

MANAGEMENT ACCOUNTING TECHNIQUES

STUDY TEXT

Qualifications and Credit Framework

Q2022

This Study Text supports study for the following AAT qualifications:

AAT Level 3 Diploma in Accounting

AAT Level 3 Certificate in Bookkeeping

AAT Diploma in Accounting at SCQF Level 7

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INTRODUCTION

HOW TO USE THESE 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 chance of success in your AAT assessments.

They contain a number of features to help you in the study process.

The sections on the Unit Guide, the Assessment and Study Skills should be read before you commence your studies.

They are designed to familiarise you with the nature and content of the assessment and to give you tips on how best to approach your studies.

STUDY TEXT

This Study Text has been specially prepared for the revised AAT qualification introduced in February 2022.

It is written in a practical and interactive style:

- Key terms and concepts are clearly defined.
- All topics are illustrated with practical examples with clearly worked solutions based on sample tasks provided by the AAT in the new examining style.
- Frequent practice activities throughout the chapters ensure that what you have learnt is regularly reinforced.
- 'Pitfalls' and 'examination tips' help you avoid commonly made mistakes and help you focus on what is required to perform well in your examination.
- 'Test your understanding' activities are included within each chapter to apply your learning and develop your understanding.

ICONS

The chapters include the following icons throughout.

They are designed to assist you in your studies by identifying key definitions and the points at which you can test yourself on the knowledge gained.



Definition

These sections explain important areas of Knowledge which must be understood and reproduced in an assessment.



Example

The illustrative examples can be used to help develop an understanding of topics before attempting the activity exercises.



Test your understanding

These are exercises which give the opportunity to assess your understanding of all the assessment areas.



Foundation activities

These are questions to help ground your knowledge and consolidate your understanding on areas you're finding tricky.



Extension activities

These questions are for if you're feeling confident or wish to develop your higher level skills.

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.

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.

Management accounting

Introduction

This chapter considers the basic principles of management accounting and management information.

ASSESSMENT CRITERIA

Internal reporting calculations (1.1)

CONTENTS

- 1 Management accounting
- 2 Data and information
- 3 Cost accounting
- 4 Terminology
- 5 Code of Ethics

1

Management accounting

1.1 Introduction

The primary purpose of **Management accounting** is to provide information for use within an organisation. **Internal users**, such as departmental managers, will require a variety of information to ensure the smooth running of their department.

It is also possible that some **external users**, such as banks, may also review the management accounts of a business.

1.2 The purpose of management accounting

The purpose of management accounting is to assist management in the following areas of running a business:

- **Decision making**
Management accountants use management information to make informed decisions about the future.
- **Planning**
Management accountants provide the information for the creation of short, medium and long term plans; for example, a short term plan is the preparation of annual budgets.
- **Co-ordinating**
Planning enables all the different activities/departments in a business to work together towards the same common goal.
- **Controlling**
The comparison of actual results with the budget helps to identify areas where operations are not running according to plan. Investigating the causes, and acting on the results of that investigation, helps to control the activities of the business.
- **Communicating**
Preparing plans that are then distributed to departmental managers helps to communicate the aims of the business to those managers.
- **Motivating**
Plans and budgets should include targets to motivate managers (and staff) and improve their performance. If the target is too difficult, however, it is likely to demotivate and the target is unlikely to be achieved.



Test your understanding 3

Camberwell runs a construction company.

Classify the following costs by nature (direct or indirect) in the table below.

Cost	Direct	Indirect
Bricks	<input type="checkbox"/>	<input type="checkbox"/>
Plant hire for long term contract	<input type="checkbox"/>	<input type="checkbox"/>
Builders' wages	<input type="checkbox"/>	<input type="checkbox"/>
Accountants' wages	<input type="checkbox"/>	<input type="checkbox"/>



Test your understanding 4

Direct costs are:

- A A unit of product or service for which costs are accumulated
- B A production or service location, function, activity or item of equipment for which costs are accumulated
- C Costs that relate directly to a unit
- D Costs that contain both a fixed and a variable element



Test your understanding 5



P Harrington is a golf ball manufacturer.

Classify the following costs by nature (direct or indirect) in the table below.

Cost	Direct	Indirect
Machine operators wages	<input type="checkbox"/>	<input type="checkbox"/>
Supervisors wages	<input type="checkbox"/>	<input type="checkbox"/>
Resin for golf balls	<input type="checkbox"/>	<input type="checkbox"/>
Salesmen's salaries	<input type="checkbox"/>	<input type="checkbox"/>



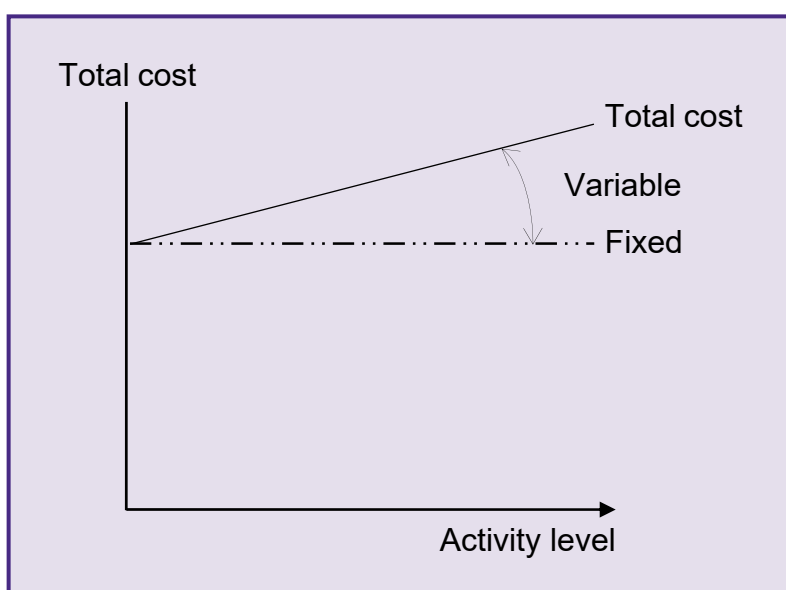
Example 3

A business has total fixed costs of £20,000 when it produces 1,000 units but if it goes above this level fixed costs increase by 50%. What would the fixed costs be if the business produced 2,000 units?

$$£20,000 \times 1.5 = £30,000$$

3.5 Semi-variable costs

Semi-variable costs are those that have a fixed element and a variable element:



Test your understanding 7

A semi-variable cost is:

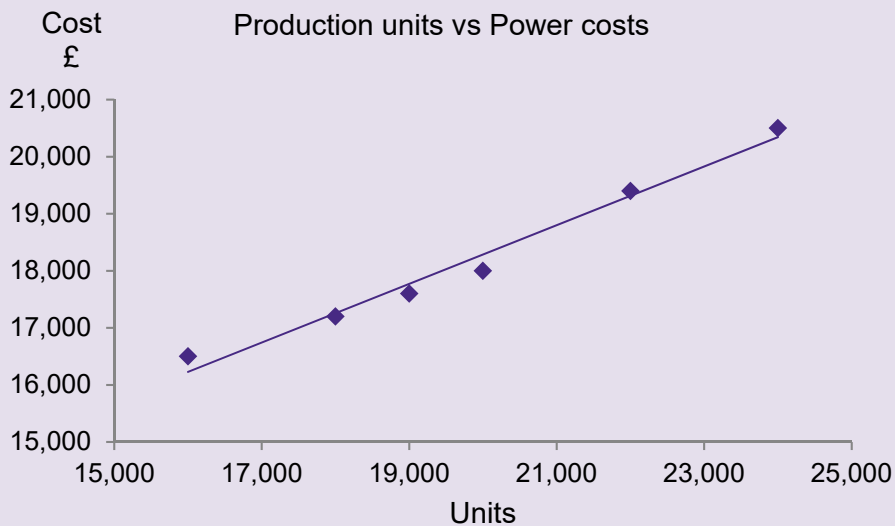
- A A unit of product or service for which costs are accumulated
- B A production or service location, function, activity or item of equipment for which costs are accumulated
- C A cost that relate directly to a unit
- D A cost that contains both a fixed and a variable element



Example 6

A factory has incurred the following power costs in the last six months with different levels of production in each month:

	Production units	Power costs £
January	20,000	18,000
February	16,000	16,500
March	18,000	17,200
April	24,000	20,500
May	22,000	19,400
June	19,000	17,600



What are the fixed and variable elements of the power cost?

Step 1

Find the highest and lowest levels of production (activity) and their related costs.

	Units	Cost £
High April	24,000	20,500
Low February	16,000	16,500



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