Higher National Unit specification

General information for centres

Unit title: Cost Accounting

Unit code: F7JR 34

Unit purpose: This Unit is designed to introduce candidates to costing techniques that may be utilised within a cost accounting environment. The objective of the Unit is to enable candidates to maintain a working accounting system for classifying and recording cost accounting information for purposes such as inventory valuations, job costing and profit measurement.

This Unit is primarily intended for candidates who expect to take up a career or further study in cost or management accounting. It is also relevant to those with appropriate work experience who wish either to formalise their qualifications or progress in their accounting career.

On completion of the Unit the candidate should be able to:

1 Account for material costs
2 Account for labour costs
3 Apportion and allocate overhead costs
4 Account for product costs
5 Record transactions in a cost accounting system

Credit points and level: 2 HN credits at SCQF level 7: (16 SCQF credit points at SCQF level 7*)

**SCQF credit points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification in the Framework is allocated a number of SCQF credit points at an SCQF level. There are 12 SCQF levels, ranging from Access 1 to Doctorates.*

Recommended prior knowledge and skills: Access to this Unit is at the discretion of the centre. However, candidates would normally be expected to be competent in communication and numeracy at SCQF level 5 or have similar qualifications or experience.

Core Skills: The achievement of this Unit gives automatic certification of the following:

- Using Number at SCQF level 5

There are also opportunities to develop the Critical Thinking component of the *Problem Solving* Core Skill at SCQF level 4 in this Unit, and these are highlighted in the Support Notes of this Unit specification.

Context for delivery: If this Unit is delivered as part of a Group Award, it is recommended that it should be taught and assessed within the subject area of the Group Award to which it contributes.

For Use in Session 2015/16

General information for centres (cont)

Assessment: This Unit could be assessed using five separate assessments.

An exemplar instrument of assessment and marking guidelines have been produced to show the national standard of achievement required at SCQF level 7.

Since the Using Number component of the *Numeracy* Core Skill at SCQF level 5 is embedded in this Unit, it is strongly recommended that you follow the assessment guidelines given. If you wish to use a different assessment model, you should seek prior moderation of the assessment instrument(s) you intend to use to ensure that the Core Skill is still covered.

For Use in Session 2015/16

Higher National Unit specification: statement of standards

Unit title: Cost Accounting

Unit code: F7JR 34

The sections of the Unit stating the Outcomes, Knowledge and/or Skills, and Evidence Requirements are mandatory.

Outcome 1

Account for material costs

Knowledge and/or Skills

- Material costs and inventory control
- Inventory control documents
- Methods of inventory valuation
- Inventory control indicators

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- Complete pro-forma inventory control documentation relating to the movement of materials into the business, within the business and from the business.
- Record and calculate inventory movements and value inventory using two methods of inventory valuation from: LIFO, FIFO or Weighted Average.
- Using inventory control indicators calculate minimum inventory levels, reorder levels, maximum inventory levels, reordering costs, inventory holding costs and economic order quantities in a given situation.
- Define material costs and outline, with a minimum of six reasons, why inventory control is important.

The evidence should be generated under supervised conditions with access restricted to pro-forma documentation and formulae only. No other textbooks or notes should be available to the candidate.

Figures must be accurate within a tolerance of two arithmetic or computational errors, with a maximum of one error of principle.

Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one and a half hours. The assessment could be presented as a case study detailing a manufacturing organisation's inventory movements. From this information candidates could complete the relevant documents and record cards as well as calculate the inventory control levels and values and explain the purpose and importance of inventory control.

For Use in Session 2015/16

Higher National Unit specification: statement of standards (cont)

Unit title: Cost Accounting

Outcome 2

Account for labour costs

Knowledge and/or Skills

- Labour costs
- Calculation of wages
- Idle time
- Incentive schemes
- Labour turnover

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- List the procedures for recording labour costs including documentation required.
- Calculate wages in differing situations within the workplace using basic time rate, overtime rate and differential piece work schemes.
- Identify idle time and record it within a cost accounting system.
- Use an incentive scheme to show effect on labour costs and profit. The incentive scheme used should be from: premium bonus schemes, commission or group bonus schemes.
- Describe a minimum of **two** effects on labour turnover for an organisation.

The evidence should be generated under supervised conditions with access restricted to pro-forma documentation only. No other textbooks or notes should be available to the candidate.

Figures must be accurate within a tolerance of three arithmetic or computational errors, with a maximum of two errors of principle.

Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within two hours. The assessment could be presented as a case study detailing labour cost information. From this information candidates could complete the relevant documentation provided as well as accurately calculate wages in differing situations and subsequent effect on profits/costs and labour turnover.

For Use in Session 2015/16

Higher National Unit specification: statement of standards (cont)

Unit title: Cost Accounting

Outcome 3

Apportion and allocate overhead costs

Knowledge and/or Skills

- Overhead analysis
- Overhead absorption rates
- Absorbed overheads — departmental overheads
- Over and under absorption and effect on profits
- Service cost centres
- Production departments

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- Identify the overheads which can be allocated and those which must be apportioned.
- Use four different methods of apportioning overheads from: utilising floor space, number of employees, value of plant/machinery, revenue volume and power of machinery.
- Calculate relevant departmental overheads after apportionment and allocation and then reapportion three service cost centre overheads to two production departments.
- Calculate overhead absorption rates using the completed overhead analysis, using two different bases from: direct labour hours, machine hours, cost units or prime cost.
- Calculate over/under absorption of all production department overheads based on a comparison of actual costs and expected costs.
- Describe how the over/under absorption of overheads would be treated in the financial records of the organisation.

The evidence should be generated under supervised conditions with access restricted to pro-forma documentation only. No other textbooks or notes should be available to the candidate.

Figures must be accurate within a tolerance of three arithmetic or computational errors, with a maximum of two errors of principle.

Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one and a half hours. The assessment could be presented as a case study detailing a manufacturing organisation with two production departments and three service cost centres. From this information candidates should reapportion overheads using the pro-forma table provided as well as calculating overhead absorption rates/actual overheads absorbed and under/over absorption. Candidates should be required to explain the resulting effects on profits.

For Use in Session 2015/16

Higher National Unit specification: statement of standards (cont)

Unit title: Cost Accounting

Outcome 4

Account for product costs

Knowledge and/or Skills

- Costs — direct, indirect, fixed and variable
- Coding system
- Job cost statement
- Service cost statement

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- Account for product costs (direct, indirect, fixed and variable) by producing a job cost statement which details the build up of total costs with sub-totals for prime cost and production cost, selling price being accurately calculated by correctly applying a profit mark-up or margin.
- Account for product costs (direct, indirect, fixed and variable) by producing a service cost statement which differentiates between running (variable) and standing (fixed) costs, providing a total cost and identifying Unit operating costs.
- For each cost statement costs should be coded using a given coding system.

The evidence should be generated under closed book supervised conditions.

For **each** cost statement figures must be accurate within a tolerance of two arithmetic or computational errors, with a maximum of two errors of principle.

Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within two hours. The assessment could be presented as a case study of either a manufacturing or service organisation. From this information candidates should produce a job cost statement and a service cost statement. Each Cost Statement could be assessed at a separate assessment event. The coding system used could be that used in the HN Unit *F7JP 34: Using Financial Accounting Software*.

For use in Session 2015/16

Higher National Unit specification: statement of standards (cont)

Unit title: Cost Accounting

Outcome 5

Record transactions in a cost accounting system

Knowledge and/or Skills

Cost accounting systems

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- Record a minimum of 20 transactions in either an interlocking or integrated cost accounting system. Candidates should then:
  — Prepare and balance the ledger and control accounts
  — Extract a trial balance from the ledger accounts.

The evidence should be generated under open book supervised conditions.

Figures must be accurate within a tolerance of two arithmetic or computational errors, with a maximum of two errors of principle.

Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within two hours. The assessment could be presented as a case study detailing a manufacturing organisation. From this information candidates could record transactions in a cost accounting system and extract the trial balance.

For Use in Session 2015/16

Administrative Information

Unit code: F7JR 34

Unit title: Cost Accounting

Superclass category: AK

Original date of publication: August 2010

Version: 04 (July 2014)

History of changes:

Version	Description of change	Date
04	Terminology and reference to financial statements revised to reflect requirements of FRS 102.	02/02/15
03	Error tolerances revised for Outcomes 1, 4 and 5.	01/08/12
02	Minor changes to Evidence Requirements in Outcomes 2 and 3.	27/07/10

Source: SQA

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Additional copies of this Unit specification can be purchased from the Scottish Qualifications Authority. Please contact the Customer Contact Centre for further details, telephone 0845 279 1000.

For Use in Session 2015/16

Higher National Unit specification: support notes

Unit title: Cost Accounting

This part of the Unit specification is offered as guidance. The support notes are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 80 hours.

Guidance on the content and context for this Unit

This Unit is primarily intended for candidates who expect to take up a career or further study in cost or management accounting. It is also relevant to those with appropriate work experience who wish either to formalise their qualifications or progress in their accounting career. This Unit is an introduction to cost accounting and will enable candidates to prepare cost and management accounting information and reports.

For those candidates who complete this Unit as part of the HNC/D Accounting Group Award there may be opportunities to gain exemptions from a number of professional bodies. Centres should contact the relevant professional bodies to ascertain their current exemption policies.

Outcome 1 covers material costs and inventory valuation for a manufacturing company.

- Definition of direct materials and how their receipt, issue and movement are recorded by organisations
- Inventory control importune to cover issues such as holding costs, ordering costs and administrative costs
- Inventory valuation methods: LIFO, FIFO and Weighted Average

Outcome 2 covers labour costs.

- Timesheets, wages analysis documentation and comparison of payment systems
- Direct labour costs
- Time and a half and double time overtime, piece rate and/or differential piece rate, group bonus schemes such as Performance Related Pay

Outcome 3 involves the apportioning and allocation of overhead costs.

- Overhead costs — fixed and variable
- Methods of apportioning overheads: floor space; number of employees; value of plant/machinery; revenue volume; effective power of machinery
- Service cost centres
- Production departments

Outcome 4 covers product costs.

- Job cost and Service cost statements using a structured layout to identify direct, indirect costs, variable and fixed costs where appropriate
- Cost plus and profit margin to calculate selling price
- Use of a given coding system to code costs in each of the cost statements (candidates could use the coding system used in the Unit *F7JP 34: Using Financial Accounting Software*)

For Use in Session 2015/16

Higher National Unit specification: support notes (cont)

Unit title: Cost Accounting

Outcome 5 covers the recording of transactions in a cost accounting system.

- Control accounts — wages, production overhead
- Ledgers — Purchases, Revenue and General

Guidance on the delivery and assessment of this Unit

This Unit is likely to form part of a Group Award designed to provide candidates with the knowledge and skills for further study or employment within an accounting environment.

Where this Unit is being delivered as part of the HNC/D Accounting Group Award, it is recommended that the Unit be delivered either before, or in tandem with, the HN Unit *F7JS 34: Management Accounting Using Information Technology.*

It is recommended that the Unit be delivered in the order of the Outcomes as this will represent a logical build in knowledge and skills for candidates.

The assessment could be designed around one case study. This could be a manufacturing organisation. Each Outcome could be assessed separately as there is little scope to combine the assessment of Outcomes.

All evidence should be produced under supervised conditions. The evidence for Outcomes 1, 2, 3 should be produced under open book supervised conditions with access restricted to pro-forma documentation only. The evidence for Outcome 4 should be provided under closed book supervised conditions and the evidence for Outcome 5 should be produced under open book supervised conditions.

Opportunities for developing Core Skills

The achievement of this Unit gives automatic certification of the Using Number component of the Core Skill *Numeracy* at SCQF level 5. Throughout all 5 Outcomes of this Unit candidates apply a wide range of numerical skills to solve practical problems.

The delivery and assessment of this Unit may also contribute towards the Critical Thinking component of the Core Skill *Problem Solving* at SCQF level 4. In Outcome 3 candidates are required to allocate and apportion overheads across production and service departments using chosen bases as decided by candidates. In Outcome 3 candidates are required to code invoices to a coding system using their own judgement as to the most appropriate code for each cost.

Open learning

This Unit could be delivered by distance learning. However, it would require planning by the centre to ensure the authenticity of candidate evidence. Arrangements would have to be made to ensure that evidence is generated under the assessment conditions specified for each Outcome.

Further advice can be found on SQA's website **www.sqa.org.uk**.

For Use in Session 2015/16

Higher National Unit specification: support notes (cont)

Unit title: Cost Accounting

Disabled candidates and/or those with additional support needs

The additional support needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments, or considering whether any reasonable adjustments may be required. Further advice can be found on our website **www.sqa.org.uk/assessmentarrangements**.

For Use in Session 2015/16

General information for candidates

Unit title: Cost Accounting

This Unit is designed to enable you to gain knowledge and develop practical skills in cost accounting.

Outcome 1 covers material costs for a manufacturing business. You will learn about the different methods of inventory valuation and will complete practical tasks using these methods. You will learn about the importance of inventory control and the key inventory control indicators. You will use given formulae to calculate these indicators for an organisation using practical tasks.

Outcome 2 moves on to look at other costs for the business — labour (employee) costs. You will learn how to calculate gross wages using hourly rates, overtime rates and incentive schemes. You will learn about the impact of different pay schemes on costs for the business and how these may impact on labour turnover for the business. You will learn about idle time and will allocate labour costs to jobs worked on by staff.

Outcome 3 looks at other costs for the business — called overhead costs, these are the indirect costs of the business which may not be directly attached to a product or job. You will learn how these are spread across the different cost centres or cost units of the business. You will learn how these costs are shown in the financial records of the organisation.

Outcome 4 covers all product costs. You will learn how to incorporate these costs into a job cost or service cost statement. You will learn how to calculate cost plus pricing and a profit mark up for the organisation. You will also allocate a code, using a given coding system, to the costs involved.

Outcome 5 involves recording transactions in an interlocking and integrated cost accounting system. You will learn how to prepare ledger and control accounts, balance off ledger accounts and produce a trial balance.

Each Outcome may be assessed separately and all assessments will be carried out under supervised conditions.

You will have opportunities to develop components within the Core Skills of *Numeracy* and *Problem Solving* in this Unit. Achievement of this Unit gives automatic certification of Using Number at SCQF level 5.

For Use in Session 2015/16