



AAT

Principles of Costing

Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Certificate in Accounting – Level 2

AAT Certificate in Bookkeeping – Level 2

AAT Certificate in Accounting at SCQF Level 5

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chapter

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Introduction to costing systems

- Financial accounting and management accounting.
- The aims of management accounting.
- Cost accounting.
- Terminology – cost units and cost centres.

The aims of management accounting

Aims of management information



Managers use information to help with:

Decision making

Such as which products to make, how much material to order, how many staff to employ, what selling price to set.

Planning

Preparing budgets and forecasts for a forthcoming period.

Controlling

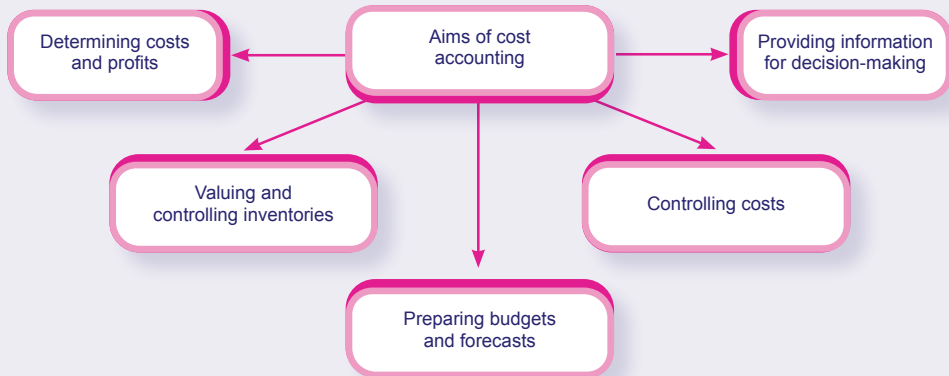
Comparing actual results against budgets and taking corrective action where necessary to control costs.

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.



Terminology – cost units and cost centres

Cost unit

= an individual unit for which the costs can be separately identified.

Responsibility accounting is based on identifying individual parts of a business which are the responsibility of a single manager. There are four types of responsibility centre:

Cost centre

= area of business for which costs will be separately ascertained.

Revenue centre

= area of a business for which revenues will be separately ascertained.

Profit centre

= area of business for which costs and revenues are ascertained.

Investment centre

= area of business where costs, revenues and net assets are ascertained.

e.g

Example

Cost centres

Manufacturing organisation

Production cost centres

Service cost centres

Assembly line

Stores

Finishing

Maintenance

Packaging

Quality control



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