

ACCOUNTING 622
FUNDAMENTALS OF MANAGERIAL ACCOUNTING

Course Syllabus
Third Quarter (Spring, 2008)

INSTRUCTOR:

John E. Core
1320 Steinberg Hall-Dietrich Hall
email: jcore@wharton.upenn.edu
Office Hours: Monday and Wednesday, 3:15 p.m. to 4:30 p.m.

Teaching Assistant Office Hours: (205 Steinberg Hall-Dietrich Hall)
TA Office hours begin Wednesday January 16

Ayan Banerjee	see webCafé for times
Joel Hawkins	see webCafé for times
Terry Jackson	see webCafé for times
Meton Morais	see webCafé for times
Karthik Subramanian	see webCafé for times

COURSE OBJECTIVES:

This course emphasizes the use of accounting information for *internal* planning and control purposes. This orientation contrasts with financial accounting where the focus is on accounting disclosures for parties *external* to the firm.

The course is intended as an introduction for individuals who will make business decisions and evaluate the performance of managers and business units using data obtained from the accounting system.

The course will cover the vocabulary and mechanics of cost accounting, basic issues involved in the design of a managerial accounting system, and the role of management accounting in decisions concerning resource allocation and performance evaluation.

Throughout the course, we will pay particular attention to various (unintended) dysfunctional consequences of traditional managerial accounting systems, as well as possible solutions to these problems.

FORMAT:

The course will be a combination of lecture (with solutions to selected problems), case work, and interactive class discussion. **I will assume that you have prepared the required material for each class.**

- *Seven* cases will be covered during the course. Each student will be required to turn-in *three (and only three)* of these seven assignments (but should be prepared to discuss *all* of the cases in class). You must turn in:

(a) *either* Bridgeton Industries (due 1/14) *or* Destin Brass (due 1/23)

and

(b) *either* Kanthal (due 2/11) *or* Shuman Automobiles (due 2/18)

and

(c) *either* Barrows Consumer Products (due 2/25) *or* Citibank (due 2/27).

Questions for the cases are in the bulk pack following each case. Case solutions must be no longer than *four* typed pages (excluding exhibits and tables). *Note that we will only grade three cases.* That is, if you turn in both Bridgeton and Destin, we will only grade Bridgeton.

Please note that case solutions will be discussed in class. No handouts of case solutions will be available. If you have a question about the solution, please see me during office hours. Also, if you think that the grade is incorrect, please submit a re-grade following the procedure below.

- You are also required to turn in the solution to a problem set to be distributed in class (due 2/13 -- see Session #7). This assignment can be done *individually* or in *teams*.

Cases and problem sets must be turned in by 10:00 a.m. in the Accounting Suite (1300 SHDH) on the date of the assignment.

In order to help the TAs grade and return your cases efficiently, please include on the front page of your case the “Sort Number” of the team member to whom you wish the case to be returned. Also, please alphabetize by team member last name. For example, Banerjee, Hawkins (56), Jackson, Morais, Subramanian if this team wishes for the case to be returned to Hawkins. Each student has been assigned a unique sort number, and you can find yours on webCafé in your gradebook.

No cases or problem sets sent by e-mail will be accepted. Any cases or problem sets turned in after 10:00 a.m. will be subject to a minimum 10% grade reduction.

The cases and problem sets can be done individually or in groups of two to five persons. I will not become involved in any group disputes. Groups will have to monitor and manage themselves. All members of the group will receive the same grade on the case. In order to avoid "free-rider" problems, group membership can change during the course.

All groups must work independently. Members of different groups are *not* allowed to discuss the cases or problem sets or share answers prior to the cases being turned in to the accounting department. You are responsible for ensuring that work done by your group is done independently of other groups.

GRADING:

Your grade will be computed based on $\max(\text{Score A}, \text{Score B})$, where Score A and B are:

	Score A	Score B
Class participation	10%	0%
Final exam	45%	55%
Three case write-ups	30%	30%
Problem set	15%	15%
Total	100%	100%

In addition, it is necessary to earn at least a passing grade on the final examination in order to receive a passing grade for the course.

Grades will be distributed as follows:

Grade	Approximate Percentage
A range	40%
B range	50%
C range and below	10%

In the past, relatively few students (less than 1%) have failed this class.

REGRADE REQUESTS:

Re-grade requests for homework assignments or the final exam must be submitted in writing *within one calendar week* following the return of the assignment (or one week following the start of the next term for the final exam). To have an assignment or exam regraded, you

must submit the original (with no modification) and a written description of your disagreement with the initial grade.

OTHER ISSUES:

Neither an interview, travel in connection with an interview, nor vacation travel is an acceptable reason to miss an examination or a case assignment.

Please note that our final is scheduled from 6 pm to 8 pm on Thursday, March 6. If the timing of the final conflicts with your travel plans over the break, please drop the course and take it instead in Fall 2008. WE CANNOT OFFER THE FINAL EARLY FOR ANY REASON.

No make-up examinations or case assignments will be available.

REQUIRED MATERIALS:

You must buy the bulk packet of = readings and cases (available from Wharton Reprographics). The bulk packet is designated as **BP** in the course schedule.

Class notes are available on WebCafe. Class notes are designated as **CN** in the course schedule. (You may print these or purchase copies from Repro).

A small number of additional pages will be handed out in class, and will be applied to your bursar bill at the end of the term.

OPTIONAL MATERIALS:

The *optional* textbook for this course is:

C. Horngren, S. Datar, and G. Foster, *Cost Accounting: A Managerial Emphasis*, Prentice-Hall, 12th ed.

This text is designated as **HDF** in the course schedule. The purchase of this text is optional. Copies of HDF are on reserve in Lippincott.

Additional, optional readings (designated **OPT**) are available on WebCafe.

HELPFUL HINTS:

- The easiest way to learn accounting is to keep up with the material weekly. Accounting is difficult to learn by cramming. Spend an hour each day on this course outside class (or two hours every other day). You will spend less time in total and understand the material better than if you try to do it all the night before an exam.

- Concentrate on learning for the long term. Another way of saying this is that if you concentrate on learning, the grades and your career will follow. What is important is how much you get out of your time here, and how this helps you build your career five, ten, twenty, etc. years in the future.
- Please participate – Everyone learns more, and the class is more enjoyable. Practice speaking up in front of your peers. Business people who can speak well in public are more successful.
- You are graded on participation not attendance. It is OK if you miss class occasionally. Note, however, that people who miss class frequently tend not to learn the material as well, and do not perform as well on the final.
- Think about how what you are learning helps you now, and how it will help you in the future.

ACCT 622 - COURSE OUTLINE AND SCHEDULE

1. (Monday 1/7) Introduction and Cost Concepts and Cost Behavior

Major objectives: Introduce important cost terms and concepts. Define and illustrate cost objects, direct costs, and indirect (or overhead) costs. Understand the associations between cost drivers, variable costs, and fixed costs, and the major assumptions underlying the definitions of variable and fixed costs. Use these concepts in breakeven analysis.

CN: Class Notes (Session 1)
BP: Cost Concepts, Terms, and Classifications
HDF (optional): Chapters 2, 3, and 10

2. (Wednesday 1/9) Decision Making ; Introduction to Job Costing

Major objectives: Apply cost concepts to decision-making. Understand the notion of relevant costs. Apply the break-even concept to a legal dispute between two contractual parties. Introduce job costing.

Required Case (BP): Forrest Gump

CN: Session 2
BP: Relevant Costs in Nonroutine Decisions
HDF (optional): Chapters 11 and 12

3. (Monday 1/14) Overhead Rates, Cost Behavior, and Outsourcing Decisions; Introduction to Product Costing

Major Objectives: Apply the concepts covered in the first two sessions to an actual decision. Refine understanding of cost behavior, relevant costs, and cost accounting system output. Understand the limitations of "full costs" and traditional cost accounting systems in decision-making. Introduce product costing.

Required Case (BP): Bridgeton Industries <-- Case Assignment

CN: Session 3

4. (Wednesday 1/16)

**Product Costing;
Introduction to Activity-Based Costing**

Major objectives: Describe the mechanics of cost accounting systems. Define cost allocation and overhead rates. Understand costing methods using actual, normal, and standard costing. Introduce activity-based costing.

CN: Session 4
BP: Product costing example; Activity-Based Costing (ABC)
OPT (webcafe): Activity-Based Cost Systems for Manu. Expenses
HDF (optional): Chapter 4

5. (Wednesday 1/23)

**Activity-Based Costing;
Introduction to Customer Profitability Analysis**

Major Objectives: Understand the differences between traditional cost systems and Activity-Based Costing (ABC). Apply ABC concepts in an actual decision-making context to understand the effect of cost accounting methods on perceived product profitability, and the use of ABC data in operational and marketing decisions. Introduce customer profitability analysis.

Required Case (BP): **Destin Brass <-- Case Assignment**

CN: Session 5
BP: Activity Based Costing Example; Unequal Treatment ...
OPT (webcafe): Customer-Driven Costs Using Activity-Based Costing
HDF (optional): Chapter 5

6. (Monday 2/11)

**Customer Profitability Analysis;
Introduction to Transfer Pricing**

Major Objectives: Understand the inability of most accounting systems to provide useful data for marketing or sales decisions. Examine the use of Activity-Based Costing for determining customer profitability. Discuss the application of customer profitability data to operational, marketing, and strategic decisions. Introduce transfer pricing.

Required Case (BP): **Kanthal (A) <-- Case Assignment**

CN: Session 6
BP: Organization Structure and Decentralization ;
Transfer pricing ; Transfer pricing and common costs
HDF (optional): Chapter 14

7. (Wednesday 2/13) Comprehensive Problem Set

Major Objectives: Turn in and review a problem set covering concepts from the first six sessions.

Required Problems: **Problem Set (Due by 10:00 a.m. in the Accounting Suite)**

**8. (Monday 2/18) Transfer Pricing and Common Cost Allocation
 Introduction to Budgets and Variance Analysis**

Major Objectives: Review stand-alone and ability-to-bear methods for allocating common costs. Discuss transfer pricing methods and their implications for decision-making and performance evaluation. Introduce budgets and variance analysis.

Required Case (BP): **Shuman Automobiles <-- Case Assignment**

CN: Session 7

BP: Example of General Rule of Transfer Pricing

OPT (webcafe): Kambil (2003) ; Wolfers and Zitzewitz (2004).

HDF (optional): Chapters 15 and 22

**9. (Wednesday 2/20) Standard Costing and Variance Analysis
 Intro. to Performance Evaluation using Accounting Measures**

Major Objectives: Introduce flexible budgets and standard costs as aids for planning and control. Understand the use of standards for variable costs. Learn how variances between actual and standard costs can be broken into price and efficiency variances to assist in assigning responsibility and examining the variances' causes. Introduce performance evaluation using accounting measures.

CN: Session 9

BP: Budgeting ; Budget Practices ... ; The Widespread Use of Standard Costs; Readings on Variance Analysis

HDF (optional): Chapter 7

10. (Monday 2/25)

Performance Evaluation Using Accounting Measures

Major Objectives: Understand the advantages and disadvantages of various types of accounting-based performance measures. Discuss how and when these measures lead to dysfunctional outcomes for the firm. Introduce the concept of economic-value added (EVA) measures.

Required Case (BP): Barrows <-- Case Assignment

CN: Class Notes (Session 10) – *to be distributed in class*

BP: Dierks and Patel, “What is EVA ...” ; Performance Measurement (a) and (b)

OPT (webcafe): Andersen et al. “EVA Adjustments ...”

HDF (optional): Chapter 23

11. (Wednesday 2/27)

Non-Financial Performance Measures and the Balanced Scorecard

Major Objectives: Evaluate the use of non-financial performance measures such as employee and customer satisfaction for decision-making and control purposes. Discuss the balanced scorecard concept, and the use of “causal” business models in performance measurement.

Required Case (BP): Citibank <-- Case Assignment

CN: Class Notes (Session 11)

BP: Widening the Performance ... ; The Balanced Scorecard

OPT (webcafe): Kaplan and Norton, “Linking the Balanced Scorecard to Strategy.”

HDF (optional): Chapter 13

12. (Monday 3/4) Course Conclusion and Final Review

Major Objective: Summarize and review for final.

Final Examination Thursday, March 6th from 6-8pm