

Developments in Business Simulation & Experiential Exercises, Volume 15, 1988

PROVIDING AN EXPERIENTIAL DIMENSION TO COST/MANAGERIAL ACCOUNTING COURSES

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ABSTRACT

Johnson and Kaplan have argued in their recently published book that the management accounting systems in place are no longer relevant to managers relying on them for their informational needs. Major reason for this loss of relevance is due to the subservience of managerial accounting systems to financial accounting reports. In the academic world one also finds cost/managerial courses playing a subservient role to financial accounting. The accounting majors usually take only one cost course in contrast to four to six financial accounting courses. Given this imbalance, instructors teaching cost/managerial accounting courses must maximize the students' exposure to the decision-making and planning role of accounting information. The students' learning experience in the cost/managerial accounting courses can be enhanced by using an experiential dimension to the class. The paper discusses ways instructors at Northern Arizona University have supplemented book learning with experiential modes of knowledge.

INTRODUCTION

In their recently published book, Relevance Lost, The Rise and Fall of Management Accounting H. Thomas Johnson and Robert S. Kaplan maintain that "today's management accounting information, driven by the procedures and cycle of the organization's financial reporting system, is too late, too aggregated, and too distorted to be relevant for managers' planning and control decisions [Johnson and Kaplan, 1935, p. 1]." Consequently, accounting reports are not helping to reduce costs and improve productivity. Neither are they able to provide accurate product costs. What's even worse is the emphasis placed on the short-term cycles of profit and loss statements. Given the subservience to financial accounting needs, management accounting cost systems are not relevant to the managerial decision-making.

Not only in industry does one find a subservience of management accounting to financial reporting system, a counterpart may be observed in the academic world responsible for training the would be accountants. One has to only look at the typical accounting curriculums to see the imbalance. An accounting major typically takes six semester hours of intermediate accounting, three to six hours of advanced accounting at least three hours of auditing--mostly financial systems-- and additional hours in the area of accounting theory and accounting systems. In contrast, the vast majority of accounting majors are required to take only one three-hour course in cost accounting. Even in that course, a substantial amount of time is devoted to costing from the financial reporting point of view, which further reduces the time available for teaching managerial needs.

This imbalance favoring financial accounting does the accounting students a major disservice. It does not prepare them for decision-making and planning: having had only one course in cost accounting, they are not ready to supply or prepare information meant for managers and decision-makers. A very large number of accounting majors go to work in industry and government organizations where they are called upon to provide information that will be used internally by those organizations. Even those who join the public accounting firms as would-be auditors will spend a large portion of their working hours trying to understand their clients' cost system. According to a recent AICPA survey about two-thirds of all accounting majors do not enter the public accounting profession [AICPA, 1987]. Given this, one would like to see a greater emphasis on cost/managerial courses.

Given this imbalance in accounting curriculums, it becomes imperative that the one cost course most accounting majors usually take provides them with the maximum amount of knowledge pertaining to planning and decision-making information needs of the managers. As a part of this maximization process, instructors involved in teaching cost/managerial courses should not make the learning process merely a bookish, rote-learning experience. More so than in financial accounting courses, instructors teaching cost/managerial courses must strive to fill the gap between the classroom and the workplace.

EXPERIENTIAL DIMENSIONS

There exists a number of ways in which an experiential dimension may be added to the classroom experience of the students. In this paper we report on how the usual experiential tools were used in cost/managerial accounting courses at Northern Arizona University (NAU).

Internships & Site Visitation

The most obvious way to bridge the gap between hands on learning and the classroom is through internships. However, providing internships to every single accounting major is logistically very difficult. A large number of students are unwilling to interrupt their schooling. Getting businesses to offer internships is also no easy task. Given this difficulty, internships for all accounting majors is not a practical solution.

Visiting firms is another potential way of enhancing students' exposure to real-life practices. However, arranging visitation for large classes can also pose logistical problems: they can get in the way of the work. A firm may not want the disruptions that are

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likely to be caused by the presence of a large group on its promise. An even greater disadvantage is the length of the visit. In a visit lasting one or two hours, it is difficult to understand much about managerial accounting systems. Another problem with site visitation may be the location of many colleges away from the business and industrial centers. For the students at Northern Arizona University, site visitation means a 300 mile round trip to Phoenix-- the nearest metropolitan area. However a well-planned site tour can be useful, judging from the experience at North Carolina Central University [Phillips, 1987]

Given the impracticality of providing internships and site visitations for large groups of students, at NAU we resorted to an assignment that modified them to suit our situation. Students were assigned the task of examining the accounting systems of a small business and exploring the extent to which the firm was making use of cost/managerial techniques taught the students in their courses. Students themselves were given the task of finding businesses that would let them examine their accounting systems. Subsequent to their examination of the accounting systems, the students were to recommend how cost/managerial techniques may be used by that business. The exercise brought home two facts to the students. It made them see how infrequently the small businesses were making use of the managerial and cost accounting tools. More important, it gave them a chance to apply the knowledge from the textbook to an actual situation.

Since internships and site visitation may not be very practical forms of providing experiential knowledge, one can resort to surrogate for of experiential learning, where students do not go to the workplace, rather the experiences underlying the workplace are brought to them.

Instructors' Industry Experience

Instructors with extensive cost and management accounting experience in either manufacturing or service industries can bring the theoretical and sometimes mundane topics to life by relating the actual application of the techniques to specific instances in their careers. For example, the importance of designing a thorough and accurate labor voucher system can be illustrated with actual systems to show their relationship not only to cost of the product but to marketing as part of the pricing, bidding system; to finance as part of the billing system on cost plus, and partial payment contracts; and to the evaluation of managers. The instructor's own experience can help the students appreciate the pressures that caused the recent frauds at General Electric and General Dynamics. The discussion can be brought to a close by assigning articles [Alexander, 1985b; Greeley, 1985; and Toufexis, 1985] about those widely publicized cases. The ethical, and monetary implications of simple labor voucher system that impacts an entire company and is not merely an accounting technique can be illustrated by someone who has been there and experienced these ramifications.

Even though instructors' experience can be a useful surrogate for experiential learning for students, a large majority of accounting faculty however do not have any, let alone recent industry experience. Relatively few are involved in consulting that could keep them abreast of current Developments. For large number of accounting faculty the only practical experience is limited to the

experience needed to certify as CPA's. Given the lack of experienced faculty, accounting instructors at a majority of schools are unable to supplement the textbook with their own experience.

Participative Case Studies

It is well recognized that a case-study approach to teaching is superior to one based entirely on lectures or problem-solving. While analyzing case studies, students are not being called upon to regurgitate the spoon-fed knowledge, instead they must synthesize and apply their knowledge. In order to get the maximum benefit of the case study approach, students must be able to empathize with the real-life situation being described in the case, however for a vast number of undergraduate and a significant number of MBA students, such empathy is not possible given their lack of experience. To get around the students' relative lack of real-life experience, we have tried to make cases an occasion for role-playing and assigning students actual roles in the cases. Our use of the classic Birch Paper Company case will serve as an example.

The case is included in many cost and managerial texts of various user levels [Anthony et al., 1984; Barrett and Bruns, 1982; Horngren and Foster, 1987; and Maciariello, 1984]. As a case study, it forces students to calculate the dollar effect of a transfer price decision on each of three divisions and the company as a whole. It becomes, however, a participative case study when students are assigned the roles of Brunner (Thompson division manager) Kenton (Northern division manager), Mr./Ms. X (Southern division manager), Mr./Ms. X (Vice President), and Mr./Ms. X (Controller). The controller is asked to present in understandable format a numerical analysis of the situation at a meeting in the V.P.'s office. The V.P. chairs the meeting and asks all the Division managers to explain their positions. Invariably, Brunner has a very difficult time defending his position. Kenton, many times will accept the Erie bid even though his division will incur \$2 more in cost in order to save the company. But the role playing generally ends with the spot light on the Southern Division manager as the problem because of the high internal profits. The role playing usually produces more emphasis on the communication among the managers and the need for negotiation a fair price for all constituents. The students see by experience that transfer pricing is for more than calculating a price between divisions, and learn that the complex situations of Decentralized companies involve more than simple accounting calculations and numbers.

Case studies that are specially well-suited for undergraduate courses have recently been brought out by NAA and management Accounting Section of American Accounting Association. So far four volumes have been issued in the series and they were edited by prof. Shane Moriarity. The volumes come with instructors' manuals. The cases included in the series were prepared by firms participating in symposia series organized by the two groups. The symposia were organized to increase the dialogue between instructors and practitioners of management accounting. Such a dialogue according to Hadassah Slominsky, NAA's Manager of Academic Relations "is a major step toward the goal of making management accounting education and research more responsive to the demands of current management accounting practice" [Moriarity, 1985-87, V. 4, p. IV].

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Reading Application-Oriented Articles

Short of doing it yourself, reading about how cost/managerial accounting techniques and tools are being used in various organizations may be one of the most useful ways to bring experiential learning to a classroom. A journal like Management Accounting is virtually filled with articles that deal with reports from the scene. The reading level of articles in practitioner-oriented journals like not only Management Accounting but also Harvard Business Review, and even The Wall Street Journal, Fortune and Business Week can be comprehended by undergraduate students with average reading skills. This is not likely to be the case with academic journals like Journal of Accounting Research and even Accounting Review, which are almost always beyond the comprehension of undergraduate students and a very large number of MBA students. To help the instructor select articles that may be assigned in a cost or managerial accounting course, there exist at least three checklists published in Management Accounting [Iqbal and Schmidt, 1933; Schiff, 1980, 1985]. All three are cross-referenced with the actual chapters of several managerial and cost accounting textbooks. Among the three checklists several hundred articles are listed. The articles are of manageable length for the student, and they deal with actual applications of cost and managerial accounting techniques and principles. They can supplement the text very well for the students by broadening his exposure to real-life applications.

The articles from NAA's Bold Step Research Series are also excellent discussions of "real world solutions to the problems posed by new technologies and trends in business and industry" [Jayson, 1987]. The articles in the July 1937 Management Accounting issue are reflective of this approach to discuss applications of accounting and human resources to today's management decisions. The entire issue is an excellent way to stimulate students and supplement the traditional text books used in the classroom.

Application Oriented Written Assignments

To really grasp the use of accounting in cost and other management decisions, the students need to experience the interrelationship of accounting and the other business disciplines. Traditionally, management accounting is a lower division course required of all business majors. The non-accounting major is always unconvinced of the value of accounting for marketing, personnel, production, finance, computer information systems, and purchasing. An experiential exercise that usually changes this perception and brings the course together at the end of the semester is to require each student to go through practitioner and applied journals in their particular field and find articles that discuss the use of accounting information in decisions of managers of production, marketing, finance, personnel departments. They are surprised to discover that managers in their own fields use budgeting, cost behavior, cost-volume-profit analysis, standard costing, cost re-parts, capital budgeting techniques, ratio analysis, and many other cost and managerial accounting topics. The students are required to analyze and discuss a written report on one article in their field. Their response is that they understand the technique so much better after seeing for themselves that managers in their field, not accounting, really apply a particular technique.

Another successful written assignment requires the students to assume that they own their own business, manufacturing or service. They are encouraged to live out their dreams, fantasies. Once they decide on their business, their assignment is to present a discussion of their ethical standards of operation. They must discuss their ethical standards toward customers, employees, suppliers, and competition. And most importantly, they must discuss the role that their management accounting system will play in the operation of the ethical standards of the business. This assignment requires the students not only to think about ethics business, but forces them to see the difficulty of implementing an ethical standard and the role of accounting as a control, monitoring, and reporting system in an area that can influence the entire philosophy and value system of a business.

Yet another experientially-related assignment we gave our students was having them read and report to class on the assigned project-reports issued by the Arizona Auditor General's Office. These project reports were prepared in response to the requests by the state legislators and as a result of the operational audits performed by the State auditors on various state agencies. They helped the student understand operational audits as they actually occur in practice. The topic of operational audits is best understood by reading up on the audits actually undertaken.

Games and Simulations

The very existence of an organization like ABSEL is guided by the belief that games and simulations in a classroom can be very useful Learning tools. Even though we have not tried the game in our classroom for logistical reasons, a very large number of schools have used Professor Kenneth R. Goosen's [1986] computer based simulation for managerial accounting. The simulation is available for microcomputers as well as mainframes.

National Association Accountants Membership

If our objective is to regain the relevance of cost and managerial accounting, and in the process better prepare our students for decision making, then we must have more direct contact with practitioners to determine their concerns both in the management problems they face and deficiencies they find in our programs and students. As faculty members we have traditionally done this in consulting and being members of professional associations. But apparently our consulting or memberships or both have not been relevant. The National Association of Accountants has made conscious effort to bridge the gap between academia and practice with the activities of its Committee on Academic Relations. However, one option that could bring relevance to all programs by its direct interaction between practitioners and STUDENTS (not just faculty) is the NAA student chapter.

The campus chapter of NAA are starting to sprout. As yet they do not compare with Beta Alpha Psi chapters in their numbers and strength. But perhaps this should not shock us given the bias toward financial accounting that has led to the loss of relevance of managerial accounting in both industry and academia.

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The NAA student chapters give the students an opportunity to meet, talk with, and generally get to know professionals that are doing what two-thirds of all accounting graduates will be doing for forty years- management accounting. They get to go to the monthly NAA meetings as equals with practitioners (usually the NAA chapter that the student group is affiliated with will offer reduced meeting rates) receive a subscription to Management Accounting, gave a ready pool of excellent speakers available for their own student meetings, and get to organize their own group interested in management accounting.

An excellent byproduct of the NAA student chapters is that it can force the faculty to acknowledge that there may be more to life than being a "Big 3" auditor. This pressure brought by our chief constituents, the students, could force a reexamination of the priorities in an accounting program. The students can make us become more relevant, because through their interaction with knowledgeable professionals they force a recognition of management accounting.

CONCLUSION

The lost relevance of management accounting can begin to be regained if accounting programs are willing to supplement the limited coverage of cost and managerial topics with instructors who have an interest and hopefully the experience in management accounting to develop experiential exercises, participative case studies, and application oriented assignments and articles. If these instructors show a true interest in management accounting by supporting NAA student chapters and emphasizing management and cost accounting as a career field fully equal and not subservient to financial accounting, then we may begin the long journey back to relevance in both industry and academia.

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