

COURSE OUTLINE

1. **Course number and name:** Bus3103, Accounting for Decision Making

Prerequisites: Bus303, Introduction to Accounting or equivalent.

Credits 3

2. Course Description: The course teaches the application of accounting concepts to decision making as it relates to commercial and not-for-profit organizations and builds the student's decision-making skills and understanding in using accounting information to make quality business decisions.

3. Course Learning Assessments (Goals): This course will enable students to understand those concepts that are fundamental to the use of accounting including being able to describe how a financial statement communicates the financing, investment, and operating activities of a business, understanding the tools necessary to make business decisions based on financial information and being able to read and understand financial statements

4. Course Outcomes: The overall objective of this course is to provide students with knowledge of the underlying principles and application of accounting for decision making. Students completing this course will be able to:

1. Assess the basic concepts used in accounting for decision making.
2. Use process and activity cost systems.
3. Analyze cost, volume, and profit for decision making.
4. Apply variable costing in making the pricing decision.
5. Develop budgets for business operations.
6. Explain the means by which to exercise budgetary control.
7. Prepare an income statement using a standard cost system.
8. Perform capital budgeting using the net present value method.
9. Prepare a cash flow statement using both direct and indirect methods.
10. Analyze financial statements and compute ratios used in analyzing a company's liquidity, solvency, and profitability.

5. Course Concepts

1. Managerial accounting
2. Budgeting
3. Cash flow
4. The balance sheet
5. The income statement
6. Budgetary control
7. Capital budgeting
8. Variable costs
9. Fixed costs

10. Cost analysis

6. Required Text:

Weygandt, Jerry, Kieso, Donald, and Kimmel Paul D., *Managerial Accounting: Tools for Decision Making, 3rd Edition*. Hoboken, NJ: John Wiley & Sons, Inc, 2006. ISBN: 978-0-471-66178-8

7. Additional Resources:

Accounting Glossary and Terminology References

1. The New York State Society of CPAs (NYSSCPA) Glossary at:
http://www.nysscpa.org/prof_library/guide.htm
2. Investor Words at:
<http://www.investorwords.com/48/accounting.html>
3. Bitpipe's Accounting Definitions at:
<http://www.bitpipe.com/tlist/Accounting.html>
4. The Free Dictionary by Farlex Definitions at:
<http://www.thefreedictionary.com/accounting>
5. Washington Society Certified Public Accountants Glossary at:
<http://www.wscpa.org/wscpa/Resources/acctgloss.cfm>
6. Your Instructor: <http://www.yorktownuniversity.com/faculty/wentworth.html>

COURSE SYLLABUS

Course number: Bus3103

Course name: Accounting for Decision Making

Faculty: George Wentworth, CPA

Preliminaries: (Review Announcements)

Class Participation and Performance Requirements:

Students are ultimately responsible for participating in the course through the following academic activities: uploading assignments, posting to discussion topics, responding to instructor inquiries, submitting written papers and taking quizzes and exams. Students are expected to be involved in ongoing instructional activities based on the recommended schedule for course completion as detailed in the syllabus. In order to actively participate in a course, students must make contact with their faculty mentor on a regular basis through one of the following methods:

- Uploading weekly written discussion topic responses into the Discussion section of the course delivery system for grading by your Instructor.
- Participation in discussion threads with the instructor and other students.
- Posting of other assignments as identified by the course instructor.

Assessments/Course Grade:

You will be graded on the basis of:

Ten quizzes located in “Quizzes” at your Home Page. 20%

Mid-term Paper: (submitted after Session 5) 20%

Create a budget for a startup business enterprise or a one-year budget for an existing company with which you are familiar.

Course Project: (submitted after Session 10): 20%

Using the Internet find an annual report (10-K) of a large publicly traded corporation that experienced a significant loss of asset value in the economic crisis of Fall 2008. Completely analyze all aspects that annual report and fully assess whether the annual report accurately accounted for the company's financial state of health. If not, explain why.

Contributions to Discussions are a key part of this course. You will employ concepts that the session attempts to convey. Try to keep your answers no longer than 750 words,

indicating where you would like to elaborate your thinking with an exchange between you and your instructor and other students: 40%

Assessment percentages

Quizzes	20%
Mid-term paper	20%
Course project	30%
Discussion questions	40%

Yorktown University official grade and writing rubrics are located at
http://www.yorktownuniversity.com/grad_rubrics.cfm

Academic Integrity

Available both in the student and faculty handbooks.

Recommended schedule for course completion

Session 1: Basic Concepts of Accounting for Decision Making. In Session 1 you will learn the basic concepts of accounting for decision making and job order costing. The distinguishing features of managerial accounting, which include:

1. The three broad functions of management.
2. The three classes of manufacturing costs.
3. How to distinguish between product and period costs.
4. The characteristics and purposes of cost accounting.
5. The flow of costs in a job order cost accounting system.
6. The nature and importance of a job cost sheet.

Assignments:

Required Reading:
 Chaps 1-2

Complete and Submit the Quiz 1.

Discussion Topics

David Peak owns an airplane seat manufacturing company and has just received a U.S. Navy contract to manufacture 74 seats for the first of several new aircraft to be built for the Navy. His contract calls for the price of each seat to equal cost + 30%.

David's brother, James, owns a company that makes cloth, foam and padding for furniture manufacturers and can manufacture these materials meeting the fire retardant codes required. David knows that his brother will buy all of these materials from him, regardless of cost, because his contract with the Navy is cost plus.

As expected, David asks James to supply the cloth, foam and padding for the seats. He does ask for a price. James provides the materials requested for the job, but charges David 40% more than the standard going price for these materials. This pricing is justified by James because he feels that, 1) The government can afford it and is accustomed to being overcharged, 2) It will be good for his brother because the more the seats cost to manufacture, the more profit he will make, and 3) this is a great opportunity for him to make a substantially higher profit than he would normally make.

1. Is what David is doing ethical? Why or why not?
2. Is what James is doing ethical? Why or why not?
3. What can the Navy do to ensure that this doesn't happen in the future?

Session Outcomes: 4:1

Session 2: Process and Activity Based Costing. In this session you will learn the essential elements of process and activity based costing and their differences.

Including:

1. Who uses process cost systems.
2. The similarities and differences between job order and process cost systems.
3. The flow of costs in a process cost system.
4. The journal entries to assign manufacturing costs in a process cost system.
5. The difference between traditional costing and activity based costing.
6. The steps in the development of an activity-based costing system.
7. How companies identify the activity cost pools used in activity-based costing.

Assignments:

Required reading:

Chaps 3-4

Complete and Submit the Quiz 2.

Discussion Topics

Leonard Jackson, president manager of Jackson Manufacturing, asked his firm's controller, Chuck Davis, CMA, to meet with him over a casual lunch to discuss a problem the firm was having.

Leonard is concerned about his firm's recent loss of market share over the past three years. The firm has been losing more and more bids and he doesn't understand why. At first, he thought other firms were simply undercutting him in order to gain more business. However, after examining some public financial reports, he now believes that they are actually making a reasonable rate of return at the lower price. His concern is that the firm's costs and costing methods might possibly be at fault.

When asked, Chuck did not agree with that premise. Chuck believed that the firm has good control over costs, and like most firms in the industry, uses a normal job-costing system. Additionally, Chuck does not see any significant waste in the plant.

Leonard had recently attended an industrial convention, and when speaking with other managers, was introduced to the concept of activity-based costing and continuous improvement. The claim had been made that there were new procedures that can help produce more efficiency in manufacturing, better control of overhead and more accurate product costs. Leonard is concerned that the firm's bids are too high because other firms have found ways to decrease overhead and to increase the accuracy of their product costing.

Chuck, however, disagrees with Leonard. He doesn't believe that product-costing accuracy can be improved at all. He is aware of basic costing methods and agrees that everyone uses some measure of production activity to assign overhead costs. Further, he believes that the concept of activity drivers is just some new buzzword for measures of production volume and that it is just new fad in costing. He assures Leonard that everything is fine and that he shouldn't worry about what's going on, and that more than likely the problem with decreasing sales is temporary.

1. Do you agree or disagree with Chuck and the advice that he gave Leonard? Explain fully.
2. Was there anything wrong or unethical about the behavior of the chart display? Explain your reasoning.
3. Do you think that Chuck was well-informed, that he was aware of what the accounting implications of activity-based costing were and that he knew what is meant by cost drivers? Should he have been well-informed? Research the first category of the standards of ethical conduct for management accounts. Do any of these standards apply in Chuck's case?

Session Outcomes: 4:2

Session 3: Cost, Volume and Profit and Their Analysis. Session 3 defines the concepts of cost, volume, and profit and how these elements are analyzed for decision making. Including:

1. Distinguishing between variable and fixed costs.
2. The significance of the relevant range.
3. The concept of mixed costs.
4. The five components of cost-volume-profit analysis.
5. What contribution margin is and how it can be expressed.
6. The steps in management's decision-making process.
7. The concept of incremental analysis.
8. The relevant costs in accepting an order at a special price.

9. The relevant costs in a make-or-buy decision.

Assignments:

Required reading:
Chaps 5-6

Complete and Submit the Quiz 3.

Discussion Topics

Doug Laurel, marketing manager for a firm that produces a variety of paper napkins, was asked to do a sales forecast for a new line that would be available the first of the year.

Data was gathered, and two possible processes were compared. The first process would have a variable cost of \$10 per case produced and fixed costs of \$100,000. The second process would have a variable cost at \$6 per case and fixed costs of \$200,000. Regardless of process, the selling price per case would be \$30. Doug had asked the marketing department to complete a market study, and the results showed that projected annual sales of the new product would be 30,000 cases.

After comparing the processes, Doug was reluctant to report the 30,000-case forecast to the divisional manager. The reason for this was that the first process was labor-intensive, whereas the second was largely automated with little labor and no requirement for an additional production supervisor. If the first process were chosen, a good friend of Doug's would surely be hired as the line supervisor. If the second process were chosen, Doug's friend would not be hired and an entire line of laborers would have to be laid off. After consideration, Doug revises the projected sales forecast down to 22,000 cases.

Doug believed that the downward forecast was justified due to the fact that it would lead the divisional manager to choose the manual system, and it showed sensitivity to the needs of employees. Doug felt that the division manager was too focused on quantitative factors, and usually ignored the qualitative aspects of every decision.

1. Compute the breakeven point for each process.
2. Compute the sales volume for which the two processes are equally profitable. Identify the range of sales for which the manual processes would be more profitable than the automated process. Identify the range of sales for which the automated processes would be more profitable than the manual process. Why did the divisional manager want the sales forecast?
3. After completing your complications, use that data to discuss Doug's decision to alter the sales forecast. Do you agree with it? Did he act ethically? Was his decision justified simply on the basis that it would help a number of employees retain employment? Should the impact on

employees be factored into decisions? Is it possible that it is unethical not to consider the impact of decisions on employees?

4. Even though Doug is not a management accountant, do any of the ethical standards for management accountants apply? Explain why or why not.

Session Outcomes: 4:3

Session 4: Variable Costing and Pricing from the Decision Makers Perspective. In Session 4, students will learn the difference between absorption costing and variable costing and be able to apply these concepts in computing target costs and pricing and in using time and material pricing to determine costs of services provided. Including:

1. The difference between absorption costing and variable costing.
2. The effect that changes in production level and sales level have on net income measured under absorption costing versus variable costing.
3. How to compute a target cost when a product price is determined by the market.
4. How to compute a target selling price using cost-plus pricing.
5. How to use time and material pricing to determine the cost of services provided.

Assignments:

Required reading:

Chapters 7-8

Complete and Submit Quiz 4.

Discussion Topics

Jeff Howell is a production manager at a metal fabricating plant. Last night he read an article about a new piece of equipment that would dramatically reduce the division's costs. Jeff was very excited about the prospect, and the first thing he did this morning was to bring the article to his supervisor, Nathan Peas, the plant manager. The following conversation occurred:

Jeff: Nathan, I thought you would like to see this article on the new PDD 1130; they've made some fantastic changes that could save us millions of dollars.

Nathan: I appreciate your interest, Jeff, but I actually have been aware of the new machine for two months. The problem is that we just bought a new machine last year. We spent \$2 million on that machine, and it was supposed to last us 12 years. If we replace it, now, we would have to write its book value off of the books for a huge loss. If I go to the top now and say that I want a new machine, they will fire me. I think we should use our existing machine for a couple of years,

and then when it becomes obvious that we have to have a new machine, I will make the proposal.

Required:

Jeff just completed a course in managerial accounting, and he believes that Nathan is making a big mistake. In the form of a memo, explain Nathan's decision-making errors. Be sure that your explanation, and any recommendations associated therewith, are justified by adequate search and substantiation.

Session Outcomes: 4:4

Session 5: Budgetary Planning. In this session, students will learn the necessity and benefits of budgeting and know where to find the information required to prepare a budget needed for an income statement. This will include:

1. The benefits of budgeting.
2. The essentials of effective budgeting.
3. The individual budgets that comprise the master budget
4. The sources for preparing the budgeted income statement.

Assignments:

Required reading:

Chap 9

Complete and Submit the Quiz 5.

Submit Team Paper:

Discussion Topics: Due to the mid-term exam, and Quiz for Session 5, there are no Discussion Topics for this Session.

Session Outcomes: 4:5

Session 6: Budgetary Control and Responsibility Accounting. In Session 6 students will understand the concept of budgetary control and responsibility accounting and be able to evaluate the usefulness of budget reports and how to develop them. Including:

1. The concept of budgetary control.
2. How to evaluate the usefulness of static budget reports.
3. The development of flexible budgets and the usefulness of flexible budget reports.
4. The concept of responsibility accounting

Assignments:

Required reading:

Chap 10

Complete and Submit Quiz 6.

Discussion Topics

Laurie Young, a division manager, is evaluated and rewarded on the basis of budgetary performance. She, her assistance, and the plant managers are all eligible to receive a bonus of actual divisional profits between budgeted profits and 120% of budgeted profits. If the actual profits are less than budgeted profits, no bonuses are awarded. Consider the following:

1. On a regular basis, Laurie tends to overestimate expenses and underestimate revenues. This approach allows the division to attain budgeted profits on a regular basis. Linda believes the action is justified because it increases the likelihood of her and her employees receiving bonuses and helps keep morale high.
2. At the end of any fiscal year in which Laurie sees that the division would not achieve budgeted profits, she instructs the sales department to defer closing of sales agreements to the following fiscal year. Additionally, she decides to write off inventory that is nearly worthless. By deferring revenues to the next year and writing off the inventory in a no-bonus year, Laurie increases the chances of bonuses for the following year.

Required:

1. Comment on Linda's behavior. Are her actions right or wrong? What role does the company play in encouraging her actions?
2. Suppose that you are the marketing manager for the division and you receive instructions from Laurie to defer further closing of sales contracts into the next fiscal year. What would you do?
3. Substantiate your responses.

Session Outcomes: 4:6

Session 7: Standard Costs: In this session students will be able to prepare an income statement using a standard costing system. This will include the following:

1. Distinguishing between a standard and a budget.
2. Identifying the advantages of standard costs.
3. How standards are set.
4. The formulas for determining direct materials and direct labor variances.
5. The formulas for determining manufacturing overhead variances.
6. How variances are reported.
7. How to prepare an income statement for management under a standard costing system.
8. The balanced scorecard approach to performance evaluation.

Assignments:

Required reading:

Chapter 11

Complete and Submit the Quiz Complete and Submit the Quiz 7.

Discussion Topics: Broadening your perspective, case 11-6, page 515

At Camden Manufacturing Company, production workers in the Painting Department are paid on the basis of productivity. The labor-time standard for unit of production is established through the periodic time studies conducted by the Lowry Management Department. In a time study, the actual time required to complete a specific task by workers is observed. Allowances are then made for preparation time, rest periods, and clean-up time. Ron Orlano is one of several veterans in the painting department

Ron is informed by the Lowry representative who conducted the test that he will be used in the time study for the painting of a new product. The findings will be the basis for establishing the labor-time standard for the next six months. During the test, Ron deliberately slows his work pace in an effort to obtain a labor-time standard that will be easy to meet. Because it is a new product, the Lowry Management representative who conducted the test is unaware that Ron did not give the test his best effort.

Required:

1. Who was benefited and who was harmed by Ron's actions?
2. Was Ron ethical in the ways he performed the time-study test?
3. What measures might the company take to obtain valid data for setting the labor-time standard?

Session outcomes: 4:7

Session 8: Planning for Capital Investments. In this session Students will learn the basic methods and techniques used in capital budgeting and be able to apply them.

This will include:

1. The capital budgeting evaluation process, and explain what inputs are used in capital budgeting.
2. The cash payback technique.
3. The net present value method.
4. The challenges presented by intangible benefits in capital budgeting.

Assignments:

Required reading
Chapter 12

Complete and Submit the Complete and Submit the Quiz 8.

Discussion Topics: Broadening your perspective, case 12-6, page 515

Impro Company operates in a state where corporate taxes and workers' compensation insurance rates have recently doubled. The president has just assigned you the task of preparing an economic analysis and making a recommendation relative to moving the entire operation to Missouri. The

president is slightly in favor of such a move because Missouri is his boyhood home and he also owns a fishing lodge there.

You have just completed building your dream house, moved in, and planted the lawn. Your children are all doing well in school and sports and, along with your spouse, want no part of the move to Missouri. If the company does move, so will you because the town is a one-industry community and you and your spouse will have to move to have employment. Moving when everyone else does will cause you to take a big loss on the sale of your house. The same hardships will be suffered by your coworkers, and the town will be devastated.

In compiling the costs of moving vs. not moving, you have latitude in the assumptions you make, the estimates you compute, and the discount rates and time periods you project. You are in a position to influence the decisions single-handedly.

Required:

1. Who are the stakeholders in this situation?
2. What are the ethical issues in this situation?
3. What would you do in this situation? Explain fully.

Session outcomes: 4:8

Session 9: Cash Flow Statements. By the end of this session students will understand cash flow statements and how to prepare them and use them in evaluating a company's financial position. This will include:

1. The usefulness of the statement of cash flows.
2. How to distinguish among operating, investing, and financing activities.
3. The impact of the product life cycle on a company's cash flows.
4. To prepare a statement of cash flows using one of two approaches by both the direct and indirect methods.
5. How to use the statement of cash flows to evaluate a company.

Assignments:

Required reading:
Chapter 13

Complete and Submit the Complete and Submit the Quiz 9.

Discussion Topics: Broadening your perspective, case 13-7, page 617

Tappitt Corporation is a medium-sized wholesaler of automotive parts. It has 10 stockholders who have been paid a total of \$1 million in cash and dividends for eight consecutive years. The board's policy requires that, for this dividend to be declared, net cash provided by operating activities as reported in the current year statement of cash flows must exceed \$1 million. Pres. and CEO Willie Morton's

job is secure as long as he produces annual operating cash flows to support the usual dividend.

At the end of the current year, controller Robert Jennings presents Pres. Willie Morton with some disappointing news: the net cash provided by operating activities is calculated by the indirect method to be only \$970,000. The president says to Robert, "We must get that amount above \$1 million. Isn't there some way to increase operating cash flow by another \$30,000?" Robert answers, "These figures were prepared by my assistant. I will go back to my office and see what I can do." The president replies, "I know you won't let me down, Robert."

Upon close scrutiny of the statement of cash flows, Robert concludes that he can get the operating cash flows above \$1 million by reclassifying a \$60,000, two-year note payable listed in the financing activities section as "Proceeds from bank loan-\$60,000." He will report the note instead as "Increase in payables-\$60,000" and treat it as an adjustment of net income in the operating activities section. He returns to the president, saying, "You can tell the board to declare their usual dividend. Our net cash flow provided by operating activities is \$1,030,000." "Good man, Robert! I knew I could count on you," exults the president.

Required:

1. Who are the stakeholders in this situation?
2. Was there anything unethical about the president's actions? Was there anything unethical about the controller's actions?
3. Are the board members or anyone else likely to discover the reclassification?

Session outcomes: 4:9

Session 10: Financial Statement Analysis. By the end of Session 10 students will understand the "big picture" of financial analysis including computation of ratios involving a company's liquidity, solvency, and profitability. Including:

1. The ability to describe and apply horizontal analysis.
2. The ability to describe and apply vertical analysis.
3. How to compute ratios used in analyzing a company's liquidity, solvency, and profitability.
4. The concept of quality of earnings.

Assignments:

Required reading:
Chapter 14

Submit Course Project

Discussion Topics: Broadening your perspective, case 14-7, page 670

Jack McClintock, president of McClintock Industries, wishes to issue a press release to bolster his company's image and maybe even its stock price, which has been gradually falling. As controller, you have been asked to provide a list of 20 financial ratios along with some other operating statistics relative to McClintock Industries' first-quarter financials and operations.

Two days after you provide the ratios and data requested, Jeremy Phelps, the public relations director of McClintock, asks you to provide the accuracy of the financial operating data contained in the press release written by the president and edited by Jeremy. In the press release, the president highlights the sales increase of 25% over last year's first quarter and a positive change in the current ratio from 1.5:1 last year to 3:1 this year. He also emphasizes the production was up 50% over the prior year's first quarter.

You know that the press release contains only positive or improved ratios and none of the negative or deteriorated ratios. For instance, no mention is made that the debt to total assets ratio has increased from 35% to 55%, that inventories are up 89%, and that while the current ratio improved, the acid test ratio fell from 1:1 to .5:1. Nor is there any mention that the reported profit for the quarter would have been a loss had not the estimated lives of McClintock's plant and machinery been increased by 30%. Jeremy emphasized, "The prez wants this release by early this afternoon."

Required:

1. Who are the stakeholders in this situation?
2. Is there anything unethical and Pres. McClintock's actions?
3. Should you as controller remain silent? Does Jeremy have any responsibility?

Session Outcome: 4:10