absorption Costing: Product Costing for External Reporting in Manufacturing Firms
Sessions 4 to 6	Product Costing and Product Line Profitability Reporting in Multi-Departmental Multi-Product Settings: Conventional Methods & Activity Based Costing
Session 7 & 8	Long-term Product Planning versus Short-term Capacity Management (Linear Programming)
Session 9	Cost-Volume-Profit Analysis: A Planning Tool
Session 10	Review for mid-term exam
Session 11 (3/7)	Mid-term Exam
Sessions 12 to 14	Using Accounting Data for Non-Routine Decision-Making
Sessions 15 to 17	The Multi-Period Facility Replacement Decision (Capital Budgeting)
Session 18	Operational Control: The Balanced Scorecard
Session 19	Management Control: Responsibility Centers & Accounting
Session 20	Issues in measuring performance of Investment Centers
Sessions 21 & 22	The Control of Engineered Cost Centers and Profit Centers: Flexible Budgets and Variance Analysis
Session 23	Issues in Cost Allocation for Shared Resources
Session 24 & 25	Balanced Scorecard Presentations
Session 26	Review for final exam
FINAL EXAM	May 9 3:45 to 5:45 PM