Advanced Cost Accounting
Acct 647
Fall, 2014

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be happy.
be an accountant.
Advanced Cost Accounting
ACCT 647
Fall, 2014

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Prerequisites

Undergraduate or MBA classes in managerial accounting, and cost accounting 1.

Catalog Description

In-depth study of the principles and objectives of the techniques and theories used in managerial accounting. Topics may include capital budgeting, manufacturing accounting, management control systems, performance measurement, project appraisal, profit projecting, direct costing, activity-based costing, behavioral aspects of budgeting, marketing cost effectiveness, segment reporting, gross profit and break-even analysis, cost-profit volume analysis, capital expenditure control, comparative cost analysis, transfer pricing, performance measurement, profit analysis, and quantitative techniques for planning and control will be discussed. The strategic and behavioral implications and impacts of planning and control will form the context for study.
Introduction

There are several bits of advice I want to pass on to you, but right now two come to mind. The first comes from a grizzled old man, alone in the world and beaten down from a life of everlasting, unremitting work. He says, “What has all that work done for me. Nothing! I wish I had taken time to smell the flowers.” And so he should have.

The second comes from the overwhelming majority of business school graduates. Whatever their major, whatever their eventual line of business, whatever their level of responsibility, they all say, “I wish I had taken more accounting.”

Accounting is that important. It’s a big deal.

Accounting is the language of business, plain and simple. If you are going to have some connection to business in your life, then you better be able to speak, read and write accounting. Or else you will be illiterate and you won’t know the terminology, how to use it, what people mean when they speak to you, etc.

Any language reflects the culture that gives it birth. Some languages have as many as six words for love. In English there is only one word, and Hollywood has it patented. The accounting you will learn in this course is essential for taking part in the American business world. Through the years, I’ve had at least 12,000 students take my classes. Hundreds were born and raised in a different country speaking a foreign language. Most already had a degree in business. It wasn’t enough, as they had traveled to the United States of America to study American business. And they considered accounting to be the most important course. The reason is they all wanted to learn the American language of business. Without accounting, there is no business.

Any business person will make lots of decisions. Some decisions turn out better than others. However, your decisions won’t stand a chance of being successful (sobs and tears) if they aren’t based on solid information and reasoning. That information is communicated via accounting reports. If you don’t know and understand accounting, then you will be clueless in the world of business. Please don’t be clueless.

OK, so what is accounting? Since this is college, we’ll try a college level definition. Accounting can be defined as the gathering, classifying, recording, summarizing, and reporting of financial data about an organization to people who will use the information. It reports on the transactions that affect an entity through number reports. Usually, these reports are in terms of dollars.
Accounting is so broad, there are different types of accounting based on how it is used. **Financial Accounting** deals with company wide performance. Investors and lenders study income statements and balance sheets to evaluate whether a company is worthy of additional investment.

**Cost/Managerial Accounting** is the subject dealing with giving managers any and all kinds of information useful (even essential) to running a department or even the entire organization. Here are a few examples:

**Examples of what is cost/managerial accounting**

→ A hospital is pondering the cost of providing a hospital bed because federal guidelines require that prices be tied to costs. A major cost is labor (nursing), and minor costs are laundry, custodial, admitting, dietary, etc. Some of the other departments serve many areas (such as custodial serves both radiology and beds). Given all the possible relationships, how does the hospital determine the cost of providing the hospital bed?

→ A union official is in preparation for contract negotiations. The company has publicly complained about its high labor costs and lack of productivity as compared to foreign workers. How does the union analyze its worker productivity in order to defend itself?

→ A band director is negotiating with a fast food restaurant manager about a steep discount on meals for two bus loads of students. The manager does not want to lose the business to the restaurant across the street. How does the manager determine an affordable discount?

→ For the last five years, a real estate investor has been active in both speculation and apartment rentals. Times are tough and the investor wants to focus on the most profitable line of activity. How does the investor determine which activity has been the most profitable in terms of return on investment (ROI)?

→ A large computer manufacturer knows that it must offer customer service by phone. It has been charging $250 for an extended warranty, but its largest competitor has just dropped its price for extended warranty. How does the large manufacturer determine how much it costs to offer customer service?
By now, I hope you are getting the idea that accounting can be a very useful area of study. Some even find it fascinating. If you want to make your own decisions, if you want to be successful in business, then you will need to do your own accounting.

Because accounting is the language of business, we'll treat this as a language course. You must speak accounting by and for yourself.

**Approach of the course**

Accounting can be taught from two distinct approaches: learner centered or content/teacher centered. In a learner centered approach, students learn by doing. Content is only important to the extent that students can do something with it after the course is over. In the content/teacher centered approach, students must learn what the professor knows—factual knowledge, concepts and applications.

I use the learner centered approach. Don’t get me wrong, learning what to know is still a major part of the course, but it isn’t the entirety.

**What each class is like**

I intend for each class period to be so valuable to your learning that you will regret ever missing any class. You should never skip class. Ever. However, you should especially never skip two classes in a row, for to do so will put you so far behind it will cause you to flunk all test questions on that major topic or chapter. It is my intention that when leaving each class, you will feel pleased for having been there. Feeling good.

A comment frequently heard from my students is that I keep students engaged in active learning. I intend for much learning to take place. How does this happen? Listening to me, responding to me, working problems by yourself, working problems with others, and working problems with the entire class. It most definitely helps if you’re not too tired, because class time is very involved and active.

I am excellent at what professors call working the classroom. I walk around the classroom, constantly providing feedback and assessing how well you are learning each sub topic being covered. I call on individual students throughout class. Since I’ve been checking on students throughout the class, I pretty much know what to ask to get a student to show what he/she has learned, or to lead a student to finally “get” a topic.

Class time will help you to form contacts with the other students so that you will feel comfortable in working with them outside of class.

*For class to be effective, you must come prepared for class.* I can’t help you mold your clay if you don’t bring it. Both before and after class, your learning process continues away of class as you talk about accounting and business with your class mates.
What a graduate course in accounting is like

“Toto, I've a feeling we're not in Kansas anymore,” said Dorothy to her pet in *The Wizard of Oz*.

Folks, you’re not in an undergraduate accounting course anymore. Although there are a few more quantitative methods you should learn (accounting how to), the focus is shifting in part to ideas and how those ideas might be applied to business settings.

Your grade will be based about 50% on your written reflections to some of these ideas. No longer is being able to work a problem enough. Now, you must work to increase your depth of understanding, think about applying new ideas to practice, and communicate.

Student learning outcomes and assessment

The specific student learning outcomes for ACCT 647 are designed to contribute to the university learning outcomes. All class activities support them. After taking this course, you will be able to:

1. Show your learning about the strategic cost management. This includes knowledge of different business models employed by companies as they seek profit, and understanding how the current business environment impacts them. Your knowledge and understanding are assessed formatively by working homework problems and classroom examples. Your learning is assessed summatively via written response questions on tests.

2. Compute and analyze numerous variances in a standard costing environment. Your ability to do these tasks is assessed formatively by working homework and classroom examples. Your ability to do these tasks is assessed summatively via problems on tests.

3. Allocate indirect costs on various “seems-reasonable-to-me” bases. Your ability to do these tasks is assessed formatively by working homework and classroom examples. Your ability to do these tasks is assessed summatively via problems tests and a project.

4. Compute the cost of operations in process costing contexts. Your ability to do these tasks is assessed formatively by homework and classroom examples. Your ability to do these tasks is assessed summatively via tests.

5. Analyze the benefits and costs of long-term investments using capital budgeting techniques. Your ability to do these tasks is assessed formatively by working homework and classroom examples. Your ability to do these tasks is assessed summatively via problems tests.

6. Develop an understanding of major contemporary issues such as activity based costing (and GPK and resource consumption accounting), the benefits and costs of quality, the balanced scorecard, Kaizan, life cycle costing, EVA, sustainability accounting, and productivity assessment. Explore and reflect on personal values related to these issues. Your ability to do these tasks is assessed formatively by classroom examples, discussions and presentations. Your ability to do these tasks is assessed summatively via written response questions on tests and written papers.

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Grading

Letter grades will be assigned according to the quality of student work. Your course grade will be assigned on the professor’s subjective evaluation of your tests and papers. To receive a top grade, you must show a mature ability to use methods and apply ideas. *When all is said and done, grade assignments remain the result of the professor's professional judgment.*

I really expect students to do a very good job. I am widely known and these others expect my students to be very good at what they do.

The course grade will integrate these items:

<table>
<thead>
<tr>
<th>Acct 647</th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Exams (two during term &amp; final)</td>
<td>~61%</td>
</tr>
<tr>
<td>Cost allocation assignment</td>
<td>~6%</td>
</tr>
<tr>
<td>Papers</td>
<td>~33%</td>
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<tr>
<td></td>
<td>100%</td>
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Required textbook and material

*Cost Management, 2e*, by Leslie Eldenburg and Susan Wolcott. Published by Wiley.

*Class Notes*, by David Albrecht. Available on the course web site.
Schedule of approximate due dates

- Test one: Week 6
- Final test: Week 11
- Cost allocation project: Week 5
- First paper: Week 5
- Second paper: Week 10

Topical content covered in this course

Part 1
Variances for costs and contribution margins. Mix and yield variances are covered, as is variance investigation
Allocation of costs based on reciprocal relationships.
Allocation of joint costs
Productivity measurement techniques.
Process costing
Cost behavior under conditions of uncertainty
Relevant costs for non-routine operating decisions using capital budgeting techniques

Part 2
Allocation of costs and management using ABC, GPK and resource consumption analysis
The benefits and costs of quality
The balanced scorecard
Kaizen, life cycle costing, EVA
Sustainability accounting
Productivity assessment

Part 3 (if there is time)
Cost estimation using linear regression
CVP for a product line
Behavioral aspects of operations budgeting

Assignments

Will be announced on a weekly basis.
**Homework**

You should do it, but I won’t monitor you. You should be prepared to present in class your solutions to assigned problems. If you don’t keep up, your grade will be docked.

**Other Policies**

**Attendance policy**

La Sierra University policies mandate your attendance, and call for a failing grade upon two weeks of absence.

**Class discussion**

Everyone is expected to speak up in class. If I do not get adequate participation from each student, I will establish standards and a process to measure your participation.

**BYOD**

I encourage students to bring a digital device to class, whether it be a computer or tablet. You should be using it for learning purposes. It is my intention to keep you so engaged that you won’t have much of a desire or opportunity to goof off.

**E-mail**

All students are required to regularly check their e-mail, whether it be La Sierra or a private e-mail. *I will send e-mail to your La Sierra account or your other e-mail account.* Check your e-mail often, because I'm going to send out notes, assignments, etc., by e-mail. I assume that by 24 hours after I send out an e-mail, everyone has read it.

**Academic honesty**

La Sierra University views academic honesty as a cornerstone for institutional integrity. As such the University expects high standards of integrity from all members. Students who commit any offense against academic integrity and honesty may receive from an instructor a failing grade in an assignment or a failing grade in a course, without possibility of withdrawal. The nature of the offense may dictate probation, suspension, dismissal, or permanent expulsion as determined by the Dean and/or the Academic Integrity Committee.
It is the responsibility of the students to avoid both dishonest practices and the appearance of dishonesty. Students should make the necessary effort to ensure that their work is not used by other students. They have the responsibility to protect the integrity of their academic work by doing all they can to stop the dishonest practices of others.

Accommodations for disability

Yes. I am committed to going the extra mile in making reasonable accommodations for a student’s disability.
Detailed schedule

Week 1  Topics: cost variances (material, labor, overhead), revenue and contribution margin, mix and yield variances for costs, variance investigation

Reading: chapter 11 (read chap 10 for flexible budget coverage)

Notes: probably not

Week 2  Topics: conclusion variances. Reciprocal allocation of service department costs. Review of matrix operations.

Reading: chapter 8

Notes: yes

Week 3  Topics: conclusion of reciprocal allocation. Allocation of joint costs. Introduction to productivity analysis

Reading: Chapter 9, handout chapter (chapter 19 from Cost Accounting, 2nd, by Killough and Leininger, 1987)

Notes: yes

Week 4  Topics: conclusion of joint costs, productivity analysis. Process costing

Reading: Chapter 6

Notes: maybe

Week 5  Topics: conclusion of process costing

Week 6  Topics: Target costing, Kaizan, life cycle accounting

Reading: chapter 13

Notes: no

Student led discussions
Week 7  Topics: Cost behavior under uncertainty, cost of quality, capital budgeting

Reading: handout chapter (appendix 2B of *Managerial Accounting* 12th by Garrison and Noreen, 2009, chapter 8

Notes: yes

Student led discussion on cost of quality

Week 8  Topics: Balanced scorecard, ROI, EVA, transfer pricing approaches

Reading: chapter 16, chapter 15

Notes: no

Week 9  Sustainability accounting

Reading: chapter 17

Notes: no

Week 10 no class, work on paper and prepare for final exam

Week 11 final exam, turn in last paper