

## Level 3 Certificate in Management Accounting



International  
Qualifications from EDI

### **Syllabus**

Effective from October 2008



## **INTRODUCTION**

EDI is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCI) and GOAL a leading online assessment provider. 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.

### **Level 3 Certificate In Management Accounting**

#### **Aims**

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

- An ability to critically analyse information for both short term and long term decision making
- An ability to use management accounting information for the purposes of planning and control of cash and other resources within business organisation and an understanding of factors affecting the planning and control process
- An awareness of how product costs can be ascertained using different costing methods
- An understanding of business performance measures, and the relevance and impact of transfer pricing.

#### **Target Audience and Candidate Progression**

The examination is intended for those who work, or aspire to work, in the more advanced areas of accountancy. The complex business world of today makes Management Accounting a necessity for all types of managers. Organisations must attempt to acquire and utilise their resources in the best way possible, and managers need reliable accounting data to anticipate the future and control day-to-day activity. There is an increasing demand for employees who are capable of providing such important information.

Candidates attempting this examination must be totally familiar with the basic cost accounting principles, methods and terminology as contained in the LCCI IQ Cost Accounting Level 2 syllabus and it is recommended that a pass is obtained at this level before proceeding to this Management Accounting examination. Candidates who achieve Management Accounting Level 3 may progress to the LCCI IQ Level 4 examination Cost Accounting and Quantitative Techniques.

#### **Level of English required**

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

## **Structure of the Qualification**

The level 3 Certificate in Management Accounting is a single unit qualification that consists of a range of topics detailed below.

### **Syllabus topics**

- 1 Short term cost behaviour
- 2 Short term decision making
- 3 Short term profit control
- 4 Cash and working capital management
- 5 Long term decision making and control
- 6 Product cost ascertainment
- 7 Transfer pricing and performance evaluation

### **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 up to 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:

- Analyse information in a variety of decision making situations and to explain the basis for the analysis and the validity of the techniques used
- Demonstrate knowledge and understanding of short-term planning and control principles, techniques and processes
- Ascertain product costs using different costing methods
- Use, and interpret, business performance measures and transfer prices

### **Skills Assessed**

Candidates will need to show they can:

- add, subtract, divide and multiply, calculate and use percentages
- present information in statements in a form appropriate to management accounting
- present information in graphical format

- analyse and interpret data
- provide short written answers

### **Examination format**

The time allowance for the examination is 3 hours with 5 questions to be answered from a choice of 6. All questions carry equal marks. The emphasis of the paper will be quantitative; however, each question is likely to contain a descriptive part and Question 1 will consist entirely of short written answers.

### **Coverage of Syllabus Topics in Examinations**

At least 1 question from each of the following syllabus topics will be set in each examination:

- Short Term Decision Making (Syllabus Topic 2)
- Short Term Profit Control (Syllabus Topic 3)
- Long Term Decision Making and Control (Syllabus Topic 5)

Typical tasks that will be used to assess candidates:

(a) preparation of:

- monthly cash budgets
- statements that reconcile budgeted profit with actual results
- profit and loss statements
- working capital budgets
- statements which show the order in which products should be manufactured

(b) calculation of:

- net present values and internal rates of return
- standard cost variances
- break-even points and margins of safety
- residual income figures

(c) support calculations and statements with:

- interpretation of the figures shown
- comments upon recommended action
- identifying the advantages and/or disadvantages of particular techniques

This list is not exhaustive but is intended to show typical tasks that candidates must perform in the examination.

## 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 Management Accounting based on the achievement of the percentages and grades below:

|             |     |
|-------------|-----|
| Pass        | 50% |
| Credit      | 60% |
| Distinction | 75% |

## Recommended Reading List and Support Material

### Reading List

| Title   | Author(s)               | Publisher | ISBN Code     |
|---|-------------------------|-----------|---------------|
| How to Pass Management Accounting Third Level | D Frederick and R Lyall | LCCIEB    | 1 86247 020 0 |

### Support Material

Model answers and past question papers are available from the LCCI website, [www.lcci.org.uk](http://www.lcci.org.uk)

### How to offer this 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](mailto:centresupport@ediplc.com).

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

## Syllabus Topic

## Items Covered

### 1 Short term cost behaviour

Candidates must be able to:

- 1.1 Define given costs as *variable, semi-variable, stepped or fixed*
- 1.2 Separate costs into fixed and variable elements according to their behaviour and characteristics.
- 1.3 Use the high/low method to identify cost behaviour with or without price changes.
- 1.4 Calculate costs per period or unit from fixed, variable, semi-variable or stepped patterns.
- 1.5 Forecast costs using the high/low method.
- 1.6 Explain the effect of time on cost behaviour..

### 2 Cost/Volume/Profit (CVP) Analysis

Candidates must be able to;

- 2.1 Calculate the contribution/sales (C/S) ratio for a single product and the weighted C/S ratio for a mix of products.
- 2.2 Explain and calculate the break-even point in both single product and multi-product situations.
- 2.3 Explain and calculate the margin of safety.
- 2.4 Apply CVP analysis in given situations
- 2.5 Construct the following charts for a single product or multiple products:
  - Conventional break-even
  - Contribution break even
  - Profit-volume (PV)
- 2.6 Read the break-even point and the margin of safety from a chart.
- 2.7 Discuss the assumptions and limitations of CVP analysis.

### 3 Short term decision making

Candidates must be able to:

- 3.1 Explain the terms marginal costing and absorption costing.
- 3.2 Prepare statements in both marginal and absorption form as the basis for decision making.
- 3.3 Discuss the usefulness of both marginal costing and absorption costing as the basis for decision making.
- 3.4 Explain the key terms used in decision making e.g.
  - Sunk cost
  - Differential/incremental cost.
  - Opportunity cost
  - Avoidable cost
  - Relevant cost
- 3.5 Explain and identify limiting factors within an organisation.
- 3.6 Calculate the contribution per unit of the limiting factor, and recommend the product mix to maximise profits
- 3.7 Discuss other factors that may influence the product mix decision in limiting factor situations.
- 3.8 Solve linear programming problems using the graphical method.
- 3.9 Evaluate sub-contracting alternatives with or without limiting factors.
- 3.10 Use relevant cost principles for special order decisions
- 3.11 Identify products or departments that may be considered for closure, differentiating between general and specific fixed costs.
- 3.12 Discuss the limitations of short term decision making techniques.
- 3.13 Calculate a selling price for a product or service from given price/demand relationship

- 3.14 Calculate a selling price for a product or service to achieve a given profit margin.

**4 Budgetary planning and control.**

Candidates must be able to:

- 4.1 Explain the difference between a forecast and a budget.
- 4.2 Explain budgetary planning and control and the benefits expected to accrue from the use of budgets.
- 4.3 Explain the meaning and importance of the principal budget factor.
- 4.4 Discuss factors influencing the choice of budget period.
- 4.5 Prepare the following budgets
- Sales
  - Production
  - Material usage
  - Materials purchases
  - Direct labour
  - Profit/loss
  - Balance sheet
- 4.6 Distinguish between fixed and flexible budgets.
- 4.7 Suggest bases for flexing budgets
- 4.8 Prepare a flexed budget, compare with actual costs/revenues and interpret the variances.
- 4.9 Discuss alternative approaches to budgeting, e.g. zero-based budgeting, rolling/continuous budgets, and activity based budgeting.
- 4.10 Discuss the human behavioural aspects of budgeting

**5 Cash and working capital management**

Candidates must be able to:

- 5.1 Explain why liquidity and cash flow management are important for the successful operation of any business

- 5.2 Prepare detailed cash budgets on a monthly or quarterly basis.
- 5.3 Discuss the implications of, and ways to deal with, a cash surplus/deficit.
- 5.4 Define working capital and explain why its management is important in the day-to day operation of any business.
- 5.5 Prepare working capital budgets
- 5.6 Demonstrate the effects of sales and production expansion or contraction upon working capital requirements.
- 5.7 Reconcile profit budgets and cash budgets and explain why this reconciliation is important.
- 5.8 Calculate and interpret ratios for stock turnover, debtor collection, creditor settlement and liquidity.
- 5.9 Use given ratios to calculate elements of working capital.
- 5.10 Explain and calculate the working capital cycle.

**6 Standard costing and variances**

Candidates must be able to:

- 6.1 Explain the meaning of standard cost, and differentiate between the types of standard: ideal and attainable.
- 6.2 Calculate the total sales variance and analyse this to selling price and sales volume variances using absorption and marginal costing.
- 6.3 Calculate the total direct material variance and analyse this to price and usage variances where the price variance is based upon issues.
- 6.4 Explain and use the standard hour as a measure of output for a department or a mix of products.
- 6.5 Calculate the total direct labour variance and analyse this to rate and efficiency variances.

- 6.6 Calculate the total fixed production overhead variance and analyse this when using absorption costing, to expenditure and volume variances.
- 6.7 Analyse the fixed production overhead volume variance to efficiency and capacity variances.
- 6.8 Reconcile budgeted and actual profit using appropriate variances.
- 6.9 Use given cost and sales variances to calculate standard or actual production costs or revenues.
- 6.10 Explain and illustrate how standard costs and variances can be used for cost control including the use of control charts.
- 6.11 Interpret variances and possible relationships between them.
- 6.12 Calculate ratios of production volume (activity), production efficiency and capacity.
- 6.13 Explain the use of *ex-ante* and *ex-post* standards.
- 6.14 Calculate and interpret planning and operational variances.

**7 Long term decision making**

Candidates must be able to:

- 7.1 Explain the difference between long term and short term decision making.
- 7.2 Identify relevant and irrelevant costs in capital investment appraisal.
- 7.3 Prepare capital investment appraisals using the traditional techniques of Payback and/or Accounting Rate of Return
- 7.4 Evaluate the effectiveness of these traditional techniques, and identify their limitations.
- 7.5 Explain what is meant by Discounted Cash Flow (DCF), and explain how discounting overcomes the main limitation of traditional techniques.

- 7.6 Explain Net Present Value (NPV) and Internal Rate of Return (IRR) discounting methods.
- 7.7 Calculate the Net Present Value (NPV) of a proposed capital investment.
- 7.8 Calculate the Internal Rate of Return (IRR) of a proposed capital investment.
- 7.9 Compare IRR and NPV methods and explain why the two techniques do not necessarily rank projects in the same order.
- 7.10 Calculate the discounted payback of a proposed capital investment.
- 7.11 Calculate a Profitability Index, and explain its significance.
- 7.12 Calculate and use a weighted average cost of capital.
- 7.13 Apply elementary aspects of risk analysis including sensitivity analysis and expected value using probabilities.
- 7.14 Incorporate elementary aspects of the impact of inflation in capital investment appraisals.
- 7.15 Interpret the results of capital investment appraisals.

**8 Performance evaluation and transfer pricing**

Candidates must be able to:

- 8.1 Explain why an enterprise may wish to decentralise and describe the advantages and disadvantages of decentralisation.
- 8.2 Define and contrast *cost centres*, *profit centres* and *investment centres*.
- 8.3 Evaluate centres on the basis of ratios and in particular be able to calculate Return on Capital Employed (ROCE) and Residual Income (RI)
- 8.4 Contrast ROCE with RI and describe the strengths and weaknesses of the two ratios.

- 8.5 Calculate and interpret Profitability and Use of Assets ratios.
- 8.6 Discuss the use of the balanced scorecard approach to performance evaluation.
- 8.7 Calculate and interpret both financial and non-financial performance measures in various organisations
- 8.8 Explain why transfer pricing is necessary and the objectives that should be met.
- 8.9 Calculate and use market and cost based transfer prices and evaluate the consequences for buyers, sellers and the group as a whole, of the different methods.

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and performance

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