

## Unit 4: Elements of Managerial Accounting

| Syllabus Section           | Learning Outcomes  | Suggested Teaching Activities  | Resources  | Online Resources |
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| Absorption (Total) costing | Students will learn what cost accounting is and why it is important as a management tool. They will learn how to distinguish between direct and indirect costs, how to allocate and apportion overhead expenditure and how to calculate overhead absorption rates. | <p>Explain the difference between direct and indirect cost giving as many examples as possible. Explain that a direct cost in one business may be an indirect cost in another business and vice versa. Show the students how to allocate and apportion costs and how to re-allocate the costs of service departments to production departments.</p> <p>Students should consider the costs which may be considered direct in particular industries. They should be asked to explain why it is important to re-allocate the costs of service departments to production departments. Which circumstances give rise to (a) over-absorption, (b) under absorption, of overhead expenditure?</p> <p>Give particular attention to</p> <ul style="list-style-type: none"> <li>• allocation and apportionment of costs</li> <li>• the re-apportionment of service cost centre costs to production cost centres</li> <li>• calculation of overhead absorption rates</li> <li>• the causes of over/under recovery of overhead costs.</li> </ul> | <p>(Randall, 2005, chapter 30)</p> <p>(Randall, 1996, chapter 18 exercises)</p> <p>(Wood &amp; Sangster, 1998, chapters 17 &amp; 18 exercises)</p> |                  |
| Job, unit and batch costs  | Students will learn the distinction between continuous and specific order operations, and how  | Ensure students understand the differences between job, unit and batch operations and how the costs of each type are calculated. Contract costing is not in the syllabus.  | <p>(Randall, 2005, chapter 31)</p> <p>(Randall, 1996, chapter 19 questions)</p>  |                  |

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|                  | costing techniques are applied to suit the nature of the operations.  | <p>Students should select different types of businesses and say which type of costing is appropriate to each. May a business find it necessary to adopt more than one type of costing? Students' should give examples.</p> <p>Give particular attention to</p> <ul style="list-style-type: none"> <li>the accurate calculation of costs for each system of production</li> <li>inclusion of clear workings with answers.</li> </ul>  | (Wood & Sangster, 1998, chapter 19 questions)   |  |
| Process costing  | <p>Candidates will be able to prepare cost ledger accounts for processes. They will be able to identify and know how to treat joint products, by-products and waste products. They will also be able to calculate the cost of work in progress.</p> | <p>Explain the circumstances in which process costing is appropriate. Differentiate between joint products, by-products and waste products with examples. Explain how each is treated with numerical examples. Ensure that students can prepare cost ledger accounts.</p> <p>Students should suggest businesses (local if possible) which would use process costing. Do the businesses produce joint products, by-products or waste products? What are those products?</p> <p>Give particular attention to</p> <ul style="list-style-type: none"> <li>calculation of work in progress and equivalent units of production.</li> </ul> | <p>(Randall, 2005, chapter 32)</p> <p>(Randall, 1996, chapter 19 questions)</p> <p>(Wood &amp; Sangster, 1998, chapter 19 questions)</p> <p>CIE paper 9706/4 June 2004 Q3(a)(b)(c)(e)</p> |  |
| Marginal costing | Students will know how to make use of marginal costing techniques in decision making. They will understand the terms marginal cost and  | Students must be able to distinguish between variable and fixed expenses. Explain what is meant by contribution, break even point and margin of safety. Explain the C/S ratio and ensure that students make use of it whenever it is appropriate.  | <p>(Randall, 2005, chapter 33)</p> <p>(Randall, 1996, chapter 20 questions)</p> <p>(Wood &amp; Sangster, 1998,</p>  |  |

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|           | <p>contribution. They will be able to draw and interpret break-even charts. Students will be able to make the optimum use of scarce resources. They will be able to explain numerically how profit is sensitive to variations in prices and costs</p> | <p>Students should discuss the advantages of marginal costing over total (absorption) costing. What particular uses has marginal costing in practice.</p> <p>Give particular attention to</p> <ul style="list-style-type: none"> <li>• calculation of break even point and margin of safety; ensure that selling price and direct costs are in unit values but fixed cost is in total value</li> <li>• neat and accurate preparation of break even charts, clearly described and annotated. The charts should be drawn to as large a scale as is necessary to ensure that accurate readings may be made from it easily.</li> <li>• uses of marginal costing, especially in the maximisation of profit when resources are scarce</li> <li>• sensitivity of outcomes to changes in revenue and costs</li> </ul> | <p>chapter 18 questions)</p> <p>CIE paper 8706/02 Nov 2001 Q3</p>  |  |
| Budgeting | <p>Students will be able to prepare operational (functional) and master budgets. They will be able to identify limiting (principle) budget factors.</p>   | <p>Demonstrate the build up of master budgets from operational budgets in logical sequence. The operational budgets should be prepared in columnar form.</p> <p>Students should be asked to explain how budgets differ from forecasts. What do they understand by the term 'flexible budget' and why are these often necessary? They should explain how they would flex 'semi-variable' expenses.</p>   | <p>(Randall, 2005, chapter 34)</p> <p>(Randall, 1996, chapter 21 questions)</p> <p>(Wood &amp; Sangster, 1999b, chapter 32 questions)</p> <p>(Wood &amp; Sangster, 1998, chapters 20, 21 &amp; 22 questions)</p> |  |

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|                      |  | <p>Give particular attention to</p> <ul style="list-style-type: none"> <li>the necessity to read questions with care so as to ascertain the required format of the budget.</li> <li>correct phasing of revenue and cost</li> <li>accuracy of arithmetic. (Questions on this topic are by nature largely arithmetical.)</li> </ul>  | <p>CIE papers 9706/04 June 2003 Q3, 8427/02 May 2001 Q4 &amp; 9706/04 Nov 2004 Q1(b)(c)</p>  |  |
| Standard costing     | <p>Students will be able to flex budgets and to calculate sales, materials and labour variances. They will be able to explain possible causes of variances and to reconcile actual and budgeted profits.</p> | <p>Teach students the main variances first; then explain that these variances may be further analysed into sub-variances (overhead variances are not in the syllabus). Ensure that the formulae are learned thoroughly. Insist that all variances are correctly shown in monetary terms and as either favourable or adverse. Students will gain no marks if they fail to show \$ signs or the state of the variance.</p> <p>Students should discuss the various methods of setting standards and compare them. When may standard costs be acceptable for the valuation of stock to comply with current accounting standards?</p> <p>Give particular attention to</p> <ul style="list-style-type: none"> <li>flexing budgets</li> <li>appropriate causes of variances</li> <li>reconciliation of actual outcome with budget.</li> </ul> | <p>(Randall, 2005, chapter 35)</p> <p>(Randall, 1996, chapter 22 questions)</p> <p>(Wood &amp; Sangster, 1998, chapter 24 questions)</p> <p>CIE papers 9706/04 June 2001 Q4, 9706/04 June 2002 Q3, 9706/02 June 2004 Q2(d) &amp; 9706/04 Nov 2004 Q3(b)(c)</p> |  |
| Investment appraisal | <p>Students, using a variety of measures, will be able to calculate the projected</p>  | <p>Teach students how to calculate ARR, payback, NPV and IRR. Explain the strengths and weaknesses of each method. Show students</p>   | <p>(Randall, 2005, chapter 36)</p> <p>(Randall, 1996, chapter 23)</p>  |  |

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|  | <p>results of choices made in respect of various forms of investment. They will recognise the time value of money and its importance when considering the desirability of a choice of investment. They will be able to measure the degree to which an investment is sensitive to changes in outlay and rewards.</p> | <p>how outcomes may be sensitive to variances in outlay and rewards.<br/>         Invite students to suggest occasions when capital expenditure may be desirable, or even necessary, when the usual accounting calculations show adverse outcomes.</p> <p>Give particular attention to</p> <ul style="list-style-type: none"> <li>• sunk costs and opportunity costs</li> <li>• ensuring that students understand that ARR is the only technique based on profitability, while payback, NPV and IRR are calculated on incremental cash flows</li> <li>• the irrelevance of inflation in this topic to the concept of the time value of money (discounting is based on the cost of capital, not the rate of inflation)</li> <li>• sensitivity of each technique to variations in revenue and costs.</li> </ul> | <p>questions)</p> <p>(Wood &amp; Sangster, 1998, chapter 14 questions)</p> <p>CIE papers 9706/04 Nov 2003 Q2, 9706/04 June 2004 Q3 &amp; 9706/04 Nov 2004 Q3(a)</p> |  |
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