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 in 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. It is important to look at the financial analysis as well as strategic issues in decision-making.

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, 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 and strategies to increase profitability of the firm are essential for the success of the firm. The students learn to measure outcomes through several performance measures. 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.
Course Material
Classic Pen Case
Kanthal Case
Robin Cooper, “The Rise of Activity Based Costing Part one: What is an Activity Based Cost System?”

Evaluation
There will be a midterm exam and a final. The exams will be closed book and notes. The two cases are to be submitted on dates specified in the schedule. The midterm is worth 40 points and the final 40 points. The cases are worth 10 points each.
Solutions to selected problems in the text will be posted on the blackboard. You should work out these problems and then check your answers with the provided solutions.
Course Schedule

Session 1

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.
Cost concepts: directly traceable, indirectly traceable and non traceable activity costs.
Cost drivers and activities.
Costing for external reporting
-direct materials, direct labor and overhead costs; selling and administrative costs
Prime and conversion costs
Reading Assignment: Chapter 2; P2-1, 2, 12, 14.

Session 2

Inventoriable product costs
Functional based costing method or equivalently approximate method for external reporting
Relationship to activity based costing system
Manufacturing costs, cost of goods manufactured and cost of goods sold, Income statements for external reporting
Class exercise

Reading Assignment: Chapter 2: P2-6, 9, 10, 17, 18, 19

Session 3

Cost behavior- fixed, variable and mixed.
Flexible and committed resources
Concept of unused capacities and their importance in applying fixed costs to products.
Separating fixed and variable components – the High-Low method

Reading Assignment: Chapter 3 up to page 83: P3-4, 5, 7, 8, 12, 18.

Activity based costing systems
Activity levels classification
Accumulating activity costs
Session 4

Determining cost driver rates
Simplifying using cost pools
Determining product costs
Approximations to ABC systems- activity levels
Overhead activity cost applications
Class exercise
Reading Assignment: Chapter 4: 4-2, 5, 7, 11, 14, 19, 20, 22.

Session 5

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.
Submit: Classic Pen Case Analysis

Session 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, 14, 27.
Submit Kanthal Case answers

Session 7

TEST 1

Discussion of Classic Pen Case
Discussion of Kanthal Case

Session 8

Budget setting
Standards used for static budgets
Activity Based Budgeting
Variance analysis calculations
Limitations of variance analysis for control and evaluation
Signal value and interdependencies

Reading Assignment: Chapter 8: 8-3, 4, 6, 11, 15.
Reading Assignment: Chapter 9: 9-3, 5, 11, 16, 22.

Session 9
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: 10-5, 6, 7, 8, 10, 17

Session 10
Investment centers
Performance measurements
Return on investment
Residual income
Transfer pricing concepts

Reading Assignment: Chapter 13; 13-4, 5, 9, 13, 14

Session 11
Transfer pricing conflicts and resolution
Illustration of approaches
Contemporary issues in unused capacity management, performance evaluation and cost management
Reading Assignment: Chapter 13: 15, 22, 23, 24, 26, 28.

Session 12
TEST 2