

Level 3 Certificate in Accounting (IAS)



International
Qualifications from EDI

Syllabus

Effective for examinations to be held after 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 (LCCI) and a leading online assessment provider GOAL. 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 3 Certificate in Accounting (IAS)

Aims

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

- an understanding of the basic principles underlying the recording of business transactions
- the ability to prepare and interpret accounts for sole traders, partnerships, non-trading organisations, companies and groups of companies in accordance with basic accounting conventions and current accounting practice
- the ability to apply the principles of decision making

Target Audience and Candidate Progression

This qualification is suitable for candidates who work or wish to work in an advanced area of accountancy.

All businesses require suitably skilled people who are able to prepare and maintain accurate accountancy records. In addition they must be able to produce regular accountancy statements and explain their meaning to management. There continues to be a demand for people who possess these skills.

Candidates who attempt this qualification must have the knowledge and skills equivalent to the LCCI IQ Level 1 Certificate in Book-keeping and Level 2 Certificate in Book-keeping and Accounts qualifications.

Successful candidates at Level 3 Certificate in Accounting (IAS) can progress to study LCCI IQ Level 4 Financial Accounting (IAS).

Level of English Required

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

Structure of the qualification

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

Syllabus Topics

1. Levels 1 and 2 revisited
2. Valuation of inventories
3. Valuation of fixed assets
4. Partnerships
5. Companies
6. Accounting for groups of companies
7. Cash flow statements
8. Accounting ratios
9. Budgetary control
10. Introduction to decision making
11. Concepts and accounting framework

Note: Taxation, in all its forms, is excluded from this syllabus

Guided Learning Hours

EDI recommends that 140 - 160 Guided Learning Hours (GLHs) provide 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 and understanding of the more advanced aspects of Level 1 Certificate in Book-keeping and Level 2 Certificate in Book-keeping and Accounts. It should be noted, however, that these syllabi use UK accounting terminology rather than International accounting terminology.

- prepare accounts for a partnership in relation to alterations in partners' interests and the conversion of a partnership into a company
- prepare accounting entries for a company to record the issue of share capital and the issue and redemption of debentures
- account for distributable profits and profits prior to incorporation for companies
- prepare cash flow statements in accordance with IAS 7
- prepare a cash budget
- prepare a budgeted income statement and/or balance sheet
- calculate and interpret accounting ratios
- demonstrate an understanding of the principles of decision making
- interpret accounting statements
- demonstrate an understanding of accounting standards and concepts

Skills Assessed

Candidates will need to show that they can:

- add, subtract, divide and multiply, calculate and use percentages
- prepare journal entries and ledger accounts
- present the final accounts of sole traders, partnerships, companies, including groups and non-trading organisations in appropriate format
- analyse and interpret data
- apply basic decision making techniques
- prepare financial data in compliance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)

Coverage of Syllabus Topics in Examinations

At least **two** of the following syllabus topics will appear in each examination:

4. Partnerships
5. Companies
6. Accounting for groups of companies
7. Cash flow statements

8. Accounting ratios
9. Introduction to decision making

Examination Format

- The time allowance for the examination is 3 hours.
- The examination paper will comprise 5 questions.
- Candidates are required to answer 4 questions. No question will be compulsory
- Any question can relate to more than one topic area from the syllabus

Answer Formats

The answers required will be predominantly of a quantitative nature, but some questions will also require candidates to provide short written answers.

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 Accounting, based on the achievement of the percentages and grades below:

Pass	50%
Merit	60%
Distinction	75%

Recommended Reading List and Support Material

Reading List

Title	Author(s)	Publisher	ISBN Code
Passport to Success- Level 3 Accounting	EDI	Hodder Education	978-1-86247-113-9
How to Pass Accounting (Second edition)	Joe Adomako and Bala Balachandran	LCCIEB	1 86247 033 Z

Support Material

Model Answers and past papers are available from the LCCI website, www.lcci.org.uk. A Solutions Booklet to support the passport to Success book is also available from the website.

How to offer this 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 830 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 Levels 1 and 2 revisited	<p>Candidates must be able to:</p> <p>1.1 Undertake more advanced examples of any syllabus topic contained in the syllabi at Levels 1 and 2 and not covered elsewhere in this syllabus. Special reference will be made to the following:</p> <ul style="list-style-type: none"> ▪ Accounting for depreciation and bad and doubtful debts ▪ Preparation of final accounts for a sole trader ▪ Preparation of final accounts from incomplete records ▪ Preparation of final accounts for a non-trading organisation ▪ Preparation of Manufacturing Accounts ▪ Sales and Purchase Ledger Control Accounts and reconciliation with the total of the list of balances in the subsidiary sales and purchase ledgers ▪ Correction of errors and use of suspense account
2 Valuation of inventories	<p>Candidates must be able to:</p> <p>2.1 Undertake more advanced examples of the Level 2 syllabus for this topic area</p>
2.2 Inventory accounts	<p>2.2.1 Explain the objectives of inventory accounts</p> <p>2.2.2 Prepare inventory accounts</p> <p>2.2.3 Differentiate between perpetual and periodic inventory valuation</p>
2.3 Inventory valuation for final accounts	<p>2.3.1 Explain and/or apply the following cost bases: FIFO; average cost; replacement cost; standard cost.</p>

Exclusion:
The study of long-term contracts is not a requirement of this syllabus

- 2.4 Ascertaining inventory in the absence of physical inventory taking**
- 2.4.1 Adjust inventory valuation for inventory movement before or after end of accounting period
- 3 Valuation of fixed assets**
- Candidates must be able to:
- 3.1 Undertake more advanced examples of the Levels 1 and 2 syllabi for this topic area
- 3.2 Explain and apply the following additional methods of depreciation: Units of output; machine hour; sum of years' digits; annual revaluation
- 3.3 Calculate the effect of a change in the basis of depreciation of a fixed asset
- 3.4 Calculate the change in the charge for depreciation when there is a change in the life and/or residual value of a fixed asset
- 4 Partnerships**
- Candidates must be able to:
- 4.1 Undertake more advanced examples of the Level 2 syllabus for this topic area
- 4.2 Changes in partnership interests during a financial year**
- 4.2.1 Prepare entries for the division of profits/losses in accordance with a partnership agreement
- 4.2.2 Prepare entries for the division of an income statement into periods before and after the date of change in a partnership agreement, if within an accounting period, using time, turnover and other bases
- 4.2.3 Prepare entries to partners' capital accounts for funds introduced/ Withdrawn

- 4.2.4 Prepare entries for the adjustment of partners' capital and/or current accounts for share of unrecorded assets/liabilities when profit/loss ratios are changed
- 4.2.5 Prepare entries for the inclusion or exclusion from the books of any assets/liabilities in accordance with partners' decisions
- 4.3 Admission or retirement of partners during a financial year**
 - 4.3.1 Prepare the entries to partners' capital accounts for funds introduced/withdrawn
 - 4.3.2 Make adjustment to partners' capital and/or current accounts for share of unrecorded assets/liabilities
 - 4.3.3 Divide an income statement into periods before and after date of admission or retirement of partners, if within an accounting period using time, turnover and other bases of apportionment
- 4.4 Conversion into a company**
 - 4.4.1 Prepare a sale of business account in partnership books
 - 4.4.2 Prepare a dissolution (realisation) account in partnership books
 - 4.4.3 Show the distribution of proceeds between partners
 - 4.4.4 Close the partners' capital accounts in partnership books
 - 4.4.5 Prepare a purchase of business account in company books
 - 4.4.6 Record the issue of shares and debentures etc in company books
 - 4.4.6 Record goodwill in company books
 - 4.4.7 Divide profits before and after incorporation

5 Companies

Candidates must be able to:

- 5.1 Undertake more advanced examples of the Level 2 syllabus for this topic area
- 5.2 Issue of shares and issue and redemption of debentures**
 - 5.2.1 Prepare the application and allotment account
 - 5.2.2 Prepare the share capital and debenture accounts
 - 5.2.3 Prepare the share and/or debenture premium accounts
 - 5.2.4 Record the calls on shares and debentures
 - 5.2.5 Record the redemption of debentures
- 5.3 Purchase of own ordinary shares and redemption of preferred shares**
 - 5.3.1 Record the purchase, by a company, of its own ordinary shares out of the proceeds of a new issue made for that purpose
 - 5.3.2 Record the purchase, by a company, of its own ordinary shares out of distributable reserves
 - 5.3.3 Record the purchase, by a company, of its own ordinary shares from a mix of a new issue and distributable reserves
 - 5.3.4 Record the redemption of preferred shares
- 5.4 Rights and bonus (capitalisation) issues of shares**
 - 5.4.1 Explain what is meant by a rights issue of shares and prepare the necessary accounts
 - 5.4.2 Explain what is meant by a bonus issue of shares and prepare the necessary accounts, making appropriate use of available reserves

- 5.5 Distributable profits**
- 5.5.1 Assess the influence of liquidity on the decision whether or not to distribute profits
- 5.6 Profits prior to incorporation**
- 5.6.1 Calculate the profit earned prior to incorporation
- 5.6.2 Apply the required accounting treatment to the pre-incorporation profits
- 6 Accounting for groups of companies**
- Candidates must be able to:
- 6.1 Prepare a consolidated income statement and /or balance sheet for a simple group
- 6.2 Calculate goodwill on consolidation or cost of control
- 6.3 Calculate minority interest
- 6.4 Calculate group retained earnings
- 6.5 Treat profits in inventory
- 6.6 Treat inter-company dividends
- 6.7 Treat inter-company balances
- 6.8 Treat items in transit e.g. inventory and cash
- 6.9 Treat fair value of fixed assets
- 6.10 Explain the reasons for the adjustments used in consolidation

Exclusion:

No questions will be asked involving:

- Piecemeal acquisitions
- Subsidiaries with preferred shares
- Sub-subsidiaries
- Associates
- Mergers

7 Cash flow statements

Candidates must be able to:

- 7.1 Explain and use the formats contained in IAS 7
- 7.2 Prepare cash flow statements in
- 7.3 accordance with IAS 7

8 Accounting ratios

Candidates must be able to:

- 8.1 Undertake more advanced examples of the Level 2 syllabus for this topic area

8.2 Calculate the following additional ratios:

- 8.2.1 Gearing
- 8.2.2 Revenue to non-current assets
- 8.2.3 Revenue to capital employed
- 8.2.4 Net profit to total assets employed
- 8.2.5 Earnings per share
- 8.2.6 Price/earnings
- 8.2.7 Dividend yield
- 8.2.8 Dividend cover for ordinary shares
- 8.2.9 Earnings yield
- 8.2.10 Interest cover

Where an examination question requires the use of a specific version of a ratio formula (e.g. gearing) this will be clearly stated in the question.

8.3 Further considerations

- 8.3.1 Interpret and comment upon the ratios
- 8.3.2 Prepare final accounts using ratios

9 Budgetary control

Candidates must be able to:

9.1 Cash budgets

9.1.1 Calculate budgeted cash inflows and cash outflows for each period

9.1.2 Prepare cash budgets using a columnar layout in accordance with the periods required e.g. weekly, monthly, quarterly (three monthly) etc.

9.2 Budgeted statements

9.2.1 Prepare a budgeted income statement and/or balance sheet from given information. The use of accounting ratios may be required

9.3 Interpretation

9.3.1 Comment upon the results obtained from the preparation of cash budgets and budgeted income statements and balance sheets

10 Introduction to decision making

Candidates must be able to:

10.1 Breakeven

10.1.1 Explain what is meant by the breakeven point

10.1.2 Calculate the breakeven point in both sales units and sales value

10.1.3 Calculate the profit or loss for a given number of units sold

10.1.4 Calculate the number of units required to be sold in order to generate a given amount of profit

10.1.5 Comment upon the results obtained

Exclusion:

Questions will not be set involving the production of a breakeven graph or chart

10.2 Simple payback

10.2.1 Explain what is meant by the payback method of investment appraisal

10.2.6 Calculate the payback period using either constant or uneven cash flows

- 10.2.7 Comment upon the results obtained and make recommendations
- 10.2.8 State the advantages and disadvantages of using payback as a method of investment appraisal

Exclusion:

Questions will not be set involving discounted payback

10.3 Net present value method of discounted cash flow

- 10.3.1 Explain the meaning of the time value of money
- 10.3.2 Explain what is meant by net present value (either positive or negative)
- 10.3.3 Calculate net present value. Extracts from discount tables will be provided
- 10.3.4 Comment upon the results obtained and make recommendations
- 10.3.5 State the advantages and disadvantages of using net present value as a method of investment appraisal

Exclusion:

Questions will not be set involving any other aspects of discounted cash flow e.g. annuities, perpetuities or IRR

10.4 Accounting rate of return

- 10.4.1 Explain what is meant by the accounting rate of return
- 10.4.2 Calculate the accounting rate of return using the formula:

$$\frac{\text{average profits after depreciation but before interest} \times 100}{\text{initial capital costs}} \quad 1$$

- 10.4.3 Comment upon the results obtained and make recommendations
- 10.4.4 State the advantages and disadvantages of using the accounting rate of return as a method of investment appraisal

11 Concepts and accounting framework

Candidates must be able to:

11.1 Explain the following:

- Going concern concept
- Accruals or matching concept
- Prudence concept
- Consistency concept
- Entity concept
- Separate valuation principle
- Materiality concept
- Historical cost convention
- Objectivity concept
- Duality concept
- Substance over form

11.2 Explain and apply the principles incorporated in the following accounting standards;

- IAS 2 - Inventories (long term contracts will not be examined)
- IAS 7 - Cash flow statements
- IFRS 3 - Accounting for business combinations
- IAS 27 – Consolidated financial statements
- IAS 16 – Property, plant and equipment

Note:

If any standard is either revised or replaced, the revised or replaced standard will become examinable 18 months after it is issued

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Supporting learning
and performance

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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Supporting learning
and performance

Level 3 Certificate in Management Accounting



International
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Syllabus

Effective from October 2008

INTRODUCTION

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Level 3 Certificate In Management Accounting

Aims

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

- An ability to critically analyse information for both short term and long term decision making
- An ability to use management accounting information for the purposes of planning and control of cash and other resources within business organisation and an understanding of factors affecting the planning and control process
- An understanding of business performance measures, and the relevance and impact of transfer pricing.

Target Audience and Candidate Progression

The examination is intended for those who work, or aspire to work, in the more advanced areas of accountancy. The complex business world of today makes Management Accounting a necessity for all types of managers. Organisations must attempt to acquire and utilise their resources in the best way possible, and managers need reliable accounting data to anticipate the future and control day-to-day activity. There is an increasing demand for employees who are capable of providing such important information.

Candidates attempting this examination must be totally familiar with the basic cost accounting principles, methods and terminology as contained in the LCCI IQ Cost Accounting Level 2 syllabus and it is recommended that a pass is obtained at this level before proceeding to this Management Accounting examination. Candidates who achieve Management Accounting Level 3 may progress to the LCCI IQ Level 4 examination Cost Accounting and Quantitative Techniques.

Level of English required

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

Structure of the Qualification

The level 3 Certificate in Management Accounting is a single unit qualification that consists of a range of topics detailed below.

Syllabus topics

- 1 Short term cost behaviour
- 2 Cost/volume/profit (CVP) analysis
- 3 Short term decision making
- 4 Budgetary Planning and Control
- 5 Cash and working capital management
- 6 Standard costing and variances
- 7 Long term decision making
- 8 Performance evaluation and transfer pricing

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 up to 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

After successfully completing this examination candidates will be able to:

- Analyse information in a variety of decision making situations and to explain the basis for the analysis and the validity of the techniques used
- Demonstrate knowledge and understanding of short-term planning and control principles, techniques and processes
- Use, and interpret, business performance measures and transfer prices

Skills Assessed

Candidates will need to show they can:

- add, subtract, divide and multiply, calculate and use percentages
- present information in statements in a form appropriate to management accounting
- present information in graphical format

- analyse and interpret data
- provide short written answers

Examination format

The time allowed for the examination is 3 hours, with the examination paper consisting of 5 questions. Candidates are required to answer all 5 questions, all questions carry equal marks. The emphasis of the paper will be quantitative; however, descriptive elements are incorporated into questions.

Coverage of Syllabus Topics in Examinations

At least 1 question from each of the following syllabus topics will be set in each examination:

- Short Term Decision Making (Syllabus Topic 2)
- Short Term Profit Control (Syllabus Topic 3)
- Long Term Decision Making and Control (Syllabus Topic 5)

Typical tasks that will be used to assess candidates:

(a) preparation of:

- monthly cash budgets
- statements that reconcile budgeted profit with actual results
- profit and loss statements
- working capital budgets
- statements which show the order in which products should be manufactured

(b) calculation of:

- net present values and internal rates of return
- standard cost variances
- break-even points and margins of safety
- residual income figures

(c) support calculations and statements with:

- interpretation of the figures shown
- comments upon recommended action
- identifying the advantages and/or disadvantages of particular techniques

This list is not exhaustive but is intended to show typical tasks that candidates must perform in the examination.

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 Management Accounting based on the achievement of the percentages and grades below:

Pass	50%
Merit	60%
Distinction	75%

Recommended Reading List and Support Material

Reading List

Title	Author(s)	Publisher	ISBN Code
How to Pass Management Accounting Third Level	D Frederick and R Lyall	LCCIEB	1 86247 020 0

Support Material

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

How to offer this 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 Short term cost behaviour

Candidates must be able to:

- 1.1 Define given costs as *variable, semi-variable, stepped or fixed*
- 1.2 Separate costs into fixed and variable elements according to their behaviour and characteristics.
- 1.3 Use the high/low method to identify cost behaviour with or without price changes.
- 1.4 Calculate costs per period or unit from fixed, variable, semi-variable or stepped patterns.
- 1.5 Forecast costs using the high/low method.
- 1.6 Explain the effect of time on cost behaviour..

2 Cost/Volume/Profit (CVP) Analysis

Candidates must be able to;

- 2.1 Calculate the contribution/sales (C/S) ratio for a single product and the weighted C/S ratio for a mix of products.
- 2.2 Explain and calculate the break-even point in both single product and multi-product situations.
- 2.3 Explain and calculate the margin of safety.
- 2.4 Apply CVP analysis in given situations
- 2.5 Construct the following charts for a single product or multiple products:
 - Conventional break-even
 - Contribution break even
 - Profit-volume (PV)
- 2.6 Read the break-even point and the margin of safety from a chart.
- 2.7 Discuss the assumptions and limitations of CVP analysis.

3 Short term decision making

Candidates must be able to:

- 3.1 Explain the terms marginal costing and absorption costing.
- 3.2 Prepare statements in both marginal and absorption form as the basis for decision making.
- 3.3 Discuss the usefulness of both marginal costing and absorption costing as the basis for decision making.
- 3.4 Explain the key terms used in decision making e.g.
 - Sunk cost
 - Differential/incremental cost.
 - Opportunity cost
 - Avoidable cost
 - Relevant cost
- 3.5 Explain and identify limiting factors within an organisation.
- 3.6 Calculate the contribution per unit of the limiting factor, and recommend the product mix to maximise profits
- 3.7 Discuss other factors that may influence the product mix decision in limiting factor situations.
- 3.8 Solve linear programming problems using the graphical method.
- 3.9 Evaluate sub-contracting alternatives with or without limiting factors.
- 3.10 Use relevant cost principles for special order decisions
- 3.11 Identify products or departments that may be considered for closure, differentiating between general and specific fixed costs.
- 3.12 Discuss the limitations of short term decision making techniques.
- 3.13 Calculate a selling price for a product or service from given price/demand relationship

- 3.14 Calculate a selling price for a product or service to achieve a given profit margin.

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 Discuss factors influencing the choice of budget period.
- 4.5 Prepare the following budgets
- Sales
 - Production
 - Material usage
 - Materials purchases
 - Direct labour
 - Profit/loss
 - Balance sheet
- 4.6 Distinguish between fixed and flexible budgets.
- 4.7 Suggest bases for flexing budgets
- 4.8 Prepare a flexed budget, compare with actual costs/revenues and interpret the variances.
- 4.9 Discuss alternative approaches to budgeting, e.g. zero-based budgeting, rolling/continuous budgets, and activity based budgeting.
- 4.10 Discuss the human behavioural aspects of budgeting

5 Cash and working capital management

Candidates must be able to:

- 5.1 Explain why liquidity and cash flow management are important for the successful operation of any business

- 5.2 Prepare detailed cash budgets on a monthly or quarterly basis.
- 5.3 Discuss the implications of, and ways to deal with, a cash surplus/deficit.
- 5.4 Define working capital and explain why its management is important in the day-to day operation of any business.
- 5.5 Prepare working capital budgets
- 5.6 Demonstrate the effects of sales and production expansion or contraction upon working capital requirements.
- 5.7 Reconcile profit budgets and cash budgets and explain why this reconciliation is important.
- 5.8 Calculate and interpret ratios for stock turnover, debtor collection, creditor settlement and liquidity.
- 5.9 Use given ratios to calculate elements of working capital.
- 5.10 Explain and calculate the working capital cycle.

6 Standard costing and variances

Candidates must be able to:

- 6.1 Explain the meaning of standard cost, and differentiate between the types of standard: ideal and attainable.
- 6.2 Calculate the total sales variance and analyse this to selling price and sales volume variances using absorption and marginal costing.
- 6.3 Calculate the total direct material variance and analyse this to price and usage variances where the price variance is based upon issues.
- 6.4 Explain and use the standard hour as a measure of output for a department or a mix of products.
- 6.5 Calculate the total direct labour variance and analyse this to rate and efficiency variances.

- 6.6 Calculate the total fixed production overhead variance and analyse this when using absorption costing, to expenditure and volume variances.
- 6.7 Analyse the fixed production overhead volume variance to efficiency and capacity variances.
- 6.8 Reconcile budgeted and actual profit using appropriate variances.
- 6.9 Use given cost and sales variances to calculate standard or actual production costs or revenues.
- 6.10 Explain and illustrate how standard costs and variances can be used for cost control including the use of control charts.
- 6.11 Interpret variances and possible relationships between them.
- 6.12 Calculate ratios of production volume (activity), production efficiency and capacity.
- 6.13 Explain the use of *ex-ante* and *ex-post* standards.
- 6.14 Calculate and interpret planning and operational variances.

7 Long term decision making

Candidates must be able to:

- 7.1 Explain the difference between long term and short term decision making.
- 7.2 Identify relevant and irrelevant costs in capital investment appraisal.
- 7.3 Prepare capital investment appraisals using the traditional techniques of Payback and/or Accounting Rate of Return
- 7.4 Evaluate the effectiveness of these traditional techniques, and identify their limitations.
- 7.5 Explain what is meant by Discounted Cash Flow (DCF), and explain how discounting overcomes the main limitation of traditional techniques.

- 7.6 Explain Net Present Value (NPV) and Internal Rate of Return (IRR) discounting methods.
- 7.7 Calculate the Net Present Value (NPV) of a proposed capital investment.
- 7.8 Calculate the Internal Rate of Return (IRR) of a proposed capital investment.
- 7.9 Compare IRR and NPV methods and explain why the two techniques do not necessarily rank projects in the same order.
- 7.10 Calculate the discounted payback of a proposed capital investment.
- 7.11 Calculate a Profitability Index, and explain its significance.
- 7.12 Calculate and use a weighted average cost of capital.
- 7.13 Apply elementary aspects of risk analysis including sensitivity analysis and expected value using probabilities.
- 7.14 Incorporate elementary aspects of the impact of inflation in capital investment appraisals.
- 7.15 Interpret the results of capital investment appraisals.

8 Performance evaluation and transfer pricing

Candidates must be able to:

- 8.1 Explain why an enterprise may wish to decentralise and describe the advantages and disadvantages of decentralisation.
- 8.2 Define and contrast *cost centres*, *profit centres* and *investment centres*.
- 8.3 Evaluate centres on the basis of ratios and in particular be able to calculate Return on Capital Employed (ROCE) and Residual Income (RI)
- 8.4 Contrast ROCE with RI and describe the strengths and weaknesses of the two ratios.

- 8.5 Calculate and interpret Profitability and Use of Assets ratios.
- 8.6 Discuss the use of the balanced scorecard approach to performance evaluation.
- 8.7 Calculate and interpret both financial and non-financial performance measures in various organisations
- 8.8 Explain why transfer pricing is necessary and the objectives that should be met.
- 8.9 Calculate and use market and cost based transfer prices and evaluate the consequences for buyers, sellers and the group as a whole, of the different methods.

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and performance

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