Career relevance

Most firms and organizations in modern global competitive environments engage in new product introduction, productivity enhancement and cost control initiatives. Cost management plays a key-supporting role in the creation of more value to the consumer of a firm's products and services, thus enhancing its competitiveness. Accuracy in costing of products, service and strategic activities is important in many decisions involving new product or technology introduction as well as existing operations. This course is valuable for students who plan to run their own businesses either as startups or established, or careers is consulting, financial services, marketing and operations planning. This course complements knowledge acquired in courses addressing operational management, marketing and strategy. The key issue is that any organization can benefit from cost management systems that provide accurate information and that facilitate integration of initiatives such as total quality, new product and service design, cost reduction and business process improvement that enhances their competitiveness and profitability.

Pedagogical Objectives and Content of the Course

One of the major objectives is to learn to design and to use measurement and incentive systems for improving operational efficiency and strategy implementation. Topics will include design and implementation of cost measurement systems for production and strategy choice, management control, enhancement of quality, timeliness and the measurement of customer, product and market regional profitability and the use of cost information during design and production stages. You will learn to cost products, services and strategies in manufacturing, financial and service industries with relevant information. Activities that do not contribute value to the firm and those that increase efficiency of operations are discerned, facilitating intelligent strategic budgeting processes. Efficient cost reduction approaches, monitoring of performance, quality enhancement projects and strategies to increase profitability of the firm are essential for start up ventures. The students learn to measure outcomes through performance measures
such as deviations from standard norms, return on investment, economic value added and balanced score card techniques. The incentive implication of devising pricing approaches to products and services transferred internally is a component. These are considered through class lectures, discussions and problem sessions.

You should read the text and be familiar with the assigned problems prior to the class sessions. Several of the problems will be discussed in class.

**Course Material**
Selected readings.

**Evaluation**

There will be two midterm exams and a final. The exams will be closed book and notes. But you can bring 5 pages of handwritten notes to the tests. No Xerox copies or printed material will be allowed. The final exam is cumulative. The midterm exams are worth 25 points each and the final 30 points. Weekly home work assignments are due during the first class of each week unless specified otherwise by me. It is worth 20 points.

You are encouraged to participate on the blackboard by raising questions, answering other students’ questions and writing class summaries or writing interesting extensions. Such participation will be counted towards increasing your final grade if your scores fall on the border between two grades.
Course Schedule

September 6-8

Course overview and introduction
Product definition for manufacturing, service, retail and financial industries; revenue generating and non-revenue generating products.
Need for accurate determination of product costs; need to allocate all costs to products.
Target analysis: cost-quality considerations in the modern world.
Cost concepts: directly traceable, indirectly traceable and non traceable activity costs.
Cost drivers and activities.
Reading Assignment: Chapter 2; 2-2, 11, 13, 14.
Home Work: 2-1.

September 13-15

Review of inventoriable product costs – Functional Based Method
Method of approximation
Preparation of simple income statements
Fixed and Variable costs
Flexible and committed resources
Determining fixed cost resource rates for product cost determination
Reading Assignment: Chapter 2; 2-10, 18, 19, 7. Chapter 3-pages66-78; 3-6, 7, 8
Home Work: 2-20.

September 20-22

Activity based costing systems
Activity levels classification
Accumulating activity costs
Determining cost driver rates
Simplifying using cost pools
Determining product costs
Overhead activity cost applications
Difference between functional based and activity based costing systems
Reading Assignment: Chapter 4: 4-5, 11, 14, 20, 22.
Home Work: 3-8; 4-12
September 27-29

Approximations to ABC systems- activity level
An approximate approach to calculation of inventoriable product cost.
Effects of costing systems on competition
Reading Assignment: Robin Cooper, "The Rise of Activity Based Costing - Part One: What is an Activity Based Cost System?"
Reading Assignment: Chapter 4: 4-16, 25
Home Work: 4-6; 4-15

October 4-6

Primary and Secondary activities-introductory concept
Secondary activities- importance for product costing accuracy
Cost allocation issues- dual rates
Reciprocal method, direct method
Data issues
ABC- assessment, generalizability, limitations
Reading Assignment: Chapter 7; 7-7, 8, 10, 14, 27.
Home Work: 4-23

October 11-13

Review
TEST I
Home work: 7-5; 7-18; 7-20

October 18-20

Budget setting
Standards used for static budgets
Activity Based Budgeting
Reading Assignment: Chapter 8: 8-4, 6, 11

Variance analysis calculations
Reading Assignment: Chapter 9: 9-11, 16.
Home Work: 8-13; 8-22

October 25-27

Life Cycle Management
Non value added activities, costs
Standards, ideal activity levels, costs
Activity efficiency analysis – relationship to variance analysis
Limitations of variance analysis for control and evaluation
Signal value and interdependencies
Continuous improvement
Reading Assignment: Chapter 10: 10- 6, 7, 8, 10, 17.
Home Work: 9-4; 9-8

**November 1-3**

Unused capacity cost management  
Case: Fly Rite 7-31  
Reading Assignment: 8-15; 8-28  
Home Work: 10-19

**November 8-10**

**TEST 2**  
Quality concepts  
Quality cost trade off  
Quality efficiency curve  
Reading Assignment:  
K. R. Balachandran and Bin Srinidhi, "Strategic Positioning and Cost Management along Various Quality Dimensions".  
Reading Assignment: Chapter 11; pages 438-454, 11-5, 6, 15, 20

**November 15-17**

Discuss test 2  
Quality Strategies and Program Implementation  
Quality Improvement Program Reporting  
Reading Assignment: 11-7, 18, 22  
Home Work: 11-17

**November 22-29**

Investment centers  
Performance measurements  
Return on investment  
Residual income  
Transfer pricing concepts  
Reading Assignment: Chapter 13; 13-5, 9, 10, 11, 16, 21, 23  
Home Work: 13-6

**December 1-6**

Transfer pricing conflicts and resolution  
Illustration of approaches  
Reading Assignment: 14, 15, 22, 24, 26, 29.  
Home Work: 13-18
December 8-13

Information and strategies for start up ventures.
Home Work: 13-13; 13-17