Samples

**Instructor Notes for In-Class Small-Group Activities**

14 April 2023

**In-Class, Small-Group Discussion Activities**

Student engagement in the classroom increases dramatically if you structure the class time around a series of small-group discussion activities. As a rule of thumb, you shouldn’t “lecture” for more than 10 continuous minutes before stopping and assigning a short discussion exercise to the small student groups.

Near the beginning of the session, instruct the students to quickly form themselves into groups of three or four. This can be done on an *ad hoc* informal basis or can be done by randomly assigning students to new discussion groups for each class session.

How to enforce participation? One easy way is to simply give attendance points to each student who attends and engages in a small discussion group. **=====================================================================**

**Seasonal Revenue**

My total revenue for the year ended February 2, 2013 was $13.5 billion. I generated 42.6% of this revenue in the 3 months of November 2012, December 2012, and January 2013.

a. Travelers Insurance

b. Alcoa

c. 3M

d. Toys R Us

**Name That Company!**

Instructor notes: (The “Seasonal Revenue” question is just one in a series of 5 or 6 similar questions related to income statement items.)

This game allows (and requires) the students to exercise their general business intuition to make connections between business reality and numbers reported in an income statement. In addition, this game also provides a review of some income statement terminology.

Give the small student groups about 1 minute to brainstorm about the answer to the question.

Note: You might give a quick explanation of the business operations of Travelers Insurance (business insurance and personal insurance such as home and auto), Alcoa (major producer of aluminum), 3M (manufacturer of products such as Scotch Tape and N95 respirator masks used during COVID), and Toys R Us (toy retailer; bankrupt in 2018 but making a comeback insider Macy’s stores).

***Ask for a group or two to give both their answer and their reasoning.***

The answer is D, Toys R Us. Some companies, such as retailers, have a pronounced seasonal trend in their sales. It shouldn’t be a surprise that Toys R Us makes a large percentage of its sales during the Thanksgiving/Christmas selling season. The other companies on the list do not have a significant seasonal trend in sales. – Because many expenses of Toys R Us are steady throughout the year, operating income goes down dramatically in the months when sales are low. Virtually ALL of the operating income of Toys R Us is generated in the November, December, and January quarter.

This potential for a seasonal trend, and the desire for the most timely data possible, mean that the SEC requires public companies to file financial statements every QUARTER.

**Interesting Income Tax Rates**

Consider these income tax rates for 2012 and 2013:



At that time, the U.S. corporate income tax rate was 35%.

Quickly show how this “income tax rate” number is computed. It is just the income tax expense (provision for income taxes is a fancy name for income tax expense) divided by INCOME BEFORE INCOME TAXES. The number itself is already computed and shown in the slide.

**HOW is Microsoft able to keep its income tax RATE so LOW?**

**WHY is Exxon Mobil’s income tax rate so HIGH?**

Instructor notes:

Give the student GROUPS 1 minute to discuss the question of why Microsoft’s income tax rate is so low.

Ask the GROUPS for some responses.

Answer

If you were to look in the notes to Microsoft’s financial statements, you would see that the company places its regional operating centers in low-tax countries: in Puerto Rico, in Singapore, in Ireland. Microsoft’s income rate is its weighted-average worldwide income tax rate.

Because Microsoft’s business is based on intellectual property, the company has great flexibility in locating its actual operations in low-tax countries.

In contrast, Exxon Mobil must go where the oil is; the company has little flexibility in terms of moving its taxable income to low-rate countries.

Governments around the world hate the fact that the taxable income from intellectual property is so easy to move to different, low-tax countries.

Isn’t it AMAZING how we can pick up some pretty interesting tidbits about multi-national corporate strategy … just by looking at a couple of numbers from Microsoft’s publicly-available income statement!!!

By the way, starting in 2018 the U.S. corporate income tax rate was lowered to 21%.

Why? An important reason is that relatively high U.S. corporate tax rates prompted companies such as Microsoft to shift operations overseas.

We’ll see whether this lower 21% rate will gradually induce companies to return operations, and jobs, back to the United States.

Preliminary evidence suggests that this U.S. tax policy is working. Back in the period from 2012 to 2014, before the cut in the U.S. corporate tax rate, Microsoft generated just 20% of its total pre-tax income inside the United States.

In 2020, after the tax rate cut, Microsoft generated 45% of its taxable income inside the United States. Yes, Microsoft appears to have moved some of its operations back to the United States in response to the reduction in corporate income tax rates.

And how will other countries respond to this reduction in income tax rates by the United States? Also with lower tax rates? We’ll see.

**Walmart’s Sales**

Wal-Mart’s net sales for the fiscal year ended January 31, 2023 were $606 billion. This is a financial accounting number. The number is the sum of all sales in all stores in all departments for all of the days in the fiscal year ended January 31, 2023.

Now, imagine that you are a Walmart operating manager: for a region, for a country, or for the whole world. List 10 additional DETAILS about this $606 billion sales number that you would like to know as you make detailed, daily operating decisions.

Instructor notes:

At this point, instruct the GROUPS to spend about two minutes to brainstorm about what additional detail a Walmart manager would want to know about SALES. To prime the pump, give an example: If I were the CEO of Walmart, I would want to know the sales by REGION: North America, South America, Europe, etc.

NOTE: Remind students to brainstorm just about SALES. Don’t talk about expenses.

ASK a few groups for their ideas. Take a little time discussing each idea.

Examples –

By store, by country, by region

By department (clothing, men’s clothing, etc.)

By specific item

By physical location in the store

By season / climate

By day of the week

By time of day

By national / local ad campaign

By payment method

By demographics of buyer

We could list hundreds of additional things, but here are a few.

In addition to knowing that the total worldwide sales are $606 billion, I would want to know how many of those sales were in North America. In Mexico? In South America? In Europe? In Asia? In Africa?

In fact, I want to know sales by store. And I don't want to just know it by store, I want to know how much did we have last year in that same store. And what was our target for this year in that store?

Now let's go down even further. I want to know sales by department. Are we selling mostly groceries? Are we selling mostly children's clothing? Men's clothing? Outdoor lawn care products?

In fact, let's go to specific items. How much milk did we sell? How many bananas did we sell? How many lawnmowers did we sell?

I want to drill down to as much detail as possible because I'm running a business here. I want to identify my best selling products and my worst selling products.

I want to know how much is sold by seasons. What is sold in January? What is sold during the holiday selling season?

In fact, I want to go a little bit deeper. How about day of the week? What happened on Mondays, Tuesdays, Wednesdays, by time of day? Should we be open 24 hours? Should we even open before noon?

How many people pay cash? How many used various credit cards? Should we have our own credit card? Should we even accept cash?

I want sales broken down by the demographics of the buyer; I can use data analytics to determine social economic status of buyers by their pattern of purchases. I can use this specific information to target specific buyers with specific deals, special coupons, and so forth.

So, the financial accounting number is $606 billion in sales. That is a nice number to report to outsiders. But if I am a Walmart manager, I need to know details that I can use on a daily basis to run the business.

That is managerial accounting. Inside secret daily detail.

The KEY POINT is that in MANAGERIAL ACCOUNTING we deal in DETAILS. One summary “sales” number is not enough.

**Russian restaurant in Provo**

You want to open a restaurant in Provo, Utah serving

* **Борщ (borscht)**
* **Пельмени (pelmeni)**
* **Хлеб (good, solid Russian bread)**

**Can a Russian restaurant in Provo make money?**

Monthly rent (includes equipment & furniture) $5,000

Monthly manager’s salary 3,000

Monthly insurance, utilities, etc. 1,000

Server and cook costs $4 per meal

Food material costs $5 per meal

Selling price $15 per meal

A market survey indicates that 1,000 people in Utah Valley are interested in eating Russian food an average of once a month.

GROUPS will work on the questions, in a block.

**Questions**

1. The price of each meal is $15. After paying for the staff cost and cost of the food, how much of this $15 will you get to keep?

2. What are the total costs you have to pay each month, whether you have any customers or not?

3. How many customers must you have each month to pay for your “fixed costs”?

**4. Should you open the restaurant?**

Instructor notes:

Give the GROUPS about 4 minutes to decide whether it makes financial sense to open a Russian restaurant in Provo. – Note: The numbers in the student handout are only hypothetical. Tell the groups to assume that these numbers are correct. **Also, tell the class that you plan to run a very tough business: if there are no customers, you send the staff home, and they don’t get paid. So, the $4 per meal server and cook costs really is paid ONLY if there are customers. In other words, if there are zero customers, then the cooks and the servers are paid $0. Nasty business.**

NOTE: For this exercise, don’t give the groups any guidance. Let them have fun figuring out how to use the data given.

At the end of 4 minutes, have 2 or 3 group spokespersons stand up to declare their group’s decision as well as their reasoning behind the decision.

**1. The price of each meal is $15. After paying for the staff cost and cost of the food, how much of this $15 will you get to keep?**

ASK a GROUP for their answer.



Think of it like this: The customer pays $15 for the meal. Immediately, $5 of that must be paid the food supplier (they are waiting at the back door for their money), and $4 of that must be paid to the staff. So, you, the owner, are left holding $6. Later in the course we will learn that this is called “contribution margin.”

**2. What are the total costs you have to pay each month, whether you have any customers or not?**

ASK a GROUP for their answer.



The rent, the manager’s salary, and the insurance, utilities, etc. must be paid whether you have any customers or not. These are called “fixed” costs. Fixed costs can kill you because they are there, through good times and bad.

**3. How many customers must you have each month to pay for your “fixed costs”?**

ASK a GROUP for their answer.



So, from each meal you get to keep $6 in “contribution margin.” Therefore, you need to serve 1,500 meals per month in order to pay for all of your fixed costs. This is called “breakeven.” We will study this in detail later in the course.

**4. Should you open the restaurant?**

ASK a GROUP for their answer.

**Breakeven per month = 1,500 customers**

**Market size per month = 1,000 customers**

**Open the restaurant? NO!**

The obvious answer is NO. However ….

**ASK** the GROUPS to brainstorm about how they can adjust things to make this Russian restaurant profitable. Tell them to consider the accounting numbers they have just looked at. – Give them about a minute and ASK for some suggestions.

It is likely that the students will suggest these things.

**Are there any things in the numbers that we can change?**

* + **Price of meal? [We have to be in line with the local market, so there may not be much flexibility here.]**
  + **Managers’ salary? [Have a family member be the manager? Ahh, but then we need to consider the OPPORTUNITY COST of the wage or salary that family member is giving up in her or his existing job.]**
  + **Rent? [Note: Clever students sometimes suggest starting the business using a food truck.]**

**Do we expect market conditions to change over time?**

* + **Growth in the market as people hear about our Russian food?**

**A key point is that accounting calculations only give guidance in making the decisions. Ultimately, the decision must be made using a person’s own business judgment. But you had better have VERY good reasons to make a decision that contradicts the accounting calculations.**

**Accounting numbers don’t make the decision for you, but they do help you structure the decision and see impact of the important factors.**

How many new restaurants open in your area each year? Dozens. How many of those restaurant owners did a serious breakeven analysis before opening their doors? Very few. How many go bust within one year? The number that we frequently toss around is 90%. The reference given below suggests that this is an urban myth. Boy, but it sure seems true, given what I have seen. What is documented in the article cited below is that 60% of new small businesses, of all types, go bankrupt within 3 years. **And with that bankruptcy frequently goes the dreams and financial security of a family. The would-be entrepreneur not only no longer has the business, but she or he also no longer has the savings that have taken years to build up. The person is now back, working for “the man,” with the hopes and dreams of being a small business owner crushed.**

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one in four restaurants close or change ownership within their first year of business. Over three years, that number rises to three in five.

While a 60% failure rate may still sound high, that's on par with the cross-industry average for new businesses, according to statistics from the Small Business Administration and the Bureau of Labor Statistics.

*Business Week*, April 2007

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