

ACCOUNTING 622
FUNDAMENTALS OF MANAGERIAL ACCOUNTING

Course Syllabus
Third Quarter (Spring, 2012)

INSTRUCTOR:

Christopher Ittner
1326 Steinberg Hall-Dietrich Hall
Telephone: (215) 898-7786
email: ittner@wharton.upenn.edu

Office Hours Monday and Wednesday 3:15 p.m. to 4:15 p.m. or by appointment

The teaching assistants and hours will be posted on Webcafe. *Office hours begin Tuesday January 17.*

COURSE OBJECTIVES:

This course emphasizes the use of accounting information for *internal* planning and control purposes. This orientation contrasts with financial accounting where the focus is on accounting disclosures for parties *external* to the firm.

The course is intended as an introduction for individuals who will make business decisions and evaluate the performance of managers and business units using data obtained from the accounting system.

The course will cover the vocabulary and mechanics of cost accounting, basic issues involved in the design of a managerial accounting system, and the role of management accounting in decisions concerning resource allocation and performance evaluation.

Throughout the course, we will pay particular attention to various (unintended) dysfunctional consequences of traditional managerial accounting systems, as well as possible solutions to these problems.

FORMAT:

The course will be a combination of lecture (with solutions to selected problems), case work, and interactive class discussion. **I will assume that you have prepared the required material for each class.**

● *Seven* cases will be covered during the course. Each student will be required to turn-in *three (and only three)* of these seven assignments (but should be prepared to discuss *all* of the cases in class). You must turn in:

(a) *either* Bridgeton Industries (due Mon. 1/30) *or*
Destin Brass (due Wed. 2/1)

and

(b) *either* Kanthal (due Mon. 2/6) *or*
Shuman Automobiles (due Mon. 2/13)

and

(c) *either* Barrows Consumer Products (due Mon. 2/20) *or*
Citibank (due Wed. 2/22).

Questions for the cases are in the bulk pack following each case. Case solutions must be no longer than *four* typed pages (excluding exhibits and tables). *Note that we will only grade three cases.* That is, if you turn in both Bridgeton and Destin, we will only grade Bridgeton.

● You are also required to turn in the solution to a problem set to be distributed via WebCafe (due Wed. 2/8 -- see Session #7).

Please note that case solutions will be discussed in class. No handouts of case solutions will be available. If you have a question about the solution, please see us during office hours. Also, if you think that the grade is incorrect, please submit a re-grade following the procedure below.

Cases and problem sets must be turned in by 10:00 a.m. on the date of the assignment. You have three options for turning in the case:

- 1. Turn it in by 9 am to Professor Ittner in his classroom in JMHH.**
- 2. If during business hours, turn it into to accounting secretaries in Steinberg-Dietrich Suite 1300.**
- 3. If outside business hours, slip it under the left door of Steinberg-Dietrich Suite 1300.**

No cases or problem sets sent by e-mail will be accepted. Any cases or problem sets turned in after 10:00 a.m. will be subject to a *minimum* 10% grade reduction (cases turned in too late may receive no credit).

In order to help the TAs grade and return your cases and the problem set efficiently, please alphabetize by team member last name.

The case assignments can be done individually or in groups of two to five persons. I will not become involved in any group disputes. Groups will have to monitor and manage themselves. All members of the group will receive the same grade on the case. In order to avoid "free-rider" problems, group membership can change during the course.

NOTE: Additional student names will not be allowed to be added to cases or the problem set after they have been turned in. Please make sure that your team members have included your name on any assignments.

All groups must work independently. Members of different groups are **not** allowed to discuss the cases or problem set or share answers prior to the assignments being turned in. You are responsible for ensuring that work done by your group is done independently of other groups.

GRADING:

1. Class participation (10%)
2. Three case write-ups (30%)
3. Solution to a problem set (15%)
3. Comprehensive final examination (45%)

In addition, it is necessary to earn at least a passing grade on the final examination in order to receive a passing grade for the course.

OTHER ISSUES:

Neither an interview, travel in connection with an interview, nor vacation travel is an acceptable reason to miss a case assignment, the problem set, or the final examination.

No make-up examinations or case assignments will be available.

Regrade requests for homework assignments or the final exam must be submitted in writing within one calendar week following the return of the assignment (or one week following the start of the next term for the final exam). To have an assignment or exam regraded, you must submit the original (with no modification) and a written description of your disagreement with the initial grade.

REQUIRED MATERIALS:

Bulk packet of class notes, readings, and cases (available from Study.net). The bulk packet is designated as **BP** in the course schedule. Class notes are designated as **CN** in the course schedule.

Any additional materials handed out in class will be applied to your bursar bill at the end of the term.

OPTIONAL MATERIALS:

The textbook for this course is:

C. Horngren, S. Datar, and M. Rajan, *Cost Accounting: A Managerial Emphasis*, Prentice-Hall, 14th ed.

This text is designated as **TEXT** in the course schedule. The purchase of this text is optional. If you do not purchase the text, it would be useful to have access to another cost or managerial accounting textbook that covers the same material.

ACCT 622
Fundamentals of
Managerial Accounting

The information above covers many common situations but will not cover every circumstance. Remember: The Wharton MBA Code of Ethics that you accepted requires, among other things, that you represent yourself and your work honestly, don't try to gain unfair advantage over other students, follow the instructor's guidelines and respect confidentiality of your work and the work of others.

Should you have questions, please contact your ethics liaison or professor.

ACCT 622 - COURSE OUTLINE AND SCHEDULE

1. (Monday 1/9) Introduction and Cost Concepts

Major objectives: Introduce important cost terms and concepts. Define and illustrate cost objects, direct costs, and indirect (or overhead) costs. Understand the associations between cost drivers, variable costs, and fixed costs, and the major assumptions underlying the definitions of variable and fixed costs. Review the concepts of contribution margin and cost-volume-profit analysis.

Class Notes: Session 1

Bulk Pack: Cost Concepts, Terms, and Classifications

TEXT (optional): Chapters 2, 3, and 10

2. (Wednesday 1/11) Cost Concepts (continued)

Major objectives: Understand the computation of breakeven point and the notion of relevant costs. Apply these concepts to a legal dispute between two contractual parties.

Required Case (BP): Forrest Gump

Class Notes: Session 2

Bulk Pack: Relevant Costs in Nonroutine Decisions

TEXT (optional): Chapters 11 and 12

3. (Wednesday 1/18) Product Costing

Major objectives: Describe the mechanics of cost accounting systems. Define cost allocation and overhead rates. Understand costing methods using actual, normal, and standard costing.

Class Notes: Session 3

Bulk Pack: Product costing example

TEXT (optional): Chapter 4

4. (Monday 1/30) Burden Rates, Cost Behavior, and Outsourcing Decisions

Major Objectives: Apply the concepts covered in the first three sessions to an actual decision. Refine understanding of cost behavior, relevant costs, and cost accounting system output. Understand the limitations of "full costs" and traditional cost accounting systems in decision-making.

Required Case (BP): Bridgeton Industries <-- Case Assignment due

5. (Wednesday 2/1) Cost Allocation and Activity-Based Costing

Major Objectives: Review the purposes and process of overhead cost allocation. Understand the differences between traditional cost systems and Activity-Based Costing (ABC). Apply ABC concepts in an actual decision-making context to understand the effect of cost accounting methods on perceived product profitability, and the use of ABC data in operational and marketing decisions.

Required Case (BP): Destin Brass <-- Case Assignment due

Class Notes: Session 5

Bulk Pack: Activity-Based Costing example
Activity-Based Cost Systems for Manu. Expenses

TEXT (optional): Chapter 5

6. (Monday 2/6) Customer Profitability Analysis

Major Objectives: Understand the inability of most accounting systems to provide useful data for marketing or sales decisions. Examine the use of Activity-Based Costing for determining customer profitability. Discuss the application of customer profitability data to operational, marketing, and strategic decisions.

Required Case (BP): Kanthal (A) <-- Case Assignment due

Class Notes: Session 6
Customer-Driven Costs Using Activity-Based Costing

TEXT (optional): Chapter 14

7. (Wednesday 2/8) Comprehensive Problem Set

Major Objectives: Turn in and review a problem set.

Required Problems: Problem Set (Due by 10:00 a.m. in the Accounting Suite)

8. (Monday 2/13) Common Cost Allocation and Transfer Pricing

Major Objectives: Review stand-alone and ability-to-bear methods for allocating common costs. Discuss transfer pricing methods and their implications for decision-making and performance evaluation.

Required Case (BP): Shuman Automobiles <-- Case Assignment

Class Notes: Session 8

Bulk Pack: Transfer pricing
Example of General Rule of Transfer Pricing

TEXT (optional): Chapters 15 and 22

9. (Wednesday 2/15) Budgets, Standard Costing, and Variance Analysis

Major Objectives: Introduce flexible budgets and standard costs as aids for planning and control. Understand the use of standards for variable costs. Learn how variances between actual and standard costs can be broken into price and efficiency variances to assist in assigning responsibility and examining the variances' causes.

Class Notes: Session 9

Bulk Pack: Readings on Variance Analysis

10. (Monday 2/20) Performance Evaluation Using Accounting Measures

Major Objectives: Understand the advantages and disadvantages of various types of accounting-based performance measures. Discuss how and when these measures lead to dysfunctional outcomes for the firm. Introduce the concept of economic-value added (EVA) measures.

Required Case (BP): Barrows <-- Case Assignment due

Class Notes: Session 10 – *to be distributed in class*

Bulk Pack: Dierks and Patel, “What is EVA ...”
Andersen et al. “EVA Adjustments ...”
Performance Measurement (B)

TEXT (optional): Chapter 23

11. (Wednesday 2/22) Non-Financial Performance Measures and the Balanced Scorecard

Major Objectives: Evaluate the use of non-financial performance measures such as employee and customer satisfaction for decision-making and control purposes. Introduce the balanced scorecard concept, and the use of “causal” business models in performance measurement.

Required Case (BP): Citibank <-- Case Assignment due

Class Notes: Session 11

Bulk Pack: Kaplan and Norton, “Linking the Balanced Scorecard to Strategy.”

TEXT (optional): Chapter 13

12. (Monday 2/27) Course Conclusion and Final Review

Major Objective: Summarize and review for final.

Final Examination -- Wednesday, February 29th from 6pm to 8pm