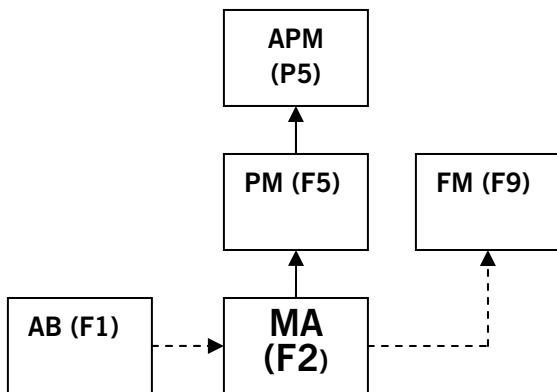


Management Accounting (F2)



AIM

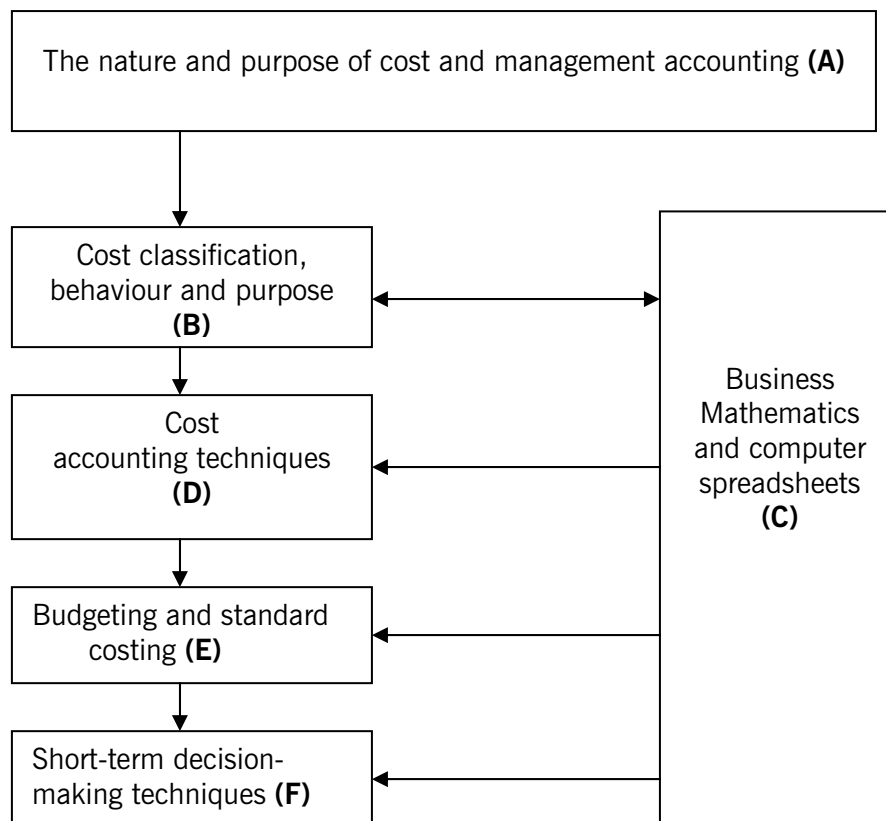
To develop knowledge and understanding of how to prepare and process basic cost and quantitative information to support management in planning and decision-making in a variety of business contexts.

MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A** Explain the nature and purpose of cost and management accounting
- B** Describe costs by classification, behaviour and purpose
- C** Apply essential business mathematics and use computer spreadsheets
- D** Explain and apply cost accounting techniques
- E** Prepare and coordinate budgets and standard costing for planning, feedback and control
- F** Use management accounting techniques to make and support decision-making.

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

The syllabus for Paper F2, *Management Accounting*, introduces candidates to costing principles and techniques, and elements of management accounting which are used to make and support decision-making.

The syllabus starts by introducing the nature and purpose of cost accounting, distinguishing it clearly from financial accounting. The next section is cost classification and behaviour. This is followed immediately by applied business mathematics and the use of computer spreadsheets, which are essential for candidates to understand the measurement and behaviour of business costs and to be able to classify them accordingly.

The next area of the syllabus represents a central part of this paper and it introduces candidates to a variety of costing techniques used in business. It is followed by the preparation and use of budgeting and standard costing as essential tools for planning and controlling business costs. The syllabus finishes with an introduction to the use of management accounting in supporting decision-making.

DETAILED SYLLABUS:

A The nature and purpose of cost and management accounting

1. Accounting for management
2. Cost and management accounting versus financial accounting

B Cost classification, behaviour and purpose

1. Production and non-production costs
2. Direct and indirect costs
3. Fixed and variable costs

C Business mathematics and computer spreadsheets

1. Dealing with uncertainty
2. Statistics for business
3. Use of computer spreadsheets

D Cost accounting techniques

1. Accounting for materials
2. Accounting for labour
3. Accounting for overheads
4. Marginal and absorption costing
5. Job and batch costing
6. Process costing
7. Service/operation costing

E Budgeting and standard costing

1. Nature and purpose of budgeting
2. Functional budgets
3. Flexible budgets and standard costing
4. Basic variance analysis under absorption and marginal costing
5. Reconciliation of budgeted profit to actual profit

F Short-term decision-making techniques

1. Cost-volume-profit analysis
2. Relevant costing
3. Limiting factors

APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a two hour paper-based or computer-based examination. Questions will assess all parts of the syllabus and will include both computational and non computational elements. The examination will consist of 40 two-mark questions, and 10 one-mark questions.

Study Guide

A THE NATURE AND PURPOSE OF COST AND MANAGEMENT ACCOUNTING

1. Accounting for management

- a) Distinguish between data and information.^[1]
- b) Identify and explain the attributes of good information.^[1]
- c) Outline the managerial processes of planning, decision making and control.^[1]
- d) Explain the difference between strategic, tactical and operational planning.^[1]
- e) Distinguish between cost, profit, investment and revenue centres.^[1]
- f) Describe the differing needs for information of cost, profit, investment and revenue centre managers.^[1]

2. Cost and management accounting versus financial accounting

- a) Describe the purpose and role of cost and management accounting within an organisation's management information system.^[1]
- b) Compare and contrast financial accounting with cost and management accounting.^[1]

B COST CLASSIFICATION, BEHAVIOUR AND PURPOSE

1. Production and non-production costs

- a) Explain and illustrate production and non-production costs.^[1]
- b) Describe the different elements of production cost - materials, labour and overheads.^[1]
- c) Describe the different elements of non-production cost – administrative, selling, distribution and finance.^[1]

- d) Explain the importance of the distinction between production and non-production costs when valuing output and inventories.^[1]

2. Direct and indirect costs

- a) Distinguish between direct and indirect costs in manufacturing and non-manufacturing organisations.^[1]
- b) Identify examples of direct and indirect costs in manufacturing and non-manufacturing organisations.^[1]
- c) Explain and illustrate the concepts of cost objects, cost units and cost centres.^[1]

3. Fixed and variable costs

- a) Describe and illustrate, graphically, different types of cost behaviour.^[1]
- b) Explain and provide examples of costs that fall into the categories of fixed, stepped fixed and variable costs.^[1]
- c) Use high/low analysis to separate the fixed and variable elements of total costs including situations involving stepped fixed costs and changes in the variable cost per unit.^[2]
- d) Explain the structure of linear functions and equations.^[1]

C BUSINESS MATHEMATICS AND COMPUTER SPREADSHEETS

1. Dealing with uncertainty

- a) Explain and calculate an expected value.^[1]
- b) Demonstrate the use of expected values in simple decision making situations.^[1]
- c) Explain the limitations of the expected value technique.^[1] (Decision trees and conditional profit tables are excluded).

2. Statistics for business

- a) Calculate a correlation coefficient and a coefficient of determination.^[1]
- b) Explain the concepts in (a) and interpret the coefficients calculated in (a).^[1]
- c) Establish a linear function using regression analysis and interpret the results.^[2]

3. Use of computer spreadsheets

- a) Explain the role and features of a computer spreadsheet system.^[1]
- b) Demonstrate a basic understanding of the use of computer spreadsheets.^[1]
- c) Identify applications for computer spreadsheets in cost and management accounting.^[1]

D COST ACCOUNTING TECHNIQUES

1. Accounting for materials

- a) Describe the different procedures and documents necessary for the ordering, receiving and issuing of materials from inventory.^[1]
- b) Describe the control procedures used to monitor physical and 'book' inventory and to minimise discrepancies and losses.^[1]
- c) Interpret the entries and balances in the material inventory account.^[1]
- d) Identify and explain the costs of ordering and holding inventory.^[1]
- e) Calculate and interpret optimal reorder quantities.^[2]
- f) Calculate and interpret optimal reorder quantities when discounts apply.^[1]
- g) Produce calculations to minimise inventory costs when stock is gradually replenished.^[1]
- h) Describe and apply appropriate methods for establishing reorder levels where demand in the lead time is constant.^[1]

2. Accounting for labour

- a) Calculate direct and indirect costs of labour.^[1]
- b) Explain the methods used to relate input labour costs to work done.^[1]
- c) Prepare the journal and ledger entries to record labour cost inputs and outputs.^[1]
- d) Describe different remuneration methods: time-based systems, piecework systems and individual and group incentive schemes.^[1]
- e) Calculate the level, and analyse the costs and causes of labour turnover.^[1]
- f) Explain and calculate labour efficiency, capacity and production volume ratios.^[1]
- g) Interpret the entries in the labour account.^[1]

3. Accounting for overheads

- a) Explain the different treatment of direct and indirect expenses.^[1]
- b) Describe the procedures involved in determining production overhead absorption rates.^[1]
- c) Allocate and apportion production overheads to cost centres using an appropriate basis.^[1]
- d) Reapportion service cost centre costs to production cost centres (using the reciprocal method where service cost centres work for each other).^[2]
- e) Select, apply and discuss appropriate bases for absorption rates.^[2]
- f) Prepare journal and ledger entries for manufacturing overheads incurred and absorbed.^[1]
- g) Calculate and explain the under and over absorption of overheads.^[1]
- h) Apply methods of relating non-production overheads to cost units.^[1]

4. Marginal and absorption costing

- a) Explain the importance of, and apply, the concept of contribution.^[1]
- b) Demonstrate and discuss the effect of absorption and marginal costing on inventory valuation and profit determination.^[2]
- c) Calculate profit or loss under absorption and marginal costing.^[2]
- d) Reconcile the profits or losses calculated under absorption and marginal costing.^[2]
- e) Describe the advantages and disadvantages of absorption and marginal costing.^[1]

5. Job and batch costing

- a) Describe the characteristics of job and batch costing.^[1]
- b) Describe the situations where the use of job or batch costing would be appropriate.^[1]
- c) Prepare cost records and accounts in job and batch costing situations.^[1]
- d) Establish job costs from given information.^[1]

6. Process costing

- a) Describe the characteristics of process costing.^[1]
- b) Describe the situations where the use of process costing would be appropriate.^[1]
- c) Explain the concepts of normal and abnormal losses and abnormal gains.^[1]
- d) Calculate the cost per unit of process outputs.^[1]
- e) Prepare process accounts involving normal and abnormal losses and abnormal gains.^[1]
- f) Calculate and explain the concept of equivalent units.^[1]
- g) Apportion process costs between work remaining in process and transfers out of a

process using the weighted average and FIFO methods.^[2]

- h) Prepare process accounts in situations where work remains incomplete.^[2]
- i) Prepare process accounts where losses and gains are identified at different stages of the process.^[1]
- j) Distinguish between by-products and joint products.^[1]
- k) Value by-products and joint products at the point of separation.^[1]
- l) Prepare process accounts in situations where by-products and/or joint products occur.^[2] (Situations involving work in process **and** losses in the same process are excluded).

7. Service/operation costing

- a) Identify situations where the use of service/operation costing is appropriate.^[1]
- b) Illustrate suitable unit cost measures that may be used in different service/operation situations.^[1]
- c) Carry out service cost analysis in simple service industry situations.^[1]

E BUDGETING AND STANDARD COSTING

1. Nature and purpose of budgeting

- a) Explain why organisations use budgeting.^[1]
- b) Explain the administrative procedures used in the budgeting process.^[1]
- c) Describe the stages in the budgeting process.^[1]

2. Functional budgets

- a) Explain the term 'principal budget factor'.^[1]
- b) Prepare budgets for sales, production, materials (usage and purchases), labour and overheads.^[1]

3. Flexible budgets and standard costing

- a) Explain and prepare fixed, flexible and flexed budgets.^[1]
- b) Explain the purpose and principles of standard costing.^[1]
- c) Establish the standard cost per unit under absorption and marginal costing.^[1]

4. Basic variance analysis under absorption and marginal costing

- a) Calculate the following variances: ^[1]
 - i) Sales price and volume
 - ii) Materials total, price and usage
 - iii) Labour total, rate and efficiency
 - iv) Variable overhead total, expenditure and efficiency
 - v) Fixed overhead total, expenditure and, where appropriate, volume, capacity and efficiency.
- b) Interpret all the variances in 4(a).^[1]
- c) Explain possible causes of all the variances in 4(a).^[1]
- d) Describe the interrelationships between the variances in 4(a).^[1]
- e) Calculate actual or standard figures where the variances in 4(a) are given.^[1]

5. Reconciliation of budgeted profit and actual profit

- a) Reconcile budgeted profit with actual profit under standard absorption costing.^[1]
- b) Reconcile budgeted profit or contribution with actual profit or contribution under standard marginal costing.^[1]

F. SHORT-TERM DECISION-MAKING TECHNIQUES

1. Cost-volume-profit (CVP) analysis

- a) Calculate and interpret a break-even point and a margin of safety.^[2]

- b) Demonstrate an understanding of, and use, the concepts of a target profit or revenue and a contribution to sales ratio.^[2]

- c) Identify the elements in traditional and contribution break-even charts and profit/volume charts.^[1]

- d) Apply CVP analysis to single-product situations.^[2]
(Multi-product break-even charts and profit/volume charts are excluded).

2. Relevant costing

- a) Explain the concept of relevant costing.^[1]

- b) Calculate the relevant costs for materials, labour and overheads.^[2]

- c) Calculate the relevant costs associated with non-current assets.^[1]

- d) Explain and apply the concept of opportunity cost.^[1]

3. Limiting factors

- a) Identify a single limiting factor.^[1]

- b) Determine the optimal production plan where an organisation is restricted by a single limiting factor.^[2]

- c) Formulate a linear programming problem involving two variables.^[1]

- d) Determine the optimal solution to a linear programming problem using a graphical approach.^[1]

- e) Use simultaneous equations, where appropriate, in the solution of a linear programming problem.^[1]

READING LIST

ACCA's official publishers:

BPP Professional Education

Contact number: +44(0)20 8740 2222

Website: www.bpp.com/acca

Kaplan Publishing Foulks Lynch

Contact number: +44(0)118 989 0629

Website: www.kaplanfoulkslynch.com

Additional reading:

Accountancy Tuition Centre (ATC) International

Contact number: +44(0)141 880 6469

Website: www.atc-global.com

C. Drury, 2004. *Management and Cost Accounting* (6th edition), Thomson. ISBN 1861525362

Wider reading, including relevant articles in ACCA's *Student Accountant*, and other management accounting journals is encouraged.