1. Introduction

This course could also be called “General Management with Accounting”. It offers a comprehensive introduction to accounting information as a key instrument to manage business performance, lead organizational members, and drive superior and sustainable value creation. Other than working with accounting numbers, the course has virtually NOTHING to do with the first-term course “Financial Accounting” in terms of approach, content, method, and objective.

2. Objectives

At the end of the course, you should have a sound basic literacy in managerial accounting. Literacy refers to both “reading” (understanding) and “writing” (doing). Therefore, the course emphasizes and trains you in two aspects: the sound conceptual understanding of the fundamentals of managerial accounting and the clever utilization of the discipline’s essential tool kit.

You should also be in a position to appreciate that managerial accounting is about much more than numbers. Yes, it is highly quantitative, but it does not only refer to mind-boggling number crunching and other consciousness-enhancing stunts. Rather, it is “the forgotten leadership discipline”. This is so because accounting numbers like revenues, costs, and profits do not manage themselves - people manage them, and people are managed with them.

The overall idea is that you will know what every manager must absolutely know about managerial accounting. And that you can readily apply the acquired knowledge and skills to solve real-world problems. Most importantly, however, we identify likely applications to your career as a manager and leader in your firm and in society.

3. Learning Outcomes

In particular, you will learn how to read, interpret, and use:

- Cost and profitability concepts like cost behavior (variable and fixed cost), cost specificity (direct and indirect cost) and margin types (contribution margin, gross margin and profit margin).
• Principles, concepts, and tools for modeling an Income Statement that depicts a firm’s business economics and its strategy.
• Analysis, identification, and decision-use of “relevant” accounting information, including discretionary, engineered, committed, sunk, and opportunity costs.
• Design and decision consequences of internal accounting systems, such as activity-based costing, that are consistent with a firm’s business economics and its strategy.
• Basic uses of accounting information in managing decentralization through budgeting, monitoring, results evaluation (variance analysis), transfer pricing, and key performance indicators (such as ROI, ROA, ROE, residual income, and economic value added (EVA)).
• Contribution of accounting to organizational management systems like comprehensive performance measurement (e.g. Balanced Scorecard), provision of incentives, design of responsibility centers (revenue, cost, profit, and investment centers), and risk management.

4. Competences

This course builds and reinforces the following general competences:

• Decision Making
• Critical Thinking
• Judgment
• Communication

It also addresses the following specific competencies:

• Understand and interpret financial and non-financial measures used for managing companies including product and customer profitability as well as return measures
• Learn how to design and use internal control mechanisms ranging from the design of incentive systems, internal controls and governance mechanisms.

5. Content

The course relies on latest research and best practices to cover the main roles and uses of accounting information in business:

• Business Decisions: the choices between several tactical, operational and strategic alternatives, respectively, available to a firm.
  o How can managers use accounting information to analyze alternatives and to make good decisions that improve business performance and create value?
  o How can managers design internal accounting systems and reports to obtain relevant and reliable accounting information?
Management Control: the systems that serve to promote goal congruence, i.e. to align the decisions of individuals in the firm with the objectives of the firm.
  - How can managers use accounting information to guide staff towards making good decisions that improve business performance and create value?
  - How can managers design accounting and other systems to support business strategy, control its implementation, and generate competitive advantage?

6. Methodology

The course consists of some lectures, a few exercises and a series of cases that cover a variety of business situations and industries. We employ these methodologies to develop critical concepts and frameworks, discuss their usefulness and limitations, and practice the relevant tools and techniques. Consistent with IESE’s general management philosophy, we often take a cross-functional perspective and embed our accounting-driven analysis into the greater context of the firm, its strategy, its structure, and its stakeholder relations.

Particular emphasis is placed on how accounting is influenced by and (significantly!) influences human behavior. I have selected the cases with this behavioral aspect in mind and I invite you to prepare them with a similar, people-oriented mindset. We will have to invest some time into the cases’ numerical, mechanical (aka less entertaining) aspects. But I plan to devote most of our face time to discussing with you the implications of the numbers for you, your job, your company, and your career as a business manager and leader. So whatever we do throughout the course, please always keep an open mind. Look behind the numbers and appreciate how they are influenced by and influence human behavior.

7. Evaluation

The course grade will be determined as of IESE policies. It will be calculated as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Case Reports</td>
<td>10%</td>
</tr>
<tr>
<td>Class Participation</td>
<td>25%</td>
</tr>
<tr>
<td>Practice Problems</td>
<td>5%</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>30%</td>
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<tr>
<td>Final Exam</td>
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Case Reports: In your team, you prepare and submit short and simple reports on 4 cases (indicated in the session plan). Please submit one hardcopy per team at the start of the relevant class session. A typical report does not exceed 3 pages of text (double-spaced, font 12) plus necessary appendices with tables and calculations. Reports serve to monitor your learning of the key accounting concepts and if you are able to use them to address general management problems. They are evaluated by ranking them relative to those of the other teams. They will not be returned, but I am happy to provide you with verbal feedback.
Class Participation: I strongly encourage you to actively participate in class. Doing so tests your ability to communicate with, and convince, others of your arguments that are grounded in accounting concepts. Doing so has two benefits: more interesting sessions and a greater learning impact. Both quantity and quality of participation count. Welcome is any contribution or question - basic or advanced, simple or complex, correct or not (mistakes are part of life - better make them here than in your job). Nevertheless, it goes without saying that contributions of high quality will carry some greater weight than those of modest quality.

Practice Problems: The session plan lists short exercises from past exams that are designed for you to practice with these exercises, you self-test if you can implement the course concepts and apply them to concrete problem situation, as an incentive, I ask you to complete and submit the ones that are highlighted in bold. They will not be graded formally nor will they be returned. Other exercises are study suggestions - it is not necessary or required to do all of them for performing well on the exams, passing the course, and/or achieving the learning objectives. Solutions for all exercises will be posted for self-assessment.

Exams: They test comprehensively understanding and application of the learning outcomes and competences. The midterm covers the first half of the course and the final, which might be a case, emphasizes the second half of the course. In the past, exams have been open book, but I will let you know the exact details in due time.

8. Materials

- Coursepack (MBA Office): it contains cases and most readings.
- Practice problem set (Virtual Campus or your mailbox): exercises.
- Ad-hoc handouts (Virtual Campus or your mailbox): case exhibits, lecture slides, and spreadsheets.
- Textbook (Campus Bookstore): A. Davila and D. Oyon, MFD: A new way to learn Managerial Accounting, 2nd Ed., Vease Ediciones, 2009 (“MFD”). This book is an easy read and well-suited to build your intuition, in particular if you are a novice to the topic. Its website, www.maleafd.com, is a great supplementary resource that summarizes many key concepts. Alternatively, you can also bring your own book, e.g. one that you already own or one from the library. I am happy to provide you with recommendations.

9. Readings

Readings cover important basic concepts, provide you with illustrative examples, and put the course into a broad perspective. As a rule-of-thumb, all assigned readings are required readings. I expect you to read them and will not spend much, if any, class time on their contents. Please do invest your time - ours is a topic that appears at times inaccessible and confusing, especially on first exposure. My colleagues and I have found that many students vastly benefit from re-reading the assigned materials at least once.
I also suggest you regularly skim the “usual suspects”, e.g. BW, FT or WSJ, for course-related news to integrate our classroom learning into the “real” world (as if class were unreal. But okay, at times it may be surreal). Sadly, Managerial Accounting receives only little coverage in the business press. But if you come across a course-related article and would like to share it with the class, please give me a copy.

10. Miscellaneous

Please restrict the use of any electronic device (incl. laptops) during class to class-related purposes.

To the extent possible, I address your contributions, questions and doubts in class. Whenever that should not be possible, please do not hesitate to contact me if and when necessary. Please do so after class or by e-mail, phone, or personal visit (no SMS, facebook post, tweet, Whatsapp, etc. - sorry). For personal visits, please just drop in Monday - Thursday, c. 9:00 am - 7:00 pm, no appointment is needed. Please make particular use of this invitation if you encounter difficulties with the material.

It is your responsibility to regularly check Virtual Campus for updates and new postings. Also note that all distributed material (i.e. everything but the textbook) is intended for and restricted to your personal use during and after the course.

For those interested, a second year elective “Management Control” extends our groundwork. This course covers more accounting and control issues in greater depth.

11. Words of Wisdom (or so I pretend)

This course:

1. Covers a vast amount of material. If possible, do the readings ahead of time and reserve your study time shortly before class for doing the practice problems and preparing the case.
2. Is challenging and difficult. Please do not get disheartened if you encounter rough moments. More than anything else, perseverance pays off when studying accounting.
3. Most importantly, offers a serious, rigorous business training that helps you to prepare for a crucial managerial responsibility: solving business problems with imperfect information and out of a position of uncertainty.
4. Really, has virtually NOTHING to do with the first-term course “Financial Accounting” in terms of approach, content, method, and objective.
SESSION PLAN

Module A: Accounting-based Analysis of Alternatives

Session 1: Course Overview & Foundations

Case:
• Forrest Gump - Accountant: A Study of Accounting in the Motion Picture Industry

Readings:
• MFD Chapter 1, Chapter 2 and Chapter 4.

Study Questions:
Please answer Questions 1. and 2. in the case (ignore Questions 3. - 6.).

Problems: ---

Session 2: Key Concepts of Managerial Accounting

Case:
• Forrest Gump - Accountant: A Study of Accounting in the Motion Picture Industry

Readings:
• MFD Chapter 1, Chapter 2 and Chapter 4 (review).

Study Questions:
Same as in Session 1.

Problems:
• Submission: ---
• Self-study: Midterm 2011 - A., Midterm 2011 - C.1 [attention: I will discuss these two problems in class].

Session 3: Modeling Cost & Profit in the Income Statement

Case:
• Salem Telephone Company

Readings:
• MFD Chapter 1, Chapter 2 and Chapter 4 (review).
Study Questions:
1. Please answer the questions in the case.
2. How would you design an accounting report (income statement) that presents the information more clearly than does the current report?

Problems:
- Submission [submit a hardcopy before class]: Midterm 2008 - 1.1. & 1.2.
- Self-study: Midterm 2008 - 1.3 - 1.5., Midterm 2013 - 3.

Session 4: Product Costing & Decision Relevance

Case:
- Industrial Grinders N.V.

Report: Teams 1, 2, 3

Readings:
- MFD Chapter 6.

Study Questions:
1. What are the contribution margins of 100 steel rings and 100 plastic rings?
2. Assume the worst case scenario that the company faces the plastic ring problem in all of its markets and not only in the 10% suggested in the case.
   a. What would you do with the current stocks of raw steel and steel rings?
   b. Do you recommend to produce additional steel rings during the summer (assume that maintenance is done by workers that are otherwise idle)?
3. What action should Bridgeman take? Why?

Problems:
- Submission: ---

Session 5: Cost Information & Competitive Decisions

Case:
- Lille Tissages, S.A.

Report: Teams 4, 5, 6

Readings:
- MFD Chapter 5.
Study Questions:
1. Classify the positions in Exhibit 2 as variable or fixed (from the perspective of the department).
2. Answer the questions in the case (Note: the only feasible prices are FF15 and FF20).

Problems:
- Submission: Midterm 2008 - 3.

Session 6: Scarce Resources & Cost in Operations Management

Case:
- Pierre DeRoche

Report: Teams 7, 8, 9

Readings:
- MFD Chapter 11 (except the section on activity-based costing, 238-241).

Study Questions:
Please refer to the end of the case. Assume that the company:
  a. Produces the 10 Serie1 watches in October.
  b. Produces the TNT Royal Rétro watches in the demanded quantities.
  c. Must meet the 25% constraint on the mix of Chrono models every single month.

Problems:
- Submission: ---

Module B: Internal Accounting Systems - Choices & Consequences

Session 7: Business Economics & Cost System Design

Case:
- Seligram Inc.: Electronic Testing Operations
Readings:
- MFD Chapter 4 (review).

Study Questions:
1. Why did ETO's existing cost system fail? To support your argument, draw a diagram that shows cost objects, direct costs, overhead cost pool(s), and allocation rates.
2. Analyze the accounting manager’s proposal and the consultant’s recommendation. How do they differ from the existing cost system?
3. Calculate the costs that the three cost systems would report for the five sample components.
4. Which cost system do you prefer? Why? Would you improve it further? If so, why and how?
5. Would you treat the new machine as part of the cost pool “main test room”? Why?

Problems:
- Submission: ---

Session 8: Competitive Strategy & Activity-Based Costing

Case:
- Dakota Office Products

Report: Teams 2, 5, 8

Readings:
- MFD Chapter 10 (read) and Chapter 14 (skim).

Study Questions:
1. Why did Dakota’s pricing system become inadequate?
2. How did Dakota traditionally calculate the costs of services rendered? How does the activity analysis described in the case help improve the calculation of costs? If possible, try to develop an activity-based cost system for Dakota based on Year 2000 data.
3. Use your answer in 2. and calculate the profitability of customers A and B. What explains any difference in profitability between them? What are the limitations, if any, of these calculations?
4. Assume that Dakota applies the analysis of question 3. to its entire customer base. How could managers use the resulting information to increase profits?

Problems:
- Submission: Final 2008 - 1.a.

Case:
- Sippican Corporation (A)

Report: Teams 1, 4, 7

Readings:
- MFD Chapter 10 (review).

Study Questions:
1. Should Sippican continue to assign overhead to products or should it adopt a contribution margin approach to measuring product profitability?
2. Use the information and data in the case to calculate the practical capacity for each of Sippican's resources. Then, draw a diagram of the ABC cost system and estimate revised costs for the three products (valves, pumps, and flow controllers).
3. Compare the revised costs to the original standard unit costs (Exhibit 2). What causes the different product costing methods to produce such different results?
4. What are the strategic implications of your analysis? What actions do you recommend to Sippican’s managers?

Problems:
- Submission: ---

Session 10: Cost Systems & Human Behavior

Case:
- Caja Navarra: Reporting Customer Profitability ... to Customers

Report: Teams 3, 6, 9

Readings:
- MFD Chapter 13: 269-283 (skim).

Study Questions:
1. Please answer the questions in the case. Put more emphasis on the key qualitative issues and less on the numbers. Some suggestions:
a. Draw a diagram of the accounting system used for CAN’s calculation of customer profits. Identify cost objects, direct costs, overhead, and allocation base and rate.
b. Understanding Exhibit 8 is key to any calculation. Note that this exhibit is similar to a Cash Flow Statement that uses the indirect method for cash flow from operations.
c. The factor “f” is related to the allocation rate, but it is not the allocation rate.

2. Is CAN’s cost system a “good” cost system? Why? What does it achieve? The questions in the case help you address these issues.

3. What do you think about the new, refined cost system? Would you implement it?

Problems:
- Submission: ---

Session 11: Cost Information & Cost Management

Case:
- Bobst Group: Costing new parts

Readings:

Study Questions:
1. How does Bobst’s cost system work? Compare this system and the accounting report to what we have seen so far in the course.
2. What are possible limitations of this cost system for cost management?
3. How is the company dealing with increasing complexity?
4. From your own experience, what do companies do to manage costs?

Problems: ---

Session 12: Profit Analysis, Accounting Systems & the Midterm Exam

Case:
- Orbea

Readings:
Study Questions:
1. Should Orbea accept Mercadi’s proposal? Consider the proposal’s:
   a. Relevant increase in “need of funds for operations” (aka working capital needs).
   b. Relevant revenues and costs.
   c. Possible “cannibalization” of current sales.
2. How might the proposal affect Orbea’s strategy and competitive position?

Problems:
- Submission: ---

Sessions 13 & 14: Midterm Exam

Content to be confirmed.

Module C: Accounting Information & Performance Management

Session 15: Planning & Analyzing Accounting Performance

Case:
- The T-Shirt Company

Report: Teams 3, 4, 8

Readings:
- MFD Chapter 8 (skim) and Chapter 9 (read).

Study Questions:
  Please refer to the end of the case.

Problems:
- Submission: ---
- Self-study: Final 2009 - 1.(1), (2)., Final 2010 - 2., Final 2011 - B.

Sessions 16: Budgets & Performance Analysis

Case:
- Compagnie du Froid, S.A.

Report: Teams 1, 5, 9
Readings:
- MFD Chapter 9 (review).

Study Questions:
1. What problems is Jacques Trumen facing?
2. How would you explain the difference between the Italian region’s expected and actual profit?
3. What was the impact of the changes in key profit drivers (e.g. sales volume, sales prices, input factor volume and costs, etc.) from the original budget on the actual profit of Italy?
4. What is your evaluation of the Italian manager and his performance?

Problems:
- Submission: ---

Session 17: Responsibility Accounting & Performance Evaluation

Case:
- Compagnie du Froid, S.A. (same as previous session)

Report: Teams 2, 6, 7

Readings:
- MFD Chapter 9 (review).

Study Questions (continued from previous session):
5. How would you evaluate the performance of the French and Spanish managers?
6. How would you treat the ice-cream transfer from France to Spain?
7. What do you recommend to Jacques in response to his problems identified in Question 1.?

Problems:
- Submission: Final 2009 - 2.(1) - (3).
Session 18: Interdivisional Relationships & Transfer Pricing

Case:
- Sub-Micron Devices Inc.

Readings:

Study Questions:
1. Ravenport claims that the Western Digital order is unprofitable. Parks argues just the opposite: the order is profitable. Who is right? Should they take the order?
2. What should Joe Tisch, Chief Controller for Sub-Micron Devices, do in this situation?

Problems:
- Submission: ---
- Self-study: Final 2008 – 3. [I will discuss this problem in class.], Final 2012 – B.

Session 19: Performance Management & Financial Results Control

Case:
- Barrows Consumer Products (A) and (B)

Readings:

Study Questions:
1. Make a quick qualitative and quantitative assessment of the three countries. What are their situations? What problems is Alice Karleskint facing as a consequence?
2. How would you analyze, explain and evaluate the performance of the countries? Using profit, ROI, or something else?
3. What impact did the deviations of key profit drivers (e.g. revenues, cost of sales, etc.) from the original budget have on the actual results of the three countries? For simplicity, assume cost of sales is variable and other G&A is fixed.
4. Calculate EVA for the three countries. Does it matter if this number is calculated based on “accounting” or “something more meaningful”? If so, how and why? Do the “more meaningful” numbers create better incentives for divisional managers than the standard accounting numbers?
5. Which general conclusions do you draw about accounting numbers as performance measures?

Problems:
- Submission: ---
- Self-study: Final 2009 - 1.(3) - (5)., Final 2010 - 1., Final 2013 - 1.

**Module D: Management Control Systems - Foundations**

Session 20: Key Performance Indicators & Control System Design

Cases:
- Store24

**Report: Teams 3, 5, 7**

Readings:

Study Questions:
Please refer to the end of the case.

Problems:
- Submission: Final 2009 - 4.

**Session 21: Strategy Implementation & Organizational Design**

Case:
- Executive Compensation at General Electric (A)

**Report: Teams 2, 4, 9**

Readings:

Study Questions:
1. What is General Electric’s (GE’s) business strategy?
2. Which tools of management control and organizational design does GE’s CEO Immelt use to implement its strategy? In your opinion, what are possible strengths and weaknesses of this organizational design? How well does it support the strategy?
3. What is the philosophy behind GE’s compensation plan? What are its main features? Does this plan fit the strategy? Do you foresee any potential problems with it?
4. Would you roll out such a plan across countries and the hierarchy, e.g. to business unit managers, country managers, functional leaders, or frontline staff? Would you adapt the performance measures and compensation elements for these hierarchical levels? How?
5. What is your overall evaluation of this plan? What would you do different and why?

Problems: ---

Session 22: Organizing the Control Function & Globalization

Case:
• Haier: Management Control on a Tactical Level

*Report: Teams 1, 6, 8*

Readings:

Study Questions:
1. How does Haier’s management control system work? What are possible advantages and disadvantages of this system? How well does it support strategy?
2. Which changes, if any, would you as a consultant suggest to this control system? Why?
3. Which role does the finance division play in this system? How is this division organized? How would you organize it? How well does it serve the needs for accounting information?
4. What is the role of the business financial officer (BFO)? What are her/his challenges?

Problems: ---
Session 23: Managing Returns & Risks with Control Systems

Case:
- Risk Management at Lehman Brothers, 2007-2008

Readings:

Study Questions:
1. How does risk management relate to Management Accounting & Control?
2. How did Lehman’s risk management system work? Use the organizational design framework to analyze this system’s elements (structure and processes). What led to problems?
3. Critically assess the risk appetite limit (RAL). How was it calculated? What is your assessment of this procedure? Can you think of alternative procedures? How do you assess RAL as a management control tool?
4. Which red flags and early warning signals do you perceive that Lehman drifted towards assuming too much risk and/or that it neglected its risk management? Why do you think Lehman’s management ignored these red flags and signals?
5. How does the trade suggested to Matt affect Lehman’s exposure to risk? What should he do?

Problems: ---

Session 24: Course Summary & Conclusions

Lecture & Discussion

Readings:
- Your notes and materials.

Study Questions:
Send me an e-mail if there is any particular topic that you want me to review with you.

Problems: ---
Sessions 25 & 26: Final Exam

Content to be confirmed.