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 result in 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. I will randomly call on students when discussing cases and students should be ready to present their analyses or 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, preparing cases in teams is very productive. Thus, you are encouraged to do so when possible.

**Teaching Materials**

For most topics, I will use cases included in a digital course packet. The *required* textbook is a custom text based on *Managerial Accounting*, by Garrison, Noreen, and Brewer, 13th edition, 2009. Both digital course packet and custom text are available at the NYU Bookstore. I will often suggest additional readings (available online) to help you in preparing the case. 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 double sided sheet of notes (typed or hand written).

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Topic</th>
<th>Case to prepare</th>
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<tbody>
<tr>
<td>May-17</td>
<td>6:00-8:30pm</td>
<td>Management accounting as management system.</td>
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<td></td>
<td></td>
<td>Introduction to cost concepts. Variable vs fixed costs: using CVP analysis for decision making:</td>
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<tr>
<td>May-19</td>
<td>6:00-7:15pm</td>
<td>Measuring and managing the performance of your products and customers</td>
<td>Seligram ETO</td>
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<tr>
<td>May-24</td>
<td>6:00-7:15pm</td>
<td>Measuring and managing the cost of capacity.</td>
<td>Wilkerson</td>
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<tr>
<td>May-26</td>
<td>6:00-7:15pm</td>
<td>Activity-based costing</td>
<td></td>
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<tr>
<td>Jun-2</td>
<td>6:00-8:30pm</td>
<td>Beyond products: customer profitability Review of ABC, applications, new trends</td>
<td>Kantal</td>
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<tr>
<td>Jun-7</td>
<td>6:00-7:30pm</td>
<td>Midterm Exam</td>
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<tr>
<td>Jun-14</td>
<td>6:00-8:30pm</td>
<td>Measuring and managing firm performance</td>
<td>Musimundo</td>
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<td>Budgeting and variance analysis</td>
<td>Vyaderm Pharmaceuticals</td>
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<td>Target setting and incentives: the EVA solution</td>
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<tr>
<td>Jun-16</td>
<td>6:00-8:30pm</td>
<td>The link to strategy</td>
<td>Transworld Auto Parts (A)</td>
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<td>Translate the strategy: strategy maps and balanced scorecard</td>
<td>Store 24</td>
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<td>Testing and adapting the strategy</td>
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<tr>
<td>Jun-21</td>
<td>6:00-7:15pm</td>
<td>The levers of control</td>
<td>ATH Microtechnologies (A,B)</td>
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<tr>
<td>Jun-23</td>
<td>6:00-8:00pm</td>
<td>Final exam.</td>
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## Course Outline

### Session 1  Management accounting as management system.  Monday, May 17

#### 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 costs and between direct and indirect costs is key to 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: variable and fixed costs, direct and indirect costs.
### Session 2. Variable vs fixed costs: using cost-volume-profit analysis for decision-making.  
**Monday, May 17**

#### Topics
- Variable costs, fixed costs and the profit equation.
- Contribution margin.
- The notion of break-even point.
- Operating Leverage
- Uses and limitations of cost-volume-profit analysis.

#### Textbook
Read Chapter 5 (pages 188-200, 210-211).
Read Chapter 6 (pages 233-258).

#### Self-study Problems
Exercise 6-11; Problems 6-26, 6-31.

Additional practice problems:
- Exercises: 6-12, 6-13, 6-15, 6-16
- Problems: 6-19, 6-22

(all solutions posted online)

#### Session Plan
In this session we will examine the use of cost-volume-profit analysis – a set of tools that exploits the relation between cost, prices and volume for decision-making purposes.
We will explore a number of key concepts – contribution margin, break-even point and operating leverage –, identify some formulas that can be used to measure these constructs and review a number of applications.
We will conclude with a discussion of the assumptions underlying CVP analysis 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, May 19

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

Prepare
Read the case study Seligram, Inc.: Electronic Testing Operations in the digital course packet. Address the following questions:

1. What is the problem with the existing costing system at ETO?
2. Calculate the reported costs of the five components described in the case under:
   a. the existing system;
   b. the system proposed by the accounting manager;
   c. the system proposed by the consultant.
3. Which system is preferable? Why?
4. Consider the new machine described at the end of the case. Would you treat the new machine as a separate cost center or as part of the main test room? Why? (answer this question qualitatively, ignore the issue of how to quantify the cost of the new machine)

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 and the effect of adding cost pools and changing cost drivers. We will also examine the limits of this type of volume-based cost allocations.
Session 4  Measuring and managing the cost of capacity  Monday, May 24

Topics

- Dealing with the cost of capacity in a costing system.

Prepare

Work on the assigned exercise called Youngstown Products (under Assignments in Blackboard).

Read the Microgene mini-case (under Assignments in Blackboard) and address the following questions:

1. The gross margins of cartridges in the 2001 Revised Estimate in Table B are dramatically different from the 2001 Budget in Table A because the overhead cost for cartridges jumps from $26 to $50. Why? How are these figures computed?
2. Is this costing system providing useful information? If not, how can it be modified? Address this second question qualitatively.

Go back to the case study Seligram, Inc.: Electronic Testing Operations in the digital course packet. Address the following question:

1. Assume we treat the overhead cost associated with the new machine at the end of the case as a separate cost pool. How would you go about computing the overhead rate for this cost pool?

Session Plan

We will spend about one-third of the class on the Youngstown Products exercise.

Then, we will spend about one-third of the class discussing the Microgene mini-case, focusing on the questions above.

Finally, we will spend the remaining time re-examining the problem of the new machine in the Seligram case.

The three settings have in common the problem of how to treat the cost of capacity in the context of a two-stage cost allocation system.
**Session 5  Activity-based costing**  
*Wednesday, May 26*

**Topics**
- Activity-based costing.
- Differences from and advantages over “traditional” costing systems.
- Translating activity-based costing into improved profitability.

**Prepare**
Read Chapter 8, pages 307-331, 333-334.

Read the case Wilkerson in digital course packet and answer the following questions:

i) How does Wilkerson’ existing cost system operate? Develop a diagram to show how cost flow from factory expense accounts to products.

ii) Given some of the apparent problems with Wilkerson’s existing cost system, should executives abandon overhead allocation to products entirely and adopt instead a contribution margin approach in which manufacturing overhead is treated as period expense? Why or why not?

iii) Develop and diagram an activity-based cost model using information in the case. Provide your best estimate of the cost and profitability of Wilkerson’s three product lines. How do they differ from the existing cost system? What causes these differences?

iv) Based on the results of your activity-based cost model, what actions could Wilkerson’s management team consider to improve the company’s profitability?

**Self-study Problems**
Exercises 8-1, 8-7, 8-15; and the review problem on pages 334-336.

**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

Read

Read the case Kanthal in digital course packet. Address the following questions:

1. What were the goals of Kanthal’s president, Ridderstrale, in introducing the Account Management System?

2. Describe the previous cost system (use a diagram). Why did Ridderstrale feel it was inadequate for the new strategy?

3. Describe the new system (use a diagram) – the Kanthal 90 Account Management System. What new features does it offer?

4. Consider a product line whose products generate a 50% margin (after subtracting from prices the cost of volume-related manufacturing and administrative expenses). Assume that the cost for handling an individual customer order is SEK 750 and the extra cost to handle a production order for a non-stocked item is SEK 2,250.
   a. Compare the operating profits of two orders, both for SEK 2,000. One order is for a stocked item and the other is for a non-stocked item.
   b. Compare the operating profits and profit margins of two customers A and B. Both customers purchased SEK 160,000 worth of goods during the year. A’s sales came from 3 orders for 3 different non-stocked items. B’s sales came from 28 orders, of which 6 were stocked items and 22 for non-stocked items.

5. What should Ridderstrale do about the two large unprofitable customers revealed by the account management system?

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, June 2

Topics
- Review session and discussion of current trends

Read

Read and be ready to discuss article “When and why to measure cost less accurately to improve decision making” by K. Merchant and M.D. Shields, Accounting Horizons 1993, vol. 7(2), pp.76-81.

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.

In the first part of the session, we will briefly review the costing systems analyzed, clarify any issue and then discuss recent trends in this area, such as the “time-driven” activity based costing discussed in assigned HBS article.

In the second part of the session, to conclude the costing module of the course, we will examine the assigned Accounting Horizons article, which challenges the notion that greater accuracy in measuring costs is always desirable. This will remind us that every managerial accounting technique needs to be placed in the context of the broader organization’s goals.

Session 8. In-Class Midterm Exam

Monday, June 7
Measuring and Managing Firm Performance

Session 9. Budgeting and Variance Analysis

Monday, June 14

Topics

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

Prepare

Read the case Musimundo in digital course packet. Answer the following questions:

1. Musimundo operates in a very uncertain environment. What role does the budgeting process serve in such environment?

2. As shown on page 14, in the first six months of 2004 Musimundo has reported a favorable variance of AR $449,000 in Gross Margin Before Variable Costs. That is, the actual Gross Margin Before Variable Costs (AR $ 12,080,000) was higher the the budgeted amount (AR $ 11,631,000).

[Note: the Gross Margin Before Variable Costs reported on p.14 is the difference between Revenues and COGS reported on p.13]. How much of this AR $449,000 variance is due to the variance in revenues versus the variance in COGS? How much of the variance in revenues is due to variance in price versus variance in quantities sold? And how much of the variance in price is really due to a variance in the price of the various products (“pure price variance”) as opposed to a variance in the product mix? The Variance Analysis Template File (posted online) will help you answer these questions (the file also presents all the relevant information in one place.)

3. What is your assessment of the sales and profit performance of the music product line (CDs and cassettes)? Again, try to decompose the variance in the Gross Margin using the Variance Analysis Template File.

4. Should the board approve Nalda’s request to change the budget targets for the year? If so, how would you change them?

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?
Session 10. Target setting and incentives: the EVA solution

Monday, June 14

Topics

- Choosing the “right” performance measure
- Designing an incentive plan
- Target setting
- Organizational design issues

Prepare

Read the case Vyaderm Pharmaceuticals in digital course packet
Answer the following questions:

1. Why has Maurice Vedrine decided to introduce EVA as the financial performance measure?

2. Do you agree with the way targets are set?

3. What should Vedrine do about the bonus for the Dermatology Division? As part of your analysis, please do the calculations requested by Vedrine at the end of page 8 of the case.

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.

Wednesday, June 16

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 the case Transworld AutoParts (A) in digital course packet. Answer the following questions (be prepared to provide specific suggestions for the last question):

1. Why did Transworld Auto Parts decide to develop a strategy map and a balanced scorecard (BSC)?
2. How well do the strategy map and BSC of the two divisions reflect the divisions’ strategies?
3. How helpful are the strategy map and BSC of the two divisions in assessing the divisions’ performance?
4. What changes would you propose to the strategy maps and BSC of the two divisions?

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.

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.

Answer the following questions (be prepared to provide specific suggestions for the last question):

1. If you want to use the BSC to test the effectiveness of the “Ban Boredom” strategy, what other variables would you include in the analysis?
2. Is the “Ban Boredom” strategy associated with better future financial performance?
3. What would you recommend to Bob Gordon? i) Drop “Ban Boredom” and focus only on “Cause You Just Can’t Wait”; ii) continue to implement “Ban Boredom”; iii) implement one strategy in some stores and the other in some other stores. Be ready to explain your choice.

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”.

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**Session 13. The levers of control**

**Monday, June 21**

**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

**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. There are some questions at the end of each case. Just skim through them. Focus instead on understanding the pros and cons of the "earnout" structure described in the case.

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.

**Session 14 In-Class Final Exam**

**Wednesday, June 23**