

NEW YORK UNIVERSITY
Stern School of Business

PRINCIPLES OF MANAGERIAL ACCOUNTING ACCT-UB.2

January 3-19, 2012. Tuesdays and Thursdays, 1pm – 4pm

Professor:

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Tuesdays 4:00pm – 4:30pm,
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Office Hours will be posted on Blackboard

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 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, 13th edition, 2009. 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 in an electronic course pack from the bookstore.

Additional readings and cases are posted on Blackboard. I will provide extensive lecture notes.

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 recap quiz, and a closed-book final examination:

- Class participation 20%;
- Final examination 80%.

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.

Final exam. The final exam will be cumulative and closed-book. You may use a single sheet of notes.

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.

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 for more information.

Course Calendar At-A-Glance

Date	Session	Topic	Case to prepare
Jan-3	1	Introduction to the course Managerial information systems: theory and practice	
Jan-5	2	Measuring and managing the costs of capacity	<i>Surface Mount Technologies</i>
Jan-10	3	Activity-based costing	<i>Seligram ETO Coffee Services Company</i>
Jan-12	4	Estimating and managing customer profitability	<i>Infinity Bank</i>
Jan-17	5	Business decisions: CVP, relevant costs, and relevant revenues	
Jan-19	6	Final exam	

Course Outline

Session 1. Introduction to the course.

Managerial information systems: theory and practice.

Tuesday, January 3

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.
- The flow of costs in service and manufacturing companies.
- Direct and absorption costing; normal costing.

Textbook

Chapter 1, pages 1-12 (take a quick glance through this background info);

Chapter 2, pages 31-54 (*make sure you understand the terminology – we will use it throughout the course*).

Self-study Problems

Exercises 2-2, 2-3, 2-4, 2-5; Problems 2-16, 2-18.

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.

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.

Prepare

Case study *Surface Mount Technology*. Address the following questions:

1. OH rates for Sunnyvale Line 6 were \$360 in 1998 and \$375 in 1999. How are these OH rates computed by SMT?
2. Compute the OH rates for Sunnyvale Line 6 for 1997, 2000, and 2001. Why are the rates fluctuating so much? What are the fundamental economic changes causing these fluctuations?
3. Using SMT’s bidding algorithm, prepare a bid analysis for the Motorola request if the bid is analyzed (i) in 2000; (ii) in 2001.

Do you expect these bids to succeed?

4. What is likely to happen to OH rates (and, thus, our bids) in 2002?
5. Take a look at Project HP-HDC-32 (**this is new information, not in the case**). This long-term contract with a major customer involves the assembly of 10,000 control boards per year on one of the state-of-the-art surface-mount assembly lines (like Sunnyvale Line 6).

The contract requires the customer to pay us \$107 per board. The direct-material content is \$1.32; the direct-labor content is \$0.31. The processing requirements are 0.2 hours per board.

Compute the unit and total profitability of this relationship in 1999 and in 2001 (labor, materials, and processing requirements remain the same). Comment.

Session Plan

We will spend the majority of the sessions discussing the *SMT* case and some modern enhancements to *SMT*’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 8, pages 307-331, 333-334.

- Read and prepare** *Seligram* case. Calculate the reported costs of the five sample components using:
- the existing system;
 - the system proposed by the accounting manager;
 - the system proposed by the consultant.

Before we move to somewhat complicated activity-based-costing systems, I want to make sure everyone can do simpler cost computations in a real-world company. We will not discuss this case in class; I will hand out my own numbers.

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

Self-study Problems Exercises 8-1, 8-7, 8-15; and the review problem on pages 334-336.

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.

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- Topics**
- Actions to manage profitability of products and customers.
 - Translating reporting innovations into shareholder value.
 - Using management reports to make business decisions.
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Read I will post several readings on Blackboard.

- 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.

Session Plan We will devote this class to the discussion of the *Infinity Bank* case.

Topics

- Variable and fixed costs.
- The profit equation.
- Cost-volume-profit analysis.
- Relevant costs and relevant revenues.
- Opportunity costs.
- Routine and non-routine business decisions.

Textbook

For background reading on variable and fixed costs, look over Chapter 5 (pages 188-200, 210-211). This is entirely optional background reading.

Carefully read Chapter 6 (pages 233-251, *Assumptions of CVP Analysis on page 258*) and Chapter 13 (pages 578-594, 602-603).

Self-study Problems

Exercise 6-11; Problems 6-26, 6-31. Exercises 13-4, 13-14; Problems 13-18, 13-25; Case 13-28.

Session Plan

We will first discuss the decision-analysis tool frequently used (and misused) in practice – cost-volume-profit analysis.

We will then take a look at relevant-cost and relevant-revenue 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?
