

Level 2 Cost Accounting



International
Qualifications from EDI

Syllabus

Effective for examinations to be held after 1 January 2008

INTRODUCTION

EDI is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCI) and GOAL a leading online assessment provider. EDI now delivers LCCI International Qualifications (LCCI IQ) through a network of over 5000 registered centres in more than 120 countries worldwide. Our range of business-related qualifications are trusted and valued by employers worldwide and recognised by universities and professional bodies.

Level 2 Cost Accounting

Aims

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

- a detailed understanding of how financial transaction data may be processed to provide cost accounting data
- a basic understanding of how cost accounting information can be used for the purposes of planning and control within business organisations
- the ability to apply this understanding of planning and control in a variety of business settings

Target Audience and Candidate Progression

This qualification is suitable for candidates who are working, or are preparing to work, in an accounting environment at a level that requires a moderate level of cost accounting knowledge and skill, as well as a basic understanding of cost accounting principles and practice. Candidates attempting this qualification should have the knowledge and skills equivalent to the LCCI IQ Level 1 Book-keeping qualification in order to understand the relationships between financial accounting and cost accounting, and basic accounting terms.

Candidates who achieve Level 2 Cost Accounting may progress to the Cost Accounting and/or Management Accounting LCCI IQ Level 3 qualifications.

Level of English Required

Candidates should have a standard of English equivalent to LCCI IQ Level 1 English for Business

Structure of the qualification

The Level 2 Certificate in Cost Accounting is a single unit qualification that consists of the range of topics detailed below:

Syllabus Topics

1. Basic terminology and cost classification
2. Costing for materials
3. Costing for labour
4. Costing for overheads
5. Costing methods
6. Marginal costing
7. Budgetary planning and control
8. Standard costing and variances
9. 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 detailed knowledge and understanding of methods of cost accounting data processing
- demonstrate knowledge and understanding of planning and control principles, techniques and processes
- apply the knowledge and understanding of planning and control in a variety of business settings

Examination Format

The time allowance for the examination is 2.5 hours. The paper will consist of 5 compulsory questions. All questions will carry equal marks.

At least **2** of the following syllabus topics will appear on each examination:

2. Costing for materials
3. Costing for labour
4. Costing for overhead

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 2 Certificate in Cost Accounting based on the achievement of the percentages and grades below:

Pass	50%
Merit	60%
Distinction	75%

Recommended Reading and Support Material

Title	Author	Publisher	ISBN Code
How to Pass Cost Accounting Second and Third Levels	D Skidmore	LCCIEB	1 86247 000 6
How to Pass Cost Accounting Second and Third Levels Teachers' Guide	D Skidmore	LCCIEB	1 86247 015 4

Support Material

Model answers and past question papers are available from the LCCI website, www.lcci.org.uk.

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 Basic terminology and cost classification

Candidates must be able to:

- 1.1 Explain the meaning and purpose of cost accounting
- 1.2 Explain the relationship between financial accounting, cost accounting, and management accounting
- 1.3 Classify costs by element and function for different types of organisations
- 1.4 Distinguish between direct and indirect costs
- 1.5 Explain cost centres and cost units
- 1.6 Select suitable cost units for given industries and organisations
- 1.7 Explain the principles of cost code design
- 1.8 Construct a simple cost code for a given situation
- 1.9 Classify costs by behaviour, i.e. into variable, semi-variable, stepped and fixed categories
- 1.10 Identify the behavioural classification for a cost from a given total cost-volume graph or unit cost-volume graph
- 1.11 Sketch a total cost-volume graph or unit cost-volume graph to represent a cost from given information

2 Costing for materials

Candidates must be able to:

- 2.1 Calculate material requirements, making allowance for sales, product stock changes and material stock changes
- 2.2 Explain the purpose of the various documents used in the process of ordering, receiving, storing and issuing materials

- 2.3 Explain the meaning of perpetual inventory and continuous stocktaking
- 2.4 Suggest reasons for discrepancies between the inventory record and physical stock
- 2.5 Prepare records of stock movement in quantity and value terms
- 2.6 Price issues of stock using FIFO, LIFO and weighted average methods
- 2.7 Contrast the effect of alternative pricing methods on cost of sales, stock values and reported profits
- 2.8 Make accounting entries for materials in an integrated accounting system

3 Costing for labour

Candidates must be able to:

- 3.1 Identify the costs to a business as a result of employing people and the costs relating to labour turnover
- 3.2 Describe and contrast methods of remuneration
- 3.3 Apply various remuneration methods and demonstrate the effect of each on unit costs
- 3.4 Calculate total gross earnings and analyse, by cost centre, into direct/indirect costs including the treatment of overtime premium, shift allowance and idle time
- 3.5 Make accounting entries for direct/indirect labour in an integrated accounting system

4 Costing for overheads

Candidates must be able to:

- 4.1 Identify sources of overhead cost
- 4.2 Explain the purpose of overhead allocation, apportionment and absorption
- 4.3 Allocate production overheads to production and service cost centres
- 4.4 Allocate production overheads to production and service cost centres
- 4.5 Re-apportion production overheads from service cost centres to production cost centres using repeated distribution method
- 4.6 Outline the reasons for using predetermined absorption rates
- 4.7 Calculate and apply production overhead absorption rates based upon direct material cost, direct labour cost, direct labour hours, machine hours and units of output
- 4.8 Explain the factors influencing the choice of production overhead absorption method
- 4.9 Calculate a rate to absorb administration, selling and distribution overheads
- 4.10 Calculate and account for any under or over-absorption of production overhead
- 4.11 Make accounting entries for overhead in an integrated accounting system

5 Costing methods

Candidates must be able to:

- 5.1 Distinguish between job, batch and process costing
- 5.2 Prepare a job cost and calculate a selling price

- 5.3 Prepare a batch cost
- 5.4 Prepare a process account or process statement
- 5.5 Show the treatment of normal losses and scrap values
- 5.6 Use equivalent units to place a value upon closing work-in-progress in a single process (questions will not contain opening work-in-progress)
- 5.7 Explain and account for by-products
- 5.8 Explain and account for joint products, apportioning joint costs on the basis of physical units

6 Marginal costing

Candidates must be able to:

- 6.1 Explain marginal costing as a technique
- 6.2 Explain the terminology of marginal costing – variable cost, fixed cost, contribution, break-even point, contribution/sales (CS) ratio
- 6.3 Calculate contribution per unit, total contribution and contribution/sales ratio
- 6.4 Prepare profit statements on either a marginal cost or an absorption cost basis
- 6.5 State the assumptions upon which cost-volume-profit (CVP) analysis is based
- 6.6 Calculate the break-even sales revenue and sales units for a single product
- 6.7 Calculate required sales for a given profit

7 Budgetary planning and control

Candidates must be able to:

- 7.1 Explain the difference between a forecast and a budget
- 7.2 Explain budgetary planning and control

- 7.3 Explain the benefits expected to accrue from the use of budgets
- 7.4 Explain the meaning and importance of the principal budget factor
- 7.5 Prepare the following budgets:
 - Sales
 - Production
 - Materials usage
 - Materials purchases
 - Machine utilisation
 - Direct labour
- 7.6 Prepare a budgeted profit and loss statement
- 7.7 Prepare a cash budget and explain its importance

8 Standard costing and variances

Candidates must be able to:

- 8.1 Explain the meaning of standard cost, standard costing and variance
- 8.2 Distinguish between an ideal standard and an attainable standard
- 8.3 Prepare a standard production cost for a product
- 8.4 Calculate a direct material total variance and analyse this total into price and usage variances
- 8.5 Calculate a direct labour total variance and analyse this total into rate and efficiency variances
- 8.6 Interpret prime cost variances
- 8.7 Make accounting entries for standard prime costs and prime cost variances in an integrated accounting system

9 Accounting systems

Candidates must be able to:

- 9.1 Describe the nature and function of an integrated accounting system

- 9.2 Describe the function and operation of control accounts, particularly for material stocks, work-in-progress stocks, finished stocks and production overheads
- 9.3 Make all entries in the integrated ledger to record the transactions of a period

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