

The Institute of Certified Bookkeepers

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**Level III Diploma in
Costing and Budgeting**

Introduction:

Financial Accounting is the reporting of financial information to users of Financial Statements both internal and external to the business, e.g. Management, Shareholders, Creditors and Government. The Financial Statements comprise: an Income Statement, a Balance Sheet and a Statement of Cash Flow (for all incorporated businesses other than micro-entities reporting under FRS105).

Management Accounting reports however aid management in the planning, organisation and controlling of business activity. Much of this information also forms the basis of the Financial Statements. This diploma concentrates on the sections of management accounting that concern the analysis of costs and the preparation of budgets in a way in which it can aid managers in operating a business in a most efficient and profitable manner.

Pre requisite

Candidates must have achieved, or been exempted from, or converted to the Level III Certificate in Bookkeeping and Accounts prior to taking this qualification.

Qualification aims:

On completion of this unit a student will be able to:

- Understand the link between Financial and Management Accounting systems
- Identify and classify cost by element, function and nature (behaviour)
- Understand the importance of identifying and reporting relevant information
- Understand the importance of the control and valuation of stock (inventories)
- Determine the cost of labour and materials and prepare relevant analysis reports
- Understand the process of, and prepare reports relating to, the allocation, apportionment and absorption (recovery) of overheads
- Calculate the cost of a job, process or service
- Understand the principle of Marginal Costing as an aid to decision making
- Understand the purpose of Budgets and Budgetary Control
- Prepare a Budget, compare to actual performance and report variances

Assessment and Grading

The testing of knowledge and skills for the qualification will comprise one three-hour long, online assessment, taken in the candidate's home or place of work. The paper will be graded as follows:

Distinction	95 -100%
Merit	90 - 94%
Pass	85 - 89%
Fail	0 - 84%

Topic 1 - Underpinning Knowledge

Learning Outcome	Assessment Criteria
1. Distinguish between Financial Accounting and Management Accounting as information systems.	<ul style="list-style-type: none"> (1) Understand the relationship between Financial and Management Accounting systems. (2) Explain how different types of businesses have differing information needs from their accounting system. E.g. Service, Retail and Manufacturing. (3) Understand the importance of planning, budgeting and control within a business. (4) Define the terms: Cost/Expense Centre, Profit Centre and Investment Centre.
2. Identify and classify cost by: element, function and nature (behaviour)	<ul style="list-style-type: none"> (1) Classify the three elements of cost: Materials, Labour and Expenses. (2) Distinguish between Direct and Indirect Cost (Overhead). (3) Define the terms Cost Unit and Prime Cost. (4) Classify cost by function: Production, Selling and Distribution and Administration. (5) Classify cost by nature (behaviour): Fixed Cost, Stepped Fixed Cost, Variable Cost and Semi-Variable Cost.
3. Understand the importance of identifying and reporting relevant information	<ul style="list-style-type: none"> (1) Report information to management in an orderly manner.

Topic 2 – Accounting for Materials, Labour and Overheads

Learning Outcome	Assessment Criteria
1. Understand the importance of stock (inventory) control and its valuation.	<ul style="list-style-type: none"> (1) Define the terms: Maximum level, Minimum level and Re-Order Level (2) Prepare stock (inventory) valuations for issues of materials and closing valuation based on FIFO and AVCO methods (periodic and perpetual methods). (3) Explain what is meant by the term: The lower of cost or net realisable value
2. Determine labour cost	<ul style="list-style-type: none"> (1) Distinguish between Direct and Indirect labour. (2) Calculate the cost of labour based on the following methods of payment: time rates, piecework and bonus schemes. (3) Calculate and identify the cost of overtime and idle (down) time.
3. Determine material costs	<ul style="list-style-type: none"> (1) Distinguish between direct and indirect materials. (2) Calculate the cost of materials used in a job or process.
4. Understand the process of Allocation, Apportionment and Absorption (Recovery) of Overhead.	<ul style="list-style-type: none"> (1) Explain the meaning of the term Absorption Costing. (2) Prepare an overhead analysis to show overheads clearly allocated directly, or apportioned to, a cost centre. (3) Determine an overhead recovery (absorption) rates based on labour or machine hours. (4) Calculate the overhead chargeable to a job, batch or process using an appropriate overhead recovery rate

Topic 3 – Costing Systems

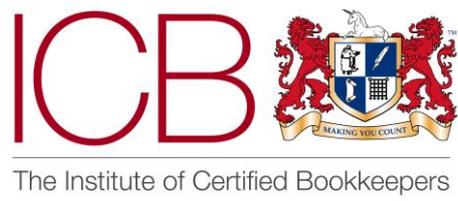
Learning Outcome	Assessment Criteria
1. Identify the characteristics of various costing systems	(1) Explain the characteristics of the following costing systems: Job, Batch and Process.
2. Calculate the cost of a job, process or service	(1) Prepare the cost of a job, process or service identifying clearly the main elements of cost. (2) Calculate the profit or loss on a particular job, process or service. (3) In the preparation of the cost of a process students need to demonstrate an understanding of Normal and Abnormal gains/losses. (4) Calculate the cost and selling price using mark up and margin.

Topic 4 – Break Even Analysis

Learning Outcome	Assessment Criteria
1. Understand the principle of Marginal Costing as an aid to decision making.	(1) Understand the terms: Contribution, Break-Even Analysis, Break-Even Point and Margin of Safety. (2) Calculate the break-even point of a business in terms of units of output and value of turnover by the use of a break-even chart or by formula. (3) Determine the margin of safety and explain why such information is useful to management when making decisions.

Topic 5 – Introduction to Budgets and Budgetary Control

Learning Outcome	Assessment Criteria
1. Prepare a budget for: Income, Labour, Material and Overhead	<ul style="list-style-type: none">(1) Understand why it is important for businesses to prepare budgets.(2) Explain the role and purpose of functional budgets.(3) Prepare a budget to show: income, labour, material and overhead cost for a budget period.
2. Prepare a Cash Budget	<ul style="list-style-type: none">(1) Prepare a Cash Budget on a month by month basis.(2) Explain why it is important that businesses plan their cash flow.
3. Compare budget to actual performance and analyse the variances for income and the elements of cost.	<ul style="list-style-type: none">(1) Prepare a flexible budget to make a 'like with like' comparison to actual performance and identify the variances.(2) Explain to management the possible causes of the variances for labour, material and overhead together with the sales variance. NB the analysis will not include any sub-division of the variances.



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