Cost Management 2e



Cases and Readings

for use with

Cost Management

Second Edition

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Cases and Readings for use with COST MANAGEMENT: A STRATEGIC EMPHASIS Edward J. Blocher, Kung H. Chen, Thomas W. Lin

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Preface

To extend the teaching materials of *Cost Management: A Strategic Emphasis*, this casebook provides additional cases and articles for each chapter. The cases and articles are an important part of the text and have the same teaching objectives. The problem material in the text includes short cases and exercises, while this casebook provides longer cases and articles to facilitate more extensive discussion and analysis.

We feel that cases serve a very important role in the cost management course. We know of many faculty who use cases from a variety of sources to supplement the text they are using. We have provided these materials in this book for easier access, greater convenience, and lower overall cost to the instructor and student.

Using cases has two important benefits. First, the use of a case requires the student to develop analytical skills by organizing the unstructured information in the case, devising appropriate analyses, and drawing appropriate conclusions. Second, the cases permit a more thorough strategic analysis of a given firm than would be possible with a problem or exercise. With a richer amount of information about the case firm and its environment, the student can more effectively apply the concepts of strategy and competitive advantage explained in chapter 2: Strategic Analysis and Strategic Cost Management.

Each of the cases can be used as an exercise in competitive analysis to set the stage for the decision problem in the case, whatever that might be. A firm facing a lease-or-buy decision will want to assess the strategic, competitive situation of the firm before making the decision. Similarly, a firm considering the outsourcing of a department or activity will want to begin the analysis with an assessment of the strategic issues facing the firm, and then to make the outsourcing decision with these issues in mind. In this way, the cases can be used to effectively put each decision problem in a strategic context. Rather than to make a cost calculation and then "consider the qualitative factors," which can be done with problems and exercises, the case more readily allows an approach in which the strategic issues are considered first and are an integral part of the solution of the case.

One or two articles are included for each chapter to provide an opportunity for more in-depth coverage. We have included discussion questions for each article. Some of the articles are examples of how actual firms have implemented the cost management methods explained in the chapter. These stories show some of the implementation issues that arise in practical situations. Other articles report the results of surveys, which provides a perspective for how the cost management methods are used in practice. Others have a technical focus, and provide an opportunity to look more closely at the methods explained in the chapter and on the effects of using the methods.

We hope you will find these cases and readings helpful. We welcome feedback from students and instructors.

Edward J. Blocher Kung H. Chen Thomas W. Lin

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Chapter 1

Cost Management: An Overview

Cases

- 1-1 Critical Success Factors
- 1-2 Contemporary Management Techniques
- 1-3 Pricing
- 1-4 Selected Ethics Cases

Readings

"The Changing World of Management Accounting and Financial Management"

This article discusses the findings of Project Millennium, a qualitative market research project conducted for the Institute of Management Accountants. The project involved focus group studies of management accountants, consultants, and business executives to identify the role of management accounting and of the management accountant of the future.

Discussion Questions:

- 1. What are the key findings of the Millennium Project?
- 2. What are the implications of these findings for the education and training of management accountants?

"Counting More, Counting Less"

This article is a survey to update the 1995 Practice Analysis of Management Accounting. The highlights of the survey include an improved image of management accounting, a continued focus to forward-looking, strategic types of tasks, and more of a shift to business partnership in contrast to financial reporting only.

Discussion Questions:

- 1. What are the key findings of the Practice Analysis of Management Accounting?
- 2. What are the implications of these findings for the education and training of management accountants?

"Why Isn't The Controller Having More Impact"

In this article, a management consultant points out some of the obstacles management accountants face in becoming business partners. The author includes some suggestions of speeding the process of becoming a business partner.

Discussion Ouestion:

What are the obstacles to the controller/management accountant becoming a business partner. What suggestions does the author offer?

Cases

Cost Management: An Overview

1-1. Critical Success Factors

Kirsten Malon has found a way to profitably exploit her computer know-how. She has started a firm that offers consulting services for computer and software repair and analysis. Most of her customers have purchased computers or software systems with little vendor support and need help in installing and using the systems effectively. Kirsten has expanded her business recently to include 25 technicians besides herself, and her client base has grown to over 1,900. Many of these clients are on a retainer arrangement (a fixed fee per month which guarantees access to a certain number of hours of technician time) to stabilize her cash flow. With the success of the business, Kirsten is now thinking about beginning a related business which would publish books and newsletters on computer and software issues.

REQUIRED:

What are the critical success factors likely to be for Kirsten's business, now and into the future? What cost management information is she likely to need: management planning and decision making, management and operational control, or product and service costing, and why?

1-2. Contemporary Management Techniques

DeLight Inc., is a large manufacturer of lighting fixtures for both wholesalers and electrical contractors. An important aspect of the business with electrical contractors is Delight's ability to develop product leadership through innovation, quality, and service. In contrast, in the wholesale business, Delight competes primarily on the basis of lowest price. Delight has prospered in the recent five years because of its careful attention to developing and maintaining a sustainable competitive advantage in each of its markets.

REQUIRED:

Which of the ten types of contemporary management techniques does DeLight probably use? Explain your answer.

1-3. Ethics, Pricing

AeroSpace Inc. is a manufacturer of airplane parts and engines for a variety of military as well as civilian aircraft. Though there are many commercial customers for most of the company's products, the U.S. government is the only buyer of the firm's rocket engines. Because AeroSpace is the sole provider of the engines, the government buys the engines at a price equal to cost plus a percent markup.

The cost system in place at AeroSpace is under review by top management, with the objective of developing a system which will provide more accurate and more timely cost management information.

At the current phase of the study of the cost system, it is now apparent that the new system, while more accurate and timely, will result in lower costs being assigned to the rocket engines and higher costs being assigned to the firm's other products. Apparently, the current (less accurate) cost system has over- costed the engines and under-costed the other products. On hearing of this, top management has decided to scrap the plans for the new cost system, because the rocket engine business with the government is a significant part of AeroSpace's business, and the reduced cost will reduce the price and thus the profits for this part of AeroSpace's business.

REQUIRED:

As a staff cost analyst on the cost review project, how do you see your responsibility when you hear of the decision of top management to cancel the plans for the new cost system?

1-4. Selected Ethics Cases

After his first two years at Bronson Beverages (BB), a publicly held wholesaler of beers and wines, Jim Best has advanced to a senior cost analyst position with a very good salary.

REQUIRED:

For each of the following situations Jim will face in the coming year, indicate how you see his responsibility, and how he should respond.

- Jim learns that a significant portion of the firm's beer inventory has passed its shelf life and by local ordinance and company policy, should be destroyed. Because of concern about the effect on profits and his bonus, the chief operating officer decides that the beer should be sold anyway.
- 2. As part of his regular duties, Jim reviews BB's financial statements for inconsistencies and errors. While reviewing the recent report, Jim notices that non-trade accounts receivable (note: non-trade receivables arise from non-operating events, such as a loan to an employee, customer, etc; trade receivables arise from sales on credit) have increased sharply over the prior year. Upon inquiry, Jim finds out that the firm is lending money to one of its customers so that it can make purchases from BB. Jim knows that in his state, beer and wine purchases must be paid for in cash, by state law. Jim wonders if the treatment of the loan as a non-trade receivable is OK, or if it should be classified as a trade receivable?
- 3. Jim learns that BB has just been granted the franchise to sell a popular new line of custom-brewed beers. The franchise will improve BB's sales and profits substantially, and should mean a significant boost to BB's share price. Jim knows that, until the news of the franchise is made public, he is restricted by the SEC from using this insider information to trade in BB's shares and make unfair profits as a result. That evening, Jim and his wife have dinner with some friends, and one of them says she has heard there are some good things going on at BB, and asks Jim to comment. What should Jim say?
- 4. Jim is analyzing the sales and cost of sales in specialty wines when he discovers that one of the firm's customers has greatly increased purchases in this, the last month of the firm's fiscal year. Jim goes to talk to the salesperson for this customer to offer his congratulations. The salesperson says that he has simply shipped in advance the customer's order for the following month, so that it would appear on the current year's financial report. This tactic would help the salesperson meet his sales target and would also improve BB's sales and profits for the current year. The salesperson says there is a small chance that the customer will reject the shipment and send it back, but then says, "We will worry about that if it happens."
- 5. Working late one night, Jim notices that one of the top marketing executives has come into the office and is removing a box full of office supplies. He says in a joking manner to Jim as he leaves, "BB won't miss this stuff, and I really need it for my other business."

Readings

THE CHANGING WORLD OF MANAGEMENT ACCOUNTING AND FINANCIAL MANAGEMENT

By Mike Anastas

Imagine that you have just entered a time capsule that transports you to your office as it will look in the year 2007. The controller is video conferencing with the company's director of operations in Central Europe. They are discussing various cost management strategies based on information they see on their computer screens.

As you observe the sparsely populated offices, you notice several video conferences taking place among on-site staff and managers working at home or in other far-flung locations. Participants are discussing the successful use of electronic data interchange and straight-through processing and are making decisions based on sales and production activity information that is updated instantly on their PCs.

You already know or have witnessed how much management accounting and financial management have changed in the last 10 years, but you couldn't have predicted all the changes you see in your office of the future. Every executive is conducting business on the Internet, accessing instant snapshots of accounting and financial data on their laptop computers as they manipulate various business scenarios and send results around the globe as only the most progressive companies do now. Also, electronic data interchange will be the standard rather than the exception, and straight-through processing will create strategic alliances between vendors and customers at every level of production.

These are among the images and predictions from Project Millennium, a qualitative market research project we conducted for the Institute of Management Accountants earlier this year (see sidebar). Participants in the research envision major changes in the responsibilities of accounting and financial managers as well as the work they do and the equipment they

use. They also predict that there will be fewer management accountants, but they will be at more senior levels in the corporation. And they will share more in decision making for their companies along with other members of their cross-functional teams.

Some participants in Project Millennium tagged the management accountant and financial manager of the future an "internal consultant," someone with the curiosity and flexibility to change and motivate others to change. These internal consultants will add value by helping their organizations find ways to stay profitable and keep ahead of the competition.

Management accountants and financial managers of the future will be expected to have command of the latest information technology software as well as an overall understanding of the business. To be successful, they will be proficient in communicating ideas through written form and verbal presentations. Performance reviews in the future will be based on the ability to analyze information and situations and make decisions that drive the business rather than the ability to measure the business. The key will be their ability to stay ahead of change.

FEWER BUT MORE SENIOR PEOPLE

IMA members and other lenders in the industry predict a trend for more chief executive officers (CEOs) and chief operating officers (COOs) to be recruited from the ranks of management accountants and financial managers because of an increasing emphasis on financial management and the need for people who can decipher financial data and present the results as strategic information. In fact, the most notable shift in the profession is away from analysis of the past toward strategic thinking about the future. "There are some who are predicting the disappearance of the financial function in corporations over time...but the