

## **MANAGERIAL ACCOUNTING**

### COURSE OUTLINE

#### **1. Introduction**

This course could also be called “General Management with Accounting”. It offers a comprehensive introduction to accounting information as a key instrument to manage business performance, lead organizational members, and drive superior and sustainable value creation. Other than working with accounting numbers, the course has virtually NOTHING to do with the first-term course “Financial Accounting” in terms of approach, content, method, and objective.

#### **2. Objectives**

At the end of the course, you should have a sound basic literacy in managerial accounting. Literacy refers to both “reading” (understanding) and “writing” (doing). Therefore, the course emphasizes and trains you in two aspects: the sound conceptual understanding of the fundamentals of managerial accounting and the clever utilization of the discipline’s essential tool kit.

You should also be in a position to appreciate that managerial accounting is about much more than numbers. Yes, it is highly quantitative, but it does not only refer to mind-boggling number crunching and other consciousness-enhancing stunts. Rather, it is “the forgotten leadership discipline”. This is so because accounting numbers like revenues, costs, and profits do not manage themselves – people manage them, and people are managed with them.

The overall idea is that you will know what every manager must absolutely know about managerial accounting. And that you can readily apply the acquired knowledge and skills to solve real-world problems. Most importantly, however, we identify likely applications to your career as a manager and leader in your firm and in society.

#### **3. Learning Outcomes**

In particular, you will learn how to read, interpret, and use:

- Cost and profitability concepts like cost behavior (variable and fixed cost), cost specificity (direct and indirect cost) and margin types (contribution margin, gross margin and profit margin).
- Principles, concepts, and tools for modeling an Income Statement that depicts a firm’s business economics and its strategy.

- Analysis, identification, and decision-use of “relevant” accounting information, including discretionary, engineered, committed, sunk, and opportunity costs.
- Design and decision consequences of internal accounting systems, such as activity-based costing, that are consistent with a firm’s business economics and its strategy.
- Basic uses of accounting information in managing decentralization through budgeting, monitoring, results evaluation (variance analysis), transfer pricing, and key performance indicators (such as ROI, ROA, ROE, residual income, and economic value added (EVA)).
- Contribution of accounting to organizational management systems like comprehensive performance measurement (e.g. Balanced Scorecard), provision of incentives, design of responsibility centers (revenue, cost, profit, and investment centers), and risk management.

#### **4. Competences**

This course builds and reinforces the following competences:

- Students should possess and understand knowledge that provides the basis or opportunity for originality in the development and/or application of ideas, often in a research context.
- Students should know how to apply the knowledge acquired and their problem-solving capacity in new and little-known settings within broader (or multidisciplinary) contexts related to their area of study.
- Students should be able to integrate knowledge and deal with the complexity of making judgements based on information that is incomplete or limited, but includes considerations of the social and ethical responsibilities linked to the application of the students' knowledge and judgements.
- Identifying and effectively dealing with information that is relevant to the job (Information Management)
- Using material and economic resources in the best, fastest, most economical and effective way possible to obtain the desired results (Resource Management)
- Estimating needs for operating funds and choosing the most suitable financial products to finance them: loan policies, factoring, confirming, collection and payment terms with customers and suppliers, etc
- Performing economic analysis of operating decisions using differential cost analysis (e.g., accepting or rejecting an order, manufacturing or outsourcing, withdrawing a product, closing a department, offering a discount).
- Designing cost-assignment systems for assessing the profitability of products, customers and departments. Understanding the incentives and behavior derived from the organization's own system.

#### **5. Content and Methodology**

The course relies on latest research and best practices to cover the main roles and uses of accounting information in business:

Business Decisions: the choices between several tactical, operational and strategic alternatives, respectively, available to a firm.

- How can managers use accounting information to analyze alternatives and to make good decisions that improve business performance and create value?
- How can managers design internal accounting systems and reports to obtain relevant and reliable accounting information?

Management Control: the systems that serve to promote goal congruence, i.e. to align the decisions of individuals in the firm with the objectives of the firm.

- How can managers use accounting information to guide staff towards making good decisions that improve business performance and create value?
- How can managers design accounting and other systems to support business strategy, control its implementation, and generate competitive advantage?

The course consists of some lectures, a few exercises and a series of cases that cover a variety of business situations and industries. We employ these methodologies to develop critical concepts and frameworks, discuss their usefulness and limitations, and practice the relevant tools and techniques. Consistent with IESE's general management philosophy, we often take a cross-functional perspective and embed our accounting-driven analysis into the greater context of the firm, its strategy, its structure, and its stakeholder relations.

Particular emphasis is placed on how accounting is influenced by and (significantly!) influences human behavior. I have selected the cases with this behavioral aspect in mind and I invite you to prepare them with a similar, people-oriented mindset. We will have to invest some time into the cases' numerical, mechanical (aka less entertaining) aspects. But I plan to devote most of our face time to discussing with you the implications of the numbers for you, your job, your company, and your career as a business manager and leader. So whatever we do throughout the course, please always keep an open mind. Look behind the numbers and appreciate how they are influenced by and influence human behavior.

## 6. Evaluation

The course grade will be determined as of IESE policies. It will be calculated as follows:

- Class Participation 30%
- Final Exam 70%

Class Participation: I strongly encourage you to actively participate in class. Doing so tests your ability to communicate with, and convince, others of your arguments that are grounded in accounting concepts. Doing so has two benefits: more interesting sessions and a greater learning impact. Both quantity and quality of participation count. Welcome is any contribution or question – basic or advanced, simple or complex, correct or not (mistakes are part of life – better make them here than in your job). Nevertheless, it goes without saying that contributions of high quality will carry some greater weight than those of modest quality.

Exam: They test comprehensively understanding and application of the learning outcomes and competences. The midterm covers the first half of the course and the final, which might be a case, emphasizes the second half of the course. In the past, exams have been open book, but I will let you know the exact details in due time.