

Program for Management Development

January 16, 2026

Accounting

This module of the PMD provides a broad overview of some fundamental theories and critical practices of managing with accounting information that every business leader with Profit & Loss (P&L) responsibility should be familiar with. By covering the most important concepts and applications, the module allows PMD participants to acquire or solidify their financial acumen with a fresh perspective that emphasizes managerial literacy, decisive action, and value creation.

Preparation

Please work through the assigned case studies and reflect on the discussion questions. All these case studies are rather short and concise classics and cover important concepts that are as relevant in 2026 as ever. Depending on your prior knowledge about accounting, you might want to read them or only skim them. Either way, your self-study of this material is fantastic preparation for our residential sessions and will help you tremendously to learn as much as possible from our discussions.

Please concentrate on the conceptual understanding of the issues at hand and the managerial interpretation and implications of the numbers rather than on any mathematical calculation of the numbers. Put differently, perform calculations only if you really want to!

Session 1: Managing the business with aggregate financial information

Case Study:

Salem Telephone [HBS 9-104-086].

Summary:

A new business unit of Salem Telephone has not developed as planned. Sales are lagging and the business unit is delivering losses instead of the expected profits. How bad is the situation and what should the management team do to improve it?

Discussion Questions:

1. Please answer the questions in the case.
2. How would you design an accounting report (P&L/income statement) that presents the information more clearly than does the current report?

Session 2: Managing the business with disaggregate financial information

Summary

A management team needs to deal with an unexpected challenge: a new competitor has just entered the market for one of the company's core products, threatening the company's competitiveness. The management team decides to react swiftly, but doing so raises some questions about how to navigate the transition. What do you recommend?

Discussion Questions:

1. How profitable are 100 steel rings and 100 plastic rings?
2. Assume the worst-case scenario that the company faces the plastic ring problem in all its markets and not only in the 10% suggested in the case.
 - a) What would you do with the current inventories of raw steel and steel rings?
 - b) Do you recommend producing additional steel rings during the summer (assume that maintenance is done by workers that are otherwise idle)?
3. What action should Bridgeman take? Why?

Session 3: Managing performance of business units and managers

Case Study:

Sub-micron Devices [*Stanford A-170*].

Summary

A profit center within a large multinational receives a quite large order from a new customer. The management team has different opinions about this order's profitability and, therefore, is divided whether they should accept it. What would be the true financial consequences of saying "yes"?

Discussion Questions:

1. Ravenport claims that the Western Digital order is unprofitable. Parks argues just the opposite: the Western Digital order is profitable. Who is right? Should they take the order?
2. What should Joe Tisch, Chief Controller for Sub-Micron Devices, do in this situation?