

Unit Title: Introduction to Cost and Management Accounting

**Unit Code:
ICMA**

Level: Certificate in Financial Management

Learning Outcome and Indicative Content:

Candidates will be able to:

1. Understand the principles of costing for materials

- 1.1 Explain the nature and difference between direct and indirect materials
- 1.2 Explain the importance of accurate stock valuation
- 1.3 Draw and explain the ordering cycle for materials
- 1.4 Calculate the maximum and minimum stock levels and the re-order level for stock using the EOQ model
- 1.5 Draw and describe the relevant paperwork necessary to order materials
- 1.6 Draw and describe the paperwork necessary to record stock held and issues to production
- 1.7 Explain the causes of differences between physical and book stock
- 1.8 Calculate material stock and issue values using FIFO, LIFO, AVCO and Standard Cost
- 1.9 Calculate the impact on recorded profit of different stock valuation methods
- 1.10 Resolve queries in respect of stock issues and valuation
- 1.11 Prepare the relevant ledger accounts to record the purchase, storage and usage of materials

2. Understand the principles of costing for labour

- 2.1 Explain the nature and difference between direct and indirect labour
- 2.2 Explain the need to accurately calculate and record labour costs
- 2.3 Draw and describe the relevant paperwork necessary to record labour hours and cost
- 2.4 Calculate the build-up of labour costs in respect of hourly paid, piecework, annual salary, overtime and bonuses
- 2.5 Resolve queries in respect of labour remuneration calculations
- 2.6 Prepare relevant ledger accounts to record labour costs

3. Understand the principles of costing for overheads

- 3.1 Explain the nature and difference between direct and indirect overheads
- 3.2 Explain the need to allocate overheads to the cost of a unit of output
- 3.3 Explain the nature of and reason for cost centres
- 3.4 Explain the basis of allocating and apportioning overheads to cost centres
- 3.5 Calculate the allocation and apportionment of overheads to production and service cost centres, including step-down methods
- 3.6 Explain the basis on which cost centre overheads can be charged to a unit of production
- 3.7 Calculate overhead absorption rates using suitable bases
- 3.8 Calculate under- and over-absorption of overheads charged to production
- 3.9 Prepare relevant ledger accounts to record overhead costs

4. Understand and calculate the cost of output for:

- 4.1 Units of production
- 4.2 Batches of production
- 4.3 Individual jobs
- 4.4 Process production, including the valuation of partly completed units
- 4.5 Calculate selling prices for products based on costing decisions and make recommendations to management

5. Demonstrate an understanding of the way costing principles can be used in short-term decision-making

- 5.1 Explain the difference between fixed, variable, semi-variable and stepped costs
- 5.2 Explain and calculate the contribution for an individual unit and in total for given levels of output
- 5.3 Explain and calculate the break-even point for different levels of output
- 5.4 Explain the terms and principles associated with break-even analysis
- 5.5 Draw and explain a break-even chart and terms associated with it
- 5.6 Use the break-even chart to analyse data in respect of output, comparing and contrasting it with a chart showing total absorbed cost of production
- 5.7 Explain the term 'limiting factor'
- 5.8 Calculate the optimum production in the short run using limiting factor and break-even analysis
- 5.9 Identify the limitations of break-even analysis
- 5.10 Prepare management reports based on analysis of short-term costs

6. Demonstrate an understanding of the way costing principles can be used in long-term decision-making

- 6.1 Explain the distinction between capital and revenue expenditure
- 6.2 Explain the distinction between cash and profit
- 6.3 Explain the terms connected with capital investment appraisal
- 6.4 Calculate cash flows arising from a capital investment
- 6.5 Use Payback, Discounted Cash flow, Accounting Rate of Return and Internal Rate of Return to evaluate the worth of a capital project (students will be provided with a discount factor table)
- 6.6 Make recommendations to management based on an analysis of the worth of a capital project, including both financial and non-financial factors, such as legal, quality and ethical issues

7. Demonstrate an understanding of the principles of standard costing

- 7.1 Explain and define the terms associated with standard costing
- 7.2 Draw and describe a standard cost card for a unit of output
- 7.3 Calculate relevant variances in respect of sales, direct material, direct labour and fixed overheads
- 7.4 Prepare simple reports to management reconciling the actual cost of production with the standard cost of production
- 7.5 Prepare relevant ledger accounts to record standards and variances

8. Demonstrate an understanding of the principles of budgeting and budgetary control

- 8.1 Explain the need for an organisation to prepare a budget
- 8.2 Explain and define the relevant terms associated with budgeting
- 8.3 Prepare budgets for different levels of output
- 8.4 Prepare management reports reconciling actual and budgeted costs and revenues

Assessment Criteria:

- Assessment method: written examination
- Length of examination: three hours
- Candidates must answer four questions from a choice of eight, each question carrying equal marks

Recommended Reading:

Drury, C – *Cost and Management Accounting* (2006) Thomson Learning
ISBN: 1844800288

Lucey, T – *Costing* (2002) Continuum
ISBN: 8826455107

Atrill, P., McLaney, E – *Management Accounting for Decision Makers* (2005)
Pearson Higher Education
ISBN: 027310443