



**Pearson  
LCCI Level 4 Certificate in  
Management Accounting  
(VRQ)  
(ASE20102)**

**SPECIFICATION**

Issue 2

First teaching from September 2015



# **Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) (ASE20102)**

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Issue 2

First teaching from September 2015

## **Edexcel, BTEC and LCCI qualifications**

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This specification is Issue 2. Key changes are sidlined in the document. We will inform centres of any changes to this issue. The latest issue can be found on our website, [qualifications.pearson.com](http://qualifications.pearson.com)

## **Acknowledgements**

This specification has been produced by Pearson on the basis of consultation with teachers, examiners, consultants and other interested parties. Pearson would like to thank all those who contributed their time and expertise to the specification's development.

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*All information in this specification is correct at time of publication.*

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# Introduction

## LCCI qualifications

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LCCI qualifications are widely regarded by employers as preparing students to carry out the functions of modern international business. The qualifications are recognised worldwide by employers, universities and professional bodies such as the Association of Chartered Certified Accountants (ACCA).

This new and engaging range of qualifications has been developed in collaboration with professional bodies, employers and customers. We have conducted in-depth, independent consultation to ensure that the qualifications develop the breadth and depth of knowledge, skills and understanding that students need to be effective employees, and that the qualifications support progression pathways.

LCCI offers a wider range of qualifications; they are available at levels 1 to 4 across the following subject areas:

- English Language
- Marketing and Customer Service
- Business, Administration and IT
- Financial and Quantitative.

This specification is part of the Financial and Quantitative suite of LCCI qualifications.

Please refer to the Pearson website for details of other qualifications in the suite.

## **Purpose of the specification**

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This specification sets out:

- the objectives of the qualification
- any other qualification(s) that a student must have completed before taking the qualification
- any prior knowledge and skills that the student is required to have before taking the qualification
- any other requirements that a student must have satisfied before they will be assessed or before the qualification will be awarded
- the knowledge, understanding and skills that will be assessed as part of the qualification
- the method of assessment and any associated requirements relating to it
- the criteria against which a student's level of attainment will be measured (such as assessment criteria).

## **Rationale**

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The Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) meets the following purpose:

The purpose of this qualification is to enable students, currently working in or wanting to work in a managerial or supervisory role in the area of management accounting, to meet international professional body standards and to progress to higher professional qualifications and membership of professional bodies, increasing their employability in the sector.

The qualification at Level 4 also provides progression to a higher level qualification in the same specialised area for students completing the Pearson LCCI Level 3 Certificate in Cost and Management qualification (VRQ) or equivalent.

## Qualification aim

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The Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) qualification is for students who work in, or who want to work in, a supervisory or managerial role within the area of management accounting.

The qualification gives students advanced knowledge and understanding of management accounting techniques in business, budget setting, monitoring, variance analysis and business performance.

Students will gain the skills to use a range of techniques to prepare complex financial information. They will construct budgets for planning and control, apply contribution theory for short-term decision making, and apply forecasting techniques and scenario planning to optimise profitability. Students will also analyse financial performance and evaluate information for management to support decision making and planning.

This qualification is trusted and valued by employers worldwide and recognised by universities and professional bodies.

Students who have completed the Pearson LCCI Level 3 Certificate in Cost and Management Accounting (VRQ) qualification or equivalent can progress to this Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) qualification.

Students can progress from this Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) qualification by working towards higher professional qualifications and membership of professional bodies, increasing their employability in the sector. Students can continue their academic development by progressing to degree courses in management or financial accounting.



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## Specification at a glance

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The Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) consists of one externally examined paper.

<b>Pearson LCCI Level 4 Certificate in Management Accounting (VRQ)</b>	
<ul style="list-style-type: none"><li>Externally assessed</li></ul>	<b>100% of the total qualification</b>
<b>Overview of content</b> <ul style="list-style-type: none"><li>Standard costing</li><li>Budgeting</li><li>Short-term decision making</li><li>Forecasting</li><li>Performance measurement</li><li>Scenario planning</li><li>Corporate social responsibility</li></ul>	
<b>Overview of assessment</b> <ul style="list-style-type: none"><li>One written externally set and marked paper, contributing 100% of the overall grade of the qualification</li><li>The examination will be 3 hours</li><li>The examination will consist of 120 marks</li><li>Students will be graded Pass/Merit/Distinction. A result of Fail will be recorded where students do not achieve the required marks for a Pass</li><li>The paper comprises five questions</li><li>Students answer all questions</li></ul>	

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# Knowledge, skills and understanding

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## Content

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The following content must be covered to prepare students for the final assessment of this qualification.

### 1. Standard costing

Subject content	What students need to learn:
<b>1.1 Variance analysis</b>	a) Preparation of a standard cost card
	b) Types of standards: <ul style="list-style-type: none"><li>• ideal</li><li>• target</li><li>• normal</li><li>• basic</li></ul>
	c) Calculation of total sales variance
	d) Analysis of total sales variance to selling price and sales volume variances (absorption and marginal costing)
	e) Calculation of total direct material variance
	f) Analysis of total direct material variance to price and usage variances and reconciliation to actual costs
	g) Calculation of total direct labour variance
	h) Analysis of total direct labour variance to rate, efficiency and idle time variances and reconciliation to actual costs
	i) Calculate the standard hours of production
	J) Calculation of total, price and expenditure variable variances
	k) Calculation of total fixed production overhead variance, expenditure, volume, capacity and efficiency variance
	l) Relationship of fixed production overhead volume variance to efficiency and capacity variances
	m) Calculation of actual and standard costs
	n) Reconciliation of budgeted/standard cost to actual cost using variances (absorption and marginal costing)
	o) Use of standard costs and variances (cost control)

Subject content	What students need to learn:
	p) Relationship between material, sales, labour and fixed overhead variances
	q) Calculation of ratios of production volume (activity), production efficiency, capacity and utilisation
	r) Preparation of effective management information communicating variance analysis and causes of variances

## 2. Budgets

Subject content	What students need to learn:
<b>2.1 Preparation of budgets</b>	a) Alternative approaches to traditional budgeting <ul style="list-style-type: none"> <li>• zero-based budgeting</li> <li>• rolling/incremental budgets</li> <li>• activity based budgeting</li> </ul>
	b) Human behavioural aspects of budgeting
	c) Budget-setting process
	d) Preparation of advanced functional budgets for: <ul style="list-style-type: none"> <li>• revenue</li> <li>• production</li> <li>• material usage</li> <li>• materials purchases</li> <li>• direct labour</li> <li>• cash budget</li> <li>• income statement</li> </ul>
	e) Importance of reconciliation of profit and cash budgets
	f) Reconciliation of profit and cash budgets
	g) Preparation of flexed budgets
	h) Principles of Activity Based Costing (ABC)
	i) Differences between ABC and traditional overhead allocation
	J) Calculation of cost driver rates and unit production costs based on ABC principles
	K) Principles of: <ul style="list-style-type: none"> <li>• Just-In-Time (JIT) approach to stock management</li> <li>• Total Quality Management (TQM)</li> </ul>
	L) Implications of JIT and TQM on performance

Subject content	What students need to learn:
<b>2.2 Budget planning and control</b>	a) Use of budgets to identify problem areas and recommend appropriate action
	b) Analysis of flexed budgets

### 3. Short-term decision making

Subject content	What students need to learn:
<b>3.1 Contribution theory</b>	a) Cost principles for special order decisions
	b) Contribution theory for short-term decision making
	c) Limiting factor analysis: <ul style="list-style-type: none"> <li>• Limiting factors for material, direct labour and machine hours</li> <li>• Optimising production output for profit maximisation</li> </ul>
	d) Contribution analysis as a decision making technique

### 4. Forecasting

Subject content	What students need to learn:
<b>4.1 Forecasting methods</b>	a) Application of linear regression: <ul style="list-style-type: none"> <li>• <math>y = a + bx</math> (x and b variables)</li> </ul>
	b) Application of high/low method to forecast costs
	c) Business trends: <ul style="list-style-type: none"> <li>• cyclical</li> <li>• seasonal</li> <li>• random</li> </ul>
	d) Time series analysis
	e) Application of index numbers to make forecasts and evaluate performance
	f) Extrapolation to project trend data
	g) Calculation of seasonal variation to adjust trend forecasts (additive and multiplicative models)

Subject content	What students need to learn:
	h) Application and evaluation of sampling techniques: <ul style="list-style-type: none"> <li>• random</li> <li>• quasi-random</li> <li>• stratified</li> <li>• quota</li> <li>• convenience</li> <li>• cluster</li> </ul>

## 5. Financial performance

Subject content	What students need to learn:
<b>5.1 Financial performance</b>	a) Performance indicators (financial and non-financial): <ul style="list-style-type: none"> <li>• profitability ratios</li> <li>• liquidity ratios</li> <li>• control ratios</li> <li>• efficiency, capacity and activity</li> <li>• cost per unit of input</li> <li>• cost per unit of output</li> <li>• quality indicators</li> </ul>
	b) Calculation of ratios for profitability, liquidity and gearing against other businesses, industrial standards and previous years
	c) Effectiveness and efficiency of a business
	d) Balanced scorecard approach
	e) Target costing technique
	f) Preparation of effective management information communicating financial performance

## 6. Scenario planning

Subject content	What students need to learn:
<b>6.1 Optimising profitability</b>	a) Identification of products, activities and departments for closure, using cost-behaviour and contribution
	b) Sub-contracting alternatives (make or buy decisions) with and without limiting factors
	c) Life-cycle costing technique
	d) Impact of changes in price and cost at different levels of output

## 7. Corporate social responsibility

Subject content	What students need to learn:
<b>7.1 Sustainability</b>	a) Importance of sustainability in business organisations: <ul style="list-style-type: none"> <li>• main findings of the Brundtland Report</li> <li>• factors for triple bottom line:               <ul style="list-style-type: none"> <li>– financial/economical</li> <li>– environmental</li> <li>– social factors</li> </ul> </li> </ul>
	b) Application of corporate social responsibility policy
	c) Budget-setting process

The following skills should be developed throughout the course of study.

Skills	Students should
	a) Use standard costing to analyse performance
	b) Construct and interpret functional and flexed budgets for planning and control
	c) Apply appropriate accounting techniques to forecast information
	d) Use appropriate accounting techniques to measure performance and manage costs
	e) Analyse management accounting information to improve financial performance
	f) Evaluate different options and business scenarios to improve financial performance
	g) Preparation of performance information for management, communicating information effectively



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# Assessment

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## Assessment summary

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### Pearson LCCI Level 4 Certificate in Management Accounting (VRQ)

First teaching: September 2015

Number of series: 4

#### Overview of content

- Standard costing
- Budgeting
- Short-term decision making
- Forecasting
- Performance measurement
- Scenario planning
- Corporate social responsibility

#### Overview of assessment

- One written externally set and marked paper, contributing 100% of the overall grade of the qualification
- The examination will be 3 hours
- The examination will consist of 120 marks
- Students will be graded Pass/Merit/Distinction. A result of Fail will be recorded where students do not achieve the required marks for a Pass
- The paper comprises five questions
- Students answer all questions
- Calculators may be used in the exam
- Bilingual dictionaries are permitted for use in the exam

## Assessment Objectives

Assessment objectives have been developed for this qualification to ensure that examinations are appropriately targeted. They describe the abilities that students should be able to demonstrate. Each question targets one or more assessment objectives. They are applied to the examination in the proportions below.

<b>Students must:</b>		<b>% of qualification</b>
<b>AO1</b>	<b>Memorise</b> Recall cost accounting terms and definitions, and recall cost accounting processes and formulae	8-12
<b>AO2</b>	<b>Perform procedures</b> Apply costing and management accounting techniques Carry out computations Prepare costing statements and management information using appropriate formats	43-47
<b>AO3</b>	<b>Communicate understanding</b> Describe and explain costing and management information, and understand cost accounting techniques	18-22
<b>AO4</b>	<b>Analyse</b> Compare costing and management information Interpret cost and management and financial data and information, and forecast consequences Recognise patterns and correlations Predict consequences	13-17
<b>AO5</b>	<b>Evaluate</b> Consider evidence in order to build a reasoned decision and draw conclusions	8-12
<b>Total</b>		100

## Performance descriptors

Grade	Descriptor
<b>Pass</b>	<p>Candidates can recall, describe and explain cost accounting terms, definitions, formulae and techniques.</p> <p>Candidates can apply cost accounting techniques to present costing and management data in appropriate formats</p> <p>Candidates can select cost accounting information carry out complex computations, and prepare costing and financial statements with precision</p> <p>Candidates can compare and analyse complex costing and management information and interpret financial data and information, to derive outcomes</p> <p>Candidates can present a reasoned decision for management</p>
<b>Distinction</b>	<p>Candidates can recall, describe and explain cost accounting terms, definitions, formulae and techniques. Candidates can link knowledge and understanding from different management accounting contexts.</p> <p>Candidates can apply complex cost accounting techniques to present costing and management data in appropriate formats</p> <p>Candidates can select cost accounting information, carry out complex computations, and prepare costing and financial statements with high precision</p> <p>Candidates can compare and analyse complex costing and management information and interpret financial data and information to derive outcomes and forecast consequences</p> <p>Candidates can weigh up evidence, including a logical chain of reasoning to present a balanced decision for management</p>

Performance descriptors may be revised following first award.

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## Entry and assessment information

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Please see the *LCCI International Qualification Operations Guide for centres* and the *LCCI Examination Regulations*, available from our website: [qualifications.pearson.com/lcci](http://qualifications.pearson.com/lcci)

## Student entry

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Details on how to enter Students for the examination for this qualification can be found at: [qualifications.pearson.com/lcci](http://qualifications.pearson.com/lcci)

The closing date for entries is approximately six weeks before the start of each examination series. Centres should refer to the published examination timetable for examination dates.

## Combinations of entry

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There are no forbidden combinations of entry for this qualification.

## Age

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This qualification is intended for learners aged 16 and above.

## Resitting the qualification

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Students can resit the examination for the Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) qualification.

It is strongly advised that candidates do not register to undertake a resit until they have received the results from their previous examination.

## Awarding and reporting

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The Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) qualification is certificated on a three-grade scale: Pass/Merit/Distinction. Pass and Distinction are awarded, Merit is arithmetically calculated.

# Access arrangements, reasonable adjustments and special consideration

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## Access arrangements

Access arrangements are agreed before an assessment. They allow students with special educational needs, disabilities or temporary injuries to:

- access the assessment
- show what they know and can do without changing the demands of the assessment.

The intention behind an access arrangement is to meet the particular needs of an individual student with a disability without affecting the integrity of the assessment. Access arrangements are the principal way in which awarding bodies comply with the duty under the Equality Act 2010 to make 'reasonable adjustments'.

Access arrangements should always be processed at the start of the course. Students will then know what is available and have the access arrangement(s) in place for assessment.

## Reasonable adjustments

The Equality Act 2010 requires an awarding organisation to make reasonable adjustments where a person with a disability would be at a substantial disadvantage in undertaking an assessment. The awarding organisation is required to take reasonable steps to overcome that disadvantage.

A reasonable adjustment for a particular person may be unique to that individual and therefore might not be in the list of available access arrangements.

Whether an adjustment will be considered reasonable will depend on a number of factors, which will include:

- the needs of the student with the disability
- the effectiveness of the adjustment
- the cost of the adjustment; and
- the likely impact of the adjustment on the student with the disability and other students.

An adjustment will not be approved if it involves unreasonable costs to the awarding organisation, timeframes or affects the security or integrity of the assessment. This is because the adjustment is not 'reasonable'.

### **Special consideration**

Special consideration is a post-examination adjustment to a student's mark or grade to reflect temporary injury, illness or other indisposition at the time of the examination/assessment, which has had, or is reasonably likely to have had, a material effect on a Student's ability to take an assessment or demonstrate his or her level of attainment in an assessment.

### **Further information**

Please see our website or email [internationalenquiries@pearson.com](mailto:internationalenquiries@pearson.com) for further information about how to apply for access arrangements and special consideration.

For further information about access arrangements, reasonable adjustments and special consideration please refer to the JCQ website: <http://www.jcq.org.uk/examination-system/access-arrangements-and-special-consideration>

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## **Equality Act 2010 and Pearson equality policy**

Equality and fairness are central to our work. Our equality policy requires all students to have equal opportunity to access our qualifications and assessments, and our qualifications to be awarded in a way that is fair to every student.

We are committed to making sure that:

- students with a protected characteristic (as defined by the Equality Act 2010) are not, when they are undertaking one of our qualifications, disadvantaged in comparison to students who do not share that characteristic
- all students achieve the recognition they deserve for undertaking a qualification and that this achievement can be compared fairly to the achievement of their peers.

You can find details on how to make adjustments for students with protected characteristics in the policy document *Access Arrangements, Reasonable Adjustments and Special Considerations*, which is on our website, <http://qualifications.pearson.com/en/support/support-topics/exams/special-requirements.html>

## Malpractice

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For up-to-date information on malpractice please refer to the latest Joint Council for Qualifications (JCQ) *Suspected Malpractice in Examinations and Assessments* document, available on the JCQ website: <http://www.jcq.org.uk/exams-office/malpractice/>

### **Candidate malpractice**

Candidate malpractice refers to any act by a candidate that compromises or seeks to compromise the process of assessment or which undermines the integrity of the qualifications or the validity of results/certificates.

Candidate malpractice in examinations must be reported to Pearson using a JCQ M1 Form (available at [www.jcq.org.uk/exams-office/malpractice/](http://www.jcq.org.uk/exams-office/malpractice/)). The form can be emailed to [pqsmalpractice@pearson.com](mailto:pqsmalpractice@pearson.com) or posted to Investigations Team, Pearson, 190 High Holborn, London, WC1V 7BH. Please provide as much information and supporting documentation as possible. Note that the final decision regarding appropriate sanctions lies with Pearson.

Failure to report malpractice constitutes staff or centre malpractice.

### **Staff/centre malpractice**

Staff and centre malpractice includes both deliberate malpractice and maladministration of our qualifications. As with candidate malpractice, staff and centre malpractice is any act that compromises or seeks to compromise the process of assessment or which undermines the integrity of the qualifications or the validity of results/certificates.

All cases of suspected staff malpractice and maladministration must be reported immediately, before any investigation is undertaken by the centre, to Pearson on a JCQ M2 (a) Form (available at [www.jcq.org.uk/exams-office/malpractice/](http://www.jcq.org.uk/exams-office/malpractice/)). The form, supporting documentation and as much information as possible can be emailed to [pqsmalpractice@pearson.com](mailto:pqsmalpractice@pearson.com) or posted to Investigations Team, Pearson, 190 High Holborn, London, WC1V 7BH. Note that the final decision regarding appropriate sanctions lies with Pearson.

Failure to report malpractice itself constitutes malpractice. More detailed guidance on malpractice can be found in the latest version of the document *JCQ General and Vocational Qualifications Suspected Malpractice in Examinations and Assessments*, available at [www.jcq.org.uk/exams-office/malpractice/](http://www.jcq.org.uk/exams-office/malpractice/)

## **Language of assessment**

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Assessment of this specification will be in English only.  
Assessment materials will be published in English only and all work submitted for examination must be in English only.



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## Other information

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### Guided Learning Hours

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Guided Learning Hours (GLH): the number of teacher-led contact hours required to support student achievement for a qualification.

The Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) requires 120 GLH.

Centres should ensure that students have additional time for self-study and preparation for the final examination, this is in addition to the GLH stated above.

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### Student recruitment

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Pearson follows the JCQ policy concerning recruitment to our qualifications in that:

- they must be available to anyone who is capable of reaching the required standard
- they must be free from barriers that restrict access and progression
- equal opportunities exist for all students.

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### Prior learning and other requirements

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There are no formal entry requirements for this qualification.

Students may be studying in a local language but the assessment will be in English. Pearson recommends students have B1 level of English on the Common European Framework of Reference (CEFR). This will support access to the assessment materials and be able to communicate responses effectively.

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### Progression

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Students can progress from this qualification by working towards higher professional qualifications and to membership of professional bodies, increasing their employability in their chosen sector. Students may also choose to continue their academic development by progressing to degree courses in various disciplines.

Using appropriate internal processes, centres must ensure they choose the most appropriate qualification level for their learners' needs.

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## Exemptions

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This qualification provides exemption from ACCA's F2 Management Accounting qualification.

We are seeking exemptions for our qualifications from a number of Professional Bodies. For the latest list of exemptions, please visit the Pearson LCCI website, and choose your relevant qualification.

<http://qualifications.pearson.com/content/dam/pdf/LCCI/2014/Recognition-from-PBs-for-LCCI-qualifications-July-2015.pdf>

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## National Occupational Standards

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The Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) has links to the following National Occupational Standards (NOS):

- Finance and Accounting

Please see our website for further details.

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## Codes

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This qualification is approved by Ofqual and meets the Ofqual General Conditions for inclusion on the Register of Regulated Qualifications. The Qualification Number (QN) is: 601/5170/5

The subject code for the Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) is ASE20102. The subject code is used by centres to enter students for a qualification.

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# Support, training and resources

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## **Training**

Pearson offers support and training to teachers on standard of delivery and preparing students to meet the assessment requirements.

## **Specifications, Sample Assessment Materials and Teacher Support Materials**

The Pearson LCCI Level 4 Certificate in Management Accounting (VRQ) Sample Assessment Materials document (ISBN 9781446926819) can be downloaded from our website.

To find a list of all the support documents available please visit our website.



# Appendices

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## Appendix 1: Glossary of International Accounting Standards (IAS) terminology

The following is a glossary of the comparison between the International Accounting Standards terminology and the UK GAAP (Generally Accepted Accounting Practice in the UK) terminology. IAS terminology is used in the content of the LCCI financial and quantitative suite of qualifications but not all terms are present in all levels of the qualifications.

Centres should be aware that these terms are also referred to as International Finance Reporting Standards (IFRS), in certain contexts within the industry, however the definitions and meaning remain the same.

<b>IAS terminology</b>	<b>Previously used UK GAAP terminology</b>
Financial statements	Final accounts
<b>Statement of profit or loss and other comprehensive income</b>	<b>Trading and profit and loss account</b>
Revenue	Sales
Raw materials/Ordinary goods purchased	Purchases
Cost of sales	Cost of goods sold
Inventory	Stock
Work in progress	Work in progress
Gross profit	Gross profit
Other operating expenses	Sundry expenses
Allowance for doubtful debt	Provision for doubtful debt
Other operating income	Sundry income
Investment revenues/finance income	Interest receivable
Finance costs	Interest payable
Profit for the year before tax or after tax	Net profit
Retained earnings	Profit/loss balance
<b>Statement of changes in equity (limited companies)</b>	<b>Appropriation account</b>
<b>Statement of financial position</b>	<b>Balance sheet</b>

<b>Non-current assets</b>	<b>Fixed assets</b>
Property	Land and buildings
Plant and equipment	Plant and equipment
Investment property	Investments
Intangible assets	Goodwill etc.
<b>Current assets</b>	<b>Current assets</b>
Inventory	Stock
Trade receivables	Debtors
Other receivables	Prepayments
Cash and cash equivalents	Bank and cash
<b>Current liabilities</b>	<b>Current liabilities/Creditors: amounts due within 12 months</b>
Trade payables	Creditors
Other payables	Accruals
Bank overdraft and loans	Loans repayable within 12 months
<b>Non-current liabilities</b>	<b>Long term liabilities/Creditors: amounts falling due after 12 months</b>
Bank (and other) loans	Loans repayable after 12 months
<b>Capital or Equity</b>	<b>Capital</b>
Share capital	Share capital
<b>Statement of cash flows</b>	<b>Cash flow statement</b>
<b>Other terms</b>	
Inventory count	Stock take
Carrying value	Net book value



## Appendix 2: Formulae

The following formulae support the content of this qualification.

Students will not be provided with the formulae in the examination.

<b>Profitability ratios</b>	
1.	Return on Capital Employed (ROCE) = (Operating Profit/Capital Employed) x 100
2.	Profit Margin = (Operating Profit/Revenue) x 100
3.	Asset Turnover = Revenue/Capital Employed
4.	Non-Current Asset Turnover = Revenue/Net Book Value Non-Current Asset
5.	Gross Profit Margin = (Gross Profit/Revenue) x 100
6.	Return on Net Assets = (Return [Profit After Tax]/Net Assets [Shareholder Funds]) x 100

<b>Liquidity ratios</b>	
1.	Current Ratio = Current Assets/Current Liabilities
2.	Quick Ratio (Acid test) = (Current Assets - Inventory)/Current Liabilities
3.	Trade Receivables Collection Period = (Trade Receivables/Revenue) x 365
4.	Trade Payables Payment Period = (Trade Payables/Purchases or Cost of Sales) x 365
5.	Inventory Holding Period = (Closing Inventory/Cost of Sales) x 365
6.	Inventory Turnover = Cost of Sales/Closing Inventory

<b>Control ratios</b>	
1.	Gearing Ratio = (Total Debt/Total Debt + Equity) x 100
2.	Debt/Equity Ratio = (Total Debt/Equity) x 100
3.	Efficiency Ratio = (Standard Hours for Actual Production/Actual Hours Worked) x 100
4.	Capacity Ratio = (Actual Hours Worked/Budgeted Hours) x 100
5.	Activity Ratio = (Standard Hours for Actual Production/Budgeted Hours) x 100



## Appendix 3: Variances

The following variance formulae support the content of this qualification.

Students will not be provided with the variance formulae in the examination.

<b>Variances</b>	
1.	Material Usage (Quantity) = (Standard Quantity - Actual Quantity) x Standard Price
2.	Material Price = (Standard Price - Actual Price) x Actual Quantity
3.	Labour Efficiency = (Standard Quantity - Actual Quantity) x Standard Rate
4.	Labour Rate = (Standard Rate - Actual Rate) x Actual Quantity
5.	Overhead Absorption Rate (OAR) = Budgeted Overheads/Budgeted Units or Hours
6.	Expenditure Variance = Budgeted Overheads - Actual Overheads
7.	Volume Variance = Overhead Absorption Rate x (Actual Output - Budgeted Output) Note: output is measured in units or standard hours.
8.	Capacity Variance = Overhead Absorption Rate x (Actual Hours - Standard Hours for Budgeted Production)
9.	Efficiency Variance = Overhead Absorption Rate x (Standard Hours for Actual Production - Actual Hours) Note: The Volume Variance is made up of the Capacity and Efficiency Variances.
10.	Sales Volume = (Budgeted Sales Volume - Actual Sales Volume) x Selling Price
11.	Sales Price = (Budgeted Selling Price - Actual Selling Price) x Actual Sales Volume

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