



## [ACC-2] MANAGERIAL ACCOUNTING

### Introduction

Decision-making has multiple implications: economic, personal, moral, immediate short-term effects and long-term effects that we may not even get to see. Without losing sight of the wide gamut of dimensions implied in corporate decision-making, participants in the program must familiarize themselves with the use of cost information when selecting operational alternatives, as often, the economic consequences of our decisions will play a key role in decision-making. Thus, understanding the nature and behavior of costs should be second nature to any manager.

The Managerial Accounting course is intended to initiate us in the “language” of relevant costs for decision-making, understanding the nature and behavior of costs and becoming familiar with the contribution margin concept. Building on this, we further explore the use of cost information when selecting operational alternatives.

Calculating the economic consequence of alternate actions is a key part of managing organizations – large or small; profit making and nonprofit; manufacturing, merchandising and service. Managers must not only be able to identify relevant costs, but also understand how cost information is generated. Systems that collect, group and report information about costs and revenues are vital sources used by management to monitor business evolution and make decisions.

### Objectives

At the end of the course participants should be able to understand and master the economic principles governing decision-making (economic analysis of decisions) and be able to calculate the economic consequences of alternate courses of action. Three additional objectives are: to improve in the ability to correctly interpret statements and reports about product and service profitability, to master the methodology used to portray the dynamic economic structure of a company, complementing the insights provided by financial accounting and, understand how the information needed for the previous objectives is to be gathered, accumulated, and presented.

### Content

The course relies on latest research and best practices to cover the main roles and uses of accounting information in business. We focus on business decisions, i.e. the choices between several tactical, operational and strategic alternatives, respectively, available to a firm.

Three questions are addressed:

- How can managers use accounting information to analyze alternatives and to make good decisions that improve business performance and create value?
- How can managers design internal accounting systems and reports to obtain relevant and reliable accounting information?
- How can managers use accounting information to guide staff towards making good decisions that improve business performance and create value?

## Learning Outcomes

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 choices for, 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), and transfer pricing.
- Contribution of accounting to organizational management systems that feature the provision of incentives and the design of responsibility centers (revenue, cost, profit, and investment centers).

## Evaluation

Your course grade will be based on:

- SE4: Your performance in class (50%)
- SE2: A one-page case summary (20%). Details will be provided in the form of an Instruction sheet, to be posted on the Virtual Campus.
- SE3: A written final assignment during the Consolidation period (30%). Details will be provided in the form of an Instruction sheet, to be posted on the Virtual Campus.

Performance in class refers to your active and individual class participation. I use a simple 3-point

system: 1 point for saying something positive; 2 points for saying something relevant; 3 points for pushing the class forward and/or a significant contribution. Note that quality is more important than quantity.

The exact rules of the game will be explained in class and in the instructions for both the write-up and the individual assignment.

## Materials

This course is divided into three parts:

- Preparation Weeks: The idea behind the pre-reading material is to start the course with a common base, especially as far as terminology is concerned, and **prepare the first case discussion**.
- On-Campus Weeks: The eight class sessions we will have together during your stay in New York during this second module. These sessions are, for the most, case based.
- Consolidation Weeks: the details of the consolidation activities will be presented during the on-campus week.

Course materials, available through the Virtual Campus, consist of Technical Notes and Cases. You will find some preparation questions in this course syllabus. For all the other cases, you are to prepare the questions found at the end of the case.

No textbook will be used, but two good references for future use are:

- **Malea Fashion District. How Successful Managers Use Financial Information to Grow Organizations**, by Davila, A. and Oyon, D., Vease Ediciones (3<sup>rd</sup> Edition).  
This book's website (<http://www.maleafd.com>) is a supplementary resource that summarizes many key concepts. Of particular interest are the videos on Managerial Accounting concepts that can be found here: <https://www.youtube.com/c/Maleafdistrict>
- **Horngren's Cost Accounting: A Managerial Emphasis** by Srikant M. Datar and Madhav Rajan, 16<sup>th</sup> Edition, Pearson Education Limited, 2017. [Older editions of the book are fine too].

## Professor's Biography



**Professor of Accounting and Control**

**Associate Dean of IESE Business School**

**Dean of IESE's New York Campus**

Professor Eric Weber is associate dean of IESE Business School and professor of accounting and control. He is also the Dean of IESE's New York Campus. He is a member of both the Executive Committee of IESE and the Harvard Business School – IESE Advisory Committee. He is also a member of IESE's International Advisory Board, and the U.S. Advisory Committee. He has formerly served as the associate dean for the MBA program, as the associate dean for Executive Education and Executive MBA Programs, and as the academic director for the Global Executive MBA program.

Dr. Weber earned his Ph.D. in Management (Accounting and Information Systems) from the Kellogg Graduate School of Management, Northwestern University, USA, and his MBA from IESE. He also holds a degree in mechanical engineering from the Universidad Simón Bolívar, in Venezuela.

## **Additional Information for Reporting and Accreditation purposes**

### **Competences**

#### **Basic**

CB6. Possess and understand knowledge that provides a basis or opportunity to be original in the development and / or application of ideas, often in a research context.

CB7. The students know how to apply the knowledge acquired and their ability to solve problems in new or unfamiliar environments within broader (or multidisciplinary) contexts related to their area of study.

CB8. The students can integrate knowledge and face the complexity of formulating judgments based on information that, being incomplete or limited, includes reflections on social and ethical responsibilities linked to the application of their knowledge and judgments.

CB9. Students know how to communicate their conclusions and the knowledge and ultimate reasons that support them to specialized and non-specialized audiences in a clear and unambiguous way.

CB10. Students possess the learning skills that allow them to continue studying in a way that will be largely self-directed or autonomous.

#### **General**

CG1 – To explain and discuss business situations in a rigorous, effective way using both formal and informal procedures, and providing relevant information to support their observations and conclusions.

CG7 – To distinguish and categorize relevant information effectively for business decision making.

CE12 – To devise a personal ethical framework for decision making in the organization through reflection and critical discussion of the traditional ethical thought systems.

#### **Specific**

CE12 – To devise a personal ethical framework for decision making in the organization through reflection and critical discussion of the traditional ethical thought systems.

CE23 – To evaluate decisions to buy or sell assets and businesses using criteria related to strategy, economics/finances, and execution of the transaction.

CE25 – To analyze operating decisions economically (e.g., whether to accept an order, to manufacture or outsource, to withdraw a product, to close a department, to offer a discount, etc.) using differential cost analysis.

CE26 – To design cost allocation systems to evaluate the profitability of products, customers, and departments. To understand incentives and behaviors stemming from the system within the organization.

CE28 – To handle monitoring tools to help implement the company's strategy.

## **Sustainable Development Goals (SDG)**

SDG 4 – Quality Education

SDG 5 – Gender Equality

SDG 8 – Decent Work and Economic Growth

SDG 9 – Industry Innovation and Infrastructure

SDG 10 – Reduced Inequalities

SDG 12 – Responsible Consumption and Production