

California State University, Sacramento
College of Business Administration

EMBA 222 – Managerial Accounting for Executives
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<https://connect.mheducation.com/class/pforsich-emba222-cob5-fall-2023>

Required Reading Material:

- ❖ **Managerial Accounting for Managers**, by Noreen, Brewer, Garrison; 6th edition; McGraw-Hill Higher Education; (2023).
- ❖ **The Goal: A Process of Ongoing Improvement**, by Eliyahu M. Goldratt, 3rd Revised Edition, The North River Press.
 - 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: University of Virginia – Darden Business Publishing

- ❖ UVA-C-2193, 2194, 2195 Fine Print Company (A), (B), (C)
- ❖ UVA-C-2210, 2211 Charley's Family Steak House (A), (B)
- ❖ UVA-C-2237 Gibson Insurance Company
- ❖ UVA-C-2307, 2308 Breeden Security, Inc. (A), (B)
- ❖ UVA-C-2358 The Summer Program at Portsmouth Abbey
- ❖ UVA-C-2402, 2403, 2404 JW Sports Supplies (A), (B), (C)

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

READING ASSIGNMENTS

1. **Week 1 (Sun. Oct. 8 – Sat. Oct. 14, 2023):**

Read **75 pages** in **Managerial Accounting for Managers**, by Noreen (6e):

Chapter 1 (*Cost Concepts* – pages 26-43),

Chapter 2 (*Cost-Volume-Profit Relationships* – pages 62-90),

Chapter 5 (*Activity-Based Costing: A Tool to Aid Decision Making*– pages 225-252).

Take notes on the main concepts in each chapter. After reading these chapters, review the chapter concepts by **completing the SmartBook assignment in CONNECT for each chapter (1, 2, and 5).**

An open-note exam may be administered online after Saturday, Oct. 14, 2023.

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Read **89 pages** in **The Goal: A Process of Ongoing Improvement**, by Eliyahu M. Goldratt, 3rd Revised Edition, The North River Press.

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 1-11: pages 6, 26-33, 41, 46, 60-61, 87-88

2. **Week 2 (Sun. Oct. 15 – Sat. Oct. 21, 2023):**

Read **53 pages** in **Managerial Accounting for Managers**, by Noreen (6e):

Chapter 8 (*Master Budgeting* – pages 401-428),

Chapter 9 (*Flexible Budgets* – pages 453-471), and

Chapter 12 - first part only (*Balanced Scorecard* – pages 584-589).

Take notes on the main concepts in each chapter. After reading these chapters, review the chapter concepts by **completing the SmartBook assignment in CONNECT for each chapter.**

An open-note exam may be administered online after Saturday, Oct. 21, 2023.

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Read **46 pages** in **The Goal: A Process of Ongoing Improvement**, by Eliyahu M. Goldratt, 3rd Revised Edition, The North River Press.

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 12-17: pages 100-102, 106-112, 116, 129, 132-134

3. **Week 3 (Sun. Oct. 22 – Sat. Oct. 28, 2023):**

Read **183 pages** in **The Goal: A Process of Ongoing Improvement**, by Eliyahu M. Goldratt, 3rd Revised Edition, The North River Press.

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 **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 **27 pages** in **Managerial Accounting for Managers**, by Noreen (6e):

Chapter **6** (*Differential Analysis: The Key to Decision Making* – **pages 279-305**) and complete the SmartBook assignment in CONNECT for this chapter.

4. **Week 4 (Sun. Oct. 29 – Sat. Nov. 4, 2023):**

No assigned readings.