

Level 3 Cost Accounting



International
Qualifications from EDI

Syllabus

Effective for examinations to be held after 1 January 2008

INTRODUCTION

Education Development International (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCIEB) and a leading online assessment provider GOAL. EDI now delivers LCCI International Qualifications (LCCI IQ) through a network of over 4000 registered centres in more than 100 countries worldwide. Our range of business-related qualifications are trusted and valued by employers worldwide and recognised by universities and professional bodies.

Level 3 Cost Accounting

Aims

The aims of this qualification are to enable candidates to develop:

- an understanding of advanced aspects of the processing of cost accounting information, including stock control
- a detailed understanding of how cost accounting information can be used for the purposes of short-term planning, control and decision making within business organisations
- the ability to apply this understanding in a variety of business settings

Target Audience and Candidate Progression

This qualification is suitable for candidates who are working in a cost accounting environment at a level that requires some depth of cost accounting knowledge and skills, as well as a basic understanding of cost accounting principles and practice. Candidates attempting this qualification should have the knowledge and skills equivalent to LCCI IQ Level 2 Cost Accounting.

Level of English Required

Candidates should have a standard of English equivalent to LCCI IQ Level 2 English for Business.

Syllabus Topics

The Level 3 Certificate in Cost Accounting is a single unit qualification that consists of the range of topics detailed below:

1. Materials and stock control
2. Costing methods and systems
3. Cost-volume-profit (CVP) analysis
4. Budgetary planning and control
5. Standard costing and variances
6. Accounting systems

Guided Learning Hours

EDI recommends that 140-160 Guided Learning Hours (GLHs) is a suitable course duration for an 'average' candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. EDI experience indicates that the number of GLHs can vary significantly from one training centre to another.

ASSESSMENT

Assessment Objectives

The examination will assess the candidate's ability to:

- demonstrate knowledge and understanding of advanced aspects of the processing of cost accounting information
- demonstrate knowledge and understanding of short-term planning and control principles, techniques and processes
- apply this knowledge and understanding in a variety of business settings

Examination Format

The time allowance for the examination is 3 hours. The paper will consist of 5 compulsory questions. All questions will carry equal marks.

At least 1 question based on each of the following topics will appear in each examination:

3. Cost-volume (CVP) analysis
4. Budgetary planning and control
5. Standard costing and variances

Mark Allocation

A positive marking approach is used; although candidates will be penalised for initial calculation errors, they will gain marks for consequential 'own figures' as long as the correct use of principles has been demonstrated.

Certification

Successful candidates will be awarded the Level 3 Certificate in Cost Accounting based on the achievement of the percentages and grades below:

Pass	50%
Merit	60%
Distinction	75%

Recommended Reading List and Support Materials

Title	Author	Publisher	ISBN Code
How to Pass Cost Accounting Second and Third Levels	D Skidmore	LCCIEB	1 86247 0006
How to Pass Cost Accounting Second and Third Levels Teacher's Guide	D Skidmore	LCCIEB	1 86247 0154

Support Material

A specimen paper with answers is available from the LCCI IQ website.

How to offer the qualification

To offer this qualification you must be an LCCI IQ registered examination centre. To gain centre approval please contact Customer Support on 08700 818008 between the hours of 0830 and 1700 (GMT) Monday to Friday or by email on centresupport@ediplc.com.

Alternatively you may contact your Regional LCCI Office or Co-ordinating Authority.

Syllabus Topic

Items Covered

1 Materials and stock control

Candidates must be able to:

- 1.1 Calculate the amount and cost of materials needed to meet the production plan, taking into account process wastage and products rejects
- 1.2 List and explain the costs of holding stock and of running out of stock
- 1.3 Calculate reorder level, maximum stock control level, minimum stock control level, average stock and average stock investment
- 1.4 Use the EOQ formula to calculate the economic order quantity at a constant purchase price
- 1.5 Tabulate the stock ordering and stock holding costs for discrete order quantities to select the optimal order quantity without using the EOQ formula
- 1.6 Calculate the order quantity to minimise cost where quantity discounts are available
- 1.7 Explain the meaning of allocated and free stock
- 1.8 Make calculations for a particular material and present a stock record showing orders placed, stock in hand, allocated stock and free stock
- 1.9 Explain the principles, and implications, of a just-in-time (JIT) approach to stock management

2 Costing methods and systems

Candidates must be able to:

- 2.1 Describe the principles of activity based costing (ABC) and contrast ABC with traditional approaches
- 2.2 Calculate cost driver rates and unit production costs based on ABC principles

- 2.3 Prepare process accounts or statements where losses or gains occur along with their associated scrap values or disposal costs
- 2.4 Prepare abnormal loss and gain accounts
- 2.5 Value completed production and work-in-progress using equivalent units, and using a FIFO or weighted average approach

(NB. In 2.3 and 2.5 candidates may be asked to prepare accounts or statements for the first process and/or any subsequent process)
- 2.6 Account for joint products apportioning joint costs on the basis of physical units, sales value or net sales value
- 2.7 Interpret the results of joint product accounting
- 2.8 Explain the terms marginal costing and absorption costing
- 2.9 Prepare profit statements applying both absorption and marginal costing (including the over/under absorption of overhead in absorption costing)
- 2.10 Reconcile reported profits between absorption and marginal costing and explain the difference

3 Cost-volume-profit (CVP) analysis

Candidates must be able to:

- 3.1 Calculate the contribution/sales (C/S) ratio for a single product and the weighted C/S ratio for a mix of products
- 3.2 Explain and calculate the break-even point in both single product and multi-product situations
- 3.3 Explain and calculate the margin of safety
- 3.4 Apply CVP analysis in given situations

- 3.5 Construct the following charts for both single product and multi-product situations:
- conventional break-even
 - contribution break-even
 - profit-volume (PV)
- 3.6 Read the break-even point and the margin of safety from a chart
- 3.7 Discuss the assumptions and limitations of CVP analysis

4 Budgetary planning and control

Candidates must be able to:

- 4.1 Explain the difference between a forecast and a budget
- 4.2 Explain budgetary planning and control and the benefits expected to accrue from the use of budgets
- 4.3 Explain the meaning and importance of the principal budget factor
- 4.4 Prepare the following budgets:
- Sales
 - Production
 - Materials usage
 - Materials purchases
 - Machine utilisation
 - Direct labour
 - Production overheads
 - Profit/loss
 - Cash

(Questions will involve greater complexity than at Level 2)

- 4.5 Explain the reasons for preparing a cash budget and suggest ways to deal with cash surplus or deficit
- 4.6 Distinguish between fixed and flexible budgets
- 4.7 Suggest bases for flexing budgets
- 4.8 Use the high/low method to identify cost behaviour with or without price changes

- 4.9 Prepare a flexed budget, compare with actual costs/revenue and interpret the variances
- 4.10 Calculate and use absorption rates from a traditional production overhead budget
- 4.11 Calculate and use absorption rates from an activity based production overhead budget

5 Standard costing and variances

Candidates must be able to:

- 5.1 Explain the meaning of standard cost and differentiate between the types of standard: ideal and attainable
- 5.2 Explain factors to be considered in setting the following standards: material prices, labour and overhead rates, labour efficiency, material quantities and losses/wastage
- 5.3 Calculate the total sales variance and analyse this to selling price and sales volume variances using absorption or marginal costing
- 5.4 Calculate the total direct material variance and analyse this to price and usage variances where the price variance is based upon issues
- 5.5 Calculate the direct material price variance based upon purchases and state the advantages of using this approach
- 5.6 Analyse the direct material usage variance to mix and yield variances
- 5.7 Explain and use the standard hour as a measure of output for a department or a mix of products
- 5.8 Calculate the total direct labour variance and analyse this to rate and efficiency variances
- 5.9 Calculate an idle time variance where appropriate

- 5.10 Calculate the total variable production overhead variance and analyse this to expenditure and efficiency
- 5.11 Calculate the total fixed production overhead variance and analyse this, when using absorption costing, to expenditure and volume variances
- 5.12 Analyse the fixed production overhead volume variance to efficiency and capacity variances
- 5.13 Explain the relationship between overhead variances and overhead over/under absorption
- 5.14 Reconcile budgeted and actual profit using appropriate variances
- 5.15 Use given cost variances to calculate standard or actual production costs
- 5.16 Explain and illustrate how standard costs and variances can be used for cost control, including the use of control charts
- 5.17 Interpret variances and possible relationships between them
- 5.18 Calculate ratios of production volume (activity), production efficiency and capacity

6 Accounting systems

Candidates must be able to:

- 6.1 Distinguish between integrated and non-integrated accounting systems
- 6.2 Explain the importance, and demonstrate the use, of control accounts with particular emphasis on raw materials, work-in-progress, finished goods and production overheads
- 6.3 Post entries in a ledger, or prepare journal entries, for an integrated system using absorption or marginal costing and historic or standard costing
- 6.4 Post entries or prepare journal entries as in 6.3 but for a non-integrated system

- 6.5 Explain and demonstrate the need for reconciliation in a non-integrated system
- 6.6 Prepare a profit reconciliation statement in a non-integrated system

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