

Level 3 Cost Accounting



International
Qualifications from EDI

Syllabus

Effective for examinations to be held after January 2008

INTRODUCTION

Education Development International (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCIEB) and a leading online assessment provider GOAL. EDI now delivers LCCI International Qualifications (LCCI IQ) through a network of over 5000 registered centres in more than 120 countries worldwide. Our range of business-related qualifications are trusted and valued by employers worldwide and recognised by universities and professional bodies.

Cost Accounting Level 3

Aims

The aims of this syllabus are to enable candidates to develop:

- An understanding of advanced aspects of the processing of cost accounting information, including stock control
- An understanding of how cost accounting information can be used for the purposes of short-term planning, control and decision making within business organisations
- The ability to apply this understanding in a variety of business settings

Who are they for and how can they be of use?

They are designed for:

- Teachers who will find them invaluable when designing courses and planning lessons.
- Candidates who will find them essential because they can be used as checklists when preparing for examinations. Candidates will also be able to refer to Extended Syllabuses when planning revision programmes.

Target Audience and Candidate Progression

The examination is intended for those who have skills and knowledge equivalent to LCCI IQ Cost Accounting Level 2 and are working in a cost accounting environment at a level that requires some depth of cost accounting knowledge and skill as well as a basic understanding of cost accounting principles and practice. Candidates who achieve Cost Accounting Level 3 may progress to the LCCI IQ Level 4 examination, Cost Accounting and Quantitative Methods.

Level of English

Candidates should have a standard of English equivalent to LCCI IQ English for Business Level 2.

Structure of the qualification

The Level 3 in Certificate in Cost Accounting is a single unit qualification that consists of the range of topics detailed below:

Syllabus Topics

1. Basic terminology and cost classification
2. Costing for materials
3. Costing for labour
4. Costing for overheads
5. Costing methods
- 6. Marginal costing**
7. Budgetary planning and control
8. Standard costing and variances
9. Accounting systems

Guided Learning Hours

EDI recommends that 140-160 Guided Learning Hours (GLHs) is a suitable course duration for an 'average' candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. EDI experience indicates that the number of GLHs can vary significantly from one training centre to another.

ASSESSMENT

Assessment Objectives

After successfully completing this examination candidates will be able to to:

- Demonstrate knowledge and understanding of advanced aspects of the processing of cost accounting information
- Demonstrate knowledge and understanding of short-term planning control and decision making principles, techniques and processes

- Apply this knowledge and understanding in a variety of business settings

Examination Format

The time allowance for the examination is 3 hours. The paper will consist of 6 questions from which any 5 should be answered. All questions will carry equal marks.

At least 1 question based on each of the following topics will appear in each examination paper:

- marginal costing (Syllabus topic 3), often with a requirement to present information graphically and interpret this graphical information
- budgetary control (Syllabus topic 4)
- standard costing and variances (Syllabus topic 5)

Typical tasks that will be used to assess candidates:

(a) Preparation of:

- costing profit and loss statements using both absorption and marginal costing principles
- budgets
- break-even charts, contribution break-even charts and profit volume charts

(b) Calculation of:

- economic order quantities, stock carrying costs
- standard costs for material, labour and overheads
- standard costing variances
- variations in reported profit analysed by variances from standard
- relevant costs for decision making

(c) Presentation of information by way of:

- charts and graphs
- cost statements
- short written explanations

Skills Assessed

Candidates will need to show that they can:

- add, subtract, divide, multiply, calculate and use percentages and ratios

- prepare ledger accounts, or journal entries, in both integrated and non-integrated accounting systems
- present information in statements in a format appropriate to relevant cost accounting system present information in graphical format
- analyse and interpret data
- provide short written answers, in report or other format. Answers may need to be expressed in a range of formats – for example, as percentages, as ratios or other format.

Mark Allocation

A positive marking approach is used; although candidates will be penalised for initial calculation errors, they will gain marks for consequential 'own figures' as long as the correct use of principles has been demonstrated

Certification

Successful candidates will be awarded the Level 3 Certificate in Cost Accounting based on the achievement of the percentages and grades below:

Pass	50%
Credit	60%
Distinction	75%

Recommended Reading List and Support Materials

Title	Author	Publisher	ISBN Code
How to Pass Cost Accounting Second and Third Levels	D Skidmore	LCCIEB	1 86247 0006
How to Pass Cost Accounting Second and Third Levels Teacher's Guide	D Skidmore	LCCIEB	1 86247 0154
Management Accounting Official Terminology		CIMA	1 87478 4493

Support Material

Model Answers and past question papers are available from the LCCI website, www.lcci.org.uk. A Solutions Booklet to support the Passport to Success book is also available from the website.

How to offer the qualification.

To offer this qualification you must be an LCCI IQ registered examination centre. To gain centre approval please contact Customer Support on 08700 818008 between the hours of 0830 and 1700 (GMT) Monday to Friday or by email on centresupport@ediplc.com.

Alternatively you may contact your Regional LCCI Office or Co-ordinating Authority.

Syllabus Topic

Items Covered

1 Accounting for materials, labour, overheads and processes

Candidates must be able to:

- 1.1 Calculate the amount and cost of materials needed to meet the production plan, taking into account process wastage and products rejected at the end of each operation
- 1.2 Explain the meaning of yield.
- 1.3 Price materials from stock using periodic weighted average price, where the period may be a week, a month, a quarter or a year
- 1.4 Price materials from stock using replacement price, and understand how this affects the value of the stock balance
- 1.5 Explain and use the standard hour as a measure of output for a department or a mixture of products
- 1.6 Evaluate proposed changes in the method of remuneration
- 1.7 Use simultaneous equations to deal with reciprocal service department apportionment of actual or budgeted costs
- 1.8 Calculate and apply a predetermined service department absorption rate
- 1.9 Determine the effect of absorbing production overheads on a normal hours basis rather than on a basis of budgeted hours
- 1.10 Explain the causes of under or over-absorbed production overhead in terms of expenditure, volume and efficiency

- 1.11 Describe the principles of Activity Based Costing (ABC) and contrast ABC with the more traditional approaches
- 1.12 Prepare simple ABC statements and calculate unit production costs based on ABC principles
- 1.13 Apportion joint process costs using physical units as the basis for the variable costs, and contribution as the basis for the fixed costs
- 1.14 Value completed production and work-in-progress using equivalent units, and using a FIFO or average approach to the flow of costs

(Candidates could be asked to prepare an account or a statement for the first process and/or any subsequent process)

2 Stock control

Candidates must be able to:

- 2.1 Demonstrate the influence of RQ (the Reorder Quantity) on average stock levels and on average stock investment
- 2.2 Use the EOQ model to calculate economic reorder quantity (EOQ) at a constant purchase price and where discount is given by the supplier for larger order quantities
- 2.3 Determine the number of orders to be placed, based upon the annual material requirement
- 2.4 Construct a graph to show ordering costs, stock-carrying costs and total costs
- 2.5 Tabulate items in 2.3 for discrete order quantities to select the optimal order size without using the EOQ model
- 2.6 Apply the EOQ model to calculate the economic batch quantity for production
- 2.7 Make calculations, and present a stock record showing for a particular material, orders placed, stock in hand, and allocated and free stock

3 Marginal costing

Candidates must be able to:

- 3.1 Distinguish marginal cost from marginal costing
- 3.2 Calculate marginal cost (per unit, per hour, per batch, per kilometre etc) as the increase in total cost as the result of an increase in output. 'Output' here can mean more products, more hours worked, more kilometres travelled etc
- 3.3 Separate the effect of price change from the effect of volume change, when explaining the change in total cost
- 3.4 Calculate the C/S ratio from given sales and net profits of 2 trading periods where no price changes have occurred
- 3.5 Calculate the C/S ratio from given sales and net profits of 2 trading periods where price levels have changed between the 2 periods
- 3.6 Use the range method or high/low method to identify cost behaviour with or without price changes
- 3.7 Prepare a scattergraph and estimate the line of best fit
- 3.8 Read off the estimate of fixed costs as the point where the 'line of best fit' crosses the vertical axis
- 3.9 Prepare a scattergraph where the given cost data contains price variation
- 3.10 Interpret and draw conclusions from a given scattergraph

(A knowledge of regression calculation is *not* required)
- 3.11 Define given costs as variable, semi-variable, semi-fixed or fixed. Data to arrive at conclusions may be given in graphical form

- 3.12 Prepare profit statements based upon marginal or absorption principles, using actual or standard data
- 3.13 Explain variation in reported profits between marginal and absorption costing
- 3.14 Explain the meaning of specific terms particularly in relation to short term decision making. These include marginal, avoidable, relevant, opportunity, differential, sunk, policy, discretionary and attributable costs
- 3.15 Calculate contribution in total and per unit, and in gross and net terms
- 3.16 Use marginal costing to maximise the return from a resource that in the short term is limited in supply.
- 3.17 Choose between in-house manufacture and sub-contracting (make or buy), where in-house resources are without limit
- 3.18 As in 3.17 but where in-house resources are limited in supply
- 3.19 Use marginal costing to evaluate proposals eg to expand output or contract output, to change the product mix, to mount an advertising campaign, to close a department, to remove a product from the range etc
- 3.20 Use marginal costing to choose between alternative internal methods of manufacture
- 3.21 Use opportunity costs in decision making
- 3.22 Break-even charts:
 - (a) Apply principles of good chart construction
 - (b) Construct a break-even chart

- (c) Construct a contribution break-even chart
- (d) Explain and identify relevant range
- (e) Interpret cost and revenue behaviour within the relevant range
- (f) Explain the economist's break-even chart
- (g) Prepare and use profit volume (P/V) graphs
- (h) Prepare and use break-even charts and profit graphs where they represent a mix of products
- (i) Read the break-even point, and the margin of safety, from a break-even chart or profit graph, and check the reading by calculation

3.23 Explain the limitations of break-even analysis

4 Budgetary control

Candidates must be able to:

- 4.1 Explain the difference between budgeting and long range or strategic planning
- 4.2 Explain the difference between a forecast and a budget
- 4.3 Explain the following terms relating to budget organisation: budget committee, budget officer, budget manual and budget timetable
- 4.4 Decide appropriate budget periods for planning and control
- 4.5 Recognise the importance of the Principal Budget Factor
- 4.6 Prepare a sales budget analysed where necessary by product, area, salesman etc

- 4.7 Prepare a production budget which takes into account budgeted product sales, budgeted work in progress and finished stock changes, and finished and part finished product rejections
- 4.8 Prepare a materials usage budget based upon the production budget
- 4.9 Prepare a materials purchasing budget based upon materials usage budget and planned material stock movements
- 4.10 Prepare a capacity (machine, labour, process) utilisation budget, based upon the production budget
- 4.11 Compare the capacity needed with the capacity available for each department, cost centre etc
- 4.12 Prepare a direct labour budget based upon the production and capacity utilisation budgets
- 4.13 Prepare a production overhead budget and calculate budgeted production overhead absorption rates
- 4.14 Combine 4.12 and 4.13 to budget conversion costs and to calculate conversion cost absorption rates
- 4.15 Summarise budgets to establish the budgeted profit, making stock adjustments where necessary
- 4.16 Prepare a cash budget
(Questions on this topic will normally involve greater complexity in the terms of credit than those found at Second Level)
- 4.17 Make proposals to deal with a short term cash deficit or surplus
- 4.18 Contrast fixed budgets versus flexible budgets for control

- 4.19 Suggest a basis or bases for flexing
- 4.20 Prepare a flexed budget and make a comparison with actual costs/income and interpret the variances

5 Standard costing and variances

Candidates must be able to:

- 5.1 Explain the technique of standard costing
- 5.2 Differentiate between the types of standard: ideal and attainable
- 5.3 Explain the use of standard costs for budgeting, valuing stocks, assisting in setting selling prices, encouraging cost control through variance analysis etc
- 5.4 Explain factors to be considered in setting standard material prices, standard labour and overhead rates, standard times, standard efficiency, standard material quantities and standard losses
- 5.5 Prepare a standard product cost in the appropriate format
- 5.6 Compare budgeted profit with actual profit to establish the profit variance – whether using absorption costing or marginal costing
- 5.7 Calculate how much of the profit variance is due to selling price variance and sales volume profit variance

(Further analysis of the sales volume variance to mix and quantity will *not* be required)
- 5.8 Calculate the total material variance, and analyse this to material price and material usage variances, where the material price variance is based upon issues
- 5.9 Calculate the total material price variance based upon purchases

- 5.10 Analyse the material usage variance to material mix variance and total material yield variance
- 5.11 Analyse the effect of losses and scrap on the usage variance
- 5.12 Calculate the total direct labour variance and analyse this to direct labour rate variance and direct labour efficiency variance
- 5.13 Analyse the effect of idle time treatment on labour variances
- 5.14 Calculate the total variable overhead variance and analyse this to the variable overhead expenditure variance and the variable overhead efficiency variance
- 5.15 Calculate the total fixed overhead variance and analyse this to the fixed overhead expenditure variance and when using absorption costing to the fixed overhead volume variance
- 5.16 Analyse the fixed overhead volume variance to the fixed overhead efficiency variance and the fixed overhead capacity variance
- 5.17 Explain how a budgeted fixed overhead volume variance can arise
- 5.18 Explain each variance in simple terms
- 5.19 Calculate ratios of production volume, efficiency or productivity, and capacity

6 Accounting systems

Candidates must be able to:

- 6.1 Distinguish between integrated and non-integrated accounting systems
- 6.2 Explain the importance, and demonstrate the use, of control accounts with particular emphasis on material stock, work in progress, finished goods and production overhead

- 6.3 Post entries in a ledger, or prepare journal entries, for an integrated accounting system that uses the absorption or marginal and historic or standard costing methods
- 6.4 Post entries as in 6.3 but for a non-integrated accounting system
- 6.5 Explain and demonstrate the need for reconciliation in a non-integrated accounting system
- 6.6 Prepare a profit reconciliation statement in a non-integrated accounting system

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