PAPER C01
Fundamentals of Management Accounting

Acorn chapters

1 Classification of costs
2 The context of management accounting
3 Absorbing fixed production overhead
4 Absorption and marginal costing
5 Specific order costing
6 Service costing
7 Decision making
8 Manufacturing accounts
9 Budgeting
10 Standard costing and variance analysis
11 Process and cost ledger accounting

Syllabus Overview

A	**The context of management accounting**	**10%**
B	**Cost identification and behaviour**	**25%**
C	**Planning within organisations**	**30%**
D	**Accounting control systems**	**20%**
E	**Decision making**	**15%**

Assessment strategy

There will be a computer-based assessment of 2 hours duration, comprising 50 compulsory questions, each with one or more parts. A variety of objective test question types and styles will be used within the assessment.

A: the context of management accounting (10%)

On completion of their studies students should be able to:

(i) define management accounting
(ii) explain the importance of cost control and planning within organisations
(iii) describe how information can be used to identify performance within an organisation
(iv) explain the differences between financial information requirements for companies, public bodies and society
(v) explain the role of the management accountant and activities undertaken
(vi) explain the relationship between the management accountant and the managers being served
(vii) explain the difference between placing management accounting within the finance function and a business partnering role within an organisation
(viii) explain the background to the formation of CIMA
(ix) explain the role of the CIMA in developing the practice of management accounting.

Indicative syllabus content

- the CIMA definition of management accounting
- the IFAC definition of the domain of the professional accountant in business
- characteristics of financial information for operational, management and strategic levels within organisations
- cost object, concepts of target setting and responsibility accounting
- performance measurement and performance management using actual versus budget comparisons, profitability and return on capital
- financial information requirements for companies, public bodies and society, including concepts of shareholder value, meeting societyôs needs and environmental costing
- the CIMA definition of the role of the management accountant
- the IFAC definition of the role of the professional accountant in business
- the nature of relationships between advisers and managers
- the positioning of management accounting within the organisation
- the need for a professional body in management accounting ï CIMA
- CIMAôs role in relation to its members, students, the profession of management accounting and society.

B: cost identification and behaviour (25%)

On completion of their studies students should be able to:

(i) explain the concept of a direct cost and an indirect cost
(ii) explain why the concept of ócostô needs to be defined, in order to be meaningful
(iii) distinguish between the historical cost of an asset and the economic value of an asset to an organisation
(iv) prepare cost statements for allocation and apportionment of overheads, including reciprocal service departments
(v) calculate direct, variable and full costs of products, services and activities using overhead absorption rates to trace indirect costs to cost units
(vi) apply cost information in pricing decisions
(vii) explain how costs behave as product, service or activity levels increase or decrease
(viii) distinguish between fixed, variable and semi variable costs
(ix) explain step costs and the importance of timescales in their treatment as either variable or fixed
(x) calculate the fixed and variable elements of a semi variable cost.

Indicative syllabus content

- classification of costs
- the treatment of direct costs (specifically attributable to a cost object) and indirect costs (not specifically attributable) in ascertaining the cost of a 'cost object' e.g. a product, service, activity or customer
- cost measurement: historical versus economic costs
- overhead costs: allocation, apportionment, re apportionment and absorption of overhead costs (NB: the repeated distribution method only will be used for reciprocal service department costs)
- direct, variable and full costs of products, services and activities
- marginal cost pricing and full cost pricing to achieve specified return on sales or return on investment, mark up and margins (NB: students are not expected to have a detailed knowledge of activity based costing [ABC])
- cost behaviour and activity levels
- fixed, variable and semi variable costs
- step costs and the importance of timescale in analysing cost behaviour
- high-low and graphical methods to establish fixed and variable elements of a semi variable cost (NB: regression analysis is not required).

C: planning within organisations (30%)

On completion of their studies students should be able to:

(i) explain why organisations set out financial plans in the form of budgets, typically for a financial year
(ii) prepare functional budgets and budgets for capital expenditure and depreciation
(iii) prepare a master budget based on functional budgets
(iv) explain budget statements
(v) identify the impact of budgeted cash surpluses and shortfalls on business operations
(vi) prepare a flexible budget
(vii) calculate budget variances
(viii) distinguish between fixed and flexible budgets
(ix) prepare a statement that reconciles budgeted contribution with actual contribution
(x) explain the difference between ascertaining costs after the event and establishing standard costs in advance
(xi) explain why planned standard costs, prices and volumes are useful in setting a benchmark
(xii) calculate standard costs for the material, labour and variable overhead elements of the cost of a product or service
(xiii) calculate variances for materials, labour, variable overhead, sales prices and sales volumes
(xiv) prepare a statement that reconciles budgeted contribution with actual contribution
(xv) prepare variance statements.

Indicative syllabus content

- budgeting for planning and control
- functional budgets including materials, labour and overheads, as well as capital expenditure and depreciation budgets
- master budget, including income statement, statement of financial position and statement of cash flow
- reporting of actual outcomes against budget
- fixed and flexible budgeting
- budget variances
- interpretation and use of budget statements and budget variances
- principles of standard costing
- preparation of standards for the variable elements of cost: material, labour and variable overhead
- variances: materials ï total, price and usage; labour ï total, rate and efficiency; variable overhead ï total, expenditure and efficiency; sales ï sales price and sales volume contribution (NB: students will be expected to calculate the sales volume contribution variance)
- reconciliation of budget and actual contribution showing variances for variable costs, sales prices and sales volumes, including possible interrelations between cost variances, sales price and volume variances, and cost and sales variances.

D: accounting control systems (20%)

On completion of their studies students should be able to:

(i) explain the principles of manufacturing accounts and the integration of the cost accounts with the financial accounting system
(ii) prepare a set of integrated accounts, showing standard cost variances
(iii) explain job, batch and process costing
(iv) prepare ledger accounts for job, batch and process costing systems
(v) prepare financial statements that inform management
(vi) distinguish between managerial reports in a range of organisations, including commercial enterprises, charities and public sector undertakings.

Indicative syllabus content

- manufacturing accounts, including raw material, work in progress, finished goods and manufacturing overhead control accounts
- integrated ledgers, including accounting for over and under absorption of production overhead
- the treatment of variances as period entries in integrated ledger systems
- job, batch and process costing (NB: only the average cost method will be examined for process costing, but students must be able to deal with differing degrees of completion of opening and closing stocks, normal losses and abnormal gains and losses, and the treatment of scrap value)
- cost accounting statements for management information in production companies, service companies and not for profit organisations, showing gross revenue, value added, contribution, gross margin, marketing expense, and general and administration expenses

E: decision making (15%)

On completion of their studies students should be able to:

(i) explain the contribution concept and its use in cost-volume-profit (CVP) analysis
(ii) calculate the breakeven point, profit target, margin of safety and profit/volume ratio for a single product or service
(iii) prepare breakeven charts and profit/volume graphs for a single product or service
(iv) explain relevant costs and cash flows
(v) explain make or buy decisions
(vi) calculate the profit maximising product sales mix, using limiting factor analysis
(vii) explain the process of valuing long term investments
(viii) calculate the net present value, internal rate of return and payback for an investment.

Indicative syllabus content

- contribution concept and CVP analysis
- breakeven charts, profit/volume graphs, breakeven point, profit target, margin of safety and contribution/sales ratio
- relevant costs and cash flows
- make or buy decisions
- limiting factor analysis for a multiproduct company that has limited demand for each product and one other constraint or limiting factor
- net present value, internal rate of return and payback methods, budgeting for planning and control.