This course is about value creation for firms through cost efficiency management, performance incentives and strategy implementation. We deal with strategies for new product introduction, performance incentives gone wrong and a systematic evaluation of the activities in the firm that contribute to the profitability of the firm. Profit is a function of price, quality and cost. When we look at these three attributes, price and quality are influenced by the market forces. This course deals primarily with cost. Some of the costs, particularly, fixed costs spent for obtaining resources create capacities of which some remain unused. This is very important for cost management. Fixed costs and the consequent capacity acquisitions are subject to strategic and managerial considerations. The course deals with managing costs, both variable and fixed. How inaccuracy in their determinations can lead to wrong strategic managerial decisions; how they can be controlled and how they can be used for performance evaluation? This is the sort of information and analysis considered in this course.

Fundamental to all these considerations are measurement issues. Financial measures, in particular, cost measures, are needed to evaluate alternate strategies on whether to introduce a new product or service line, to determine the appropriate sale price and the consequent market position for the firm’s product. Intense market competition is characterized by how low the price can be reduced and how high the quality can be increased. Any aspiration to market leadership of a firm should incorporate a significant analysis of related cost issues and management of built up resources that are unused or inefficiently used. In addition, non-financial measures are important for operational efficiency. Performance measures are utilized to provide incentives that influence behavior of company managerial personnel. In particular, divisional organizations in firms lead to considerations of transfer pricing issues for services rendered within the firm and valuations of these have significant impact on behavior. We consider all these measurement problems in this course. How can a business make pricing decisions, product line introduction or discontinuance decisions, company expansion – contraction decisions, strategic decisions on company business focus and market penetration, without a firm grounding on the related cost issues? This course will address all these and provides the students with a good understanding and practical ability to make sound business decisions.
TEXTS:


Note: The emphasis of the course is on information analysis and not on management accounting. Hence, we will not be covering the text material in detail in class. It is really supplementary (but important) reading.

Selected cases and reading materials.

CLASS PROCEDURE

I will give lectures on the theoretical foundation and conduct problem work sessions in class. We will have a group project on Activity Based Costing for firms chosen by the groups. The details of the project are posted in Blackboard. I would like to constitute 5 groups (with 4 students in each group) and hopefully the groups will pick projects to cover a spectrum of industries and have access to real business data. The groups will make preliminary class presentations on their project (time to be scheduled as we go along with the course). This first class presentation is informal and should incorporate the formulation of cost objects and costing them using the approaches developed in class. The groups will also make a final class presentation, more formal, detailing the implication of their study for the firm. The groups should post the project outputs on Blackboard prior to or just after their class presentations and I expect the class to participate in all the projects. A final hard copy presentation of the project output is to be handed in after the last class.

There will be frequent class assignments that will help to solidify the class material discussed.

I encourage every one to participate in class and through the Blackboard. On the blackboard, you can write class summaries of the topics discussed in class and bring out issues that pertain to the topic that will enrich the coverage in class.

COURSE GRADE

There will be one exam on the last day of class. It will be for 50%. The other 50% will be for homework submissions, project presentation and delivery.

SESSION 1

*January 4*

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.
K. R. Balachandran and Bin Srinidhi, "Target Analysis: Cost, Quality or Both?".
Cost concepts: directly traceable, indirectly traceable and non traceable activity costs.
Cost drivers and activities.
An approximate approach to calculation of inventoriable product cost.
Suggested problems: Chapter 2; 2, 6, 7, 9, 14, 17, 18, 19.

SESSION 2
January 6
Illustration of manufacturing costs
Driver traceable activities in cost pool – overhead pool.
Fixed-variable costs.

Project introduction- problem discussion
Product selection – managerial decisions
Suggested problems: Chapter 3, up to page 82: 3- 2, 5, 7, 8.

SESSIONS 3.4
January 9
Income statements
Absorption format
Variable format
Decision framework facilitating income statements- preliminary

Activity based costing systems
Activity levels classification
Accumulating activity costs
Determining cost driver rates
Simplifying using cost pools
Determining product costs
Approximations to ABC systems- activity levels
Primary and secondary activities-introductory concept
Overhead activity cost applications
Effects of costing systems on competition
Robin Cooper, "The Rise of Activity Based Costing - Part One: What is an Activity Based Cost System?"
Suggested problems: Chapter 4; 4- 2, 3, 5, 7, 11, 13, 16, 18, 21.
Project discussion: Activity selection
Homework: Nishimoto Machine Tool Company (1)
SESSION 5
January 11

Secondary activities- importance for product costing accuracy
Cost allocation issues- dual rates
Reciprocal method, direct method
Data issues
Activity Based Budgeting
James A. Brimson and John Antos, *Driving Value Using Activity-Based Budgeting: chapter 8: Creating an Activity Budget with Features*. (This will not be discussed in class. But you must read this as it gives a good example for the ABC approach.)

ABC- assessment, generalizability, limitations

*Project discussion- secondary activities selection, cost pool determination*

Suggested problems: Chapter 7; 14, 15, 23, 29
Read: Chapter 8; 15
Homework: Submit *Classic Pen Case*
\[\text{B-Company (2)}\]

SESSION 6
January 13

Case: Fly-Rite Helicopters (Problem 7-31 in text, Read the solution given in solutions manual)
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

Suggested problems: Chapter 9: 11, 14, 22
Chapter 10: 7, 8, 18.

Homework: Submit Kanthal Case

SESSIONS 7, 8
January 16

Project presentation- preliminary
Quality concepts
Identification of non value added activities and costs
Quality management
Quality concepts
Quality cost trade-off
Quality efficiency curve
Quality Strategies and Program Implementation
Quality Improvement Program Reporting
K. R. Balachandran and Bin Srinidhi, "Strategic Positioning and Cost Management along Various Quality Dimensions"

Suggested problems: Chapter 11; pages 430-447, 11-8, 20, 28
  Income statements revisited
  Project presentation - preliminary
  Unused capacity cost management
  Generalized income statement
  Segment reporting
  Incremental decisions
Suggested problems: Chapter 15: 3, 6, 18
  Chapter 16: 24.
  Chapter 17: 5, 10.
Homework: Neptune Corporation (3)

SESSION 9
January 18
  Project presentation-preliminary
  Residual income
  Decentralization
  Investment centers
  Performance measurements
  Return on investment
  Residual income
  Case 1: Reichard Machinen
Homework: Cool Corporation (4)

SESSION 10
January 20
  Project presentation- preliminary
  Transfer pricing concepts
  Transfer pricing conflicts and resolution
  Illustration of approaches
  Suggested problems: Chapter 13; 11, 14, 15, 19.
  Case 2: Tashtego
  Further discussions on performance measurement and balanced score cards.

Homework: Parker Company (5)

SESSIONS 11, 12
January 23
  TEST
  Project Presentations
  Conclusions
Homework: Kimer, Inc. (6)