

Managing Costs and Finances (MA2) December 2011

This syllabus and study guide is designed to help with teaching and learning and is intended to provide detailed information on what could be assessed in any examination session.

THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

Relational diagram with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers. These links are shown as solid line arrows. The links between papers where there is only an indirect link and no required underpinning are shown as dotted line arrows. The relational diagram therefore indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

Relational diagram of main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

Study Guide

This is the main document that students and learning and content providers should use as the basis of their studies, instruction and materials respectively.

Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (*see intellectual levels below).

Learning Materials

ACCA's Approved Learning Partner - content (ALP-c) is the programme through which ACCA approves learning materials from high quality content providers designed to support study towards ACCA's qualifications.

ACCA has one Platinum Approved Learning Partner content which is BPP Learning Media. In addition, there are a number of Gold Approved Learning Partners - content.

For information about ACCA's Approved Learning Partners - content, please go ACCA's Content Provider Directory.

The Directory also lists materials by Subscribers, these materials have not been quality assured by ACCA but they may be useful reading. You will also

find details here of Additional Reading which the Examiner has suggested may be useful supplementary reading for students.

ACCA's Content Provider Directory can be found here – http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/.

Relevant articles will also be published in Student Accountant.

LEVEL OF ASSESSMENTS – INTELLECTUAL DEMAND

ACCA qualifications are designed to progressively broaden and deepen the knowledge and skills demonstrated by the student at a range of levels on their way through each qualification. These relate to intellectual levels as designated by the UK qualifications and credit framework (QCF) and other qualifications frameworks. As a benchmark, these levels progress from GCSE equivalent at the Introductory level of the Foundations in Accountancy (FIA) programme, to A level, or its equivalent, at the Intermediate level and to first year degree level at the Advanced level. The Advanced Diploma (the Skills module plus professional Ethics Module) within the ACCA Qualification is equivalent to undergraduate degree level and the Professional level is benchmarked at Masters level.

Throughout, the study guides assess both knowledge and skills. Therefore a clear distinction is drawn, within each subject area, between assessing knowledge and skills and in assessing their application within an accounting or business context. The assessment of knowledge is denoted by a superscript^K and the assessment of skills is denoted by the superscript^S.

VALUE OF ASSESSMENTS – GUIDED LEARNING HOURS

For this syllabus the approximate number of standard learning hours that a candidate needs to commit to each examination is based on the credit value of the Qualifications and Credit Framework (QCF) UK, units which make up the syllabus.. For MA2, Managing Costs and Finance, the total learning hours or credit value of the syllabus is 19 credits or 190 hours which includes direct tuition time, self study, revision and assessment time.

For QCF registered learners in England, Wales and Northern Ireland, passing the exam related to the above syllabus gives credit for the following QCF units:

- Principles of cash management
- Cash management
- Principles of costing
- Providing cost and revenue information
- Spreadsheet software

GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The FIA examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

All FIA examinations are assessed by two-hour paper based and computer based examinations.

The pass mark for all FIA examination papers is 50%.

GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within any study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and tax papers, except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions.

Examinations regulation **issued** or legislation **passed** on or before 30th September annually, will be assessed from June 1st of the following year to May 31st of the year after. Please refer to the examinable documents for the paper (where relevant) for further information.

Regulation issued or legislation passed in accordance with the above dates may be examinable even if the **effective** date is in the future. The term issued or passed relates to when regulation or legislation has been formally approved.

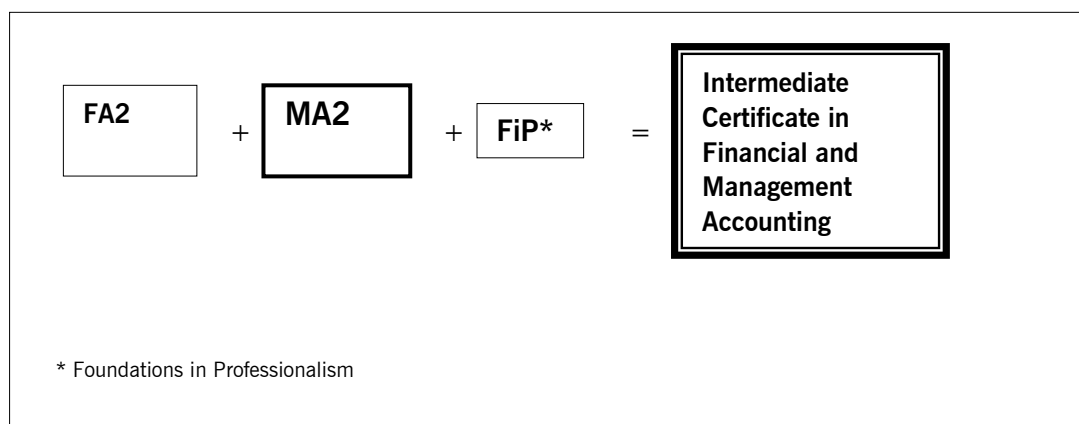
The term effective relates to when regulation or legislation must be applied to entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

Qualification structure

The qualification structure requires candidates who wish to gain the Intermediate Certificate in Financial and Management Accounting to pass both the FA2

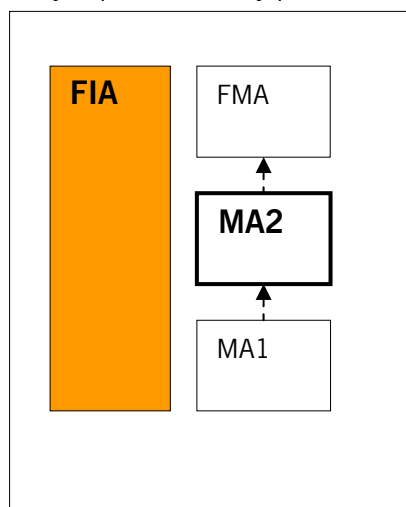
and MA2 examinations and successfully complete the Foundations in Professionalism module.



Syllabus structure

The FIA suite of qualifications is designed so that a student can progress through three discrete levels; Introductory, Intermediate and Advanced, However, entry is possible at any point. Students are

recommended to enter FIA at the level which is most appropriate to their needs and abilities and to take examinations in order, but this is not a requirement.



Syllabus

AIM

To develop knowledge and understanding of how to prepare, process and present basic cost information to support management in planning and decision-making in a variety of business contexts.

RATIONALE

The syllabus for Paper MA2, *Managing costs and finances*, introduces candidates to costing and financing principles and techniques, and elements of management accounting which are used to make and support decisions.

The syllabus starts by introducing candidates to management information clearly distinguishing it from financial accounting information. The next section introduces the basics of recording costs in management accounting.. This is followed by coverage of a variety of costing techniques used in business.

The next area of the syllabus introduces candidates to the use of management accounting in support of decision making. The syllabus then introduces the

concept of cash management as an essential element for planning.

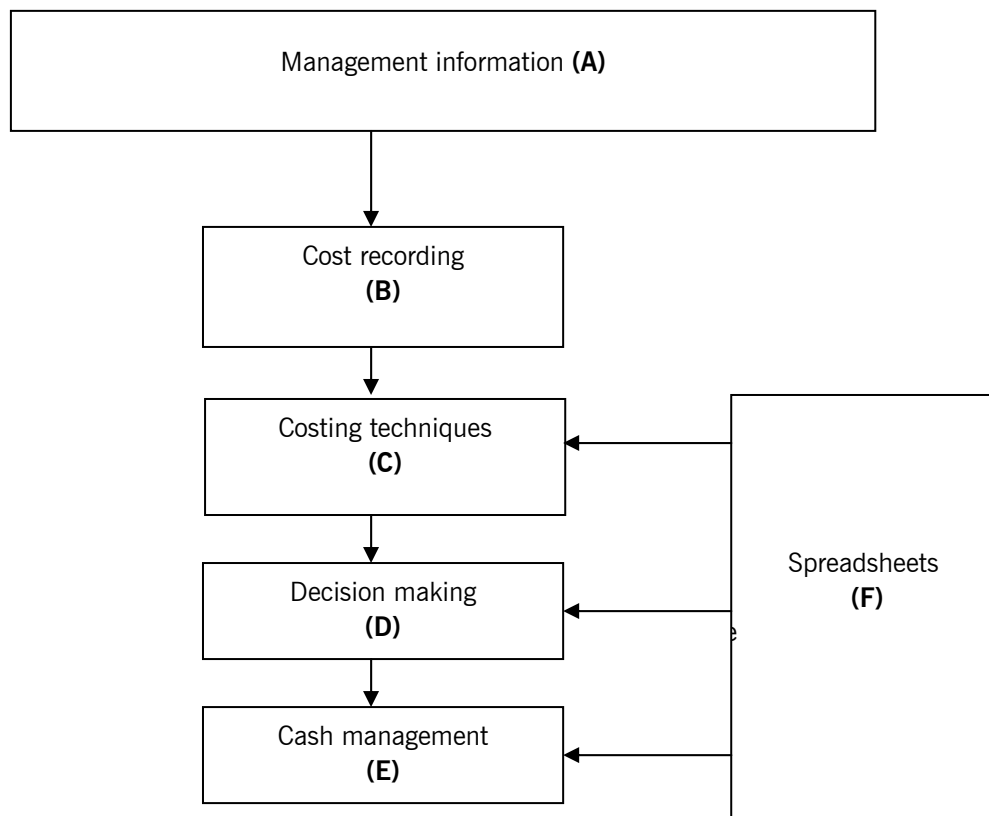
The syllabus also includes a section on the use of spreadsheets an important tool in the preparation, provision, analysis and interpretation of management information

MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A** Explain the role of costing within the organisation and how costs are classified
- B** Describe and record costs by classification
- C** Explain and apply cost accounting techniques
- D** Use management accounting techniques to make and support decision-making.
- E** Explain principles of cash management
- F** Apply and use computer spreadsheets in Microsoft excel

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



DETAILED SYLLABUS:

A Management information

1. Management information requirements
2. Cost accounting systems
3. Cost classification

B Cost recording

1. Accounting for materials
2. Accounting for labour
3. Accounting for other expenses

C Costing techniques

1. Absorption costing
2. Marginal costing
3. Job and batch costing
4. Process costing
5. Service costing

D Decision making

1. Cost- volume- profit analysis
2. Factors affecting short term decision making
3. Principles of discounted cash flow

E Cash management

1. Nature of cash and cash flow
2. Cash management
3. Cash budgets
4. Investing and financing

F SPREADSHEETS

1. Spreadsheet system overview
2. Using computer spreadsheets
3. Presenting information in spreadsheet

APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a two hour computer-based or paper based examination. Questions will assess all parts of the syllabus and will include both computational and non computational elements. The examination will consist of 50 two-mark questions

Study Guide

A MANAGEMENT INFORMATION

1. Management information requirements

- a) Discuss the purpose of management information: planning, control and decision-making.^[K]
- b) Describe the features of useful management Information.^[K]
- c) Discuss the nature, source and importance of both financial and non-financial information for managers.^[K]
- d) Describe management responsibilities for cost, profit and investment and their effect on management information and performance measurement.^[K]
- e) Explain the role of information technology in management information.^[K]
- f) Explain the role of the trainee accountant.^[K]
- g) Identify suitable formats for the presentation of management information according to purpose.^[S]

2. Cost accounting systems

- a) Explain the relationship between the cost/management accounting system and the financial accounting/management information systems (including interlocking and integrated bookkeeping systems).^[K]
- b) Describe the process of accounting for input costs and relating them to work done.^[K]
- c) Identify the documentation required, and the flow of documentation, for different cost accounting transactions.^[S]

- d) Explain and illustrate the use of codes in categorising and processing transactions (including sequential, hierarchical, block, faceted and mnemonic coding methods).^[K]
- e) Explain and illustrate the concept of cost units.^[S]
- f) Describe the different methods of costing final outputs and their appropriateness to different types of business organisation.^[S]
- g) Describe methods of capturing, processing, storing and outputting cost and management accounting data by computer.^[K]

3 Cost classification

- a) Describe the variety of cost classifications used for different purposes in a cost accounting system, including by responsibility, function, direct/indirect, behaviour.^[K]
- b) Explain and illustrate the nature of variable, fixed and mixed (semi-variable, stepped fixed) costs.^[S]
- c) Use the high-low method to separate semi-variable costs.^[S]
- d) Use variable, fixed and semi-variable costs in cost analysis.^[S]
- e) Analyse the effect of changing activity levels on unit costs.^[S]

B COST RECORDING

1 Accounting for materials

- a) Describe the main types of material classification.^[K]
- b) Describe the procedures and documentation required to ensure the correct authorisation, coding, analysis and recording of direct and indirect material costs.^[K]

- c) Explain, illustrate and evaluate the FIFO, LIFO and periodic and cumulative weighted average methods used to price materials issued from inventory.^[S]
- d) Describe and illustrate the accounting for material costs.^[S]
- e) Calculate material input requirements, and control measures, where wastage occurs.^[S]
- f) Describe the procedures required to monitor inventory and to minimise discrepancies and losses.^[K]
- g) Explain and illustrate the costs of holding inventory and of being without inventory.^[S]
- h) Explain, illustrate and evaluate inventory control levels (minimum, maximum, re-order) .^[S]
- i) Calculate and interpret optimal order quantities.^[S]
- j) Discuss the relationship between the materials costing system and the inventory control system.^[K]

2 Accounting for labour

- a) Explain, illustrate and evaluate labour remuneration methods.^[S]
- b) Describe the operation of a payroll accounting system.^[K]
- c) Distinguish between direct and indirect labour costs. .^[K]
- d) Describe the procedures and documentation required to ensure the correct coding, analysis and recording of direct and indirect labour.^[K]
- e) Describe and illustrate the accounting for labour costs.^[S]

- f) Explain the relationship between the labour costing system and the payroll accounting system.^[K]
- g) Explain the causes and costs of, and calculate, labour turnover.^[S]
- h) Describe and illustrate measures of labour efficiency and utilisation (efficiency, capacity utilisation, production volume and idle time ratios) .^[S]

3 Accounting for other expenses

- a) Describe the nature of expenses by function.^[K]
- b) Describe the procedures and documentation required to ensure the correct authorisation, coding, analysis and recording of direct and indirect expenses.^[K]
- c) Describe and calculate capital and revenue expenditure and the relevant accounting treatment.^[K]
- d) Calculate and explain depreciation charges using straight-line, reducing balance, machine hour and product units methods.^[S]
- e) Explain the relationship between the expenses costing system and the expense accounting system.^[K]

C COSTING TECHNIQUES

1. Absorption costing

- a) Explain the rationale for absorption costing.^[K]
- b) Describe the nature of production and service cost centres and their significance for production overhead allocation, apportionment and absorption.^[K]
- c) Describe the process of allocating, apportioning and absorbing production overheads to establish product costs.^[K]

- d) Apportion overheads to cost centres using appropriate bases.^[S]
- e) Re-apportion service cost centre overheads to production cost centres using direct and step down methods.^[S]
- f) Justify, calculate and apply production cost centre overhead absorption rates using labour hour and machine hour methods.^[S]
- g) Explain the relative merits of actual and pre determined absorption rates.^[K]
- h) Describe and illustrate the accounting for production overhead costs, including the analysis and interpretation of over/under absorption.^[S]
- i) Describe and apply methods of attributing non-production overheads to cost units.^[S]
- j) Calculate product costs using the absorption costing method.^[S]

2. Marginal costing

- a) Explain and illustrate the concept of contribution.^[S]
- b) Prepare profit statements using the marginal costing method.^[S]
- c) Prepare profit statements using the absorption costing method.^[S]
- d) Compare and contrast the use of absorption and marginal costing for period profit reporting and inventory valuation.^[K]
- e) Reconcile the profits reported by absorption and marginal costing.^[S]
- f) Explain the usefulness of profit and contribution information respectively.^[K]

3 Job and batch costing

- a) Identify situations where the use of job or batch costing is appropriate.^[K]

- b) Discuss the control of costs in job and batch costing.^[K]

- c) Apply cost plus pricing in job costing.^[S]

4 Process costing

- a) Identify situations where the use of process costing is appropriate.^[K]
- b) Explain and illustrate the nature of normal and abnormal losses/gains.^[S]
- c) Calculate unit costs where losses are separated into normal and abnormal.^[S]
- d) Prepare process accounts where losses are separated into normal and abnormal.^[S]
- e) Account for scrap and waste.^[S]
- f) Distinguish between joint products and by-products.^[K]
- g) Explain the accounting treatment of joint products and by-products at the point of separation.^[K]
- h) Apportion joint process costs using net realisable values and weight/volume of output respectively.^[S]
- i) Discuss the usefulness of product cost/profit data from a joint process.^[K]
- j) Evaluate the benefit of further processing.^[S]

5 Service costing

- a) Describe the characteristics of service costing.^[K]
- b) Describe the practical problems relating to the costing of services.^[K]
- c) Identify situations (cost centres and industries) where the use of service costing is appropriate.^[S]

d) Illustrate suitable cost units that may be used for a variety of services.^[S]

e) Calculate service unit costs in a variety of situations.^[S]

D DECISION MAKING

1 Cost /volume/profit analysis

a) Calculate contribution per unit and the contribution/sales ratio.^[S]

b) Explain the concept of break-even and margin of safety.^[K]

c) Use contribution per unit and contribution/sales ratio to calculate break even point and margin of safety.^[S]

d) Analyse the effect on break-even point and margin of safety of changes in selling price and costs.^[S]

e) Use contribution per unit and contribution/sales ratio to calculate the sales required to achieve a target profit.^[S]

f) Interpret break-even and profit/volume charts for a single product or business.^[S]

2 Factors affecting short term decision making

a) Explain the importance of the limiting factor concept.^[K]

b) Identify the limiting factor in given situations.^[S]

c) Formulate and determine the optimal production solution when there is a single resource constraint.^[S]

d) Solve make/buy-in problems when there is a single resource constraint.^[S]

e) Explain the concept of relevant costs.^[K]

f) Apply the concept of relevant costs in business decisions.^[S]

3 Principles of discounted cash flow

a) Explain and illustrate the difference between simple and compound interest, and between nominal and effective interest rates.^[S]

b) Explain and illustrate compounding and discounting.^[S]

c) Explain the distinction between cash flow and profit and the relevance of cash flow to capital investment appraisal.^[K]

d) Explain and illustrate the net present value (NPV) and internal rate of return (IRR) methods of discounted cash flow.^[S]

e) Calculate present value using annuity and perpetuity formulae.^[S]

f) Calculate payback (discounted and non-discounted) .^[S]

g) Interpret the results of NPV, IRR and payback calculations of investment viability.^[S]

E CASH MANAGEMENT

1 Nature of cash and cash flow

a) Define cash and cash flow .^[K]

b) Outline the various sources of cash receipts and payments (including regular/exceptional revenue/capital receipts and payments, and drawings).^[K]

c) Describe the relationship between cash flow accounting and accounting for income and expenditure. ^[K]

d) Distinguish between the cash flow pattern of different types of organisations.^[S]

e) Explain the importance of cash flow management and its impact on liquidity and company survival (note: calculation of ratios is not required) .^[K]

2 Cash management

- a) Outline the basic treasury functions.^[K]
- b) Describe cash handling procedures.^[K]
- c) Outline guidelines and legislation in relation to the management of cash balances in public sector organisations.^[K]
- d) Describe how trends in the economic and financial environment can affect management of cash balances.^[K]

3 Cash budgets

- a) Explain the objectives of cash budgeting.^[K]
- b) Explain and illustrate statistical techniques used in cash forecasting including moving averages and allowance for inflation.^[S]
- c) Prepare a cash budget/forecast .^[S]
- d) Explain and illustrate how a cash budget can be used as a mechanism for monitoring and control.^[S]

4 Investing and Financing

- a) Explain how surplus cash and cash deficit may arise.^[K]
- b) Explain the following types of short term investments and the associated risks/returns.^[K]:
 - (i) bank deposits
 - (ii) money- market deposits
 - (iii) certificates of deposit
 - (iv) government stock
 - (v) local authority stock
- c) Explain different ways of raising finance from a bank and the basic terms and conditions associated with each financing.^[K]

F SPREADSHEETS

1 Spreadsheet system overview

- a) Explain the role and features of a computer spreadsheet system.^[K]

- b) Identify applications for computer spreadsheets in cost and management accounting.^[S]

2 Using computer spreadsheets

- a) Identify what numerical and other information is needed in spreadsheets, show how information should be structured and explain security issues.^[S]
- b) Identify and use a wide range of formulae to meet specified requirements (basic calculation formulae, relative/absolute cell reference, Round, PV, NPV, IRR and simple logical (IF) functions) .^[S]
- c) Identify and correct errors in formulas.^[S]
- d) Identify data from different sources and demonstrate how they should be linked and combined.^[S]

3 Presenting information in spreadsheets

- a) Explain and illustrate methods of summarising and analysing spreadsheet data (including sorting, ranking , filter, splitting screen and freezing titles).^[K]
- b) Analyse charts and graphs (bar, line, pie, column, area and scatter) .^[S]
- c) Differentiate ways of presenting information to meet particular needs (including formatting and printing).^[S]