

Unit 9: Management Accounting: Costing and Budgeting

Unit code: R/601/0836

QCF level: 4

Credit value: 15 credits

- Aim

The aim of this unit is to provide learners with the understanding and ability to use cost information for budgeting and forecasting purposes in the management of business.

- Unit abstract

This unit looks at the cost information, both current and future, of businesses. It looks at how cost data is collected, compiled and analysed, and processed into information that is useful for business managers. Learners will have the opportunity to apply these principles to practice.

The unit then deals with budgetary planning and control. It looks at how to prepare forecasts and budgets and to compare these to actual business results. Learners will again have practical experience of this.

Finally, the unit considers different costing and budgetary systems and the causes of resulting variances, together with the possible implications and the corrective action the business will need to take.

- Learning outcomes

On successful completion of this unit a learner will:

- 1 Be able to analyse cost information within a business
- 2 Be able to propose methods to reduce costs and enhance value within a business
- 3 Be able to prepare forecasts and budgets for a business
- 4 Be able to monitor performance against budgets within a business.

Unit content

1 Be able to analyse cost information within a business

Types of costs and classification: materials; labour; overheads; direct and indirect; fixed; variable and semi-variable

Costing methods: job costing; batch costing; process costing; contract costing; service costing

Cost measurement: absorption and marginal costing; traditional overhead absorption and activity-based costing; stock valuation methods (FIFO, LIFO, AVCO, standard costing)

Costing as basis for pricing and stock valuation: cost plus pricing; market pricing; target costing

Data collection and analysis: sampling methods and purpose; presentation of data e.g. tabular, diagrammatical, graphical; index numbers

2 Be able to propose methods to reduce costs and enhance value within a business

Cost reports: preparation; comparison with other data; explanation and implication of variances

Performance indicators: monitor and assess to identify potential improvements

Quality and value: definitions and interaction; added value; total quality management

3 Be able to prepare forecasts and budgets for a business

The budgeting process: purpose; benefits; links with organisational objectives/strategy; the budget manual; budgets as planning, coordinating, motivation and control devices

Budget preparation: limiting or key factors; master, subsidiary and functional budgets; cash budgets; the preparation of sales budget, debtors' budgets, creditors' budgets, production costs, raw materials and finished goods budgets

Budgeting methods: incremental; zero-based; fixed and flexible

Behavioural consequences of budgets: padding the budget; spending to budget; creative budgets

4 Be able to monitor performance against budgets within a business

Variances: types; analysis; calculation; possible causes; corrective action *Reporting:* operating statement; reconciliation of budgeted and actual results *Responsibility centres:* relevance to budgeting; identification of responsibility for variances

Learning outcomes and assessment criteria

Learning outcomes On successful completion of this unit a learner will:	Assessment criteria for pass The learner can:
LO1 Be able to analyse cost information within a business	1.1 classify different types of cost 1.2 use different costing methods 1.3 calculate costs using appropriate techniques 1.4 analyse cost data using appropriate techniques
LO2 Be able to propose methods to reduce costs and enhance value within a business	2.1 prepare and analyse routine cost reports 2.2 use performance indicators to identify potential improvements 2.3 suggest improvements to reduce costs, enhance value and quality
LO3 Be able to prepare forecasts and budgets for a business	3.1 explain the purpose and nature of the budgeting process 3.2 select appropriate budgeting methods for the organisation and its needs 3.3 prepare budgets according to the chosen budgeting method 3.4 prepare a cash budget
LO4 Be able to monitor performance against budgets within a business	4.1 calculate variances, identify possible causes and recommend corrective action 4.2 prepare an operating statement reconciling budgeted and actual results 4.3 report findings to management in accordance with identified responsibility centres.

Guidance

Links

The unit links with the following units within the specification: *Unit 2: Managing Financial Resources and Decisions, Unit 6: Business Decision Making, Unit 10: Financial Accounting and Reporting, Unit 11: Financial Systems and Auditing and Unit 12: Taxation.*

Additionally it covers some of the underpinning knowledge and understanding for NVQ in Accounting as mapped in *Annexe B*.

The unit covers topics essential to learners aiming for a career in management accounting and who would like to become members of professional accounting bodies.

Essential requirements

There are no essential or unique resources required for the delivery of this unit.

Employer engagement and vocational contexts

Centres should develop links with local businesses. Many businesses and chambers of commerce want to promote local business and are often willing to provide work placements, visit opportunities, information about businesses and the local business context and guest speakers.