

National Unit Specification: general information

UNIT Management Accounting (Intermediate 2)

NUMBER DF4T 11

COURSE Accounting (Intermediate 2)

SUMMARY

This Unit is designed to further develop the management accounting skills acquired in Intermediate 1 or as an introduction to management accounting. It will allow candidates to develop the skills and techniques which will enable them to calculate the principal elements of costs; prepare cost statements for job, service costing and process accounts; to apply break-even analysis and make decisions relating to profit maximisation under constraints of limiting factor; prepare cash budgets for planning and control purposes and use information technology as an accounting tool. It will also develop a knowledge and understanding of the theory relating to management accounting.

OUTCOMES

1. Calculate the principal elements of cost and describe the procedures for controlling them.
2. Prepare cost statements and describe their uses.
3. Describe and apply break-even analysis and decision-making techniques.
4. Prepare a cash budget for the purposes of planning and control.
5. Use a spreadsheet as an accounting tool to prepare cost statements and explain the benefits of using information technology in management accounting.

RECOMMENDED ENTRY

Entry is at the discretion of the centre. Candidates do not need previous knowledge or experience of accounting, however it may be beneficial if they have achieved one of the following or equivalent:

- ◆ Standard Grade Accounting and Finance at General level
- ◆ The Unit — *Management Accounting* (Intermediate 1)

Administrative Information

Superclass: AK

Publication date: April 2004

Source: Scottish Qualifications Authority

Version: 01

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CREDIT VALUE

1.5 credits at Intermediate 2 (9 SCQF credit points at SCQF level 5*).

**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.*

CORE SKILLS

There is no automatic certification of Core Skills or Core Skills components in this Unit.

National Unit Specification: statement of standards

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Acceptable performance in this Unit will be the satisfactory achievement of the standards set out in this part of the Unit Specification. All sections of the statement of standards are mandatory and cannot be altered without reference to the Scottish Qualifications Authority.

OUTCOME 1

Calculate the principal elements of cost and describe the procedures for controlling them.

Performance Criteria

- a) Describe the different elements of cost and classify them as direct, variable, indirect or fixed.
- b) Explain the procedures used to control the principal elements of costs — material, labour and overheads
- c) Complete a partially prepared stock valuation card using Last in, First out (LIFO) method.
- d) Calculate the gross wages where basic, time, piece, bonus and overtime rates are applied consistently with the information or time sheets and/or clock cards supplied.
- e) Complete a partially prepared overhead analysis statement allocating, apportioning and re-apportioning overhead costs to production and service departments consistent with the information supplied.
- f) Calculate the production overhead absorption rates consistently with the information supplied.

OUTCOME 2

Prepare cost statements and describe their uses.

Performance Criteria

- a) Describe the uses of job, service and process costing.
- b) Complete a range of cost statements to calculate the cost from the information supplied.
- c) Direct materials and labour costs are recorded consistently with the information supplied.
- d) Other costs are recorded consistently with the information supplied.
- e) The cost for a job, service or process is accurately calculated.
- f) The profit for a job, process or service is accurately calculated using mark-up.

OUTCOME 3

Describe and apply break-even analysis and decision making-techniques.

Performance Criteria

- a) Describe briefly the benefits to an organisation of using the break-even technique.
- b) Division of cost between fixed and variable is consistent with information supplied.
- c) Identification of contribution per unit is consistent with information supplied.
- d) Identification of break-even units is consistent with information supplied.

National Unit Specification: statement of standards (cont)

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- e) Calculation of profit is consistent with information supplied.
- f) Decision-making techniques are applied accurately where a limiting factor is applied.
- g) Conclusions drawn on the effect of increasing fixed and/or variable costs on profit and/or break-even point are accurate.

OUTCOME 4

Prepare a cash budget for the purposes of planning and control.

Performance Criteria

- a) Explain the importance of budgetary control and describe the techniques available.
- b) Prepare a cash budget for a three month period.
- c) Cash and credit sales income is correctly calculated and applied to the correct month.
- d) Other incomes are correctly dealt with and applied to the correct month.
- e) Payments to creditors are correctly calculated and charged to the appropriate month
- f) Other payments are correctly calculated and charged to the appropriate month.
- g) Closing balance is correctly calculated and transferred to the correct month.

OUTCOME 5

Use a spreadsheet as an accounting tool to prepare cost statements and explain the benefits of using information technology in management accounting.

Performance Criteria

- a) Explain the benefits of using information technology in management accounting.
- b) A spreadsheet is used to complete a range of cost statements.
- c) Entries in spreadsheet are consistent with information supplied.
- d) Use of spreadsheet formulae is comprehensive and consistent with information supplied.
- e) Data and formulae printouts are produced with gridlines, row and cell references.

EVIDENCE REQUIREMENTS FOR THE UNIT

The contents for this Unit are specified in Appendix One — Unit Content.

Candidates are required to demonstrate knowledge and understanding of the Unit content by completion of short response questions drawn from all areas of the Unit.

Candidates are also required to demonstrate that they can apply knowledge and understanding of the Unit content by the:

- ◆ preparation of a stock record card
- ◆ preparation of a job or service cost statement and/or process account
- ◆ preparation of an overhead analysis statement

National Unit Specification: statement of standards (cont)

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- ◆ application of the break-even analysis technique to calculate contribution, costs, profits for given levels of output
- ◆ preparation of a profit maximisation statement where output is constrained by a limiting factor
- ◆ preparation or updating of a cash budget for control purposes
- ◆ use a spreadsheet as an accounting tool to prepare a range of cost statements

Evidence will be produced by the candidate completing a number of computational and theoretical questions and by using a spreadsheet to prepare cost statements.

The assessment will be a closed-book assessment covering all the Outcomes.

Calculators may be used for the non-spreadsheet parts of this assessment.

The maximum time allowed is 1 hour 30 minutes.

Assessment can be carried out in a single event or broken down into two sessions of 45 minutes.

If a re-assessment is required, it should contain a different sample from the range of content.

Achievement can be decided by the use of a cut-off score. The standard to be applied and the breadth of coverage are illustrated in the National Assessment Bank items available for this Unit. If a centre wishes to design its own assessments for this Unit, they should be of a comparable standard.

National Unit Specification: support notes

UNIT Management Accounting (Intermediate 2)

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 60 hours.

GUIDANCE ON THE CONTENT AND CONTEXT FOR THIS UNIT

This Unit deals with management accounting aspects of the accounting Intermediate 2 Course, including:

- ◆ identification, classification and calculation of elements of costs:
 - material costs including the production of stock record and valuation cards using LIFO
 - labour costs where the calculations are based on basic rate, time rate, piece rate, bonus rate and overtime rate at time and a half and double time
 - fixed overheads including the production of an overhead analysis statement
- ◆ preparation of job cost statement
- ◆ preparation of service cost statement
- ◆ preparation of process account
- ◆ use of break-even analysis techniques
- ◆ preparation of profit maximisation statements
- ◆ preparation of cash budgets for planning and control purposes
- ◆ using a spreadsheet as a management accounting tool
- ◆ theory relating to the above

The extent of the knowledge required for each Outcome in this Unit is detailed in Appendix One — Unit Content.

GUIDANCE ON LEARNING AND TEACHING APPROACHES FOR THIS UNIT

The emphasis throughout the Unit should be on a candidate-centred approach where candidates undertake practical exercises which enable each candidate to progress at his/her own pace. It is important that candidates' computational skills and knowledge and understanding are developed simultaneously throughout the Unit, particularly for those candidates undertaking this Unit as part of the Intermediate 2 Accounting Course.

Information technology skills will be developed throughout the Unit as spreadsheets will be used for practical exercises.

GUIDANCE ON APPROACHES TO ASSESSMENT FOR THIS UNIT

Assessment of this Unit should be carried out at an appropriate time, although care should be taken to ensure that sufficient time is allowed for remediation and re-assessment if required.

The nature of holistic assessment in Accounting makes it difficult for candidates to be reassessed solely on those Outcomes and Performance Criteria in which they did not demonstrate competence. If a re-assessment is required, it should contain a different sample from the range of content.

National Unit Specification: support notes (cont)

UNIT Management Accounting (Intermediate 2)

Achievement can be decided by the use of a cut-off score. The standard to be applied and the breadth of coverage are illustrated in the National Assessment Bank items available for this Unit. If a centre wishes to design its own assessments for this Unit, they should be of a comparable standard.

National Unit Specification: support notes (cont)

UNIT Management Accounting (Intermediate 2)

Candidates will be required to:

- ◆ identify and calculate principle elements of costs and will require them to:
 - calculate material costs and prepare stock valuation cards using LIFO
 - calculate labour costs using basic, time, piece and bonus rates and overtime rates at time and a half and double time
 - calculate fixed overheads and prepare an overhead analysis statement
- ◆ prepare a job and/or service cost statement including the calculation of profit based on mark-up
- ◆ prepare a simple process account
- ◆ prepare a break-even analysis chart
- ◆ calculate contribution and break-even point in units and sales value using formulae
- ◆ report on the effect of profit and/or break-even point on a change in costs or selling price
- ◆ prepare and update cash budgets for forecasting and control purposes
- ◆ produce printouts of spreadsheets showing data and formulae
- ◆ describe the use of information technology for management accounting
- ◆ demonstrate their knowledge and understanding of all areas of this Unit by means of restricted responses

For the purposes of assessment, candidate errors refer to any mistakes involving:

- ◆ recording of accounting information
- ◆ arithmetical calculations
- ◆ application of management accounting principles

SPECIAL NEEDS

This Unit Specification is intended to ensure that there are no artificial barriers to learning or assessment. Special needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments or considering special alternative Outcomes for Units. For information on these, please refer to the SQA document *Guidance on Special Assessment Arrangements* (SQA, September, 2003).

National Unit Specification: statement of standards

UNIT — Management Accounting (Intermediate 2)

Appendix One — Unit Content

NB This appendix is within the statement of standards, ie the mandatory requirements of the Unit.

Role of the Management Accountant	Candidates should be able to demonstrate an understanding of the role of the Management Accountant.
Classification of Costs	Candidates should be able to: identify, describe, classify and indicate the significance of fixed; variable; direct or indirect costs.
Direct Costs - Material*	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> ◆ identify and describe the use of documents required for the inventory control cycle — requisition forms, stock control card, bin card, order, goods received note. ◆ identify materials: types, of stock and value stock issues using Last in, First out (LIFO) methods of valuing stock issues ◆ complete stock record cards — using LIFO methods of valuation. NB: no ledger entries will be required
Direct Costs - Labour*	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> ◆ identify and complete the documents required for the efficient recording of wages — clock cards, time sheets, job cards ◆ record and calculate wages: calculation of wages will involve the use of basic, time, piece, bonus rates and overtime rates where wages are paid at time and a half and double time
Indirect Costs - Overheads*	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> ◆ describe and identify cost centres and cost units

National Unit Specification: statement of standards (cont)

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(cont)	<ul style="list-style-type: none"> ◆ prepare an overhead analysis statement and allocate and apportion costs to production and service cost centres based on floor area; number of employees, value of fixed assets, labour hours and machine hours ◆ carry out re-apportionment of costs from service cost centres to production cost centres where the basis of apportionment is given ◆ calculate overhead absorption rates based on direct labour hours, machine hours, output units.
Job costing*	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> ◆ prepare a job cost statement which includes direct materials, labour and variable overheads ◆ calculate and apply overhead absorption rates ◆ calculate profit based on mark-up and invoice price
Service costing*	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> ◆ calculate service costs within one organisation, eg hotel, IT services. ◆ prepare a service cost statement which includes calculation of direct and indirect costs, profit using mark-up, invoice price, and cost and charge per unit of service
Process costing*	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> ◆ explain process costing terminology relating to inputs and outputs ◆ prepare a process account, which includes calculation of normal loss; scrap value, waste (with no value); cost per unit of normal output; transfer of output to the next process and/or stock.

National Unit Specification: statement of standards (cont)

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<p>Marginal costing and decision-making*</p>	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> ◆ prepare and interpret a break-even chart ◆ calculate using appropriate formulae: <ul style="list-style-type: none"> – variable costs – unit and total contribution – break-even point in units and sales value – projected profits at different levels of output – output required to achieve projected profits – profit maximisation under constraints of limiting factor ◆ make and justify decisions based on the above <p>Candidates should be able to explain the terms used in marginal costing and decision making.</p>
<p>Budgeting*</p>	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> ◆ explain theory of budgeting ◆ prepare a Cash Budget for a three month period from information provided. ◆ use of production sales units to calculate receipts/payments ◆ incomes from cash and/or credit sales where there is a time delay in receiving payment from debtors, incomes from other sources ◆ payments of a number of fixed and variable expenses where there is a time delay in making payment to creditors ◆ calculation of closing balance and transfer to correct month ◆ planning for budgeted cash shortfalls/surpluses ◆ decisions based on budgets.

National Unit Specification: statement of standards (cont)

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<p>IT and Accounting</p>	<p>Candidates should be able to describe the use and benefits of information technology in accounting.</p> <p>Demonstrate the use of IT in management accounting particularly the use of spreadsheets as a calculation tool to produce a range of cost statements.</p>
<p>Use of Spreadsheets</p>	<p>Spreadsheets should be used throughout this Unit. Topics where this is most suitable have been indicated by * .</p> <p>The formulae used for spreadsheets should be restricted to:</p> <ul style="list-style-type: none"> ◆ adding, subtracting, multiplying, dividing, use of sum function and copying relatively and absolutely <p>Candidates are required to produce printouts with gridlines, cell and row references, of the spreadsheets showing for data and formulae.</p> <p>It is mandatory that one topic from <i>Management Accounting</i> is assessed using a spreadsheet.</p>

* Topics where the use of a spreadsheet is most suitable.