

Management Accounting

The Management Accounting (MA) module provides an introduction to the principles of costing and budgeting and their use in providing information to support management decision making. The skills and knowledge that students develop in this module are crucial in performing the finance professional roles of steward, enabler and innovator and underpin much of the activity associated with the business partner role.

The module starts by putting the role of management accounting into context within the accounting and finance function and explains the value of useful management information. The module covers the nature of costs and cost behaviour, before focusing on the application of costing techniques such as marginal costing, absorption costing, activity based costing (ABC) and process costing. Students learn the key aspects of standard costing and variance analysis, and the use of costing information to evaluate performance using techniques such as customer profitability analysis and key factor analysis.

The other substantive area in the MA syllabus is budgeting. The importance of the budget setting process and the types and uses of budgets are explored before dealing with the practical skills involved in preparing budgets and estimating costs for inclusion in a budget using techniques such as regression analysis and learning curves.

As it provides fundamental knowledge of management accounting, it is advisable to study the module before the Financial Management module.

Syllabus topics

A	Role of management accounting	5%
B	Costs, cost behaviour and cost accounting	30%
C	Budgeting	30%
D	Control and decision making	35%

Other information, including assessment

Prior knowledge:	None
Standards:	Not applicable
Validity:	2019 examinations
Assessment:	Two hour exam of 60 objective test questions with a pass mark of 60%.

Overall Aim	Learning outcome	Content
A Explain the role and scope of management accounting (5%)	A1 Explain the nature and purpose of management accounting	<ul style="list-style-type: none"> (i) Objectives and functions of management accounting (ii) Reasons for measuring costs – valuation; profit measurement; decision making; control (iii) Impact of non-financial factors in management accounting scenarios
	A2 Explain the importance of appropriate information to support management decision making	<ul style="list-style-type: none"> (i) The difference between strategic, tactical and operational planning (ii) The strategic management accountant (iii) Types of information needed for planning, decision making and control (iv) The attributes of good information for decision making at each management level
B Explain the behaviour of costs and explain and apply cost accounting techniques (30%)	B1 Explain the nature of costs and cost behaviour	<ul style="list-style-type: none"> (i) Cost definitions and elements of cost (ii) Principles of cost behaviour (iii) Classification and analysis of overhead costs including the distinction between production and non-production cost (iv) The concept of full cost for goods and services
	B2 Explain and apply basic cost accounting techniques	<ul style="list-style-type: none"> (i) Use of standard costs (ii) Valuation of closing inventory and issues of materials using FIFO, LIFO and weighted average methods (iii) Different staff remuneration methods (time-based, piecework, incentive schemes); calculation of the amount earned under a given scheme (iv) Job and batch costing (v) Process costing - closing work-in-progress or losses

		(not both)
		(vi) Distinction between joint and by-products and valuation of these at the point of separation
B3 Explain and apply techniques to account for overheads		<ul style="list-style-type: none"> (i) Absorption costing and methods to allocate and apportion overhead costs (ii) Limitations of traditional absorption costing systems (iii) Using ABC to calculate unit overhead costs (iv) Importance of overhead accounting in service costing (v) Comparison of absorption and marginal costing including calculation of profits, profit statements and reconciliation of profit figures
C Explain the nature and purpose of budgeting and apply appropriate techniques to prepare operational and cash budgets (30%)	C1 Explain the scope and importance of budgetary control systems	<ul style="list-style-type: none"> (i) Nature of control systems (ii) Feedback and feedforward control (iii) Objectives of budgeting (iv) Budget building process including medium and short-term budgets (v) Introduction to the Medium Term Expenditure Framework (MTEF) (vi) Top down versus bottom up budgeting including negotiation (vii) Budget centres and responsibility accounting; distinction between cost, profit, investment and revenue centres (viii) Introduction to the impact of budgets and performance measurement on behaviour
	C2 Explain and apply the different budgeting models used	<ul style="list-style-type: none"> (i) Rolling budgets (ii) Incremental budgeting

		<ul style="list-style-type: none"> (iii) Zero based budgeting (iv) Project budgets; Planning Programming and Budgeting System (PPBS) (v) Activity based budgets (vi) Capital budgets (vii) Beyond budgeting
	C3 Prepare and interpret budgets	<ul style="list-style-type: none"> (i) Master budget and functional budgets (ii) Cash budget including profiling (iii) Dealing with inflation in incremental budgets (fixed price and outturn bases)
	C4 Calculate and analyse cost estimates for inclusion in budgets	<ul style="list-style-type: none"> (i) Structure of linear functions and equations (ii) Interpretation of scatter diagrams and lines of best fit (iii) Use of high-low technique to separate fixed and variable costs (iv) Simple linear regression and correlation (v) Learning curve effect
D Assess performance and make decisions based on cost and budget data (35%)	D1 Apply appropriate techniques to compare performance with prepared budgets and analyse the results	<ul style="list-style-type: none"> (i) Introduction to and simple examples of virements (ii) Budgetary control reports (iii) Fixed and flexed budgets (iv) Variance calculations (v) Variance interpretation and interdependence of variances (vi) Budget reconciliation reports (vii) Investigation of variances (viii) Further variance analysis – materials and labour mix and yield; planning and operational variances

D2 Apply statistical analysis to evaluate the importance of variations from expected performance

- (i) Mean, modal, median
- (ii) Standard deviation and an introduction to the normal distribution
- (iii) Coefficient of variation
- (iv) Identifying quality problems – control charts, pareto diagrams, cause and effect diagrams

D3 Apply costing techniques to assess the profitability of production decisions

- (i) Customer profitability analysis
- (ii) Target costing
- (iii) Throughput accounting
- (iv) Cost-volume-profit analysis - accountant and economist models
- (v) Interpretation of breakeven and profit-volume charts

D4 Apply relevant cost principles to short-term decisions

- (i) Relevant costing and opportunity costing
 - (ii) Key factor analysis
 - (iii) Make or buy decisions
 - (iv) Other short term decisions - situations involving shut down, one-off contracts and the further processing of joint products
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