**AMIS 3300H — Honors Cost Accounting Fall 2015 — Tuesday/Thursday 2:20-3:40 – GE 285**

Professor [Rick Young](mailto:young.53@osu.edu) – 292-0889 – Office hours TBA

TA’s: [Kunjue Wang](mailto:wang.3452@osu.edu) W 4:00-5:00 – Mason Hall 140A

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"Education is not the learning of facts, but the training of the mind to think."

-Albert Einstein

**Introduction**

In this class we continue our study of accounting from a managerial perspective. Relative to AMIS 2300H, there will be less emphasis on cost/value and individual decision making, and greater emphasis on management planning and control. Once again, so that you can apply what you know to a global and dynamic economy, the course will be taught from a conceptual standpoint. “Rules, recipes and handy guidelines on how to use accounting are crutches for the less than well-prepared and responsible manager.” (Demski, ch. 1).

**Honors Accounting**

You are now at a very important point in the Accounting Honors Program. To state the obvious, the objective of this course and “The Program” is to provide you with foundations to help you to achieve a deep understanding of accounting issues, and thus to appreciate the role of accounting in the economy and, more generally, in society. The hope is by providing you with foundations you will eventually be able to apply these concepts to thrive in, and improve, practice. The Program’s objective is not to prepare you for the CPA Examination, nor is it to train you to work as an entry-level accountant. While these issues are of concern to you at this juncture, catering to them is certainly not the comparative advantage of the University. Given that students are recruited to the Accounting Honors Program with the expectation they have an above-average intellectual capacity and work ethic, we expect you to be willing to think deeply and sometimes abstractly about accounting concepts. The success of Our Program depends upon you “buying into” this philosophy -- if you are uncomfortable with the level of abstraction that is an integral part of the Program please relinquish your position and enroll in the “regular” Accounting Program, so as to avoid making yourself unhappy and possibly polluting the classroom learning environment.

**Performance Evaluation**

You will be evaluated based on class preparation, an in-class midterm examination, and a common final examination. Please note the date and time of the final exam, as it departs from the University schedule. Plan your break and work schedule around this date.

Class Preparation (40% total)

Class preparation is important for constructive participation in classroom discussion, and is encouraged by three activities that will be graded: class participation, oral presentations, and written assignments.

*Class participation (20%)*

We will spend most of our class time working through numerical problems and, more important, discussing the larger issues they are intended to illustrate. The problems are there more to provoke your thinking than to teach you an accounting procedure. No recipes for their solution will be provided. Your approach to class preparation should not only include trying to come up with correct answers, but also thinking about the lessons that are being illustrated. Both are important. The hope is for vigorous class discussion fed by students’ oral “presentations” (discussed below). I will do only a little formal lecturing. You earn (only) 50% of the participation points for 100% attendance. In addition, you earn up to 25% of the participation points by volunteering questions or comments that contribute to the learning environment. Lack of attendance or negative “contributions” to the learning environment will detract from your participation grade. Finally, a professional attitude towards the course is worth 25% of your participation points. This includes being on time, prepared, attentive, and engaged.

*Discussion leading (10%)*

You will be placed in groups of 2-3 during the first week of class. Each day one or two groups will be called on at random to talk for 10-20 minutes about a problem assigned for that day in class *and to lead discussion*. You should talk about what you experienced while working out the problem, the main issues from the chapter being illustrated, what you were able to do and what pitfalls you encountered, questions that occurred to you, etc. It is NOT important, nor is it normally possible, that you work through the problem during the allotted time, nor even present the entire solution. The purpose is not simply to put you under pressure to work the entire problem out correctly, but to stimulate classroom discussion. *When you write up your solution, think about how you can efficiently and effectively present the ideas at the board.*

*Written assignments (10%)*

Each group should turn in one hard copy of their work on that day’s problems at the start of class. Use of spreadsheets is encouraged—on a few occasions they may be required, in which case you will be asked to email them to the TA’s (Kunjue and Max), who will “test” your spreadsheet. The collected solutions will be graded primarily for effort and completeness. All essays (even short paragraphs) should be *typed* using proper grammar and punctuation. Your essay grades will be based 50% on content and 50% on exposition. In many cases I will be reading your essays, so they should not be attached to problem solutions, which will be graded by the teaching assistants. *In addition to impeding your learning, “splitting up the work” is considered a breach of ethics in accordance with the Honors Code*.

Examinations (60%)

The midterm examination and the in-class portion of the final exam are individual, closed-book, and closed-note examinations. There is also an individual take-home portion of the final exam that is due on the date of the in-class portion. No makeup midterms will be given. The final exam will be given according to the [University schedule](https://registrar.osu.edu/scheduling/finals/finals.asp). Makeup final exams will be permitted only if excused by University guidelines. Be sure to plan your break around the final examination date.

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| Class participation / professional attitude | 20 |
| Written assignments and discussion leading | 20 |
| Midterm | 30 |
| Final examination (per [University schedule](https://registrar.osu.edu/scheduling/finals/finals.asp)) | 30 |
|  | 100 % |

**Required Materials:**

Demski, J., *Managerial Uses of Accounting Information, 2nd edition.*

Other readings will be distributed or posted online.

**Students with Disabilities**

Students with documented disabilities should feel free to inform me in private of your needs and to make arrangements with the Office for Disability Services (292-3307 — 150 Pomerene Hall).

**AMIS 3300H — Tentative Course Outline — Fall 2015**

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| **(**1) Tue 08-25 The “ABC’s” of product costing – pun intended (traditional/impressionism)  **Reading**: preface, ch. 1; skim ch. 5; ch. 6; “Is accounting an academic discipline?”, “A Caution Against Mixing Commerce & Academics”, “Writing Advice for Business”  **Problems**: P6-3  **\*Essay**: Demski describes four key ingredients as being necessary for a serious study of accounting. Look over your text: which topic or topics addressed in 2300H incorporated these ingredients? Which of these ingredients is included in chapter 5? What is the main theme of chapter 5? |
| **(**2) Thu 8-27 Activity based costing (ABC/modernism)  **Reading**: ch. 7, sec. 7.1-7.3 & 7.6 (skim sec. 7.4-7.6)  **Problems**: P6-7; P6-17; Rework Problem A from your 2300H final exam. |
| **(**3) Tue 09-01 Does activity based costing improve decisions?  **Reading**: Staubus; Noreen-Soderstrom (skim)  **Problems**: E7.1, E7.2; P7-3; P7-12, P7-13 (email Solver spreadsheet to TA’s – also test it with q1=8, q2 = 9, & q1 = 0, q2 = 9)  **Essay**: Write a paragraph about the main theme of chapter 7, especially example 7.3. Write a 1-2 page summary of the Staubus articles, including a comparison of what Staubus and Demski say about activity costing. Write a paragraph to explain the purpose and main findings of Norren-Soderstrom. |
| **(**4) Thu 09-03 Information and risk  **Reading**: ch. 9; “Have academic accountants and financial accounting standard setters traded places?” (skim)  **Problems**: Rework Problems B and C from your final exam; P9-12, P9-18.  **Essay**: Write a paragraph that compares the two decision frames in chapter 9 and 10 in the Demski text; Write a paragraph explaining the “take-aways” from P9-12 and P9-18. |
| **(**5) Tue 09-08 Meder-Schwartz-Spires-Young  **Reading**: “Structured finance and mark-to-model accounting: A few simple illustrations"; http://www.chicagobooth.edu/capideas/magazine/spring-2015/why-merton-miller-remains-misunderstood  **Problems**: Examples in “Structured finance . . .”  **Essay:** Explain in 1-2 pages the complications for accountants and auditors introduced by the use of structured finance. |
| (6) Thu 09-10 What is the cost (value)?  **Reading**: ch. 10 (skim the auctions example, but carefully consider the “takeaway” from E10.6 and E10.7)  **Problems:** P10-1, P10-3, P10-8; P10-12, P10-14  **Essay**: What implications do the stories in P10-12 and P10-14 have for “fair value” and “historical cost” accounting? |
| (7) Tue 09-15 Performance evaluation basics – hidden action (moral hazard)  **Reading**: “Credible Commitments”; ch. 13  **Problems**: “Ralph’s Partnership Exercise”; Rework Problem E from your 2300H final exam; P13-14.  **Essay**: Summarize the main points in “Credible Commitments” and make connections to Chapter 10 and 13. |
| (8) Thu 09-17 Performance evaluation basics — hidden type (adverse selection)  **Reading**: Jagannathan et al.: “Accounting, Finance and Adverse Selection: Illustrations and Applications”  **Problems**: Examples in Jagannathan et al. |
| (9) Tue 09-22 The value of information in an agency setting  **Reading**: ch. 14  **Problems**: P13-8, P13-9, P13-10; P14-9, P14-10 |
| (10) Thu 09-24 Optimal use of information in an agency setting  **Reading**: ch. 14  **Problems**: P13-14; 14-14 |
| (11) Tue 09-29 Performance evaluation and valuation  **Problems**: P14-11, P14-12  **Essay**: Reread the Demski Preface and Introduction and explain what issues there appear in the context of P14-11 and 14-12 |
| (12) Thu 10-01 The controllability “folklore”  **Reading**: ch. 16; Antle-Demski  **Written**: Examples in Antle-Demski. Also, explain why Demski uses the term “controllability folklore” rather than the original term, “controllability principle”. |
| (13) Tue 10-06 Controllability in practice  **Reading**: Merchant  **Problems**: P16-1; P16-2; P16-3; P16-18  **Essay**: Write a 2-3 page *typed* summary of and commentary on Merchant. |
| **(14) Thu 10-08 MIDTERM** |
| (15) Tue 10-13 Delegation  **Reading**: Skim Lambert: “Executive Effort and Selection of Risky Projects”  **Problems**: Ralph’s Delegation |
| (16) Tue 10-20 Multi-task performance evaluation I (Jack Parker visits)  **Reading**: ch. 15; G-M-V-V  **Problems**: E15.1-E15.4  **Essay**: Write a 2-3 page *typed* summary of and commentary on G-M-V-V. |
| (17) Thu 10-22 Multi-task performance evaluation II  **Reading**: ch. 15  **Problems**: E15.5; P15-7; P15-8, P15-9 |
| (18) Tue 10-27 Multi-task performance evaluation III  **Reading**: ch. 15; Bruggen-Moers  **Problems**: E15.6, E15.7; P15-2, P15-3  **Essay**: Write a 2-3 page *typed* summary of and commentary on Bruggen-Moers. |
| (19) Thu 10-29 Endogenous reporting  **Reading**: ch. 17  **Problems**: E17.1-5 |
| (20) Tue 11-03 Endogenous reporting on your own  **Reading**: ch. 17  **Problems**: P17-4 (check figures = -2,911.57, -2,443.00, 12,273.97, 10,376.07); Ralph’s Limited Liability |
| (21) Thu 11-05 Accounting systems and performance evaluation  **Reading**: Nikias-Schwartz-Young  **Problems**: P17-5 (check figures: -2,976.41, -698.83, 5,855.26, 1,849.94); Work the examples in Nikias-Schwartz-Young |
| (22) Tue 11-10 Social norms and performance evaluation  **Reading**: Kuang-Moser  **Essay**: Write a 2-3 page *typed* summary of and commentary on Kuang-Moser. |
| (23) Thu 11-12 Participative budgeting basics  **Reading**: Rankin-Schwartz-Young 2003  **Essay**: Write a 2-3 page *typed* summary of and commentary on R-S-Y 2003. |
| (24) Tue 11-17 Other considerations in participative budgeting  **Reading**: Evans-Hannan-Krishnan-Moser; Rankin-Schwartz-Young 2008  **Essay**: Write a 2-3 page *typed* summary of and commentary that compares EHKM and RSY 2008. |
| (25) Thu 11-19 Accounting meets banking  **Reading:** MSWY: “Bank Runs and the Accounting for Illiquid Assets in Financial Institutions”  **Written:** Examples from MSWY. |
| (26) Tue 11-24 Accounting discretion and incentives  **Reading**: Sunder article; Abstract from Hemmer-Labro; Schwartz-Young  **Written**: Work the examples in the Schwartz-Young.  **Essay**: Write a 2-3 page *typed* summary of and commentary on Sunder. |
| (27) Tue 12-01 Accounting and corporate governance  **Reading**: ch. 18, Demski: “Enron et al.: A comment”; Dechow-Skinner: “Earnings management: Reconciling the views of accounting academics, practitioners, and regulators”; Holmstrom-Kaplan: “The State of U.S. Corporate Governance: What’s Right and What’s Wrong?”  **Watch:** “Bigger Than Enron” online: http://www.youtube.com/watch?v=DeFdIHWy8cw  **Essay**: P18-16; Write a 1-page *typed* essay on the message in “Bigger Than Enron”; Write a 2-3 page *typed* summary of and commentary on Dechow-Skinner. |
| (28) Thu 12-03 Accounting and corporate governance (cont.)  **Reading**: ch. 19; Fama: “Agency problems and the theory of the firm”; Bebchuk et al.: “Executive compensation as an agency problem”  **Essay**: Write a 2-3 page *typed* essay comparing and contrasting the Fama and Bebchuk et al. views of corporate control; career **Written:** career concerns example (online) |
| (29) Tue 12-08 Governance in organizations  **Reading**: Lo: “The Gordon Gecko Effect: The Role of Culture in the Financial Industry”  **Watch**: First 60 minutes of “Barbarians at the Gate”: <https://www.youtube.com/watch?v=yJAVLjTID2E> (we will watch remainder in class);  **Essay**: Write one 2-3 page *typed* essay on Lo’s paper and Barbarians at the Gate. |
| **Fri 12-11 FINAL EXAMINATION**  **In-class 4:00-5:45 GE 285 — \*\* Take-home portion due at 4:00** |

E = examples within the chapter

P = problem at the end of the chapter

Readings not from Demski text will be put online at [http://fisher.osu.edu/~young\_53/Young.html - AMIS525](http://fisher.osu.edu/~young_53/Young.html#AMIS525)

**\*** In your article summary/commentary on the articles I suggest you address the following questions.

1. What did they do?
2. Why did they do it?
3. What did they find?
4. What does it mean?
5. What would you have done differently?
6. What would you do next?

**\*\*Take–home portion of final examination:** (1) Summarize in a page or two one of the following: (a) Demski’s “Corporate Conflicts of Interest”, (b) Lev’s “Corporate Earnings: Facts and Fiction”, or (c) Healy and Palepu’s “The Fall of Enron”, and (2) choose one of the issues that is mentioned in the article of your choice, read about it, and write a 3-4 page description, with sources carefully documented. (So, 4-5 pages total *typed* and double-spaced, 12 point font; I will not read beyond the fifth page.) You many do this “solo” or jointly with one other person. Credit will be given for both content and exposition.