



APPLIES TO ACADEMIC YEAR 2014/2015

BST 9502 Advanced Managerial Accounting and Real Investment Theory

Programme

Bachelor of Business Administration (3. year), Elective

Responsible for the course

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Department

Department of Accounting - Auditing and Law

Term

According to study plan

ECTS Credits

15

Language of instruction

Norwegian

Introduction

ThiIn combination with BTH 9503 Bachelor's Thesis – Business Economics, 15 credits this course will constitute a specialization of 30 credits, and be named as a specialization on the certificate. Other students can choose the course as an elective course in their 3rd year of study.

The specialisation is analytically oriented and develops the participants' skills to take decisions according to the partner's interest. The purpose of the interplay between economic theory, economic models and data from the market and the accounting system, is to ensure that the students gets the necessary knowledge to be strong- minded persons regarding problems of business management. The specialisation is practically oriented, and the intention is to make sure that the student is familiar with the most common economic problems, from both the private sector and public sector. The specialisation intends to give the participants a background that will enable them, after acquiring the necessary knowledge of the relevant trade, to become business partners

Learning outcome

Acquired knowledge

After taking the course, the students should be able to explain key concepts and give an account of the tools of analyses of business economic problems (these tools include methods, techniques, theories, etc. applied in the subject area).

Examples:

- How business management reports should be developed.
- Decision-making, both in the short and the long term.
- Achieve an understanding for the evolution of modern business economics, which will make the students suitable for master studies.
- Achieve an understanding for different sides of business management, and the relations between subjects such as strategy, finance and accounting.

Acquired skills

After taking the course, the students shall:

- Be able to see the relations between goal, problem description, data quality, method and the consequences for the decision-making.
- The students shall realise that the final decision recommendation is a consequences of a range of assumptions and choices, made during the reporting process. "Everything depends on something".

Examples:

- The reliability of a recommendation depends on both data quality and the method that has been chosen.
- Decisions may imply new behaviour that should be taken into account during the decision-making process.

Reflection

After taking the course, the students shall

- Be able to understand that doing the best in the interest of one party often will bring a poorer solution for another party. Using business management models will neither ensure justice or maximize the involved persons as a group.
- The students should understand the importance of being able to compare the different advantages and disadvantages of alternatives, analyse them and make conclusions.
- In addition, the students should realise that despite the problem related to measuring the firm's output (quality and productivity) in one sense, it is important to try to figure out some objective goals. Afterwards, it is the individual employee's responsibility to try to get as good results as possible from the resources she or he has at her/his disposal. Is it possible to maintain or improve output, measured both in terms quality and productivity, with less expenses?

Prerequisites

The students are supposed to have previous knowledge in mathematic, investment and finance theory, statistic and accounting corresponding to two year of study in business and administration at the university level.

Compulsory reading

Books:

Blocher, Edward J ... [et al.]. 2013. Cost management : a strategic emphasis. 6th ed. McGraw-Hill/Irwin
Gjønnes, Svein H. og Tor Tangenes. 2013. Arbeidsbok til Økonomi- og virksomhetsstyring. 2. utg. Fagbokforlaget. Kap. 12 og 15
Gjønnes, Svein H. og Tor Tangenes. 2014. Økonomi- og virksomhetsstyring : strategistøtte ved prestasjonsstyring, ressursstyring og beslutningsstøtte. 2. utg. Fagbokforlaget. Kap. 12 og 15
Kodukula, Prasad and Papudesu, Chandra. 2006. Project valuation using real options : a practitioner's guide. J. Ross Publishing

Other:

I tillegg vil materiale utdelt under forelesningene være å anse som pensum.

Recommended reading

Books:

Boquist, John A., Todd T. Milbourn and Ajnan V. Thakor. 2010. The value sphere : the corporate executives' handbook for creating and retaining shareholder wealth. 4th ed. World Scientific Publishing
Kaplan, Robert S. and Robin Cooper. 1998. Cost & effect : using integrated cost systems to drive profitability and performance. Harvard Business School Press

Course outline

Introduction:

Business Economic consist of four topics:

1. Strategic cost analysis
2. Incentive contracts modelling
3. Linear programming
4. Multi period firm valuation and project valuation

Topic 1: Strategisk cost analysis

Strategic cost analysis deal with different aspects of cost management, such as problems regarding the best way to distribute resources, deciding the best extent of resources and how to motivate the employees to work with resource management. An important objective is to make students to understand that "number is alive", that every number has to be tailored depending of what kind of decision is going to be taken. The amount of such numbers, decision relevant numbers, depends on the aims of the decision. Relevant theory and methods, making students able to calculate or estimate decision relevant costs, whether the decision is a matter of products, customers, efficiency or outsourcing, will be emphasised.

- Introduction to Strategic cost analysis
- Cost management
- Activity analyse, from an internal and an extern perspective.
- Activity based costing and activity based management, capacity problems, how to choose resource drivers and cost drivers
- Profit analyse, and the need for tailor-made numbers, depending on aim and cost object.
- Solving the problem with joint costs
- Life cycle cost
- Time driven activity based costing
- Lean Costing
- Relevant articles regarding to:
 - Stall points
 - Managements systems
 - Shared Services
 - Lean Costing
 - Time Driven Activity Based Costing

Topic 2: Incentive contracts modelling

The students shall understand a simple principal –agent model, the advantages and disadvantages, and be able to analyse and develop incentive contracts in practice. The students shall know the essential results from international studies.

Introduction to Incentive contracts modelling:

- A framework for incentive modelling, a simple principal - agent model with a risk neutral agent
- Motivation and behavioural economics
- Screening
- Formal models in incentive contracts
- Executive contracts and bonus plans
- Incentives in team
- Options
- Empirical studies: How effective are economics incentives?

Topic 3: Linear programming

The students shall understand the need for Linear Programming (LP), for instance in connection with staff allocations, capital rationalisation, production planning and deciding the product mix. They shall also be able to formulate different business problems, use the solver function in Excel, interpret data and reflect on the Excel solution, and finally, outline improving amendments.

Introduction to LP:

- Structuring LP-problems
- LP as a method improve activity analyses, iterative budgeting and capital rationalisation problems.
- Slack variables, shadow prices, decision variables, base solutions, variables in and outside base solutions, other LP notions.
- Fundamental understanding of the Simplex algorithm function.
- Transformation of the constraints to a specific problem, to be able to evaluate whether the solution is optimal or amendments should be taken into concern.
- Different solution presentation; graphic, analytical, Excel and the connections between those presentation formats.

Topic 4: Multi period firm valuation and project valuation

Multi period valuation is about economic evaluation of real investments alternatives or about economic evaluation of firms, or parts of firms. Regarding to the evaluation of real investments alternatives, the value of flexibility will be emphasised, and thus the students will be able to use the net present value method in an advanced way. The insight of flexibility will help the students to understand that flexibility, the possibility to make corrective decisions, must be taken into account before the decision has been made. This is true whether the result in the future, as a consequence of the decision, proves to be better or worse than expected. Practical use of option theory, and how qualitative factors can be taken into consideration, will be lectured. The students will learn about different firm valuation methods, and in relation with this, the need for accounting corrections.

Introduction to Multi period firm valuation project valuation:

- Traditional Net Present Value analyse
- Fundamental options theory
- Risk adjusting in the numerator or in the denominator? Calculating the risk equivalent cash flow
- The value of flexibility in strategic decisions
- Different kinds of flexibility
- Multi period binominal model
- Real options theory
- Flexibility and the consequences for the concept of relevant risk and the stipulation of the risk adjusted discount rate (RADR)
- Risk neutral method
- Project Score Card
- Accounting numbers versus corrective accounting numbers versus market value numbers
- Calculating free cash flow
- Different firm valuation methods

Computer-based tools

Spread sheet (Excel).

Learning process and workload

The specialisation Business Economics has 90 hours of lectures in the autumn term, including 10 hours of assignment reviews.

Recommended use of hours:

Activity	Hours
Participation in lectures	80
Participation in assignment reviews by lecturer	10
Exercises	220
Readings and self study	85
Examination	5
Total recommended use of time	400

Use of hours

Examination

A 5 hour individual written exam concludes the course.

Examination code(s)

BST 95021 Written examination, counts 100% towards the final grade in BST 9502 Business Economics, 15 credits

Examination support materials

Books, notes from the lectures, BI defined calculator, TEXAS INSTRUMENTS BA II Plus™, is allowed.

Examination support materials at written examinations are explained under examination information in the student portal @bi. Please note use of calculator and dictionary in the section on support materials.
<https://at.bi.no/EN/student-information/examination/support-materials>

Re-sit examination

A re-sit examination is offered the next time course is taught.

Additional information