

NEW YORK UNIVERSITY
Stern School of Business

PRINCIPLES OF MANAGERIAL ACCOUNTING C10.0002
Spring 2010

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Course Overview and Objectives

Managerial accounting includes a broad array of tools necessary to articulate, implement, monitor and refine an organization's strategy. Managing the modern firm requires a significant amount of financial and non-financial information about the firm's products, processes, assets, and customers, as well as the external environment. This information is a key input to operational and strategic decisions: managing product-line portfolios, setting prices, managing customers' relations, translating the strategy into a series of objectives, measures and targets, monitoring strategy implementation, and so on.

The main objective of this course is for the students to develop a comprehensive framework to think about managerial accounting issues and understand their broader implications for the organization, so as to be able to make more informed (and, thus, "better") decisions in an uncertain environment. To develop such a framework, students will be required to become familiar with the mechanics of a number of management accounting tools, but ultimately the emphasis will be on obtaining a good grasp of the key conceptual issues.

Class Meetings

I believe that an interactive learning environment and a focus on real-world experiences allow for a deeper understanding of managerial accounting issues and results in a greater appreciation of their importance in the broader context of complex organizations. Besides, it makes the learning experience more fun! Thus, case discussion will be the basis of most classes.

For case discussion to be effective, it is crucial that students will be active participants in class, providing critical analyses of key issues and debating alternative courses of action. In turn, this requires careful preparation of the case and other assigned readings before class and active involvement during class. I will randomly call on students when discussing cases and students should be ready to be called on to present their analysis or to comment on others' analyses.

I recognize that case discussions can be a challenging learning tool at first. Speaking up in class

may be intimidating. Besides, cases often do not have a “right” or “wrong” answer and this may leave students uncomfortable. But the reality is that most interesting managerial problems do not have a clear-cut answer. And that, in most business environments, one’s ability to articulate and communicate her views is critical. Thus, I believe it is important to begin developing these skills while at school.

Recognizing these challenges, I will often use a short lecture at the beginning or end of class to put the case in the context of our course. Also, I will assign a set of detailed questions for each case that will guide the student in her preparation. Finally, with the students’ help, I will try to create an atmosphere of mutual respect where students feel encouraged to participate.

In my experience, I also find that preparing cases in teams is a helpful way to prepare for class. Thus, you are encouraged to prepare for cases in small teams.

Teaching Materials

For most topics, I will use cases included in a digital course packet. I will often suggest additional readings (available online) to help you in preparing the case.

The *required* textbook is a custom text based on *Managerial Accounting*, by Garrison, Noreen, and Brewer, 13th edition, 2009. For some course topics, I will suggest several problems from the text for self-study and self-evaluation. Where necessary, I will also provide 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. Participants’ feedback is critical to the improvement of the course over time.

Grading

The course grade will be based on class participation, a midterm exam and a final exam, as follows:

- Class participation 20%;
- Midterm 40%;
- Final Exam 40%.

Class participation. The grade for class participation will depend on the quality of your interaction and participation in class discussions. You are expected to prepare and discuss the case questions and any other assigned reading.

Midterm and Final Exam. Both midterm and final exam will be in-class, closed-book exams. 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 has 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 www.stern.nyu.edu/undergraduate/grading for "Teaching and Grading at the NYU Stern Undergraduate College" for more information.

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.

Please see www.stern.nyu.edu/uc/codeofconduct for more information.

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-20	1	Management accounting as management system.	
Jan-25	2	Introduction to cost concepts. Variable vs fixed costs: using CVP analysis for decision making:	
Jan-27	3	Measuring and managing the performance of your products and customers What is the cost of a product? Allocating indirect costs	<i>Seligram ETO</i>
Feb-1	4	Measuring and managing the cost of capacity.	<i>Anagene</i>
Feb-3	5	Activity-based costing	<i>Wilkerson</i>
Feb-8	6	Beyond products: customer profitability	<i>Kantbal</i>
Feb-10	7	Review of ABC, applications, new trends	
Feb-17	8	Midterm Exam	
Feb-22	9	Measuring and managing firm performance Budgeting and variance analysis	<i>Musimundo</i>
Feb-24	10	Target setting and incentives: the EVA solution	<i>Vyaderm Pharmaceuticals</i>
Mar-1	11	The link to strategy Translate the strategy: strategy maps and balanced scorecard	<i>Transworld Auto Parts</i>
Mar-3	12	Testing and adapting the strategy	<i>Store 24</i>
Mar-8	13	The levers of control	<i>ATH Microtechnologies(A,B)</i>
Mar-10	14	Final exam.	

Course Outline

Session 1 Management accounting as management system.

Wednesday, January 20

Topics

- Management accounting as management system: the link to strategy
- Introduction to cost concepts: variable and fixed costs, direct and indirect costs

Prepare

Read and be ready to discuss article “Mastering the Management System” by Robert Kaplan and David P. Norton, Harvard Business Review; January 2008 (Vol. 86 Issue 1, p.62-77). This will provide us with a framework we will often refer to throughout the course.

As introduction to cost concepts, read Chapter 2, pp.46-51 (cost classifications for predicting cost behavior), pp.36-38 (manufacturing costs) and pp.51-52 (cost classifications for assigning costs to cost objects). The distinction between fixed and variable cost and the distinction between direct and indirect costs underlies the topics covered in the next four-five sessions.

Self-study Problems

Exercises 2-2, 2-6, 2-7; Problem 2-15.

Session Plan

We will spend the first part of the class discussing the role of management accounting (and, thus, the objective of this course) as a set of tools to articulate, implement, monitor and refine an organization’s strategy. For this purpose, we will refer to the assigned reading - “Mastering the Management System” – which will help us appreciate the broader role of management accounting and to put our course in the context of your business education.

Then, we will introduce some key cost concepts that will be used throughout the course.

Session 2. Variable vs fixed costs: using cost-volume-profit analysis for decision-making.

Monday, January 25

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- Topics**
- Variable and fixed costs.
 - The profit equation.
 - The notion of break-even point.
 - Uses and limitations of cost-volume-profit analysis.

Textbook Check assignment on Blackboard

Self-study Problems Check assignment on Blackboard

Session Plan In this session we will examine the use of cost-volume-profit analysis – a set of tools that exploit the distinction between variable and fixed cost for decision-making purposes. Most of the session will be devoted to providing examples of applications of this tool, but even more important will be to understand when this tool can be used and its limitations.

Measuring and managing the performance of your products and customers

Session 3. What is the cost of a product? Allocating indirect costs ***Wednesday, January 27***

Topics

- Mechanics of two-stage allocations cost pools and cost drivers.
 - Limits of “traditional” costing systems.
 - Information vs incentives: dual role of costing systems
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Prepare

Read the case *Seligram* in digital course packet

Prepare questions assigned for the case (check Blackboard)

Before reading the case, you may find useful to review the cost concepts in Chapter 2, pp.36-38 and 51-52.

Session Plan

We will devote the session to discussing the *Seligram* case. The case gives us an opportunity to appreciate the need for proper cost allocations, understand the mechanics of two-stage allocations, the benefits from adding cost pools and changing cost drivers and the limits of volume-based allocations.

Topics

- Capacity as key managerial choice.
 - Allocating capacity costs using practical and budgeted capacity utilization.
 - The “death spiral”
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Prepare

Work on the assigned exercise (check Blackboard)

Read the case *Anagene* in digital course packet

Prepare questions assigned for the case (check Blackboard)

**Session
Plan**

We will first walk through the assigned exercise, and then spend the rest of the session discussing the *Anagene* case.

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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 See assignment on Blackboard

Read Read the case *Wilkerson* in digital course packet

Prepare questions assigned for the case (check Blackboard)

Self-study Problems See assignment on Blackboard

Session Plan We will discuss the *Wilkerson* case as an example of activity-based costing (ABC) and activity-based management (ABM). We will examine the advantages of ABC over traditional systems and discuss its implementation challenges.

Topics

- Use of ABC to measure customer profitability
 - Using customer profitability for decision-making
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Read

Read the case *Kanthal* in digital course packet

Prepare questions assigned for the case (check Blackboard)

**Session
Plan**

Often some overhead costs are incurred to serve customers and satisfy their requirements. This is particularly true for non-manufacturing costs, such as the costs often lumped in financial reports as “sales, general and administrative” costs (SG&A).

When firms are managed around customers’ needs, the costing system should be modified accordingly. *Kanthal* is an example of a company that dramatically changed its operations after designing its cost systems around its customers and developing proper measures of customer profitability.

Session 7. Review of ABC, applications and new trends

Wednesday, February 10

Topics

- Review session and discussion of current trends

Session Plan

In sessions 3-6 we have covered quite a lot of material. In this session, we will pause and try to connect the dots.

We will briefly review the costing systems analyzed, clarify any issue and then discuss recent trends in this area.

Session 8. In-Class Midterm Exam

Wednesday, February 17

Measuring and Managing Firm Performance

Session 9. Budgeting and Variance Analysis

Monday, February 22

Topics

- Variance analysis
- The role of budgets as control mechanism
- Target setting

Prepare

Read the case *Musimundo* in digital course packet

Prepare questions assigned for the case (check Blackboard)

Session Plan

The main goal of this session is to examine the use of an important tool for performance measurement: variance analysis – that is the analysis of deviations from a pre-established target.

To do so, we will discuss the case of Musimundo, an Argentine entertainment retailer operating in an extremely difficult and uncertain economic environment. Can anything be learned from variance analysis in this context? Does it make sense to have budgets and set targets in presence of so much uncertainty? Should employee compensation be linked to such targets? What are the pros and cons of doing so? These are some of the questions we will explore.

- Topics**
- Choosing the “right” performance measure
 - Designing an incentive plan
 - Target setting
 - Organizational design issues
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Prepare Read the case *Vyaderm Pharmaceuticals* in digital course packet

 Prepare questions assigned for the case (check Blackboard)

Session Plan In this session we will examine the implementation of an “EVA” (Economic Value Added) management system - the attempt to introduce a single, comprehensive performance measure and design an incentive plan closely tied to this measure. We will do so by looking at a real case, Vyaderm Pharmaceuticals.

The case will give us the opportunity to explore a number of questions: what are the properties of the ideal performance measure? Is the metric that best measures performance also the one that best motivates employee to perform? What are the challenges in designing and calibrating an incentive plan? What are the implications in terms of organizational design? What are the risks and limitations of an EVA-type system?

The Link to Strategy

Session 11. Translate the strategy: strategy maps and balanced scorecards.

Monday, March 1

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- Topics**
- Strategy maps and balanced scorecard as tools to translate strategy into specific objectives, targets, measure and initiatives.
 - Limits of financial performance measures and benefits of non-financial performance measures

Prepare Read article: “Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part I” R.S. Kaplan and D.P. Norton, Accounting Horizons, March 2001

Read article “Having Trouble with Your Strategy? Then Map It” by Robert Kaplan and David P. Norton, Harvard Business Review; Sept-Oct2000

Read the case *Transworld AutoParts (A)* in digital course packet

Prepare questions assigned for the case (check Blackboard)

Session Plan

On the first day of the course, we introduced the “closed-loop” management system linking strategy and operations (review the exhibit on p.3 of the HBR article “Mastering the Management System”).

In this session, we will examine “Stage 2” of the loop - that is, translating the strategy into a series of specific strategic objectives and initiatives and developing appropriate measures and targets.

To do so, we will discuss the case of Transworld Auto Parts, a manufacturer of original and after-market parts for automobile producers which develops a strategy map and a balanced scorecard for its luxury and economy divisions. The case gives us the opportunity to explore a number of key questions: why do we need non-financial performance measures? How to choose the relevant performance measures in the balanced scorecards? In what sense is balanced? What are the linkages about the four perspectives?

In preparing the case, you will find useful to first read the article “Transforming the Balance Scorecard from Performance Measurement to Strategic Management: Part I” and the HBR article “Having Trouble with Your Strategy? Then Map It”

I also recommend you re-read pp.6-7 (par. Stage 2) of the HBR article “Mastering the Management System”.

- Topics**
- Using the performance measurement system to test and adapt the strategy
 - Non-financial performance measures and Balanced Scorecard.
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Prepare Read article: “Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part II” R.S. Kaplan and D.P. Norton, Accounting Horizons, June 2001

Read the case *Store24* in digital course packet

Prepare questions assigned for the case (check Blackboard)

Session Plan On the first day of the course, we introduced the “closed-loop” management system linking strategy and operations (review the exhibit on p.3 of the HBR article “Mastering the Management System”).

In this session we will examine “Stage 5” of the loop - that is, testing and adapting the strategy. To do so, we will discuss the case of Store24, a New England convenience store chain which is trying to assess whether its strategy is working and how to adjust it. The case highlights the challenge of distinguishing a bad strategy (Stage 1 in the loop) from a bad implementation of a good strategy (Stage 2) and presents ways in which performance measurements system can be used to answer these questions (Stage 5). It will also offer un another opportunity to examine the use of non-financial performance measures and balanced scorecards, which we already discussed in the Transworld Auto Parts case.

In preparing the case, you will find useful to first read the article “Transforming the Balance Scorecard from Performance Measurement to Strategic Management: Part II”, which is a continuation of the Part I article assigned as a reading in the previous class.

I also recommend you re-read pp.14-16 (par. Stage 5) of the HBR article “Mastering the Management System”.

- Topics**
- Beyond incentives: balancing the tension between profit, growth and control
 - The four levers of control: belief systems, boundary systems, diagnostic systems and interactive systems
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Prepare Read article “Control in an Age of Empowerment” by Simons, R. Harvard Business Review March 1995

Read the case *ATH Microtechnologies (A) and (B)* in digital course packet

Prepare questions assigned for the case (check Blackboard)

Session Plan We will discuss the case ATH Microtechnologies – a disguised name for a real start-up company in the medical devices industry. The case details the evolution of a company since its founding as it faces a number of control problems. In doing so, it highlights the challenges and importance of adopting the appropriate control systems in a high-growth, dynamic environment.

The lessons of the case extend beyond this company to virtually every organization and the economy as whole, as highlighted by the recent financial crisis.

In preparing the case, you will find useful to refer to the framework of the ‘levers of control’ developed by Robert Simons at the Harvard Business School (see article “Control in an Age of Empowerment”). Most control systems we have analyzed throughout the course appear to fall under the heading of “diagnostics” systems. The ‘levers of control’ framework adds two key dimensions. First, it highlights the importance of how control systems are used (e.g. “interactive” versus “diagnostic”). Second, it reminds us of the importance of softer control systems which determine (or reflect) the culture of an organization (“belief” and “boundary” systems.)

We will then conclude with a few final thoughts about the course.
