Introduction to Cost Accounting

Course Module in Managerial Accounting

Course Modules help instructors select and sequence material for use as part of a course. Each module represents the thinking of subject matter experts about the best materials to assign and how to organize them to facilitate learning.

Each module recommends four to six items. Whenever possible at least one alternative item for each main recommendation is included, as well as suggested supplemental readings that may provide a broader conceptual context. Cases form the core of many modules but we also include readings from *Harvard Business Review*, background notes, and other course materials.

1. Overview of suggested content (HBS case unless otherwise noted)

Title	*Author*	*Product Number*	*Publication Year*	*Pages*	*Teaching Note*
1. Introduction					
Introduction to Cost Accounting (HBS online tutorial)	Hawkins et al.	105701	2006	2 hours	106045, 107040
Alternative: Introduction to Cost-Accounting Systems (HBS note)	*Hawkins & Cohen*	*105039*	*2004*	*11p*	--
Supplement: Time-Driven Activity-Based Costing (HBR article)	Kaplan & Anderson	R04113	2004	8p	--
2. Cost Allocation					
Seligram, Inc.: Electronic Testing Operations	Cooper, Turner & Ittner	189084	1988	11p	191020
Alternative 1: Sippican Corp. (A)	*Kaplan*	*106058*	*2006*	*4p*	*107085*
Alternative 2: Shun Electronics Company (Darden case)	*Haskins*	*UV0233*	*2004*	*7p*	*UV0234*
3. Cost Control					
Peoria Engine Plant (A)	Kaplan & Hutton	193082	1992	28p	193186
and Romeo Engine Plant (abridged)	Kaplan & Hutton	197100	1997	10p	196142
Alternative: China Resources Corp. (A): 6S Management	*Campbell & Lane*	*107013*	*2006*	*25p*	*108074*
4. Capacity Costing					
Anagene, Inc.	Kaplan & Darwall	102030	2001	17p	102078

Alternative: Micro Devices Division	*Cooper & Ittner*	*191073*	*1990*	*13p*	*191175*
5. Customer Profitability					
Understanding Customer Profitability at Charles Schwab	Martinez-Jerez	106002	2005	24p	107065
Alternative 1: Elkay Plumbing Products Division	*Kaplan*	*110007*	*2009*	*19p*	*110089*
Alternative 2: Internet Customer Acquisition Strategy at Bankinter	*Martinez-Jerez, Narayanan & Brem*	*103021*	*2003*	*19p*	*104004*

II. Rationale for selection and sequencing the items in this module

The online tutorial in **Section 1** provides an accessible yet deep look at the design and purpose of cost accounting. It includes several interactive exercises in allocating indirect costs and discusses variations of cost systems. Visual diagrams demonstrate the flow of costs. The alternative paper note covers the same concepts with brief numerical examples. The supplemental article "Time-Driven Activity-Based Costing" provides a streamlined account of the improved version of ABC for those students who have not been exposed to it.

In **Section 2,** *Seligman Inc.: Electronic Testing Operations* describes a factory's proposed transition to a multi-cost center allocation system in order to reflect more accurately increasing product diversity. Both of the alternatives employ activity-based costing. The first, *Sippican Corp. (A),* shows the relative ease with which a time-driven activity-based costing system can be developed, and how that system determines costing allocations. In the second, *Shun Electronics Company,* the firm's radio division wants to expand the three departmental cost centers to eight, each with its own overhead cost allocation rate. Total costs for four of the six radios will increase; two will decrease.

To give a broader perspective, **Section 3** provides a link between management controls and continuous improvement in manufacturing. The *Peoria Engine Plant (A)* and *Romeo Engine Plant (Abridged)* cases work well as a two-day series, and the Romeo teaching note assumes that sequence. The *Peoria* case evaluates the strengths and weaknesses of a cost control system, while the *Romeo* case concerns a new automotive engine plant aiming to implement Total Quality Management. The alternative, *China Resources Corporation (A),* looks at the implementation of a variety of new management control systems in a complex diversified corporation during a period of rapid economic expansion. The case enables a discussion of the various ways that balanced scorecards and strategy maps can be integrated with traditional management control systems.

In **Section 5,** *Anagene Inc.*, set in a high-tech environment, emphasizes the importance of excess capacity for calculating cost-driver rates. The alternative, *Micro Devices Division*, focuses on the difficulty of defining capacity in a traditional manufacturing firm.

Section 6 turns to customer profitability analysis. The main selection, *Understanding Customer Profitability at Charles Schwab*, is a comprehensive case that would make an excellent capstone or final exam. The case describes the evolution of the strategy and the cost analysis system at Schwab with special attention to the Profitability Analysis System (PAS) implemented in 2005. It presents the opportunity to discuss some advanced costing topics such as peak capacity or treatment of firm-sustaining expenses. The first alternative, *Elkay Plumbing Products Division*, was written as a

replacement for *Kanthal* (190002), but using time-driven ABC instead of traditional ABC. It focuses on how a manufacturing company measures the cost and profitability of each of its 6,000 products and 2,000 customers, asking students what should be done about its highest-profit and highest-loss customers. It does not illustrate the time-driven ABC basics and so presumes another, more basic case in this methodology. The second alternative, *Internet Customer Acquisition Strategy at Bankinter,* looks at the use of Customer Lifetime Value in a strategic setting by a Spanish bank.