

NEW YORK UNIVERSITY
Stern School of Business

ADVANCED MANAGERIAL ACCOUNTING (ACCT-GB.3305.20)

Spring 2019

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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 understand, evaluate, and act upon the many financial and non-financial reports used in managing modern firms.

Managing any modern firm requires information about the firm's products, processes, assets, and customers. This information is a key input into a wide range of 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, guiding improvement efforts, and so on.

The *focus* of this course is on modern internal-reporting systems. We will discover that many firms do not provide their managers with useful information; we will see numerous examples of value destruction and bankruptcies caused by this. We will also investigate some modern ideas in how an organization's internal information system should be designed to enhance value creation; and we will see how world-class firms take advantage of their competitors' internal-reporting mistakes.

To attain the right level of understanding, we will briefly explore the mechanics of the many techniques used to prepare internal reports. But the emphasis in this course is very much on interpretation, evaluation, and decision-making.

Teaching Materials

The *recommended* textbook is *Managerial Accounting*, by Garrison, Noreen, and Brewer, 16th edition.

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)*. You will need to purchase these cases from Harvard Business School Publishing; instructions are on NYU Classes.

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

I will also post any important announcements on NYU Classes.

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 ideal interactive learning environment.

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, a case write-up, and a closed-book final examination:

- Class participation 10%;
- Write-up of *Falco Scooters (A)* case 10%;
- Midterm exam 40%;
- Final exam 40%.

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.

Write-up of Falco Scooters (A) case. This write-up will be graded **based on effort only**. Submit the assignment using NYU Classes.

Midterm. We will have one in-class, closed-book midterm.

Final exam. The final exam will be in-class and closed-book. You may use a single page of notes (front and back). The final exam is **not** cumulative, but the material in the second half of the course builds on the knowledge acquired in the first half, before the midterm.

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.
- The weights, in “Grading” above, are identical for everyone. *It is not possible to make up for poor performance by doing extra work.*
- After the midterm, you have *one week* from the time your exam paper is returned to you to review the exam for any errors in grading. After that period, I will not re-grade any part of your exam. *All requests for re-grading must be submitted in writing.*

Course Calendar At-A-Glance

	Date	Topic	Case to prepare
1	Monday 2/4/2019	Introduction to the course Managerial information systems: theory and practice	
2	Monday 2/11/2019	Normal absorption costing Cost estimation and process complexity	Seligram ETO
3	Monday 2/25/2019	Measuring and managing the costs of capacity	Adapconn
4	Monday 3/4/2019	Activity-based costing	Coffee Services
5	Monday 3/11/2019	Estimating and managing customer profitability	Infinity Bank
6	Monday 3/25/2019	Decentralization and performance evaluation Review for midterm	
7	Monday 4/1/2019	Midterm	
8	Monday 4/8/2019	Wrap-up of course Part 1 Incentive effects of absorption costing	Western Chipsets
9	Monday 4/15/2019	Decision analysis: Introduction	
10	Monday 4/22/2019	Prepare and turn in the <i>Falco Scooters (A)</i> case write-up. Turn in the case write-up by 5pm on NYU Classes	Falco Scooters (A)
11	Monday 4/29/2019	Guest speaker: Daniel Ryterband, CEO, <i>FW Cook</i> Decision analysis: <i>Falco Scooters (A)</i> in-class discussion	
12	Monday 5/6/2019	Decision analysis: Asset-related costs and strategic issues Transfer pricing: Introduction	Falco Scooters (B)
13	Monday 5/13/2019	Transfer pricing: Negotiated transfer prices Course takeaways. Review for final	

Course Outline

Part I. Estimating and managing costs and revenues.

Session 1. Introduction to the course.

February 4

Managerial information systems: theory and practice.

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.

Textbook

Chapter 1, pages 24-40. Make sure you understand the terminology introduced in this chapter. You have seen many of these terms before; we will use many of them throughout the course.

Chapter 2, pages 67-82. You can skip low-level details such as: “Measuring Direct Materials Cost”, “Job Cost Sheet”, and “Measuring Direct Labor Cost” on pages 70-71.

Self-study Problems

Review problem on pages 82-83. Exercises 2-1; 2-2; 2-3; 2-4; 2-6; 2-13.

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.
 - Cost estimation and cost management.
 - Two-stage structure of costing systems.
 - Selection of allocation bases.
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Textbook Chapter 3, pages 110-128.

Self-study Problems Exercises 3-3, 3-4, 3-7; Problem 3-12 (parts 1 and 2 only).

- Prepare** Case study *Seligram, Inc.: ETO*. 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 The most common modern approach to estimate unit costs is *normal absorption costing*. We will investigate the key components of this approach.

We will then begin 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.

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.

**Session
Plan**

We will spend the majority of the session 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 310-335. *Do not get overwhelmed by the details*; we will clarify the main ideas in the class session.

Prepare *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 7-4, 7-5, 7-9, 7-13; Problem 7-16 (parts 1 and 2 only); and the review problem on pages 336-337.

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.

Topics Customer profitability analysis.

Read I will post several readings on NYU Classes. 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 “Special report” in the middle of the web page).

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 these sessions to the discussion of the *Infinity Bank* case and customer-profitability analysis.

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- Topics**
- Decentralization.
 - Evaluating investment centers: ROI, Residual Income (RI), Economic Value Added (EVA™).

Textbook Chapter 11, pages 506-515.

Self-study Problems Exercises 11-2, 11-5, 11-9. Problem 11-15.

Session Plan We will begin our discussion of decentralization and performance evaluation. We will focus on key performance indicators for investment-center managers.

We will then hold our midterm review.

Session 8. *Wrap-up of course part I.*

April 8

Incentive effects of absorption costing. Western Chipsets case.

Topics

- Incentive effects of absorption costing.
- Variable costing and contribution format income statements.

Textbook

Chapter 6, pages 257-266.

Prepare

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

**Self-study
Problems**

Exercises 6-1, 6-2, 6-3; Problems 6-19, 6-20.

**Session
Plan**

We will also analyze the incentive and decision-relevance aspects of absorption and variable costing methods. We will discuss the *Western Chipsets* case.

Part II. Performance Evaluation. Tactical and Strategic Decisions.

Session 9. Decision analysis: Introduction

April 15

- Topics**
- The profit equation.
 - The relevant range of analysis.
 - Cost-volume-profit analysis.
 - Contribution margin ratio (CMR) analysis.
 - Degree of operating leverage (DOL) analysis.
 - General decision analysis: relevant costs and relevant revenues.
 - Constraints and opportunity costs.
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Textbook Chapter 5, pages 196-217.
Chapter 12, pages 560-585.

Self-study Problems Exercises 5-4, 5-5, 5-8, 5-9, 5-11, 5-18; Problem 5-23.
Exercises 12-3, 12-4, 12-5, 12-10, 12-12, 12-14; Problem 12-23.

Session Plan We will begin our exploration of 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?

Topics

- Relevant costs, relevant revenues, constraints, and opportunity costs in a rich setting.
- Routine and non-routine business decisions.
- Strategic considerations.

**Prepare
and turn
in by 5pm**

Case study *Falco Scooters (A)*. Address the questions in the case. **Note:** your case grade will be based on effort only.

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- Topics**
- Decision analysis in a rich setting.
 - Asset-related costs.
 - Routine and non-routine business decisions.
 - Strategic considerations.

Session Plan

We will analyze the *Falco Scooters (A)* case.

Our guest speaker will be Daniel Ryterband, CEO, FW Cook.

Session 12. Decision analysis: Asset-related costs and strategic issues
Falco Scooters (B) case.
Transfer pricing: Introduction

May 6

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- Topics**
- Implications of changes in inventories, receivables, and payables.
 - Erosion and cannibalization issues.
 - Strategic issues.
 - Transfer pricing – key method in evaluating the performance of managers in integrated organizations.
 - Aligning incentives of divisional managers.
 - Cost-based transfer pricing.
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Textbook Chapter 13, pages 632-634, 638-643.

Prepare Case study *Falco Scooters (B)*. Address the questions in the case. **Note:** The discussion of *residual income* and *EVA*[®] from Chapter 11 is useful for doing the *Falco Scooters (B)* case.

Self-study Problems Exercise 13-14; Problem 13-16 .

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

We will then begin our analysis of a key tool used by all large firms: transfer pricing.

Topics

- Negotiated transfer pricing.
- Course takeaways.

Textbook Appendix 11A, pages 540-546.

Self-study Problems Exercises 11A-1, 11A-3; Problem 11A-5; Case 11A-7 (parts 1-3 only).

Prepare Sample final exam.

Session Plan We will discuss how negotiated transfer prices contribute to an overall goal of decentralization and performance evaluation.

We will then review the key takeaways from the course.

We will then take a look at the sample final and discuss final-exam preparation.
