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

KAPLAN PUBLISHING

CONTENTS

chapter

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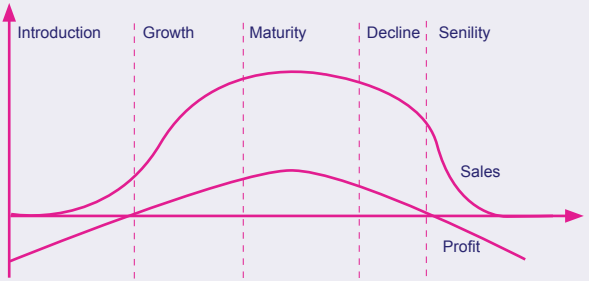
Activity Based Costing

- 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.

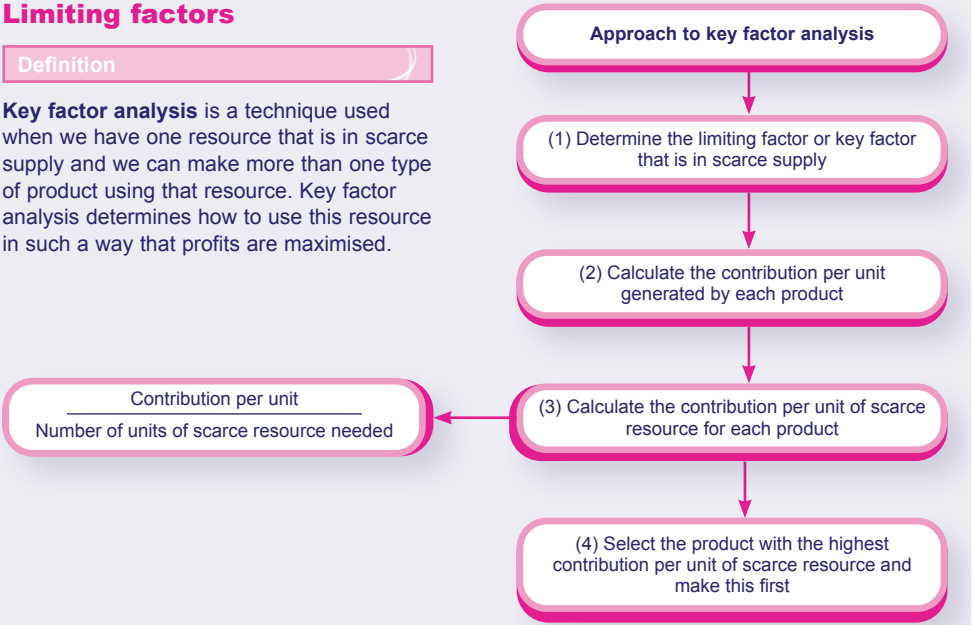
Traditional financial accounting has the following problems in this respect:

- 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.



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)
	50	25

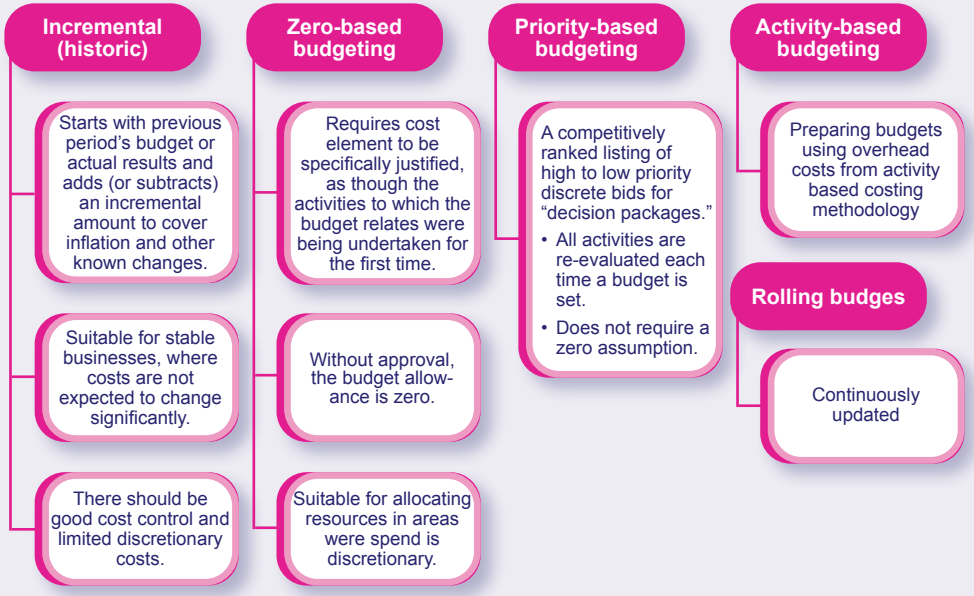
Blue can sell all the goods it can make, but next year it will be able to purchase only 2,400 kg of material – how should it use this to maximise profits?

Profits are maximised when contribution is maximised

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

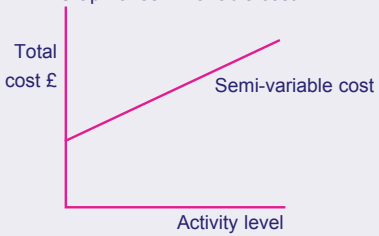
As S has the higher contribution per unit of scarce resource, Blue should make S.

Basic methods of budgeting



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**.

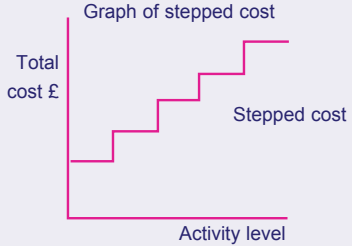
Examples of semi-variable costs:

Electricity 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.

Graph of stepped cost



Examples of stepped costs:

Inventory storage costs

Supervisor salaries

Dealing with uncertainty