

Knowledge, skills and understanding

Content

To prepare students for the final assessment of this qualification, the following content must be covered.

1. Inventory management

Subject content	What students need to learn
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
1.1 Materials and inventory control	a) The benefits and limitations of inventory management and control
	b) The calculation of the quantity and cost of materials needed to meet the production plan, considering process wastage and products rejects
	c) The calculation of the quantity and cost of opening and closing inventory levels after considering the production plan, with process wastage and production rejects
	d) The costs of ordering/holding inventory and the implications of holding too much inventory or running out of inventory
	e) The calculation of the <ul style="list-style-type: none"> • reorder level • maximum inventory control level • minimum inventory control level • average inventory • average inventory investment
	f) Calculate the Economic Order Quantity (EOQ) using the EOQ formula
	g) The inventory ordering costs and inventory holding costs for discrete order quantities to select the optimal order quantity without using the EOQ formula

Subject content	What students need to learn
	h) The calculation of the optimum order quantity which would minimise cost when quantity discounts are available

2. Short-term decision making

Subject content	What students need to learn
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
2.1 Short-term cost behaviour	a) The key terms used in decision making, examples and their definitions: <ul style="list-style-type: none"> • sunk cost • differential/incremental cost • opportunity cost • avoidable cost • relevant cost
	b) The calculation and use of the high/low method
	c) The calculation of costs per period or unit from fixed, variable, semi-variable or stepped patterns
	d) The effect of time on cost behaviour
	e) The limiting factors within a business
	f) The calculation of the contribution per unit based on a limiting factor, and the product mix which would maximise profits
	g) The calculation of net profit using the optimum product mix
2.2 Break-even analysis	a) The calculation of the contribution/sales (C/S) ratio for a single product and the weighted C/S ratio for a mix of products
	b) The calculation of the break-even point in revenue and/or units for both single-product and multi-product situations
	c) The calculation of contribution, total contribution and total profit or loss

Subject content	What students need to learn
	d) The calculation of the margin of safety in units and revenue and the output required to achieve a targeted profit
	e) The application and assumptions of cost-volume-profit (CVP) analysis in given situations
	f) The construction of the following charts for a single product or multiple products: <ul style="list-style-type: none"> • conventional break-even • contribution break-even • profit-volume (PV)
	g) The determination of the break-even point and the profit and the margin of safety from a chart
2.3 Marginal and absorption costing	a) The definition and use of the terms 'marginal costing' and 'absorption costing'
	b) The preparation of profit statements applying both absorption and marginal costing (including the over/under absorption of overhead in absorption costing)
	c) Reconciliation of the reported profits between absorption and marginal costing and explanation of the difference

3. Accounting for overheads

Subject content	What students need to learn
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
3.1 Overhead absorption	a) The meaning and importance of the following terms: allocation, apportionment, re-apportionment and absorption
	b) The allocation of production overheads to production and service cost centres
	c) The apportionment of production overheads to production and service cost centres

Subject content	What students need to learn
	<p>d) The re-apportionment of production overheads from service cost centres to production cost centres using repeated distribution method</p> <p>e) The reasons for using predetermined absorption rates</p> <p>f) The calculation and application of production overhead absorption rates based upon direct material cost, direct labour cost, direct labour hours, machine hours and units of output</p> <p>g) The calculation and use of absorption rates from a traditional production overhead budget</p> <p>h) The calculation and use of a rate to absorb administration, selling and distribution overheads</p> <p>i) The calculation and application of any under or over- absorption of production overhead</p> <p>j) The factors influencing the choice of production overhead absorption method</p>
3.2 Activity based costing	<p>a) The principles of activity-based costing (ABC) and the contrast between ABC and traditional approaches</p> <p>b) The calculation and application of cost driver rates and unit production costs based on ABC principles</p> <p>c) The advantages and disadvantages of using either ABC or absorption costing</p>

4. Budgetary planning and control

Subject content	What students need to learn
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
4.1 Preparation of budgets	<p>a) The benefits and limitations of preparing budgets</p> <p>b) The meaning and importance of the principal budget factor</p> <p>c) The preparation and use of the following budgets</p> <ul style="list-style-type: none"> • sales in units and/or revenue • production (units) • material usage (units)

Subject content	What students need to learn
	<ul style="list-style-type: none"> • materials purchases (\$) • direct labour (hours and \$)
	d) The differences between and the implication of fixed and flexible budgets
	e) The preparation and use of a flexed budget. Comparing a flexed budget with actual costs/revenues and calculating the variances
	f) The advantages and disadvantages of flexible budgets

5. Working capital management

Subject content	What students need to learn
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
5.1 Managing cash flow	<p>a) The preparation of detailed cash budgets on a monthly or quarterly basis and its benefits when managing cash flow</p> <p>This refers to forecasted cash budgets and not statements of cash flow (IAS7)</p>
	b) The implications of, and ways to deal with, a cash surplus or deficit
	c) The preparation of working capital budgets, in \$
	d) The calculation of the working capital ratio
	e) The calculation of the working capital cycle, in days
	f) The evaluation of the working capital position
	g) The reasons why liquidity and cash flow management are important for the successful operation of any business

6. Standard costing and variances

Subject content	What students need to learn
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
6.1 Calculating variances	a) The meaning and use of the following terms <ul style="list-style-type: none"> • ideal standard • attainable standard • standard cost
	b) The calculation and application of the standard cost
	c) The calculation of the total direct material variance and analysis of this into the materials price variance and the material usage variances
	d) The calculation of the total direct labour variance and analysis of this into the labour rate variance and the labour efficiency variances
	e) The reasons for material variances and labour variances. Potential relationship between variances
	f) The calculation of total fixed production overhead variance and analysis of this to expenditure and volume variance
	g) The analysis of fixed production overhead variances
	h) Reconciliation of budgeted and actual profit using appropriate variances
	i) Use of given cost variances to calculate standard or actual production costs

7. Costing methods

Subject content	What students need to learn
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
7.1 Process costing	<p>a) The purpose of process costing</p> <p>b) The preparation of process accounts and profit statements where normal or abnormal losses/gains occur along with their associated scrap values or disposal costs</p> <p>c) The meaning and use of joint and by-products</p> <p>d) The preparation of normal loss, abnormal loss and abnormal gain accounts</p> <p>e) The value of completed production and work-in- progress using equivalent units, and using a First In First Out (FIFO) or weighted average (AVCO) approach</p> <p>f) The calculation of the value of by-products</p> <p>g) The calculation of joint products apportioning joint costs based on physical units, weight, sales value and net sales value</p> <p>h) The interpretation of the results of joint product accounting</p>

8. Long-term decision making

Subject content	What students need to learn
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
8.1 Investment appraisal	a) The features of long-term and short-term decision making
	b) The meaning and purpose of Discounted Cash Flow (DCF)
	c) The meaning and purpose of Net Present Value (NPV) and Internal Rate of Return (IRR)
	d) The calculation of the NPV and/or profitability index of proposed capital investments
	e) The calculation of the IRR of proposed capital investments
	f) The calculation of the payback or discounted payback of proposed capital investments
	g) The calculation of the accounting rate of return (ARR) of proposed capital investments using the initial capital investment or the average capital investment
	h) The recommendation of capital investment proposals using NPV, IRR, payback, discounted payback, ARR and profitability
	i) How using a discounting approach overcomes the limitations of non-discounting techniques
	j) The non-financial aspects of Investment Appraisal

9. Management Information Systems

Subject content	What students need to learn
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
9.1 The role of Management Information Systems (MIS) in cost and management accounting	a) The benefits of effective management information
	b) The controls in place to ensure confidentiality and security is maintained when dealing with management information
10. Accounting Systems	
	Students will need to apply their knowledge and understanding of the following and interpret their findings/results in a business context
10.1 Accounting Systems	a) The main features of integrated and non-integrated accounting systems
	b) the importance of using control accounts in a non- integrated system
	c) Post entries in a ledger accounts for: <ul style="list-style-type: none"> • an integrated system • non-integrated system
	d) Prepare a profit reconciliation statement in a non- integrated system
	e) The need for a reconciliation in a non-integrated system to maintain accounting systems

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

Skills	Students should:
	a) Calculate and comment on inventory costs and controls
	b) Complete inventory record cards
	c) Understand the key terms used in short term decision making, and their definitions
	d) Apply calculations including the high low method and limiting factors
	e) Understand the terms involved in break-even analysis
	f) Make calculations and apply cost-volume-profit analysis
	g) Calculate and use market and cost-based transfer prices
	h) Construct break-even charts
	i) Understand the terms used in marginal and absorption costing
	j) Prepare profit statements applying both absorption and marginal costing
	k) Understand the terms used in overhead absorption
	l) Apply various techniques in overhead absorption
	m) Understand the terms and the purpose of preparing budgets
	n) Prepare both fixed and flexible budgets
	o) Understand the terms used in cash flow management
	p) Prepare working capital and detailed cash budgets
	q) Understand the term and the calculations used in standard costing
r) Calculate labour, material, and overhead variances	
s) Understand relationships between labour and material variances	

	t) Understand the terms and the purpose of process costing
Skills	Students should:
	u) Undertake the necessary calculations for process costing
	v) Understand the terms used in investment appraisal
	w) Calculate and apply investment appraisal techniques
	x) Understand the role of MIS in information confidentiality and security