

ACCA
Accounting
Technician
Paper 4

Accounting for Costs: Module Introduction

Welcome to this part of your ACCA Accounting Technician course. This module is designed to prepare you for Paper 4: **Accounting for Costs**.

It is assumed that you have already mastered all the skills required for Paper 2: Information for Management Control and it would be advantageous (though not essential) to have completed work for Paper 3: Maintaining Financial Records. But relevant topics will be covered again in this module.

The Course

The course has been written to match the Paper 4 (Intermediate) syllabus set by the Association of Chartered Certified Accountants. This is the equivalent of NVQ (National Vocational Qualification) level 3 and it is recognised throughout the worlds of business and industry as a required professional standard.

If you pass the examinations at Introductory Level (NVQ2), Intermediate Level (NVQ3) and Advanced Level (NVQ4) and complete all the ACCA requirements, you will be entitled to write CAT ('Certified Accounting Technician') after your name - one of the most prestigious qualifications in the accounting profession.

There are a number of tests similar to the written examination that you must tackle at Paper 4. In addition there will be plenty of guidance and practice in the practical (and NVQ) skills that go with each theoretical topic.

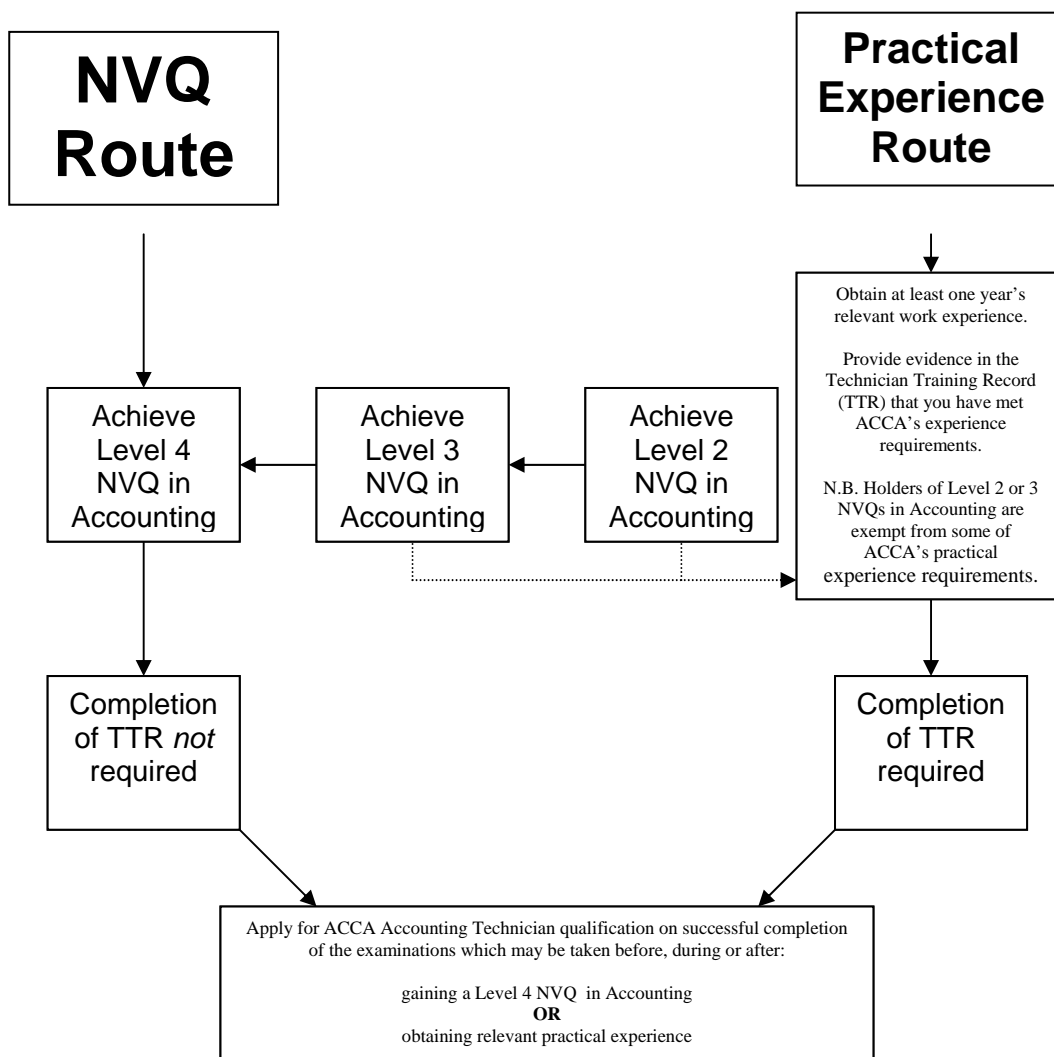
Much of the information in this Introduction is reproduced by kind permission of ACCA from documents supplied by ACCA to members of its association. Since you will need to be a member to tackle the examination, you may well already be familiar with much of this information and guidance. Much of the same information is also to be found in other module introductions.

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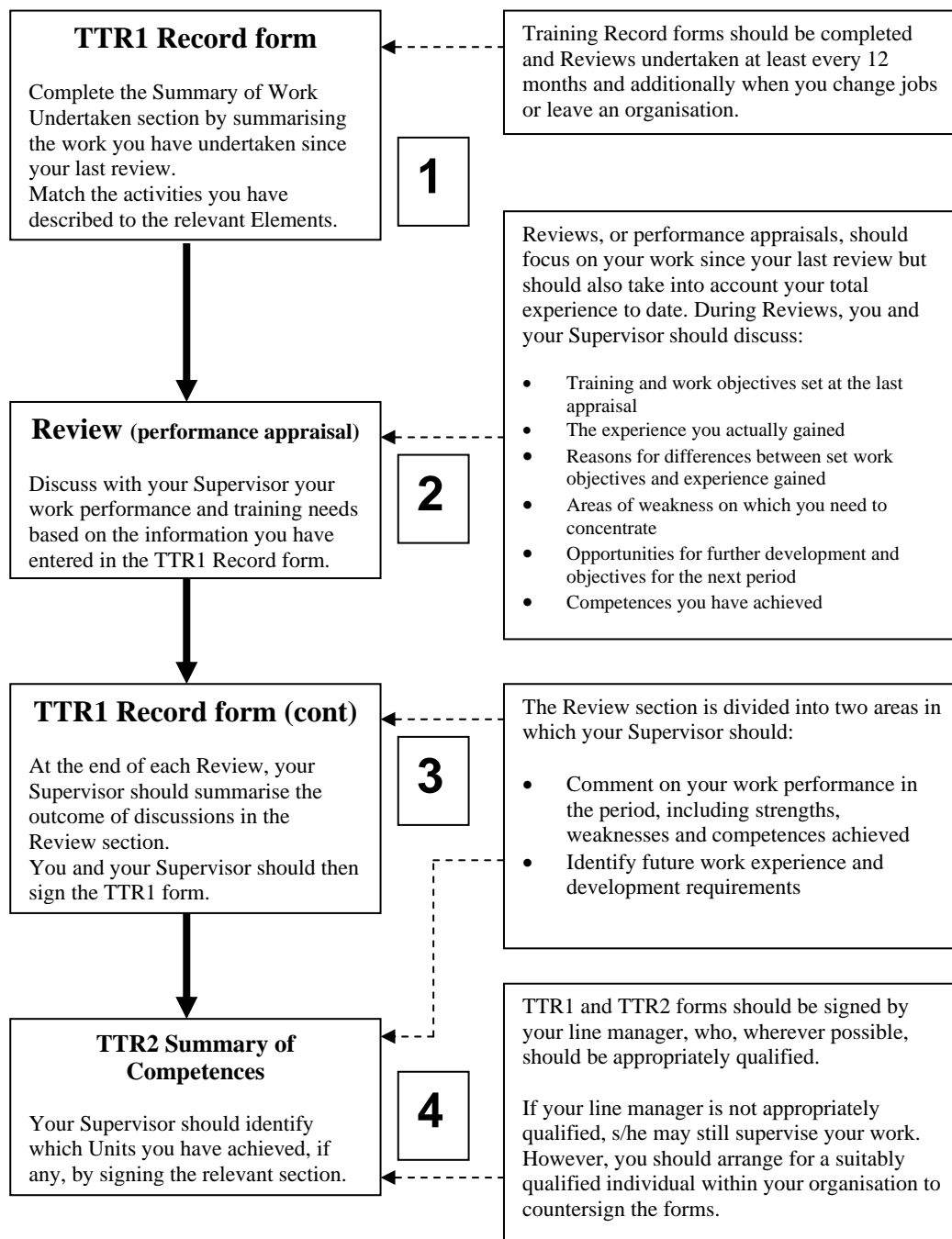
Becoming an Accounting Technician

To become an ACCA Accounting Technician, you must pass the examinations and either achieve a Level 4 NVQ in Accounting (this is called 'the NVQ route') or meet ACCA's practical experience requirements ('Practical Experience route'). The alternatives are shown in diagrammatic form below:



Guidance on Completing the Technician Training Record (TTR)

The TTR contains two forms: Records (Forms TTR1) and a Summary of Competences (Form TTR2). These forms are located in the back of the TTR supplied by ACCA. You may create your own computerised versions of these forms provided you retain the same format.



Paper 4: Lesson Structure

Lesson Subject

1. Management Information
2. Cost Classification and Cost Behaviour
3. Elements of Cost
4. Costing of Materials
5. Material Stock Control
6. Costing of Labour
Tutor-marked Assignment A
7. Costing of Other Expenses
8. Overhead Allocation and Apportionment
9. Overhead Absorption
10. Absorption and Marginal Costing
Tutor-marked Assignment B
11. Job and Batch Costing
12. Process Costing – Losses
13. Process Costing – Work-in-Progress
14. Process Costing – Joint Products and By-Products
15. Service Costing
Tutor-marked Assignment C
16. Cost/Volume/Profit (CVP) Analysis
17. Decision-making
18. Discounted Cash Flow (1)
19. Discounted Cash Flow (2)
Tutor-marked Assignment D
20. Examination Practice
Tutor-marked Assignment E
Suggested Answers to Self-Assessment Tests

There are also sets of suggested answers for all the tutor-marked assignments. Students will normally receive these when their assignments are returned to them from their tutor.

Lesson Structure


Each lesson in this course is linked directly to a topic required for the examination and lessons follow the sequence of skills (or topic development) required by the syllabus.

At the beginning of each lesson, you will find an 'Aims' section which provides a direct link between the syllabus and the content of the lesson. This can also serve as a checklist to ensure that all the necessary competences have been covered.

After the Aims, the Context section describes how this lesson relates to the ones that come before and after, to provide a sense of the overall development of the course.

Within the lessons, you should find all the theoretical knowledge that is required for the examination at this level. There is a wide left-hand margin so that you can add your own notes as you go along.

Each lesson contains 'Activity' sections, marked by black boxes. These Activities enable you to test your understanding of the previous section of the lesson and also to build up a portfolio that demonstrates the broad range of competences required.

| | |
|---|--|
| Sample Activity | <p>You will probably be asked to tackle a series of numbered questions.</p> <p>Answers are to be found at the end of the lesson.</p> |
|  | <p>Underneath there is an empty box with a pencil symbol to the left. This reminds you that you are expected to write something here! The size of the space is roughly equivalent to the scale of the answer required.</p> |

Depending on whether you are taking the NVQ route or the Practical experience route, you may wish to take a photocopy of each activity and answer and file these as evidence of your understanding of the required topics and competence to perform various functions.

At the end of each lesson you will normally find suggested answers to these activities, as well as a 'Self-Assessment Test' (SAT) which is designed to test your understanding of the entire lesson. These tests tend to be similar in form to the written paper you can expect to face.

Tutor-marked Assignments (TMAs)

After every four lessons (approximately), you will find a TMA. These are similar to the SATs except that you should send the answers to your tutor for marking.

Your tutor will be able to help you best if you also include workings or a brief account of *why* you have opted for a particular answer. It could be that you have happened upon the right answer for the wrong reason but your tutor will not be able to help you if no explanation is given. However, a wrong explanation does not affect the mark you get!

When your script is returned, you should also receive a set of suggested answers.

ACCA: Background Information

ACCA's aim has always been to provide qualifications which are closely linked to the needs of accountants and their staff in the modern business world and which prepare members for work in any sector of the economy - public practice, industry, commerce or the public sector.

ACCA's Accounting Technician qualification offers the opportunity for individuals to obtain recognition for their work as accounting technicians and support staff. In line with ACCA's tradition of open entry anyone can enrol for the ACCA Accounting Technician qualification.

With this aim in mind, the structure of the ACCA Accounting Technician syllabus has been designed to:

- assist learning and understanding
- develop an appreciation of the development and interdependence of subjects.

To qualify, you will need to complete up to nine examinations designed to test the knowledge and understanding required for work as accounting technicians.

The nine examinations are broken down into three levels. Candidates may sit between 1 and 4 papers taken from two consecutive levels. Papers should be sat in sequence, except for the optional papers (Papers 8-10) which may be sat in any order: All passes will be retained and examinations can be attempted twice a year (in June and December).

The New Scheme

The new (2004) structure of the CAT examinations is as follows:

| Paper | Assessment |
|--|----------------------------|
| Introductory | |
| Paper 1 Recording Financial Transactions* | 2 hr CBE** or written exam |
| Paper 2 Information for Management Control | 2 hr CBE** or written exam |
| Intermediate | |
| Paper 3 Maintaining Financial Records* | 2 hr CBE** or written exam |
| Paper 4 Accounting for Costs | 2 hr CBE** or written exam |
| Advanced | |
| Paper 5 Managing People and Systems | 2 hr written exam |
| Paper 6 Drafting Financial Statements* | 3 hr written exam |
| Paper 7 Planning, Control & Performance Management | 3 hr written exam |
| 2 options from | |
| Paper 8 Implementing Audit Procedures* | 3 hr written exam |
| Paper 9 Preparing Taxation Computations | 3 hr written exam |
| Paper 10 Managing Finances | 3 hr written exam |

* denotes International and UK adapted streams available

** denotes computer-based exams

Credit for Old Scheme Papers under the New Scheme

Students who have already taken module examinations in the old (2003) Technician scheme may be given credits.

| Current | New paper credited |
|--|--|
| Level A | |
| A1 Transaction Accounting | Paper 1 Recording Financial Transactions |
| A2 Office Practice & Procedure | Paper 2 Information for Management Control |
| Level B | |
| B1 Maintaining Financial Records & Accounts | Paper 3 Maintaining Financial Records |
| B2 Cost Accounting Systems | Paper 4 Accounting for Costs |
| B3 Information Technology Processes | Paper 5 Managing People and Systems |
| Level C | |
| C1/A Drafting Financial Statements | Paper 6 Drafting Financial Statements |
| C2 Information for Management | Paper 7 Planning, Control & Performance Management |
| C3 Audit Practice & Procedure | Paper 8 Implementing Audit Procedures |
| C4 Preparing Taxation Computations & Returns | Paper 9 Preparing Taxation Computations |
| C5 Managing Finances | Paper 10 Managing Finances |
| C6 Managing People | Transitional option paper |

Please also note:

- There is no direct equivalent to A2 and B3 under the new scheme. Students will be given credit for new papers 2 and 5 respectively.
- Paper C6 also has no direct equivalent under the new scheme. Students who pass C6 will be credited with a transitional optional paper pass and will be required to pass only one additional option paper under the new scheme. Students planning to take C6 in June 2004 will need to choose a different option.

Guidance on Completing the TTR

The TTR contains two forms: Records (Forms TTR1) and a Summary of Competences (Form TTR2). These forms are located in the pocket at the back of the TTR. You may create your own computerised versions of these forms provided you retain the same format.

Experience Gained Prior to Student Registration

ACCA will accept experience gained prior to registration if it is relevant and recorded and verified in the TTR. You are advised to obtain evidence of previous experience as soon after student registration as possible. When recording experience gained prior to student registration, you may complete Record forms for periods longer than 12 months, e.g. for each post held.

The TTR forms must be signed off by your previous Supervisor(s) if the experience is to be counted toward the requirements for qualification purposes. Previous Supervisors should also be encouraged to make comments on your past performance in the Review section of the Record forms.

Further Guidance

If you or your Supervisor have any queries about completing the TTR forms, you should contact an ACCA Training Consultant.

Part-Time and Temporary Work

Part-time and temporary work is acceptable provided that it is properly supervised, can be verified and it enables students to achieve competence in the required Units. Part-time work, if relevant, will be counted on a pro-rata basis. (ACCA classifies full-time work as a minimum of 35 hours per week.)

Work in Small Organisations

A number of students may be employed in small organisations where there are no suitable staff to act as Supervisor, eg where the student is the only/most senior member of the accounting staff. Experience gained in this way should be capable of verification.

It may be possible to make an arrangement with the firm's accountants/auditors, either through the employer or with their permission, for them to accept responsibility for confirmation of the experience received. ACCA recommends that:

- the student should be supervised by suitably qualified individual
- informal contact between the student and the Supervisor is made at least every quarter and on an as needs basis
- a formal performance review is undertaken at least once a year.

Self-Employment

Experience obtained while self-employed does not normally constitute approved experience (see below). However, a number of practising firms provide students with work on a contractual basis. This experience is acceptable provided the Supervisor is able to confirm that supervision and training is provided on the same basis as for salaried trainees.

Students are permitted to provide basic book-keeping services direct to the public without supervision, provided they do not refer to their status as a student or potential qualified ACCA Accounting Technician. Such experience cannot constitute approved accountancy experience for the purpose of obtaining the Technician qualification. Details regarding the work students are permitted to undertake without supervision are given in the ACCA Accounting Technician's Handbook.

Syllabus Content

Paper 4: Accounting for Costs

(NVQ Level 3) 2 hour examination

Aims of Paper 4

To develop knowledge and understanding of how organisations record, analyse and report current and future costs and revenue data for use within the organisation.

Objectives

On completion of this module candidates should be able to:

- explain the role of management accounting within an organisation and the requirement for management information
- describe costs by classification and behaviour
- identify appropriate material, labour and overhead costs
- understand and be able to apply the principles of marginal costing and absorption costing
- understand and be able to calculate product and service costs
- understand and be able to apply methods of estimating costs and revenues.

Content

1 Management information

- (a) Nature and purpose of internal reporting
 - (i) financial and non-financial information for managers
 - (ii) cost centres, profit centres and investment centres and the impact of these on management information and appraisal
- (b) Management information requirements
 - (i) definition and importance of good information
 - (ii) presentation of information
 - (iii) role of accounting technicians and accounting information
 - (iv) role of information technology
- (c) Maintaining an appropriate cost accounting system
 - (i) cost units and responsibility centres
 - (ii) sources of relevant information
 - (iii) methods for recording, processing and storing relevant information
 - (iv) analysis and dissemination of output information

2 Cost classification and cost behaviour

- (a) Cost classification
 - (i) Classifications used in cost accounting according to purpose
- (b) Cost behaviour
 - (i) cost behaviour patterns
 - (ii) identification of fixed, variable and semi-variable costs
 - (iii) use of fixed, variable and semivariable costs in cost analysis
 - (iv) analysis of the effect of changing activity levels on unit costs

3 Elements of cost

- (a) Materials
 - (i) direct and indirect material costs
 - (ii) methods of stock control and valuation including First In First Out, Last In First Out and weighted average cost

- (iii) relationship between the materials costing system and the stock control system
- (b) Labour
 - (i) direct and indirect labour costs
 - (ii) methods of payment for and calculation of payments for labour
 - (iii) relationship between the labour costing system and the payroll accounting system
- (c) Overheads
 - (i) direct and indirect expenses
 - (ii) procedures and documentation relating to expenses
 - (iii) relationship between the accounting system and the expenses costing system

4 Marginal costing and absorption costing

- (a) Marginal costing
- (b) Absorption costing
 - (i) bases of allocating and apportioning indirect costs (overheads) to responsibility centres
 - (ii) bases of absorption
 - (iii) over and under absorption of overheads
- (c) Marginal versus absorption costing for costing and reporting purposes

5 Product and service costs

- (a) Job and batch costing
 - (i) characteristics
 - (ii) direct and indirect costs
- (b) Process costing
 - (i) characteristics
 - (ii) normal losses and abnormal losses and gains
 - (iii) accounting for scrap
 - (iv) closing work in progress and equivalent units
 - (v) joint products and by-products
- (c) Service costing
 - (i) characteristics
 - (ii) cost units

6 Estimating costs and revenues

- (a) CVP analysis
 - (i) break-even analysis
 - (ii) margin of safety
 - (iii) target profit
 - (iv) contribution / sales ratio
 - (v) simple break-even chart and profit/ volume graph

- (b) Decision-making
 - (i) concept of relevant costs
 - (ii) short-term decisions
 - (iii) optimal production plan given a scarce resource

- (c) Discounted cash flow techniques
 - (i) simple and compound interest
 - (ii) nominal and effective interest
 - (iii) discounted cash flow
 - (iv) annuities and perpetuities
 - (v) payback period

Assessment Methods and Format of the Paper

For each of the CAT Intermediate Level papers, candidates choose between two different ways of being examined, either at a computer or in a traditional written exam setting. But the skills and knowledge required are the same for both these alternatives.

Computer-based Examinations

ACCA has introduced computer-based examinations (CBE) as an option for all CAT Preliminary and Intermediate Level papers. The use of CBE allows greater flexibility in ACCA's assessment system through examination entry which can be offered on a continuing basis rather than at six monthly intervals and provides instant feedback for candidates, when their results for the individual paper are displayed on the screen.

Computer based examinations must be taken at ACCA Approved Computer Examination Centres. Details of these are given on ACCA's website in the Tuition Providers' Database.

How does CBE work?

- Examination questions are displayed on the monitor and candidates will enter their answers directly onto a PC.
- Candidates are allowed 2 hours to complete each examination at Intermediate Level.
- On completion of the examination, each file will be marked by the computer automatically.
- The approved assessment centre will provide the candidate with a certificate showing your result.
- The College will return the test disk to ACCA where it will be used to confirm the candidate's result.

The Computer-based Examinations at Intermediate Level

CBE reflects the exciting new advances in computer testing, and

examinations will include a series of multiple choice questions, as well as other types of objective questions including interactive number entry and formula entry questions.

The Paper-based Examinations

ACCA will continue to offer written examinations for Papers 3 and 4 at the normal examination sessions in June and December.

The Intermediate paper-based examinations have changed to reflect the new CBE format. The new written examination consists of three sections structured as follows:

Section A – 20 compulsory multiple choice questions of two marks each

Section B – compulsory short form questions of between two and five marks each

Section C – three compulsory written questions of 15 marks each

Total 100 marks

The CBE and Paper-based examinations are comparable and students may attend the same course to prepare for both examination routes. Intermediate Level Pilot Papers are viewable on the website and are included in this course by kind permission of ACCA.

ACCA's Notes on Studying for the Examination

In order to prepare for the examinations, ACCA have indicated that you may study by day or evening classes at a college or university, or you may study privately using the various materials available, such as those supplied by Oxford Open Learning.

In studying, you are preparing for a profession where change is the only constant. During the course of your studies, you will see the introduction of new legislation, revisions to accounting and auditing standards, more sophisticated financial instruments, developments in technology, and economic and political change. In view of this, it is important that you keep up to date with accounting and the related subjects.

In order to help students do this, ACCA issues the monthly *Technician Bulletin* and *Students' Newsletter* and you should read these as well as current periodicals and the financial press. If you are registered as a joint scheme student you may receive another newsletter/journal which will give details of variant papers, tax and law changes and other helpful information.

The Importance of the Examination

While you might view the examinations as hurdles to be jumped as quickly as possible and then forgotten, many of the skills you develop while preparing for the examinations will be of use to you in your working life.

A pass in the examinations means that you have gained not only the necessary technical knowledge. It also means you have developed skills of time management, organising and summarising data, report writing, communicating with others and identifying and solving problems.

ACCA examinations are designed to provide you with both technical understanding and the professional attributes and skills needed to do your job. For example, when tackling an examination question at Intermediate Level and beyond, you will need to be able to analyse it and provide an accurate and concise answer without including irrelevant material. The same skills will help you in your work, where you will be expected to write reports which are easy to understand and to explain problems and solutions to colleagues who may not be accountants.

The examinations will give you valuable experience of working under pressure. This will be useful to you in your job where you may frequently be asked to produce work which you had not expected to be asked for - and to produce it very quickly.

Pilot Examination Papers

You should always check pilot papers for the subjects you intend to sit. They will give you a good indication of the usual format of questions and, if your first language is not English, an idea of the sort of English used by the Examiners. You may decide to purchase the ACCA Pilot Papers which will show you how you should approach your answers. These can be obtained by using the order form in the *Technician Bulletin* or downloading it from the Web site (<http://www.accaglobal.com>).

Please note that a number of questions from the Pilot Papers have already been incorporated into this course, by kind permission of ACCA.

The Units of Competence for the TTR

For the purposes of setting practical experience requirements for the ACCA Accounting Technician qualification, ACCA has listed 21 Units of Competence, including many based on NVQs in Accounting.

The Units cover personal development as well as technical, management and IT related functions. The Summary of Competences (form TTR2) in the pocket at the back of this TTR

provides an overview of these Units. Each Unit is comprised of Elements which define what you should be able to do in respect of a particular activity. These are listed below.

You must achieve competence in at least 10 Units including:

3 Mandatory Units and
a minimum of 7 other Units

Mandatory Units are marked on the TTR2 form by the symbol M.

To achieve competence in any given Unit, you must either:

obtain sufficient work experience in all, or the specified number, of Elements listed;

OR

be assessed through the NVQ route.

This is the complete list of units:

Unit 1 _Recording income and receipts

Unit 2 _Making and recording payments

Unit 3 _Preparing ledger balances and an initial trial balance

Unit 4 _Supplying information for management control

Unit 5 _Maintaining financial records and preparing accounts

Unit 6 _Recording and evaluating costs and revenues

Unit 7 _Preparing reports and returns

Unit 8 _Contributing to the management of performance and the enhancement of value

Unit 9 _Contributing to the planning and control of resources

Unit 10 Managing systems and people in the accounting environment

Units 11-14 Drafting Financial Statements

Unit 15 Operating a cash management and credit control system

Unit 17 Implementing audit procedures

Unit 18 Preparing business taxation computations

Unit 19 Preparing personal taxation computations

Unit 21 Working with computers

Unit 22 Contribute to the maintenance of a healthy, safe and productive working environment

Unit 23 Achieving personal effectiveness

Filling in TTR2 (the Summary of Competences)

1. The student's supervisor signs and dates the relevant section of TTR2 when the required number of Elements for each Unit have been covered; or
2. The student records the NVQ level which covers the Unit together with the awarding body and date of achievement.

If (1), it would be a good idea to discuss with your supervisor what kinds of evidence you will need to gather and how your work should be organised.

If (2), it generally means NVQ Level 2 which is the equivalent of Accounting Technician Foundation Level. Many UK-based students will be attempting to achieve NVQ Level 2 at the same time as following this course and, in terms of theory, this course should form an excellent preparation for Accounting NVQ2 accreditation.

Practical Experience Requirements

Students who follow the Practical Experience route must obtain at least one year's supervised work experience and meet ACCA's competence requirements.

Audits of Technician Training Records

As part of its quality control procedures, ACCA reviews a significant number of Technician Training Records each year to ensure that the experience recorded is an accurate reflection of the work undertaken and competence demonstrated. You will be notified if your TTR is selected as part of this review. Failure to comply with this review process may lead to your work experience not being recognised for qualification purposes.

Further Reading

First it should be emphasized that this course is designed to give you exactly the right amount of reading, taking each topic to the required depth. So if all sections of the text are fully understood, there should be no necessity for purchases of additional textbooks. But some students will find that certain topics are more difficult than others and that they need additional guidance or a fresh approach.

ACCA's *Student Accountant* is the best source of information about supporting textbooks, including advertisements from some of the major publishers. BPP and AT Foulks Lynch are two publishers with strong reputations in this field and their texts can be recommended.

Oxford Open Learning also publishes Accounting courses for GCSE and 'A' level which cover some of the Accounting Technician topics in greater detail.

Syllabus Changes in 2004

This course is designed to match the Accounting Technician syllabus examined for the first time in 2004. The first new syllabus computer-based examinations were scheduled for March 2004 and the first new syllabus paper-based examinations were scheduled for June 2004.

Minimum Entry Requirements and Exemptions

Exam entrants must be at least 16 years of age. Exemption will only be considered on the basis of qualifications which contain relevant content to CAT papers. The exemption policy will be widened to recognise qualifications which contain some element of workplace assessment. At the first level, employers may certify that the student has sufficient prior experience to be awarded exemption.

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