



## **MANAGEMENT ACCOUNTING AND CONTROL**

### **Aim of the Course**

It is virtually impossible for managers to function without information. Information is vital for the management process, and accounting is one of the major information systems within any organization. A sound understanding of accounting is absolutely necessary for managers to fulfill their organizational roles responsibly and competently. This course will help you understand basic accounting concepts and know how to use accounting information to be able to manage effectively.

### **Course Content**

Managers need an information system that will identify problems, such as the possibility of cost overruns or the inability to implement the plans for a factory building and a big order timely delivery. Accounting information can also be useful in identifying solutions to managerial problems. For instance, it can help a manager decide whether to reduce prices and increase advertising to improve profitability or whether to automate or not. Additionally, accounting information can help managers assess how well things are going within the organization, such as quantifying the firm's control of quality costs or evaluating the efficiency of a sub-unit.

The management process includes the following main activities: (1) planning, (2) decision-making, and (3) controlling. We will consider in details these three activities over the term in three separate parts of the course.

### **Course outline**

Part 1. Cost accumulation and product costing

1. **Cost concepts and terminology.** Basic cost concepts. Functional classification of costs. Financial statements and the functional classification. Classification by cost behavior.
2. **Conventional product costing: unit-based cost drivers.** Job-order costing and process costing. Cost assignment and cost measurement. Actual costing versus normal costing. Weighted average costing.
3. **Alternative product costing.** The limitations of conventional product costing. Activity-based product costing. JIT manufacturing and product costing.

Part 2: Managerial decision making.

4. **Cost-volume-profit analysis (CVP).** Break-even point. CVP analysis in the single-product and multiple-product firms. CVP analysis and risk. Limitations of CVL analysis.
5. **Variable costing.** Variable costing and absorption costing: an analysis and comparison. Variable costing and performance evaluation of managers. Variable costing for planning and control.
6. **Relevant cost for special decisions.** Relevant costs applications. Make-or-buy decisions. Keep-or-drop decisions. Special-order decisions. Decisions to sell or process further. Product mix decisions.
7. **Capital investment decisions.** Types of capital investment decisions. Future value and present value. Discounting models: the net present value method and internal rate of return.

Part 3: Planning and control

8. **Budgeting for planning and control.** Description of budgeting. Preparing the budget. Behavior dimensions of budgeting. Measurement of performance.
9. **Traditional performance measure: standard costing.** Unit standards. Standard product costs. Variance analysis.
10. **Alternative performance measures.** Limitations of traditional performance measures. Activity-based management. Life cycle cost management. Flexible budgeting. Control at the operating level.

**Course format**

We will cover each of these topics in class. The **lectures** will present the main concepts with references to real business situations. Additionally, we will examine some numerical examples to facilitate the process of understanding.

In the **practical session** on the topic (usually the Friday session, see the attached provisional schedule for details) we will: (1) discuss newspaper articles (i.e., articles published in The Economist, Financial Times or BusinessWeek) which present the importance and managerial applications of our theoretical constructs, and (2) step-by-step solve numerical exercises. The idea of this practical session is to strengthen our understanding on managerial accounting with good intuition and advanced technical skills.

Additionally, over the course we will discuss in details a **case study** which will present the inter-relation between the topics covered by the course. It will not only give you the “big picture” but also help you prepare the “X-tra point” assignment, if you decide to take this chance.

## MANAGEMENT ACCOUNTING AND CONTROL

### Grading policy

The final exam will be based on the lecture notes, exercises and case material.

The course is graded from 0 to 10 points. There are no minimum requirements for the specific components of the evaluation. Passing the course necessitates a minimum average grade of 5 points.

Evaluation at the ordinary term

At the ordinary term, the final grade for the course will be determined on the following basis:

Class participation	15%
Quizzes, assignments	20%
Mid-term exam	25%
Final exam	40%

Evaluation in September

For students retaking the exam in September, the grading basis will be as follows:

Class participation, quizzes and assignments	10%
September exam	90%

X-tra point

If you want to demonstrate your good knowledge and increase your final grade, you may decide to compete for the X-tra point. The X-tra point assignment is a group work which requires a significant investment in terms of time and efforts but is rewarded with 1 point added extra to your final grade. This reward will be given in a tournament-based competition, i.e., only the members of the winning group will have 1-point increase in the final grade (if the course grade is above 9, the reward will be transformed in "honors" added to the final grade).

Specifications on the Assignments

1. If two (or more) students turn in same / very similar assignments or quizzes, both assignments will be graded as zero points.
2. If a student does not hand in any of the assignments throughout the course, he / she will receive zero points from the whole category of quizzes and assignments in the ordinary period (15%), and zero points from the whole category of participation, quizzes and assignments in the September exam (10%).

## Course Literature

Horngren, C. T., A. Bhimani, G. Foster and S. M. Datar (1999) *Management and Cost Accounting*, 9th ed., Upper Saddle River, NJ: Prentice Hall.

Anthony, R.N. (2003) *Management Control Systems*, 11th ed., Singapore: McGraw-Hill.

Merchant, K.A. (1998) *Modern Management Control Systems*, Upper Saddle River, NJ: Prentice Hall.

Note: If you prefer or have access to a particular book on management accounting, please,

come to me and I will advise you how appropriate it is for this course.

## Provisional content schedule of our classes

	Monday	Wednesday	Friday
Week 1		<b>25</b> <b>Introduction</b>	<b>27</b> <b>1. Cost concept</b>
Week 2	<b>30</b> <b>2. Conv. product costing</b>	<b>1</b> <b>2. Conv. product costing</b>	<b>3</b> <b>Practical session</b>
Week 3	<b>Holidays</b>	<b>15</b> <b>3. Alt. product costing</b>	<b>17</b> <b>Practical session</b>
Week 4	<b>20</b> <b>4. Cost-volume-profit</b>	<b>22</b> <b>4. Cost-volume-profit</b>	<b>24</b> <b>Practical session</b>
Week 5	<b>27</b> <b>5. Variable costing</b>	<b>29</b> <b>6. Relevant cost appl.</b>	<b>1</b> <b>Holidays</b>
Week 6	<b>4</b> <b>Mid-term exam</b>	<b>6</b> <b>Solution of the mid-term exam</b>	<b>8</b> <b>Practical session</b>
Week 7	<b>11</b> <b>7. Capital investment decisions</b>	<b>13</b> <b>Practical session</b>	<b>15</b> <b>8. Budgeting</b>
Week 8	<b>18</b> <b>9. Tr. perf. measures</b>	<b>20</b> <b>9. Tr. perf. measures</b>	<b>22</b> <b>Practical session</b>
Week 9	<b>25</b> <b>10. Alternative perf. measures</b>	<b>27</b> <b>10. Alternative perf. measures</b>	<b>29</b> <b>Practical session</b>
Week 10	<b>1</b> <b>Holidays</b>	<b>3</b> <b>Case study</b>	<b>5</b> <b>Practical session</b>
Week 11	<b>8</b> <b>Applications &amp; challenges in MA</b>	<b>10</b> <b>Overview</b>	<b>12</b> <b>Overview</b>
Week 12	<b>15</b> <b>Exercises</b>		

*Legend*

Part 1. Cost accumulation and product costing

Part 2: Managerial decision making.

Part 3: Planning and control

Exams, overviews, case study and open discussion