AAT

Management Accounting: Costing

Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Advanced Diploma in Accounting – Level 3

AAT Advanced Certificate in Bookkeeping – Level 3

AAT Advanced Diploma in Accounting at SCQF Level 6

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Preface

These Pocket Notes contain the key points you need to know for the exam, presented in a unique visual way that makes revision easy and effective.

Written by experienced lecturers and authors, these Pocket Notes break down content into manageable chunks to maximise your concentration.

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A guide to the assessment

The assessment

MMAC is the management accounting unit on the Advanced Diploma in Accounting qualification.

Examination

Management Accounting: Costing is assessed by means of a computer based assessment. The CBA will last for 2 hours 30 minutes and consist of 10 tasks.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

Learning outcomes & weighting

1.	Understanding the purpose and use of management accounting within an organisation	15%
2.	Apply techniques required for dealing with costs	35%
3.	Apportion costs according to organisational requirements	19%
4.	Analyse and review deviations from budget and report these to management	10%
5.	Apply management accounting techniques to support decision making	21%
Total		100%

Pass mark

To pass a unit assessment, students need to achieve a mark of 70% or more.

This unit contributes 20% of the total amount required for the Advanced Diploma in Accounting qualification.

chapter

1

Management accounting

- Financial accounting and management accounting.
- The nature of cost accounting.
- Basic terms in cost accounting.

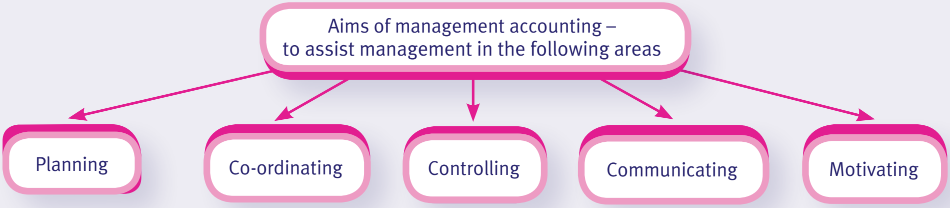
Financial accounting and management accounting

Definition

Financial accounts are an historical record of transactions which are presented in a standard format laid down by law. Such accounts are normally produced once or twice a year and are primarily used by external groups, e.g. shareholders.

Definition

Management accounts can be produced in any format that is useful to an organisation. They tend to be produced more frequently than financial accounts, usually once a month. They contain information required to run a business.

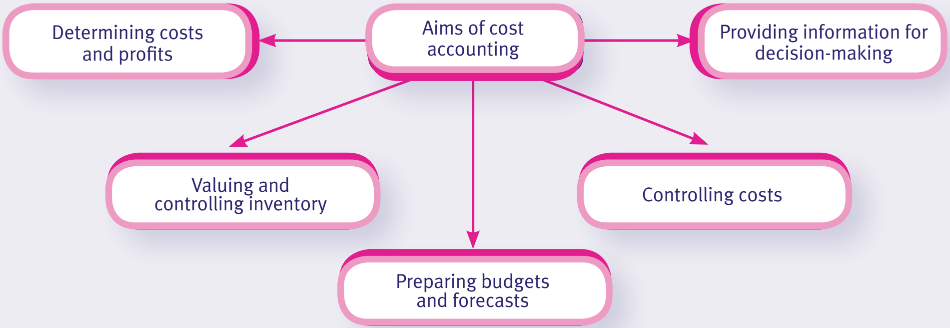


The nature of cost accounting

Definition

Cost accounting is the process of calculating and recording the costs involved in the production and distribution of products and services.

Main reason for carrying out cost accounting: to calculate the cost of a product and therefore set the sales price of the item.



Basic terms in cost accounting

Definition

Cost unit refers to the item we are trying to find the cost of. This will normally be the item of a product that an organisation manufactures or a service that an organisation provides.

Examples of cost units

Car manufacturer – car
Paint manufacturer – litre of paint
Accountancy firm – cost per chargeable hour
Hospital – cost per operation

A **composite cost unit** is more appropriate if a service is a function of two variables.

Examples of composite cost units

- Haulage company – tonne-mile
- Hospital – patient-days
- Public transport companies – passenger-miles

Definition

A cost centre is anywhere within an organisation where costs are incurred. A cost centre could therefore be a location, function or item of equipment.

Key Point

It is important to recognise that cost centre costs are necessary for control purposes, as well as for relating costs to cost units.

There are different types of centres determined by what the manager has control over:

- Cost centre
- Revenue centre
- Profit centre
- Investment centre

The cost card

A cost card is used to show the breakdown of the costs of producing output based on the classification of each cost.

	£
Direct costs	
Direct materials	250
Direct labour	120
Direct expenses	10
Prime cost (Total of direct costs)	380
Variable production overheads	15
Marginal production cost (total of direct and variable costs)	395
Fixed production overheads	35
Absorption cost (total production cost)	430
Non-production cost	
(e.g. administration overhead; selling overhead)	20
Total cost	450