



AAT

Applied Management Accounting

Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Diploma in Professional Accounting – Level 4

AAT Diploma in Business Skills – Level 4

AAT Diploma in Professional Accounting at SCQF Level 8

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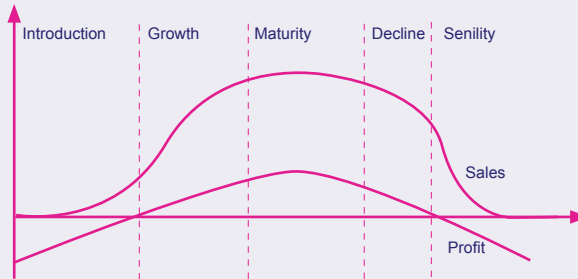
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Activity Based Costing

- MC and TAC – summary.
- Activity Based Costing.

Lifecycle costing

All products go through lifecycles



As shown by the difference between the revenue and cost curves, the pattern of costs over the lifecycle does not match that of revenue.

In particular, there will be high development costs during the introduction stage.

Traditional financial accounting has the following problems in this respect:

- It will look at the profit in a particular year, rather than assessing profitability over the whole lifecycle.
- Research costs are often written off in the year in which they are incurred rather than matching against (later) revenue.

Limiting factors

Definition

Key factor analysis is a technique used when we have one resource that is in scarce supply and we can make more than one type of product using that resource. Key factor analysis determines how to use this resource in such a way that profits are maximised.

$$\frac{\text{Contribution per unit}}{\text{Number of units of scarce resource needed}}$$

Approach to key factor analysis

- (1) Determine the limiting factor or key factor that is in scarce supply
- (2) Calculate the contribution per unit generated by each product
- (3) Calculate the contribution per unit of scarce resource for each product
- (4) Select the product with the highest contribution per unit of scarce resource and make this first

e.g

Example

Basic key factor analysis

Blue makes two products as set out below:

	R	S
	£	£
Selling price	120	50
Material @ £10 per kg	(70)	(25)
	<u>50</u>	<u>25</u>

Blue can sell all the goods it can make, but next year it will be able to purchase only 2,400 kg of material – how should it use this to maximise profits?

Profits are maximised when contribution is maximised

	R	S
Contribution per unit	<u>£50</u>	<u>£25</u>
Materials per unit		
	(£70/£10) 7kg	(£25/£10) 2.5 kg
Contribution per kg	<u>£7.14</u>	<u>£10</u>
Rank	<u>2</u>	<u>1</u>

As S has the higher contribution per unit of scarce resource, Blue should make S.

Basic methods of budgeting

Incremental (historic)

Starts with previous period's budget or actual results and adds (or subtracts) an incremental amount to cover inflation and other known changes.

Suitable for stable businesses, where costs are not expected to change significantly.

There should be good cost control and limited discretionary costs.

Zero-based budgeting

Requires cost element to be specifically justified, as though the activities to which the budget relates were being undertaken for the first time.

Without approval, the budget allowance is zero.

Suitable for allocating resources in areas where spend is discretionary.

Priority-based budgeting

A competitively ranked listing of high to low priority discrete bids for "decision packages."

- All activities are re-evaluated each time a budget is set.
- Does not require a zero assumption.

Activity-based budgeting

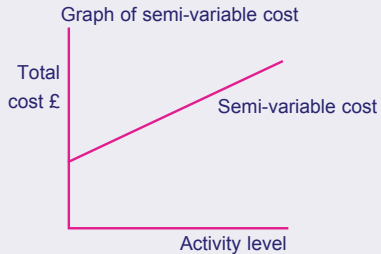
Preparing budgets using overhead costs from activity based costing methodology

Rolling budgets

Continuously updated

Further aspects of budgeting

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



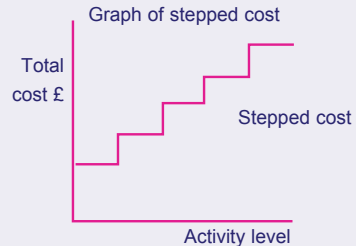
Semi-variable costs are also known as **semi-fixed costs** or **mixed costs**.

Examples of semi-variable costs:

Electricity costs – 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

Dealing with uncertainty





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Interested in the full version?