

**ACCA**

**Applied Knowledge**

**ACCA Diploma in  
Accounting and Business  
(RQF Level 4)**

**Management Accounting  
(MA/FMA)**

**Study Text**

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# How to use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

- (1) Detailed study guide and syllabus objectives
- (2) Description of the examination
- (3) Study skills and revision guidance
- (4) Study text
- (5) Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how to best to approach your learning.

The **Study Text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes:

- The **learning objectives** contained in each chapter, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. These are worked examples which will help you to understand better how to apply the content for the topic.
- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.
- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the examination. These diagrams should be used to check that you have covered and understood the core topics before moving on.
- **Question practice** is provided at the back of each text.

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](mailto:mykaplanreporting@kaplan.com) with full details, or follow the link to the feedback form in MyKaplan.

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

### Icon Explanations



**Definition** – Key definitions that you will need to learn from the core content.



**Key point** – Identifies topics that are key to success and are often examined.



**Illustration** – Worked examples help you understand the core content better.



**Test your understanding** – Exercises for you to complete to ensure that you have understood the topics just learned.



**Supplementary reading** – These sections will help to provide a deeper understanding of core areas. The supplementary reading is NOT optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an exam question. **Reference to this text is vital when self-studying.**

### On-line subscribers

Our on-line resources are designed to increase the flexibility of your learning materials and provide you with immediate feedback on how your studies are progressing.

If you are subscribed to our on-line resources you will find:

- (1) On-line reference ware: reproduces your Study Text on-line, giving you anytime, anywhere access.
- (2) On-line testing: provides you with additional on-line objective testing so you can practice what you have learned further.
- (3) On-line performance management: immediate access to your on-line testing results. Review your performance by key topics and chart your achievement through the course relative to your peer group.

# Accounting for management

## Chapter learning objectives

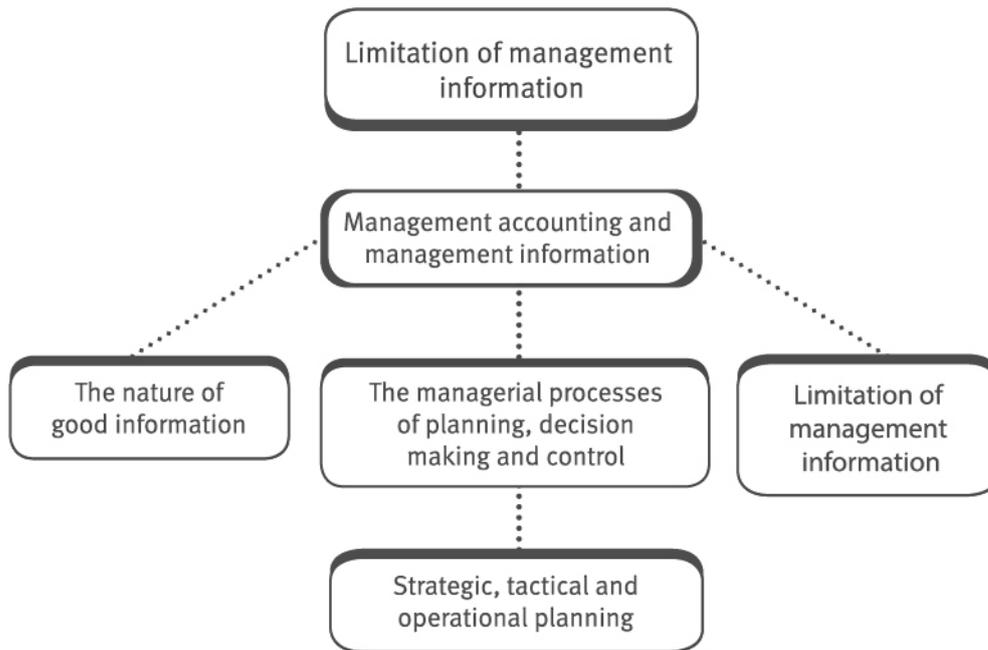
Upon completion of this chapter you will be able to:

- distinguish between data and information
- identify and explain the attributes of good information
- outline the managerial processes of planning, decision making and control
- explain the difference between strategic, tactical and operational planning
- describe the purpose and role of cost and management accounting within an organisation
- compare and contrast financial accounting with cost and management accounting
- explain the limitations of management information in providing guidance for managerial decision-making.



**PER**

One of the PER performance objectives (PO1) is to take into account all relevant information and use professional judgement, your personal values and scepticism to evaluate data and make decisions. You should identify right from wrong and escalate anything of concern. You also need to make sure that your skills, knowledge and behaviour are up-to-date and allow you to be effective in your role. Working through this chapter should help you understand how to demonstrate that objective.



## 1 Management, Cost and Financial accounting

### Management and Cost accounting

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Managers usually want to know about the costs and the profits of individual products and services. In order to obtain this information, details are needed for each cost, revenue, profit and investment centre. Such information is provided by cost accounting and management accounting systems.



Cost accounting is a system for recording data and producing information about costs for the products produced by an organisation and/or the services it provides. It is also used to establish costs for particular activities or responsibility centres.

- Cost accounting involves a careful evaluation of the resources used within the enterprise.
- The techniques employed in cost accounting are designed to provide financial information about the performance of the enterprise and possibly the direction that future operations should take.
- The terms 'cost accounting' and 'management accounting' are often used to mean the same thing.
- Management accounting has cost accounting at its essential foundation.

## Financial accounting

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Financial accounting involves recording the financial transactions of an organisation and summarising them in periodic financial statements for external users who wish to analyse and interpret the financial position of the organisation.

- The main duties of the financial accountant include: maintaining the bookkeeping system of the nominal ledger, payables control account, receivables control account and so on and to prepare financial statements as required by law and accounting standards.
- Information produced by the financial accounting system is usually insufficient for the needs of management for decision making.

## Differences between management accounting and financial accounting

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The following illustration compares management accounting with financial accounting.



**Illustration 1 – Management versus financial accounting**

	<b>Management accounting</b>	<b>Financial accounting</b>
<b>Information mainly produced for</b>	Internal use e.g. managers and employees.	External use e.g. shareholders, payables, lenders, banks, government.
<b>Purpose of information</b>	To aid planning, controlling and decision making.	To record the financial performance in a period and the financial position at the end of that period.
<b>Legal requirements</b>	None.	Limited companies must produce financial accounts.
<b>Formats</b>	Management decide on the information they require and the most useful way of presenting it.	Format and content of financial accounts intending to give a true and fair view should follow accounting standards and company law.
<b>Nature of information</b>	Financial and non-financial.	Mostly financial.
<b>Time period</b>	Historical and forward-looking.	Mainly a historical record.



**Test your understanding 1**

The following assertions relate to management accounting:

- (i) The purpose of management accounting is to provide accounting information to the managers of the business and other internal users.
- (ii) Management accounts are only concerned with the cost of goods, services and operations.

**Which of the following statements are true?**

- A Assertion (i) and (ii) are both correct
- B Only assertion (i) is correct
- C Only assertion (ii) is correct
- D Neither assertion (i) or (ii) is correct

**2 The nature of good information**

**Data and information**

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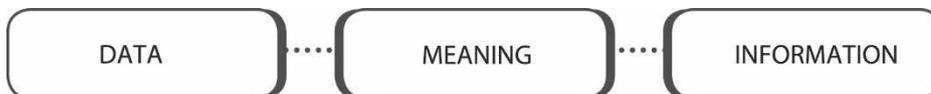


'Data' means facts. Data consists of numbers, letters, symbols, raw facts, events and transactions which have been recorded but not yet processed into a form suitable for use.



Information is data which has been processed in such a way that it is meaningful to the person who receives it (for making decisions).

- The terms data and information are often used interchangeably in everyday language.
- As data is converted into information, some of the detail of the data is eliminated and replaced by summaries which are easier to understand.



**Test your understanding 2**

**What, if any, is the difference between data and information?**

- A They are the same
- B Data can only be figures, whereas information can be facts or figures
- C Information results from sorting and analysing data
- D Data results from obtaining many individual pieces of information



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