

MANAGERIAL ACCOUNTING FOR DECISION MAKING (AMIS 7310)

Spring 2021

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This course discusses how accounting information is used in decision making and performance evaluation. The intent is to encourage you and me to think beyond only applying handy recipes and rules. We will often do so by solving examples wherein application of seemingly standard rules will lead to errors. Presumably, the use of information (accounting and otherwise) in decision making and control issues is circumstance specific. Hence, the sooner we develop a habit of critically examining the situation-at-hand and making judgments, the better off we will be.

The above is not to say that the course is bereft of accounting details. In fact, unique accounting topics such as full absorption costing, cost allocations, transfer pricing, CVP analysis, inventory management, capital budgeting, make vs. buy are the underpinnings of the course. A related intent is to see if there are endogenous reasons for accounting rules to develop in the manner they do. For example, is there a reason for a decentralized firm to employ reciprocal cost allocations given such allocations involve (at least somewhat) tedious calculations? Similarly, is transfer pricing a mere exchange issue as far as the firm is concerned and, if not, how can the firm alleviate divisional squabbles? Even more critically, should the firm always seek to eliminate all internal frictions in the first place?

A way in which the course differs from (some) standard accounting textbook treatment is that we recognize that “in the real world” there exist interactions among individuals who are differentially informed about the firm. Moreover, managers may benefit by concealing or disguising this private information, to the detriment of the organization as a whole. This approach forces a focus on how managerial control systems (accounting practices and incentive schemes) can mitigate losses to the organization that would otherwise result. The goal here is to provide subtle explanations for observed practices; explanations which may be overlooked if one is not appreciative of the role of private information. As an example,

can rejecting positive NPV projects be optimal for an informationally disadvantaged firm owner? Are there any gains to permitting managers to earn budgetary slack? How does residual income (EVA) compare with a measure such as return on investment in evaluating managerial performance? How do information issues impact a firm's decision to outsource production? And so on.

Class Participation, Grading, and Required Materials

I encourage class participation. During Zoom lectures, I will frequently ask if you have questions, and also ask you questions on the materials we are studying. However, I will not insist you answer – presumably, whether or not you choose to volunteer to do so is a valuable signaling instrument in conveying your (private) learning.

Another way to communicate what you have learned is by solving a take-home group assignment; I reserve the right to also give a take-home individual assignment. Working in teams is a skill that is critical to a successful career, so the use of a group assignment is in line with such thinking. Your course grade will be based on the group assignment if that is the only evaluation instrument; if I give the individual assignment, I will place a weight of 70% on the group assignment and 30% on the individual assignment. A reasonable question to ask is whether the absence of subjective evaluation (e.g., points for class participation) provides desirable or harmful incentives. But enough with grading and incentives; the desire to learn, by itself, should be sufficient motivation for graduate students.

I will provide you with a course package consisting of lecture notes and several problems; you do not need to purchase any textbook. The notes provided to you, of course, make use of ideas from many books and research papers. I recommend that (at least over time) you purchase some of these books for your library.

1. Managerial Uses of Accounting Information. Author: J. Demski [1994]. Publisher: Kluwer Academic.
2. Economics, Organization & Management. Authors: P. Milgrom and J. Roberts [1992]. Publisher: Prentice Hall.
3. Accounting for Decision Making and Control. Author: J. Zimmerman [1997]. Publisher: McGraw-Hill.

4. Theory of Accounting and Control. Author: S. Sunder [1997]. Publisher: International Thomson Publishing.

In particular, the class notes on cost allocation and transfer pricing (including several of the examples) are borrowed heavily from Zimmerman [1997]. The discussions on aggregation and control problems are borrowed from Demski [1994] and Zimmerman [1997]; in this regard, papers written by Rick Antle, Brian Mittendorf, Joel Demski, John Fellingham and others were critical, and I will give you precise references when we deal with each topic. Many of the notes are prepared jointly with Rick Young and Jon Glover. Several of the nice problems in the package are written by Joel Demski. So, to Joel, Jon, and Rick our sincere thanks. Helpful comments from colleagues, in particular, John Fellingham, Brian Mittendorf, and Doug Schroeder are gratefully acknowledged.

Key Applicable University Policies

You are familiar with the MAcc Honor Code. Also, let me also note the university's policy on academic misconduct, an event that I am hopeful (and cautiously optimistic) will be off-equilibrium with genuine MAcc students:

"It is the responsibility of the Committee on Academic Misconduct to investigate or establish procedures for the investigation of all reported cases of student academic misconduct. The term "academic misconduct" includes all forms of student academic misconduct wherever committed; illustrated by, but not limited to, cases of plagiarism and dishonest practices in connection with examinations. Instructors shall report all instances of alleged academic misconduct to the committee (Faculty Rule 3335-5-487). For additional information, see the Code of Student Conduct at <http://studentlife.osu.edu/csc/>."

Let me conclude this syllabus by noting another vital university policy, and with an assurance of my availability to assist and further your academic learning:

"Students with disabilities that have been certified by the Office for Disability Services will be appropriately accommodated and should inform me as soon as possible of their needs. For location and assistance provided by the Office for Disability Services, see <http://www.ods.ohio-state.edu/>."