

**California State University, Sacramento
College of Business Administration**

EMBA 222 – Managerial Accounting for Executives
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Instructor: Hugh D. Pforsich, Ph.D., MBA
Office: Tahoe 2098
Telephone: 916-216-0082
Websites: <https://online.csus.edu/webct/logonDisplay.dowebct> ;
<http://www.csus.edu/indiv/p/pforsich/>

Required Reading Material:

- ❖ **Managerial Accounting for Managers**, by Noreen, Brewer, and Garrison, 3rd edition, McGraw-Hill Irwin, ISBN: 978-0078025426
- ❖ **The Goal: A Process of Ongoing Improvement**, by Eliyahu M. Goldratt, 3rd Revised Edition, The North River Press, ISBN: 0-88427-178-1
 - Who ever heard of a novel about a production plant? Well, Eli has made the production managers have quite an epiphany. In one book he might have changed the whole world of cost accounting. Eli approached the production world with a common sense view. Using just one goal, making money, he referenced every activity to it. Eli said, "I view science as nothing more than an understanding of the way the world is and why it is that way." You see, Eli is a physicist, and in being one, has to understand why things work the way they do. His common sense approach is illustrated beautifully in this novel. He has looked at cost accounting from the outside and has developed a whole new system because of it.
 - Everyone from accountants to production managers to CEO's should read this book. Because of its fundamentals, it should be part of the curriculum of every accounting program. This novel has and continues to help the industry to make strides toward continuous improvement. (Summary by Chris Hourigan, University of South Florida)
- ❖ **Case Studies**
 - **Breezy Boat Company**
 - This case describes a small boat manufacturing company that is preparing to produce two models. The case asks students to consider what management accounting information they would like to have to help manage the company.
 - **FinePrint Company (A),(B),(C)**
 - John Johnson, owner of FinePrint Company, is presented with two opportunities to consider: (1) whether to accept a one-time special printing order and (2) whether to outsource some of his printing to another printing company. In making his decisions, he must consider the relevance of certain costs, the behavior of those costs, and the extent to which he has capacity constraints.
 - **Cloverdale Paint Inc.**
 - Cloverdale Paint Inc. is a family-owned paint manufacturer. Company sales have been falling and the logistics manager was looking at several options that would meet the company's long-term growth objectives. Two opportunities - private label development or dealer network expansion -

seemed promising. He must determine if one or both alternatives will resolve the company's declining sales, and if so, whether the company has enough capital to pursue one or both ventures.

- **St. Catharines General Hospital**
 - The head of the Clinical Resource Management Committee at St. Catharines General Hospital which was responsible for monitoring and promoting optimal resource utilization by physicians and the other staff at the hospital. While the committee had made some gains, there was little effect on the hospital's operating costs and many physicians were uninterested or resistant to the concept of utilization. In addition, hospitals in the region were faced with restructuring proposals and budget cuts in the near future. The case highlights the changes taking place in the health care sector and the implications for managerial analysis and control. Issues covered include: cost analysis, design of a funding scheme to promote certain behavior, data collection and validity, incentives, and performance measurement.
- **Dr. M. L. Dhawale Trust Hospital - Towards Sustainability**
 - This case deals with a rural charitable homeopathic hospital in the state of Maharashtra, India, set in the year 2008. The hospital, Dr. M. L. Dhawale Memorial Trust's Rural Homeopathic Hospital, is one among many clinics and hospitals run by the Dr. M. L. Dhawale Memorial Trust (MLDT). Dr. Navin Pawaskar, the head of the hospital, has to make recommendations to the management team to improve the profitability of the hospital and be financially sustainable. He has findings and data from a field study done by management students of S. P. Jain Institute of Management and Research, Mumbai, India. The study involved a preliminary costing exercise of the various services offered in the hospital. The data from the costing exercise must now be analyzed to arrive at actionable conclusions.

Course Overview and Description:

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. This course is intended as an introduction for individuals who will make business decisions and evaluate the performance of business units using data obtained from the accounting system. Coverage includes the basic vocabulary and mechanics of cost accounting, basic issues involved in the design of a cost accounting system, and the role of management accounting in decisions concerning resource allocation and performance evaluation.

Learning Through Case Studies:

Analyzing cases is primarily a process of asking and answering questions. In studying cases, the art and skill of asking the right questions is often as important as being able to answer them. For some cases, the questions are obvious, but for most cases, there will be more questions to explore than may be apparent at first.

Your task in preparing to discuss any case is to learn the facts, identify the problems, establish goals, gather relevant information, draw conclusions, and make recommendations. For this, you must develop a list of salient questions.

One set of answers may lead to another set of questions, and so on. The process is somewhat like that of peeling an onion to get at the heart of the matter. It sharpens your analytical abilities and sets management accounting and control in the context of real business issues that require thoughtful decisions.

Learning Objectives:

1. Develop and use accounting information for management activities such as pricing, planning, performance monitoring, and decisions on alternative choices.
2. Understand and apply to managerial decisions the concepts of cost behaviors (including fixed and variable), contribution margin and break-even, cost relevance, opportunity costs, and the impact of capacity constraints.
3. Examine, design, and evaluate a company's balanced scorecard in light of the organization's strategic approach to the marketplace.
4. Analyze the interrelationships of a company's products, its control mechanisms, and its cost information system.
5. Understand the numerous business issues in a case pertaining to leadership, strategy, marketing, cost accounting and management control.
6. Use activity thinking to make strategic decisions in the costing of services and the distribution of costs among different lines of business.

Body of Knowledge Summary with Topics Covered:

1. **Cost Classifications:**

- ❖ **Product Costs** – All costs involved in acquiring or making a product, consisting of direct materials, direct labor, and manufacturing overhead. Product costs are initially assigned to an inventory account on the balance sheet. When the goods are sold, the costs are released from inventory as expenses (typically called cost of goods sold) and matched against sales revenue.
- ❖ **Period Costs** -- All non-product costs (e.g., sales commissions, rental costs of administrative offices are period costs, etc.). They are expensed on the income statement in the period in which they are incurred.
- ❖ **Variable Cost** – A cost that, in total, varies in direct proportion to changes in the activity level.
- ❖ **Fixed Cost** – A cost that, in total, remains constant irrespective of changes in the activity level.
- ❖ **Differential Cost** – A cost that differs between alternatives.
- ❖ **Opportunity Cost** -- A potential benefit that is given up by selecting one alternative over another.
- ❖ **Sunk Cost** -- A cost that has already been incurred and that cannot be changed by any decision made now or in the future. Since sunk costs cannot be changed and therefore cannot be differential costs, they should be ignored in decision making.

2. **Throughput Accounting Definitions:**

- ❖ **Constraint** – Anything inside (or outside) an organization that limits it from moving toward or achieving its goal (i.e., usually the maximization of profit).
- ❖ **Throughput** - Sales less direct materials (and out-of-pocket selling costs, if any).
- ❖ **Operating Expense** - All costs of production other than costs of direct materials (i.e., all the money an organization spends to turn direct materials into throughput). It includes direct labor and factory overhead, as well as selling and administrative costs.
- ❖ **Inventory** - the cost of direct materials that remain unsold in the form of raw materials, work in process and finished goods.
- ❖ **Drum** – the pace of operations set by the constraint.
- ❖ **Buffer** – the inventory placed in front of the constraint that protects the pace.
- ❖ **Rope** - the pull system that enforces the pace.

3. **Contribution Income Statement** -- The contribution income statement organizes costs by behavior, rather than by function. This income statement format separates costs into fixed and variable categories. Variable expenses are deducted to obtain the contribution margin. Fixed expenses are then deducted from the contribution margin to obtain net operating income.
4. **Target Profit Analysis and Break-Even Analysis** -- Target profit analysis is concerned with estimating the level of sales required to attain a specified target profit. Break-even analysis is a special case of target profit analysis in which the target profit is zero.
5. **Balanced Scorecard** -- An integrated set of performance measures that are derived from and support the company's strategy throughout the organization.
6. **Overhead Cost Allocation** -- The assignment of indirect costs to cost objects for purposes such as pricing, profitability studies, and control of spending. Activity-based costing (ABC) is one of the most sophisticated methods of overhead cost allocation.

Teaching Philosophy:

My philosophy for creating and teaching the Managerial Accounting for Executives course in the Executive MBA program is to provide my students a balanced combination of the following five components:

- ❖ Use of the case method and the analysis of complex problem sets,
- ❖ Facilitation of small, structured discussion groups,
- ❖ Emphasis on asking students important, thought-provoking questions,
- ❖ A balanced analysis of soft, qualitative measures with hard, quantitative measures for strategic decision making, and
- ❖ The guidance of my students as experienced managers to apply their past experiences to the analysis of new problems and then report their results and conclusions in a "board room" – simulated atmosphere.

The most difficult aspect of the case method of teaching is asking thought-provoking questions that help students focus on the most important issues in a case. I intend to provide students with opportunities to analyze managerial accounting problems on a variety of levels (practical, qualitative vs. quantitative, strategic, inter-disciplinary, global, etc.). The decision-making experience of the students will be heavily drawn upon for case analyses and a board-room atmosphere will be simulated for them to present their findings.

Course Requirements:

Class Participation

- ❖ Comments and/or questions that are insightful, integrative, logical and clear, thought-provoking, and intellectually curious will be evaluated positively.
- ❖ Comments and/or questions that are vague, repetitive, unrelated to the current topic, disrespectful of others, or without sufficient foundation will be evaluated negatively.
- ❖ The quality of one's contributions to the class discussion will be valued more heavily than mere quantity or frequency of participation.
- ❖ Outstanding contributions in class reflect exceptional preparation. Ideas offered should be well substantiated and persuasively presented.

- ❖ After you have participated in a particular class discussion, the general consensus of the instructor and the students should be, “If this person were not a member of the class, the quality of discussion would be diminished markedly.”

Team Case Studies

You will be evaluated on your individual written preparation of the case and your performance in assuming one of the following randomly-assigned roles in analyzing and presenting the case:

- ❖ **Chief Executive Officer (CEO) - [*project manager, group leader, moderator*]**
 - present an executive summary to introduce the case
 - keep group on assigned task within the time allowed for discussion
 - insure all members of group have opportunity to learn, participate, and earn the respect of their teammates
 - responsible for seeing that all team members have mastered the learning points in team exercises
- ❖ **Chief Financial Officer (CFO) - [*record keeper, number cruncher, quantitative analyst*]**
 - keep records of all team activities
 - when necessary prepare PowerPoint slides of the group’s discussion points and conclusions
 - keep a separate list of important questions that arise in the group discussion
- ❖ **Executive Vice President (EVP) - [*spokesperson*]**
 - be prepared to speak on behalf of the entire group about the team’s activities or conclusions
 - assume the role of any missing team member
- ❖ **Lawyer - [*skeptic, devil’s advocate*]**
 - question assumptions and conclusions that are made by members of the group
 - prevent the group from committing “group think”
 - take an opposing viewpoint in order to encourage other group members to justify their assumptions or conclusions

Course Learning Journal

- ❖ Your ability to develop a personal learning journal is the capstone of the course. The learning journal will provide a framework for you to think about what you learned in the course and an opportunity to continually examine your personal development as a financial analyst, critical thinker, and executive decision-maker.
- ❖ The construction of your learning journal begins with a **daily journal** that evolves as you read about, discuss, and experience the implementation of different ideas presented in the course.
- ❖ Overall, the learning journal should capture the daily snapshots of you: 1) personal values (how you view the information offered throughout the course), 2) concepts and ideas that you have accumulated, and 3) personal reflections on your experiences, perspectives, competencies, weaknesses, and biases that the course caused you to address.
- ❖ The **final document** that you turn in should:
 - Be a condensed summary of your daily entries, organized in a manner that is easy to follow.
 - Include a cover sheet and an error-free text body that does not exceed 15 pages.
 - Be written in a business-writing format that is crisp, to the point, and adequately supported by examples, anecdotes, and facts.
- ❖ Your learning journal will be evaluated based on your thoughtfulness and thoroughness in addressing the following points:
 - **Growth:** Give examples of how your original ideas/concepts/beliefs about managerial accounting were challenged and adjusted. Growth may include:
 - New knowledge that has been learned but has yet to be applied.
 - Contrary notions that have trumped your old ideas/concepts/beliefs.
 - Reinforcements and extensions to tried-and-true ideas/concepts/beliefs that you continue to retain.
 - **Application:** Apply lessons learned in the course to your own real-world experiences/environment.
 - These applications may have already occurred in your experience or you may point out potential applications that you are now able to foresee.
 - Go further than merely telling how a particular idea/concept/lesson would be applied.
 - In addition, give compelling reasons why this particular application is appropriate and will likely be successful.
 - **Analysis:** Give examples of how your analytical skills were developed and put to use.
 - Analysis is a systematic approach to problem solving.
 - Complex problems are made simpler by separating them into more understandable elements.
 - This involves the identification of purposes and facts, the statement of defensible assumptions, and the formulation of conclusions.
 - Analytical skills involve seeing relationships, determining if-then causalities, finding evidence to support a theory, and making judgments and decisions using a set of criteria.
 - **Synthesis:** Give examples of how you were able to put together separate ideas to form or establish new relationships.
 - Synthesis involves putting together ideas and knowledge in a new and unique form.
 - This is where innovations truly take place. It is the process of bringing the pieces of an analysis together to make a whole.

CASE PREPARATION WRITE-UP OUTLINE

(Depending on the case, only some of the following outline components may be appropriate)

Analysis and presentation (PPT slides) of the cases assigned to groups of students should follow the following outline:

1. Executive Summary

- Background
- Key facts
- Salient issues

2. Problem(s)

- Careful statements(s) to clarify the problem(s) and remove some of the surrounding ambiguities
- Identify the consequences that are associated with the problem(s)
- Identify the approach you would take for addressing the problem(s)

3. Decision(s) to make

- The choice among two or more courses of action
- Risks associated with each decision

4. Assumptions

- The necessary information you must assume, since it is not given in the case
- State your reasons for making these assumptions and be prepared to defend these reasons

5. Relevant Quantitative Analysis

- Run the numbers

6. Relevant Qualitative Considerations

- Significant factors that cannot be measured effectively in numerical terms
- E.g., the effect of a decision on the morale of company employees

7. Questions(s)

- Carefully stated to solicit a response that is thought-provoking, interesting, important, relevant
- Should be focused on the main “accounting-related” (i.e., financial) information and the decisions that need to be made with this information

READING ASSIGNMENTS

1. Week 1 (June 2-8, 2013):

Read **82 pages** in Managerial Accounting for Managers, by Noreen (3e):

Chapter 2 (*Cost Concepts* – pages 21-46),

Chapter 3 (*Cost-Volume-Profit Relationships* – pages 70-97),

Chapter 6 (*Activity-Based Costing: A Tool to Aid Decision Making*– pages 203-230).

Take notes on the main concepts in each chapter. After reading these chapters, review the chapter concepts by studying the PowerPoint presentations for each chapter linked on the course website **and complete the LearnSmart assignment in CONNECT for each chapter.**

An open-note conceptual exam may be administered online after Saturday, June 8th

(http://connect.mcgraw-hill.com/class/pforsich_emba222_june_2013_intel_8)

Week 2 (June 9-15, 2013):

Read **52 pages** in Managerial Accounting for Managers, by Noreen (3e):

Chapter 9 (*Profit Planning* – pages 368-394),

Chapter 10 (*Flexible Budgets* – pages 417-432), and

Chapter 12-second part only (*Balanced Scorecard* – pages 511-517).

Take notes on the main concepts in each chapter. After reading these chapters, review the chapter concepts by studying the PowerPoint presentations for each chapter linked on the course website **and complete the LearnSmart assignment in CONNECT for each chapter.**

An open-note conceptual exam may be administered online after Saturday, June 15th

(http://connect.mcgraw-hill.com/class/pforsich_emba222_june_2013_intel_8)

3. Week 3 (June 16-22, 2013):

Read **337 pages** in The Goal: A Process of Ongoing Improvement, by Eliyahu M. Goldratt, 3rd Revised Edition, The North River Press, ISBN: 0-88427-178-1.

As you read the book, take notes on those pages that contain information related to accounting, the theory of constraints, or the management of the factory. A list of these pages follows:

- Chapters 1-10: pages 6, 26-33, 41, 46, 60-61, 87-88,
- Chapters 11-17: pages 100-102, 106-112, 116, 129, 132-134,
- Chapters 18-25: pages 138-139, 144-148, 151-161, 177-178, 183-184, 204-211,
- Chapters 26-31: pages 221, 223, 232-236, 238-240, 259-260,
- Chapters 32-37: pages 275-279, 298-301, 305-307, and 317-318.

The key chapters under consideration are: 11-15, 17-19, 21-22, 25, 27-29, 31, 33, and 36-38.

- Also, read **25 pages** in Managerial Accounting for Managers, by Noreen (3e):
 - Chapter 7 (*Differential Analysis: The Key to Decision Making* – pages 258-282)
and complete the LearnSmart assignment in CONNECT for each chapter.

4. Week 4 (June 23-29, 2013): No assigned readings.

EMBA 222: Tentative Schedule

WEEK 1

Friday, June 7, 2013 – 3:00-7:00pm

- Intro to course
- Learning expectations
- Groups formed, introduced
- Lecture:
 - Cost flows (Ch. 2; booklet)
 - Cost behavior (Ch. 2)
 - Two income statements (Ch. 2, p. 39)
 - CVP analysis (Ch. 3; booklet)
- Dinner
- Learning journals (Growth)

Saturday, June 8, 2013 – 8:00am-2:00pm

- Review
 - Case Discussion: Breezy Boat Company (booklet)
 - Lecture: ABC and OH allocation (Ch. 6; booklet)
 - Case discussion: FinePrint Company (A),(B),(C)
 - Case 3-32 discussion: Marston Corporation (Cost structure; Break-even Point; Target Profits)
 - 11:00 am Ms. Ana Klein, VP/CFO Officer, Sunsweet Growers Inc.
 - Lunch
 - Learning Journals (Growth and Application)
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WEEK 2

Friday, June 14, 2013 – 3:00-7:00pm

- New Groups; Results of Exam #1
- Parable of the Red Pens and Blue Pens
- Dr. Sharyn Gardner visits
- 5 pm Ms. Selvi Stanislaus, LLM [Executive Officer, Franchise Tax Board]
- Dinner
- Learning Journals (Growth and Application)

Saturday, June 15, 2013 – 8:00am-2:00pm

- Lecture -- PPT slides: Budgeting/Profit Planning (Ch. 9; booklet)
- Problem 9-22 discussion: Granger Stokes (Behavioral Aspects of Budgeting: Ethics and the Manager)
- Case 9-28 discussion: Ferguson & Son Manufacturing Company (Evaluating a Company's Budget Procedures)
- Lecture: Balanced Scorecard (Ch. 12; booklet)
- Case discussion: Weierman Department Store (booklet)
- Problem 12-17 discussion: Lost Peak Ski Resort (Building a Balanced Scorecard)
- Lunch
- Lecture: Flexible Budgets (Ch. 10; booklet)

- Case 10-26 discussion: Prudhom Enterprises, Inc. (Flexible Budgets: Ethics and the Manager)
- Teams read and discuss the three BIG cases (Cloverdale Paint, Dhawale Trust Hospital, St. Catharine's General Hospital) -- Choose one of the three cases
- Learning Journals (Application and Analysis)

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WEEK 3 (off-site)

Sunday, June 16, 2013 -- Saturday, June 22, 2013

- Groups work off-site on one of the following cases:
 - Cloverdale Paint Inc.
 - Dr M.L. Dhawale Trust Hospital
 - St. Catharine's General Hospital
- Cases should be analyzed, solved, and prepared for a group presentation on the last day of class, Saturday, June 29, 2013.
- Write in Learning Journals (Application and Analysis)

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WEEK 4

Friday, June 28, 2013 – 3:00-7:00pm

- Review 6/14/13 and 6/15/13 sessions
- Discuss The Goal
- Lecture: Relevant Costs for Decision Making (Ch. 7; booklet)
- Dinner
- Case 7-30 discussion (half the groups): (Mobile Seating, Plant Closing Decision)
- Case 7-33 discussion (half the groups): (Midwest Mills, Sell or Process Further Decision)
- Learning Journals (Application, Analysis, and Synthesis)

Saturday, June 29, 2013 – 8:00am-2:00pm

- Groups present final cases
- Lecture: Financial Statements (booklet)
- Lunch
- Case discussion: Identify the Industries (booklet)
- Learning Journals (Application, Analysis, and Synthesis)

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Learning Journals due via email attachment to pforsich@csus.edu by 5:00 pm on Monday, July 1, 2013.

