Assumed Knowledge

It is strongly recommended that the student has completed and passed an undergraduate subject in Management Accounting.

Coordinator

Henry Collier
Phone: +61 2 42214012
Email: collier@uow.edu.au
Room 40.322

Consultation times:
Tuesday 16.30 - 17.30
Wednesday 14.30 – 16.30pm

Class Time and Location

Tuesday 13:30 to 15:30
Building 52 (Temporary / Demountables)
(Near the Far Western Car Park)

Subject Description

This subject is concerned with the conceptual basis of management accounting and information systems. It encompasses an examination of traditional, contemporary and alternative theories and approaches that shape organisational and behavioural aspects of management accounting. The main aim of this subject is to broaden students’ experience of management accounting by critically examining the underlying philosophies and principles of traditional management accounting and exploring alternative approaches which promise to provide a more socially conscious and relevant management accounting. Thus, this is not a subject which practices management accounting. It is assumed that students already have undertaken significant studies of management accounting practices.

Objectives

The student will be able to:
• understand both theoretical and practical aspects of management accounting
• develop his/her ability to critique theoretical and practical aspects of management accounting and
  • be able to apply this critique to the research of case studies
• be able to apply this critique to broader sociological and ethical issues.

Acknowledgment of Assistance In This Subject.

I want to thank Professor Warwick Funnell who has done nearly all the work in constructing the book of readings and building the subject outline. Without his guidance and assistance this subject presentation would not be as organized as it is. All errors and corrections are the responsibility of Henry Collier. I remain responsible for all omissions and errors of commission that shall occur during the ‘running’ of ACCY 413 / 913.

Assessment

The following are compulsory components of this subject. Failure to complete any of these components will result in a fail.

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<tr>
<th>ASSESSMENT</th>
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<tr>
<td>Seminar participation</td>
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<td>Essay</td>
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<td>Examination</td>
<td>50</td>
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Notes:

• This Assessment may be changed due to class size. If so, you will be informed in writing of any changes. Examination marks may be scaled.
• Students are expected to attend class each week. Attendance is not a component of assessment. You should expect to spend a further 8-10 hours a week on this subject outside class times. You are expected to take an active role in the seminars. You must be prepared for each week's classes.
• A receipt from the subject coordinator will acknowledge submission of assessment work.

Examination

There will be one examination held during the examination period at the end of the session. The exam will cover the entire subject and will be in essay form. You are required to pass the exam to pass this subject. A mark of 50% is considered a pass for the exam.

Seminar Presentations

The main mode of presentation for this subject is by seminars. All students in the subject are expected to participate in the seminar discussions. All students are required and expected to complete the readings set for the week, made notes on key issues and made notes on questions to ask.
For one seminar students will have to write a paper (see below) which they will present to the class. The allocation of seminars will occur within the first two weeks of session.

**Seminar Requirements:**
For each seminar the presenter(s) will be required to:
1. Integrate the issues in the readings for that week and/or previous weeks. Integration includes:
   - highlighting commonalities, i.e. where concepts are reinforced,
   - highlighting contradictions and differences,
   - Reconciling these differences by referring to underlying assumptions and other implicit methodological stances.
2. Submit a summary of the presentation (three A4 pages) which is to be distributed to all class members at the beginning of the seminar, plus a list of references.
3. The seminar presenter(s) is meant to guide and facilitate discussion for a maximum of 60 minutes.

**Seminar presentations will be assessed on:**
- The degree to which the student has demonstrated understanding of key issues in the topic.
- Demonstrated ability to integrate the current topic with other topics.
- Innovative, creative presentation.
- Participation from the class.

**Group Report**
This activity will be carried out in groups of three or four students. Your coordinator may assist (but not lead) the group to work out its rules for:
- the conduct of group meetings - frequency and timing
- responsibility of members to each other
- group contact outside of scheduled class times
- assessing the real contribution of each member.

**Due Date:**
Week 8, at the commencement of class.
Please note that the group report will not be accepted if it is mailed, emailed or faxed.

**Assessment:**
All group members will not automatically get the same marks. Active participation in preparation of the group report is required. Hence it is imperative that each group member has fully and equally participated. Because one of the roles of managers is to assess performance, each group member must submit a confidential assessment of each group member's contribution to the report. If there are problems with any group member’s participation or contribution then you must see your coordinator as soon as possible and certainly before the due date, so that appropriate action can be taken by all concerned.

Group members who do not participate and contribute to the group may be excluded from the group and exclusion will accordingly have ramifications for their allocation of marks. In the event that there is unequal contribution, the marks will be similarly adjusted and distributed.
Learning Objectives:
This group report is meant to provide you with an opportunity for teamwork, problem identification, problem solving and decision making. Teamwork will require each member to be conscientious, attend arranged meetings, contribute ideas, research topics, and write up the group report.

The Subject of the Group Report: Big Deal Industries (Kaidonis, M.A. 1985, 2001), The Big Deal Industries Ltd is a company that manufactures a special chemical called ubutane which is used extensively in the motor industry. The firm is about to build a new factory and is considering a number of alternatives. Ubutane can be manufactured using three methods:

Method 1:
Produces high-grade ubutane with a cost of $3.50/litre. Creates non-toxic wastes that can be disposed of in a nearby river. Production equipment is expensive, but available locally. Spare parts must be made on an individual basis. Health risks of the production process, particularly long term risks, are not well understood.

Method 2:
Produces a good grade of ubutane with a cost of $2.00/litre. Wastes are not excessive but are toxic. The equipment required is imported from overseas and spare parts for repairs and maintenance are hard to acquire. Production methods are relatively stable, and hazards and health risks to employees are minimal.

Method 3:
Produces a higher volume of good grade ubutane with a cost of $3.00/litre. Can be volatile and some employees have been injured in the past. Waste products are not known to be toxic.

Note:
- Some states have introduced legislation requiring the storage and elimination of wastes that can be very costly.
- Management has used special contracts with employees in the past, which highlight the fact that Method 3 production can be dangerous and accordingly will pay the employees a premium risk allowance.
- Many of the shareholders of the company expect high profits and high dividends.
- You are living in a society with an ever-increasing concern for its environment.
- You are aware of moral and legal obligations for the safety of your employees.

Required:
You are a group of management consultants, which has been hired to provide independent third party recommendations to the board of Big Deal Industries. Prepare a report to the board outlining your recommendations for the preferred production method. In your report address
- COSTING: Identify what further information you require about costing techniques and give examples of how this might influence your recommendations. (Hint: does it matter if one method uses absorption costing, ABC, or direct costing?).
- ASSUMPTIONS: Identify the assumptions you make in order to make your recommendations. If the assumptions are not sustained explain the possible consequences.
• ENVIRONMENTAL AND SOCIAL ISSUES: discuss how these issues might be addressed in the BDI’s corporate governance statement.
• Access the annual report of a comparable company (e.g., BHP) and provide extracts that could be used as benchmarks for Big Deal Industries. Critically evaluate how the annual report negotiates social and environmental issues with those of costs and profits.

Presentation of the group report:
• The report should be 3000 words (plus or minus 300 words). Anything in excess of 3300 words may not be read.
• Reports must be word-processed using 12-point font, double or one and a half line spacing, and three cm left and right hand margins.
• It is essential that each group member retain a printed copy of your report.
• Reports must include a one-page executive summary.
• Headings are essential and must follow the report requirements.
• Reports must be properly referenced according to the University of Wollongong’s acknowledgment/plagiarism guidelines. Please note that transgressions from proper referencing will be penalised, even if the transgression is inadvertent.
• The referencing conventions of the journal, Accounting, Auditing and Accountability Journal are a requirement of this report.

Essay

Due Date: Week 11, at the commencement of class.
Please note that essays will not be accepted if they are mailed, emailed or faxed.

Required:
Choose ONE of the two topics below for your essay.

Critically evaluate the following statement in the light of the controversy raised in Jay’s article. “Costing techniques which promote outsourcing decisions overlook privacy and accountability issues in government”.

2. Read pages 99-103 of the report of the Australian Capital Territory Auditor-General on the construction of the Bruce Stadium (September 2000, see attachment to this subject program). The full report can be found at http://www.audit.act.gov.au/

From your reading of the Report, and your other reading, what do the problems associated with the construction of the Bruce Stadium indicate about the influences upon management accounting in the public sector which may differ from those in the private sector and the way in which these affect the contributions of accounting information systems to management decision making.

Structure and presentation requirements:
• The essay should be 2,000 words (plus or minus 250 words). Anything in excess of 2,250 words may not be read.
• Essays must be word-processed using 12-point font, 1.5 line spacing, and a 3 cm left and right hand margins.
• It is essential that you retain a printed copy of your essay.

• Essays must include a synopsis, and a conclusion. Headings are a good idea and are encouraged.

• Note: this essay is not a group activity. The student’s individual personal effort is required. Essays must be properly referenced according to the University of Wollongong’s acknowledgment/plagiarism guidelines. Please note that transgressions from proper referencing will be penalised, even if the transgression is inadvertent.

• The referencing conventions of the journal, Accounting, Auditing and Accountability Journal are a requirement of this essay. Copies of this journal can be found on the second floor of the library.

Assessment Criteria:
The following criteria are used for the assessment of the essay.
• Synopsis
  Synopsis should be no more than 200 words.
• Structure and Presentation
  To what extent did the structure and presentation of your essay enhance the logic, coherence and flow of your arguments?
• Content
  How relevant was the content of your essay in your answer to the question?
  How logical and coherent were the arguments you used to establish and support your point of view?
• Style
  How did your writing style, e.g. grammar, language, sentence construction and length add to/detract from the flow of the essay? Any suggestions for improving the readability of your written work.
• Referencing
  Did your references support your arguments?
  Did you follow the prescribed method?

Requests of Submission Date Extensions
The case study, essay and seminar paper must be submitted on or before the due date. A late submission, if accepted, will delay your feedback and incur a penalty. In exceptional circumstances, extensions may be granted. Application for an extension should be made to the coordinator before the due date.

Plagiarism / Acknowledgment
The University of Wollongong Acknowledgment Practice, 2003 outlines the expectations of this university. You are asked to read and adopt this practice in this subject. If you do not understand this practice ensure you seek assistance from the subject coordinator.

Non-Discriminatory Language Practice And Presentation
The University of Wollongong has a policy on Non-Discriminatory Language Practice and Presentation. It outlines the expectations of this university that you are to use non-sexist and non-racist language. You are asked to read and adopt this practice in this subject.
\textbf{Special Consideration and Supplementary Examinations}
Students prevented by illness or substantial cause from sitting the final examination or meeting any of the other compulsory requirements should submit medical or other documented evidence as soon as possible after the event to support their request for special consideration. The evidence should be submitted to the Student Inquires Office which will forward a copy to the Department for appropriate action. Students should note that supplementary examinations are \textbf{not} an automatic entitlement on the submission of a request for special consideration. Supplementary exams may be oral rather than written.

\textbf{Disability}
If a student with a disability requires reasonable accommodation in this subject they are strongly advised to discuss the issues early in the session with one of the following people; the Disability Liaison Officer, Faculty Disability Adviser and/or the Subject Coordinator.
# ACCY 413/913 MANAGEMENT ACCOUNTING
## SEMESTER 1, AUTUMN 2003

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<td>Management Accounting and Control Systems</td>
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<td>HIH: A Case of System Failure?</td>
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SEMINAR READINGS

The diverse readings provided for this subject are aimed to provide contrasting and often conflicting attitudes to management accounting. I encourage you to challenge these attitudes in order to be able to explore and better critique the issues.

Seminar Week 1: Methodologies for Management Accounting Research


Discussion Questions

1. How are the following inter-related?
   - * Accounting
   - * Information Systems
   - * Management
   - * Organisations
2. What is meant by the social and political contexts of management accounting?
3. How is management accounting research undertaken?
4. What are the research methodologies available?
5. How do you choose the methodology and the accompanying methods for research?
6. What are some examples of research in management accounting using alternate methodologies?
7. What are the explicit assumptions of each methodology?
8. What are the implicit assumptions?
9. How do assumptions influence the type of questions we ask?
10. How do the assumptions and questions influence the answers obtained?
11. Are case studies possible for all methodologies identified?

Seminar Week 2: Contentious Aspects of the History of Management Accounting


For Discussion

“We’re Doing Well but We Don’t Know Why”

“Many U.S. companies don’t know where they are making money and where they are losing (money),” says Robert S. Kaplan, a Harvard University accounting professor. Kaplan was aiming his criticism directly at traditional cost accounting systems and, in particular, at the methods used to allocate overhead costs among the many different products produced by job shops, batch manufacturers, and assemblers. Source: Ford S. Worthy, “Accounting Bores You? Wake up,” *Fortune*, October 12, 1987, pp. 43, 44, 48–50.

PART 1: Standard Products

Firms that sell a complete line of products usually have their bread-and-butter products. These high-volume standard commodity products, while few in number (e.g., 20%-25% of the product line), may account for as much as 70%-80% of the business or sales volume of their firms.

1. Looking at firms that manufacture a wide range of products, high-volume standard products tend to get systematically overcosted under conventional product costing systems. Describe these products along the following dimensions: competitive environment, how prices are set, stage of life cycle, market acceptance, profit margins (price less cost), general age of technology used to produce these products, degree of labor intensity in the manufacturing process, complexity of product, and batch size when manufactured.

2. Assuming the allocation of manufacturing overhead is based on direct labor cost, explain how these products get overcosted.

3. Since high-volume standard products face fierce price competition, what implications does overcosting have for reported product profitability, product emphasis, market share, future allocations of resources to support the product, and potential product discontinuance?

PART II: Speciality Products

Firms that sell a complete line of products will likely have a product line dominated by a large number of low-volume specialty or custom products. The firm may produce a large number of specialty products (e.g., 70%-80% of the product line). The cumulative sales of low-volume custom products may amount to no more than 25%-30% of sales revenues.

1. Low-volume specialty or custom products tend to get systematically undercosted under conventional product costing systems. These products meet the unique needs of a particular customer and, therefore, the level of sales of any one custom product is usually relatively low when compared to the sales volume of standard products. Describe these products along the following dimensions: competitive environment, how prices are set, stage of life cycle, market acceptance, profit margins (price less cost), general age of technology used to...
produce these products, degree of labor intensity in the manufacturing process, complexity of product, and batch size when manufactured.

2. Assuming the allocation of manufacturing overhead is based on direct labor cost, explain how these products get undercosted.

3. As a rule, low-volume speciality products don’t face the kind of direct head-to-head price competition that high-volume products confront. Instead, they compete on their unique features or performance more so than price. What implications does undercosting have for reported product profitability, product emphasis, market share, future allocations of resources to support the product, and managements’ perception of the future role to be played by speciality products?


Seminar 3: The Achievement of Relevance?


Seminar Week 4: Maintaining the Organisation: Management Accounting and Control Systems


Seminar Week 5: Budgeting and Behavioural Aspects of Management Accounting


Seminar Week 6: Agency Theory in Management Accounting


Seminar Week 7: Anzac Day Public Holiday.

Students should use this week to complete their Group Report, which is due in Week 8.

Seminar Week 8: Activity Based Costing and Activity Based Management


**Seminar Week 9:** Strategic Management Accounting and the Life-Cycle Perspective


**Seminar 10: Total Quality Management**


**For Discussion**

**TQM and COQ**

Total quality management, or TQM is to American companies competing in the nineties what it was for Japanese firms throughout the seventies and eighties. The concept of cost of quality (COQ) gives quality a bottom-line discipline that is at the core of many well-managed quality improvement programs (QIP). With a focus on satisfying the customer, those who view quality as a marathon race stand a greater chance of improving market share than do those who view quality as the latest project with a start date and a completion date.
1. Surveys have shown that when financial managers are asked to estimate the total cost of quality (prior to implementing a QIP), half or more estimate that COQ is less than 5% of sales revenue. The reality is that actual COQ is typically 10% to 20% of sales, and in some cases it has exceeded 60% of sales. Why do you think there is such a large gap between the perception and the reality of the quality problem?

2. Why do you think the cost of poor quality reached such an epidemic level before U.S. companies were motivated to do something about the problem?

3. What function(s) does COQ reporting play in a quality improvement program?

4. For most companies starting a QIP, investments in prevention and appraisal usually result in major cost savings in other areas. Explain this phenomenon.

5. The traditional view of quality is that the total costs of prevention and appraisal plus internal and external failure costs are minimized at a point somewhere below zero defects. Additional investments in prevention beyond this point would result in savings that are less than the additional investment in prevention. An alternative view of quality is that the total costs of the four categories of quality are minimized at zero defects. Additional investments in prevention will always result in larger reductions in appraisal and failure costs. With the zero defects model, the search for quality improvements is continuous. Explain these two viewpoints.


**Seminar Week 11: ‘Deep Green’ Accounting: Management Accounting and the Environment**

ABC, Background Briefing (8 October 2000), “Natural Capital”.


Seminar 12: Downsizing


For Discussion


A 1990 Boston University study found that overhead of U.S. manufacturers was nearly 50% greater than typical Japanese firms and almost 20% greater than West European companies. With such high levels of overhead, U.S. firms will not be able to complete over the long term.

1. What is the makeup of overhead? If necessary, speak with several experienced business people to find out what overhead is (i.e. the different categories of overhead) and what activities these overhead resources perform.
2. Why would overhead of U.S. firms be so much greater than their international rivals?
3. If we assume that overhead must be reduced to be more competitive, what (or who) gets cut? Again, you may want to speak with several businesspeople to find out how businesses are actually reducing their overhead costs.
4. If we assume that people whose jobs are eliminated to reduce overhead were busy performing some useful business-related activity, who is going to perform this work when their positions are eliminated?
5. What is the downside to such cuts?
Seminar 13: Enron and the End Game for Management Accounting
Various materials will be made available to the class as the deceptions at Enron and its auditors, Andersen, unfold in the United States.