

Boston College
Carroll School of Management
Syllabus
Summer 2005 – 1st Session - Section 01
(Monday, Tuesday and Thursday 12:00-3:00 PM)

Course: MA 827 Strategic Cost and Profitability Analysis
Instructor: Jeff Cohen
Classroom: Fulton Hall 245
Phone Number: 617-552-3165
E-mail: cohen@bc.edu

Office Hours: If needed, I will be available for questions right after class. Feel free to email me Monday through Fridays.

Course Objectives: A prominent management consultant, Eliyahu Goldratt, has stated, "cost accounting is the number one enemy of productivity." This course will examine what perhaps caused accounting based control systems to become outdated but more importantly we will examine how we can modify these systems to meet the global challenges of the 21st century. The course will take a strategic and managerial focus as opposed to a traditional cost accounting orientation. For example, in discussing the allocation of costs, we will emphasize its importance in pricing and control decisions as opposed to financial reporting record keeping. Further, we will emphasize the role that corporate governance can help management in achieving more effective control and more accountability to shareholders. Behavioral, ethical, and international issues will receive a special place in this course. Students are encouraged to find relevant articles on these topics from such sources as the New York Times, Wall Street Journal, and The Economist (a U.K. publication). An emphasis will be placed on student involvement and initiative. At the end of the course, you will be expected to integrate knowledge across topics and across different disciplines. It is important to note that the approach in this course is based on the fact that this is a graduate course, you are bright students and you have successfully completed an introductory course in management accounting and managerial cost analysis. This course is completely case oriented. Accordingly, there will be "cold calling" in the class and there will be no formal lectures.

Books: Robert N. Anthony and Vijay Govindarajan, *Management Control Systems*, 2004, 11th Edition, McGraw Hill-Irwin.

Eliyahu Goldratt and Jeff Cox, *The Goal*, 1992, 2nd rev. edition, North River Press
Customized reading packet.

Readings and Cases: Cases and articles will be assigned from the textbook as well as distributed in class. The articles are intended to complement the textbook by presenting a corporate governance perspective on management control. Cases will be used to emphasize the "real world". Communication is a two-way street, thus you should also work on developing the ability to read and understand the professional literature related to

accounting. While not required, you should consider reading general news and financial publications (e. g., The New York Times, The Economist) and specialized accounting publications (e. g., the Journal of Accountancy, the CPA Journal, Strategic Finance).

Homework: Cases and distributed readings will be used as a basis for class discussion. Please attempt all cases **before** class. Group work on cases is strongly encouraged. As previously noted, cold calling will be in effect.

Grading:	Class Participation	25%
	Portfolio	25%
	Project Paper/Presentation	50%
		100%

Feedback: This is **your** class. The communication and feedback should be two-way between the class and the instructor. To facilitate this feedback, I would like you from time to time to email to assess the following three questions: (1) What was the most significant thing you learned this week? (2) What question is uppermost in your mind at the end of the week's sessions? (3) What is the muddiest point I attempted to teach this week? By answering these questions, you will help me stay in touch with the pulse of the class.

Cases: Accounting is communication; thus you should be as proficient at communication as you are at debits and credits. What this requires however, is that we continually strive to enhance our communication skills. Since the only way to enhance these skills is to practice them, you will have an opportunity to do so in this class with a number of cases. Groups will be randomly called upon to help present the facts and participate in role-playing. When called upon to present part of a case, a group will be required to develop one question for the class. The quality of your participation will represent 25% of your grade.

Portfolio: At the start of each class, you will hand in a summary case analysis for one case assigned for that class. The summary (max. 2to 3 pages) should identify in bullet format:

- Critical background information about the company, the environment it is operating in, and other factors of significance (Industry and Company analysis)
- The major issue(s) facing the company at the time of the case
- A summary of your analysis of alternative solutions/resolutions for the issues identified including key numbers you have calculated
- Your recommendation(s) to management
- Answers to one question in the case

There will be 8 required submissions (you will have one free pass) for sessions 2-10. I will announce which case to hand in. The portfolio is worth 25% of your grade.

Paper: You are required to hand in a paper and present its contents on June 28 on the topic of management controls systems and corporate governance. You are to work in groups of four. Choose a publicly traded company involved in a significant re-statement of earnings and/or a significant delay in filing financial statements due to failure of their control system to meet Sarbanes Oxley Section 404 requirements. Your team should research the following:

- The industry and how your selected company has been performing in the industry (e.g. Dupont Model analysis for 2 – 3 years for your company and 1 – 2 major competitors).

- The nature of the re-statement and/or Section 404 failure – what was it, what financial impact, etc?
- The management control system and corporate governance structure of the company and why they may have failed at the company.
- Role of the external auditor – who, how they missed the cause of the re-statement/Section 404 failure, were they independent?
- Status of civil and criminal proceedings (findlaw.com may be helpful source).
- Changes the company could implement to make a more effective management control structure and a corporate governance system more accountable to its stakeholders.

Please get my prior approval on any company studied. The paper should be approximately 10 to 15 pages (one and a half spaced, font size 12) and should include footnotes and references. The paper will be worth 50% of your final grade.

Course Schedule and Reading Lists

Note: Discussion Questions are meant to provide you with some guideline in reviewing the material. I recommend trying to answer these questions, as we will review them in class.

Date	Chapter and Topic (from Anthony and Govindarajan)	DQ- Discussion Question	Cases, films and additional readings
June 2- Thursday	Section 1 of Course: Introduction to Control Systems Chapter 1 – “The Nature of Management Control Systems”	DQ-What role should accounting play in developing and monitoring management control systems?	<ol style="list-style-type: none"> 1. Case 1-3, Stewart Box Company 2. Readings on Phar Mor earnings fraud 3. Film, Frontline: "How to Steal 500 Million Dollars”
June 6- Monday	Chapter 2 - "Understanding Strategies"	DQ-Why do company strategies influence the effectiveness of management control systems?	<ol style="list-style-type: none"> 1. Case 1-4 Xerox Corporation-to be handed in 2. Readings on Xerox 3. Case 2-4 Texas Instruments and Hewlett-Packard 3. Xerox in Transition
June 7- Tuesday	Chapter 3 - "Behavior in Organizations"	DQ-Why do both formal and informal channels influence the effectiveness of management control systems?	<ol style="list-style-type: none"> 1. Case 3-1 Southwest Airlines-to be handed in 2. Regulations under Sarbanes-Oxley 3. Financial Statement Fraud, Audit Committees, and SEC Initiatives
June 9- Thursday	Chapter 4 - "Responsibility Center: Revenue and Expense Centers”	DQ-How do we determine the difference between effective controls for revenue centers and expense centers?	<ol style="list-style-type: none"> 1. Case 4-1 - Vershire Company 2. Case 4-4 - Whiz Calculator Company 3. Auditors’ Responsibility for Fraud Detection 4. Case-Behind Closed doors at World Com- to be handed in
June 13- Monday	Chapter 5 - "Profit Centers”	DQ-Why or why not are profit centers an effective motivator of management behavior?	<ol style="list-style-type: none"> 1. Case 5-2 - North Country Auto 2. Case 5-4 - Abrams Company-to be handed in 3. WSJ articles on Corporate Governance and Corporate Boards Hand in group requests for two companies with one paragraph each on why you want to examine the company.

June 14- Tuesday	Chapter 7 - “Measuring and Controlling Assets Employed”	DQ-If a manager was evaluated in part by ROI, why would different choices of asset bases affect a manager’s willingness to invest in new equipment? What were the management control system problems outlined in The Goal?	1. Case 7-5 – Dell Computer- to be handed in 2. The Financial Page-New Yorker 3. Complete chapters 1-19 in The Goal 4. WSJ article on why newer plants are most vulnerable
June 16- Thursday	Section 2 of Course: The Management Control Process and Corporate Governance Chapter 8 - Strategic Planning Chapter 9 - "Budget Preparation"	DQ-How would accounting tools effectively influence the strategic planning cycle? DQ-Explain how the strategic plan of an organization may affect a company’s yearly budgetary cycle	1. Case 8-1 - Allied Office Products- to be handed in 2. Case 9-2 – Boston Creamery
June 20- Monday	Chapter 10 - "Analyzing Financial Performance"	DQ- How can management control system effectiveness be both enhanced and diminished by the use of variance analysis?	1. Case- The Cooperative Bank- to be handed in 2. Case-Dynamic Data 3. Present one page overview of final paper
June 21- Tuesday	Chapter 11 - “Performance Measurement” HBR – Using the Balanced Scorecard	DQ-Why is it important to measure items other than elements that are counted on the financial statements? What were the solutions outlined by The Goal?	1. Case - Wells Fargo- to be handed in 2. Case 11-4 - Enager Industries 3. HBR – Using the Balanced Scorecard
June 23- Thursday	Chapter 13 – “Controls for Differentiated Strategies”	DQ-Why in the end does accounting matter in the development and evaluation of a strategic based control system?	1. Finish The Goal -to be handed in- What were the management control system problems and solutions outlined by The Goal? 2. Film, Frontline “Bigger than Enron” 3. Arthur Andersen WSJ article 4. Case 13-3 - New York Times
June 27- Monday	No official class. The class time today is dedicated to work on project assignment		

June 28- Tuesday	Hand in final project paper.	DQ-Is there a common thread we can identify across the several companies we have researched?	1. Student- led discussion of final paper topics: Accounting Restatements and Control Systems at a company that you have chosen to evaluate. Each group has 15 minutes to present.
---------------------	------------------------------	--	--

Questions for Cooperative Bank and Wells Fargo cases:

THE COOPERATIVE BANK

1. Describe the bank's cost system prior to SABRE - what were its major weaknesses? How was the new cost system (SABRE) developed?
2. Should the bank phase out the Independent Financial Advice/Insurance and Pathfinder products?
3. What does customer profitability analysis add to the product profitability analysis? How can the information on customer profitability be used to improve the bank's financial performance?
4. What are the differences in applying ABC/ABM in Services versus Manufacturing environments?
5. With the move toward the Euro currency, there is increasing demand for foreign currency transaction services (FCTS). David Fawell, Marketing Manager, believes offering this new service would be profitable and enhance the bank's relationship with its customers. He asks you to evaluate a proposal to add FCTS using the newly developed ABC information and the following information about the activities FCTS would utilize. You determine some of the activities would result in incremental cost (Note: # = British Pound) while others could be absorbed by existing resources:

<u>Activities Impacted by FCTS</u>	<u>Incr. In Qty of Activity Cost Driver</u>	<u>Incr. in Activity Cost</u>
Clear Debit Items	5% incr. in debits processed	No incremental cost
Branch Ops for Debit Items	5% incr. in branch counter debits	Incr. @ #0.90 rate
Lending Control & Security	25,000 more interventions	No incremental cost
Customer Inquiries	600,000 more telephone minutes	Incr. @ #0.18 rate
Computer Processing	1% incr. in computer transactions	No incremental cost

You decide to use the cost driver rates calculated in the case without recalculating them for the higher volumes. In addition to these costs, you estimate an additional #250,000 would be required for Marketing and Sales. Revenue from this service is estimated at #450,000.

What is the projected profitability of FCTS on both an incremental cost and a full cost basis? What would you recommend to Fawell?

WELLS FARGO ONLINE FINANCIAL SERVICES (OFS)

1. Why did Wells Fargo OFS decide to develop a Balanced Scorecard? What is environment like both externally and internally to drive them in this direction?

2. Develop the objectives, linkage map, and measures for the two remaining strategic themes:

- **Increase Revenue per Customer**
- **Reduce Cost per Customer**