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

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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.

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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

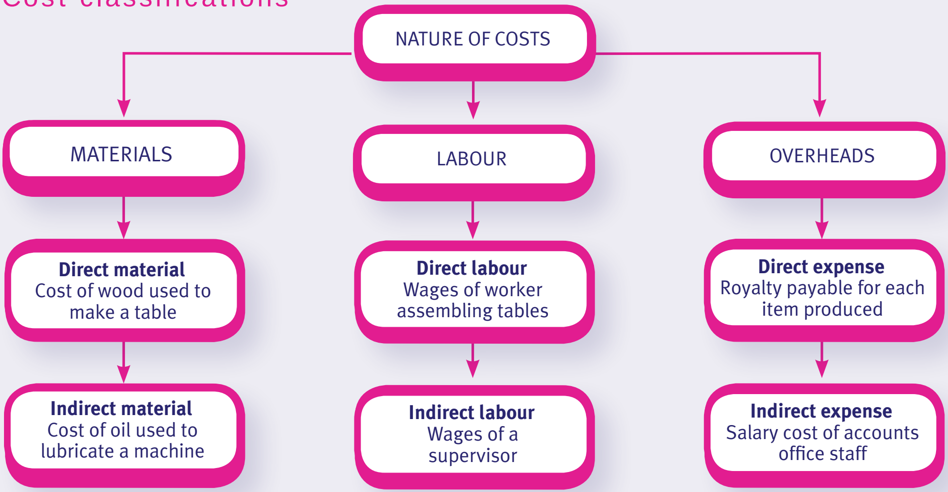
It is important to recognise that cost centre costs are necessary for control purposes, as well as for relating costs to cost units.

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

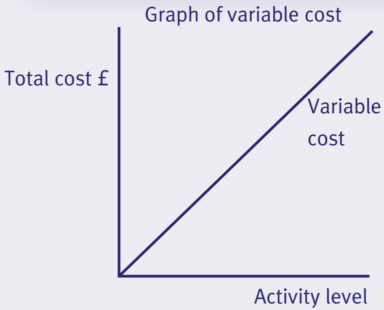


Production indirect costs are indirect costs involved in the production process, e.g. supervisor salary costs.

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

Cost behaviour

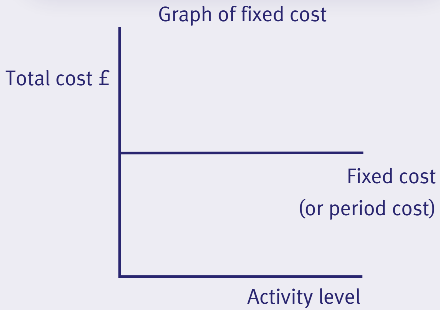
A **variable cost** increases as the level of activity increases.



Examples of variable costs:

- Direct materials
- Direct labour

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

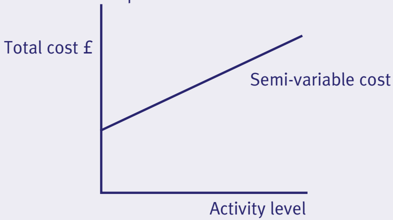


Examples of fixed costs:

- Business rates
- Management salaries

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

Graph of semi-variable cost



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

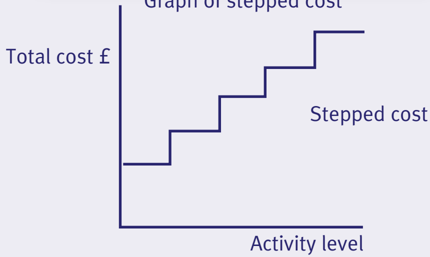
Examples of semi-variable costs:

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.

Graph of stepped cost



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.

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

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
15,000	200,000

Solve using High Low Method

Solution

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

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

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

$= \dfrac{£200,000 - £150,000}{15,000 - 10,000} = \dfrac{£50,000}{5,000}$

$= £10$

3 Substitute in any level of production

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

£150,000 = (10,000 units x £10) + Fixed costs

Fixed costs = £50,000