



AAT

Management Accounting: Decision and Control

Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Professional Diploma in Accounting – Level 4

AAT Level 4 Diploma in Business Skills

AAT Professional Diploma in Accounting at SCQF Level 8

The Kaplan Publishing logo is contained within a dark blue rounded rectangle. It features the word 'KAPLAN' in white, uppercase, sans-serif font, with a white curved line underneath it. Below this, the word 'PUBLISHING' is written in a smaller, white, uppercase, sans-serif font.

KAPLAN
PUBLISHING

British library cataloguing-in-publication data

A catalogue record for this book is available
from the British Library.

Published by:
Kaplan Publishing UK
Unit 2 The Business Centre
Molly Millars Lane
Wokingham
Berkshire
RG41 2QZ

ISBN 978-1-78740-549-3

© Kaplan Financial Limited, 2019

Printed and bound in Great Britain.

The text in this material and any others made available by any Kaplan Group company does not amount to advice on a particular matter and should not be taken as such. No reliance should be placed on the content as the basis for any investment or other decision or in connection with any advice given to third parties. Please consult your appropriate professional adviser as necessary. Kaplan Publishing Limited and all other Kaplan group companies expressly disclaim all liability to any person in respect of any losses or other claims, whether direct, indirect, incidental, consequential or otherwise arising in relation to the use of such materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of Kaplan Publishing.

CONTENTS

	Study text chapter	Page Number
A guide to the assessment		1
Chapter 1 Collection of cost information	2	5
Chapter 2 Accounting for overheads	3	13
Chapter 3 CVP and decision making techniques	4, 5	27
Chapter 4 Life cycle and target costing	6, 7	37
Chapter 5 Forecasting techniques	8-10	45
Chapter 6 Standard costing and variances	1, 11, 12	53
Chapter 7 Further aspects of variance analysis	13-15	77
Chapter 8 Performance measurement	16	83
Chapter 9 Ethics	17	93
Index		I.1


Preface

These Pocket Notes contain the key things that you need to know for the assessment, 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.

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to mykaplanreporting@kaplan.com with full details, or follow the link to the feedback form in MyKaplan.

Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

The background features several thick, overlapping, curved lines in a light pink color that sweep from the bottom left towards the top right, creating a sense of movement and depth.

A guide to the assessment

The assessment

MDCL is one of the management accounting units studied on the professional Diploma in Accounting qualification.

Examination

Management Accounting: Decision and Control is assessed by means of a computer based assessment. The CBA will last for 2 hours 30 minutes.

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. Analyse a range of costing techniques to support the management accounting function of an organisation | 10% |
| 2. Calculate and use standard costing to improve performance | 40% |
| 3. Demonstrate a range of statistical techniques to analyse business information | 10% |
| 4. Use appropriate financial and non-financial performance techniques to aid decision making | 30% |
| 5. Evaluate a range of cost management techniques to enhance value and aid decision making | 10% |
| Total | 100% |

Pass mark

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

This unit contributes 15% of the total amount required for the Professional Diploma in Accounting qualification.

chapter

1

Collection of cost information

- Basic terms in cost accounting.
- Cost classifications.
- Cost behaviour.
- Splitting semi-variable costs.

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 – chargeable hour

Hospital – operation

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. e.g. the production department.

Key Point

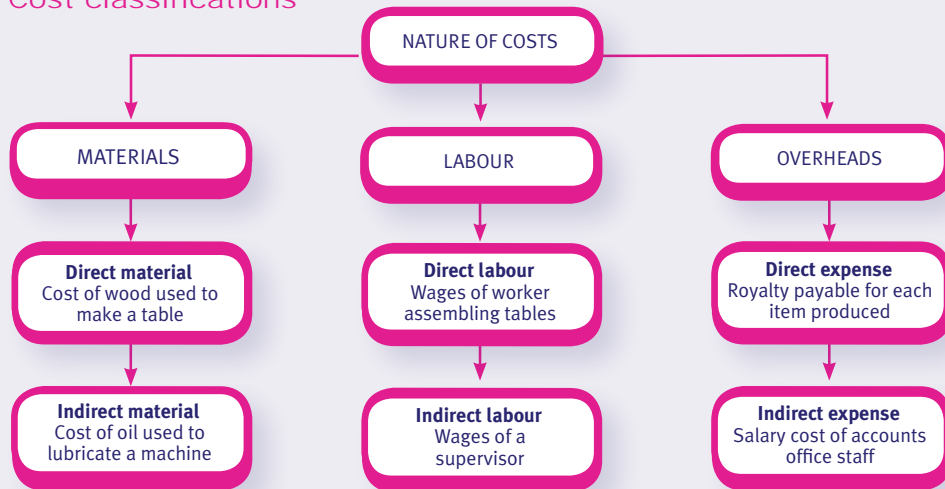
It is important to recognise that cost centre costs are necessary for control purposes, as well as for relating costs to cost units.

Definition

Direct costs are those that can be related to a cost unit.

Indirect costs are those that cannot be directly related to a cost unit.

Cost classifications

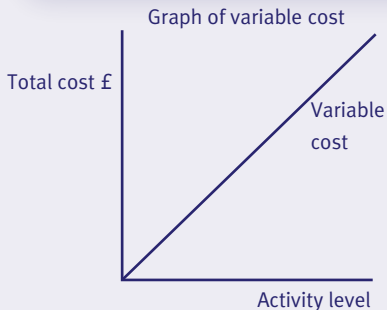


Production indirect costs are indirect costs involved in the production process, e.g. supervisor salary costs.

Non-production indirect costs are indirect costs involved in converting finished goods into revenue, e.g. administrative staff costs.

Cost behaviour

A **variable cost** increases as the level of activity increases.

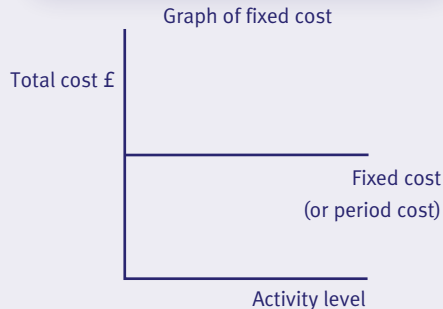


Examples of variable costs:

Direct materials

Direct labour

A **fixed cost** does not increase as the level of activity increases.

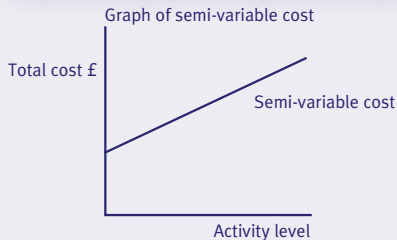


Examples of fixed costs:

Business rates

Management salaries

A **semi-variable cost** is one that contains both fixed and variable elements.



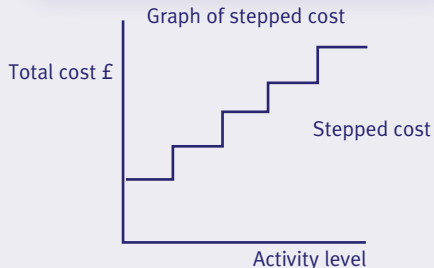
Semi-variable costs are also known as **semi-fixed costs** or **mixed costs**.

Examples of semi-variable costs:

Electricity – standing charge (fixed cost)
– cost per unit used (variable cost)

Salesman's salary – basic (fixed) + bonus (variable)

A **stepped cost** is one that remains fixed over a certain range of activity, but increases if activity increases beyond that level.



Examples of stepped costs:

Inventory storage costs

Supervisor salaries

Splitting semi-variable costs

High/low method

If a semi-variable cost is incurred, it is often necessary to estimate the fixed and variable elements of the cost for the purposes of budgeting. The costs can be split using the high/low method.

Variable cost per unit (VC) = $\frac{\text{Change in total cost}}{\text{Change in level of production}}$

Fixed cost = Total cost – (VC x units produced)

e.g

Example

Production units	Total cost £	
10,000	150,000	
12,000	175,000	
14,000	195,000	Solve using
15,000	200,000	High Low Method



Solution

1 Highest level = 15,000 units
of production (costing £200,000)

Lowest level = 10,000 units
of production (costing £150,000)

$$\begin{aligned}
 2 \text{ Variable cost per unit (VC)} &= \frac{\text{Change in total cost}}{\text{Change in level of production}} \\
 &= \frac{£200,000 - £150,000}{15,000 - 10,000} = \frac{£50,000}{5,000} \\
 &= £10
 \end{aligned}$$

3 Substitute in any level of production

Total cost for 10,000 units = £150,000

$$£150,000 = (10,000 \text{ units} \times £10) + \text{Fixed costs}$$

Fixed costs = £50,000