

# Managing Costs and Finances (MA2) September 2017 (for CBE exams from 23 September 2017) to August 2018

This syllabus and study guide are 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 examination and other examinations which precede or follow it. Some examinations are directly underpinned by others. These links are shown as solid line arrows. The indirect links are shown as dotted line arrows. The relational diagram therefore indicates where learners 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 examination and indicates in the broadest sense the capabilities to be developed within the examination.

### Main capabilities

This syllabus'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 or sections of the syllabus are linked. The rationale also explains in further detail what the examination intends to assess and how.

### 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 within 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 indicate 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 Content Programme is the programme through which ACCA approves learning materials from high quality content providers designed to support study towards ACCA's qualifications.

ACCA has three Approved Content Providers, Becker Professional Education, BPP Learning Media and Kaplan Publishing. BPP Learning Media and Kaplan Publishing produce learning materials to support this exam.

For information about ACCA's Approved Content Providers, please go to ACCA's Content Provider Directory.

The Directory also lists materials by other publishers, these materials have not been quality assured by ACCA but may be helpful if used in conjunction with approved learning materials or for variant exams where no approved content is available. You will also find details of Additional Reading suggested by the examining teams and this may be a useful supplement to approved learning materials.

ACCA's Content Provider Directory can be found here –

<http://www.accaglobal.com/uk/en/student/acca-qual-student-journey/study-revision/learning-providers/alp-content.html>

Relevant articles are also published in Student Accountant and available on the ACCA website

## 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 through each qualification.

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<sup>k</sup> and the assessment of skills is denoted by the superscript<sup>s</sup>.

## VALUE OF ASSESSMENTS – GUIDED LEARNING HOURS AND EDUCATION RECOGNITION

As a member of the International Federation of Accountants, ACCA seeks to enhance the education recognition of its qualification on both national and international education frameworks, and with educational authorities and partners globally. In doing so, ACCA aims to ensure that its qualifications are recognized and valued by governments, regulatory authorities and employers across all sectors. To this end, ACCA qualifications are currently recognized on the education frameworks in several countries. Please refer to your national

education framework regulator for further information about recognition.

## GUIDE TO EXAM STRUCTURE

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

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

All Foundations 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 within any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For specified 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.

For this examination regulation *issued* or legislation *passed* on or before 31<sup>st</sup> August annually, will be assessed from September 1<sup>st</sup> of the following year to August 31<sup>st</sup> 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.

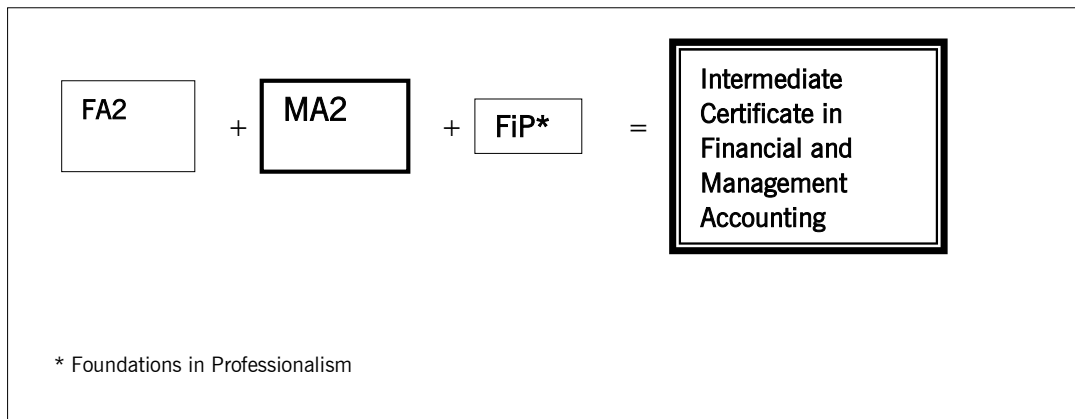
The term effective relates to when regulation or legislation must be applied to entity transactions and business practices.

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

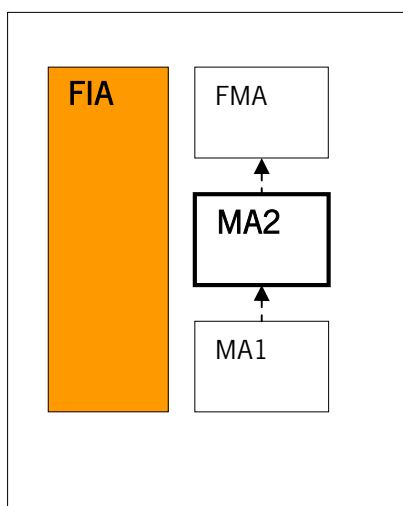
The qualification structure requires candidates who wish to gain the Intermediate Certificate in Financial

and Management Accounting to pass both the FA2 and MA2 examinations and successfully complete the Foundations in Professionalism module.



## Syllabus structure

The Foundations in Accountancy 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 Foundations in Accountancy 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.

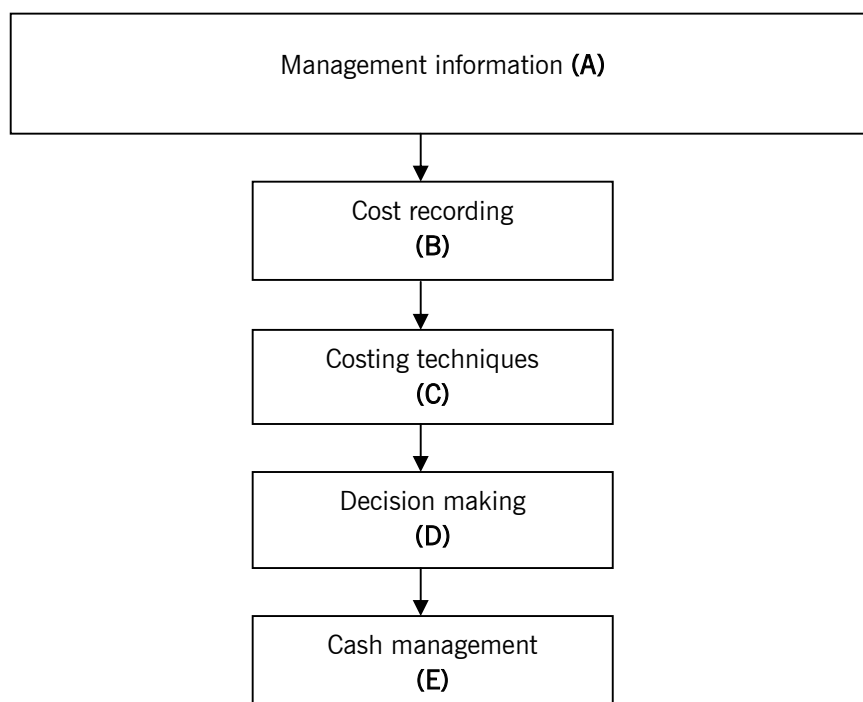
The next area of the syllabus introduces candidates to the use of management accounting in support of decision making. Finally the syllabus introduces the concept of cash management as an essential element for planning.

## 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

### RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## DETAILED SYLLABUS:

### A Management information

1. Management information requirements
2. Cost accounting systems
3. Cost classification
4. Information for comparison
5. Reporting management information

### 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

## 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) Describe the purpose of management information: planning, control and decision-making.<sup>[K]</sup>
- b) Describe the features of useful management information.<sup>[K]</sup>
- c) Describe the nature, source and importance of both financial and non-financial information for managers.<sup>[K]</sup>
- d) Describe management responsibilities for cost, profit and investment and their effect on management information and performance measurement.<sup>[K]</sup>
- e) Explain the role of information technology in management information.<sup>[K]</sup>
- f) Explain the role of the trainee accountant.<sup>[K]</sup>

### 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).<sup>[K]</sup>
- b) Describe the process of accounting for input costs and relating them to work done.<sup>[K]</sup>
- c) Identify the documentation required, and the flow of documentation, for different cost accounting transactions.<sup>[S]</sup>
- d) Explain and illustrate the use of codes in categorising and processing transactions (including sequential, hierarchical, block, faceted and mnemonic coding methods).<sup>[K]</sup>
- e) Explain and illustrate the concept of cost units.<sup>[S]</sup>

- f) Describe the different methods of costing final outputs and their appropriateness to different types of business organisation.<sup>[S]</sup>
- g) Describe methods of capturing, processing, storing and outputting cost and management accounting data by computer.<sup>[K]</sup>

### 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.<sup>[K]</sup>
- b) Explain and illustrate the nature of variable, fixed and mixed (semi-variable, stepped fixed) costs.<sup>[S]</sup>
- c) Use the high-low method to separate semi-variable costs.<sup>[S]</sup>
- d) Use variable, fixed and semi-variable costs in cost analysis.<sup>[S]</sup>
- e) Analyse the effect of changing activity levels on unit costs.<sup>[S]</sup>

### 4 Information for comparison

- a) Explain the purpose of making comparisons.<sup>[K]</sup>
- b) Identify relevant bases for comparison: previous period data, corresponding period data, forecast/budget data.<sup>[S]</sup>
- c) Explain the forecasting/budgeting process and the concept of feed forward and feedback control.<sup>[K]</sup>
- d) Explain and illustrate the concept of flexible budgets.<sup>[S]</sup>
- e) Use appropriate income and expenditure data for comparison.<sup>[S]</sup>
- f) Calculate variances between actual and historical/forecast data which may or may not be adjusted for volume change (note: standard costing is excluded).<sup>[S]</sup>

- g) Identify whether variances are favourable or adverse.<sup>[S]</sup>
- h) Identify possible causes of variances.<sup>[S]</sup>
- i) Explain the concept of exception reporting.<sup>[K]</sup>
- j) Explain factors affecting the decision whether to investigate variances.<sup>[K]</sup>

## 5 Reporting management information.

- a) Identify suitable formats for the presentation of management information according to purpose.<sup>[S]</sup>
- b) Describe methods of analysing, presenting and communicating information.<sup>[K]</sup>
- c) Identify suitable formats for communicating management information according to purpose and organisational guidelines including: informal business reports, letter and email or memo.<sup>[S]</sup>
- d) Identify the general principles of distributing reports (e.g. procedures, timing, recipients) including the reporting of confidential information.<sup>[K]</sup>
- e) Interpret information presented in management reports.<sup>[S]</sup>

## B COST RECORDING

### 1 Accounting for materials

- a) Describe the main types of material classification.<sup>[K]</sup>
- b) Describe the procedures and documentation required to ensure the correct authorisation, coding, analysis and recording of direct and indirect material costs.<sup>[K]</sup>
- c) Explain, illustrate and evaluate the FIFO, LIFO and periodic and cumulative weighted average methods used to price materials issued from inventory.<sup>[S]</sup>
- d) Describe and illustrate the accounting for material costs.<sup>[S]</sup>

- e) Calculate material input requirements, and control measures, where wastage occurs.<sup>[S]</sup>
- f) Describe the procedures required to monitor inventory and to minimise discrepancies and losses.<sup>[K]</sup>
- g) Explain and illustrate the costs of holding inventory and of being without inventory.<sup>[S]</sup>
- h) Explain, illustrate and evaluate inventory control levels (minimum, maximum, re-order).<sup>[S]</sup>
- i) Calculate and interpret optimal order quantities.<sup>[S]</sup>
- j) Explain the relationship between the materials costing system and the inventory control system.<sup>[K]</sup>

### 2 Accounting for labour

- a) Explain, illustrate and evaluate labour remuneration methods.<sup>[S]</sup>
- b) Describe the operation of a payroll accounting system.<sup>[K]</sup>
- c) Distinguish between direct and indirect labour costs.<sup>[K]</sup>
- d) Describe the procedures and documentation required to ensure the correct coding, analysis and recording of direct and indirect labour.<sup>[K]</sup>
- e) Describe and illustrate the accounting for labour costs.<sup>[S]</sup>
- f) Explain the relationship between the labour costing system and the payroll accounting system.<sup>[K]</sup>
- g) Explain the causes and costs of, and calculate, labour turnover.<sup>[S]</sup>
- h) Describe and illustrate measures of labour efficiency and utilisation (efficiency, capacity utilisation, production volume and idle time ratios).<sup>[S]</sup>

### 3 Accounting for other expenses

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

## C COSTING TECHNIQUES

### 1. Absorption costing

- a) Explain the rationale for absorption costing.<sup>[K]</sup>
- b) Describe the nature of production and service cost centres and their significance for production overhead allocation, apportionment and absorption.<sup>[K]</sup>
- c) Describe the process of allocating, apportioning and absorbing production overheads to establish product costs.<sup>[K]</sup>
- d) Apportion overheads to cost centres using appropriate bases.<sup>[S]</sup>
- e) Re-apportion service cost centre overheads to production cost centres using direct and step down methods.<sup>[S]</sup>
- f) Justify, calculate and apply production cost centre overhead absorption rates using labour hour and machine hour methods.<sup>[S]</sup>
- g) Explain the relative merits of actual and pre determined absorption rates.<sup>[K]</sup>
- h) Describe and illustrate the accounting for production overhead costs, including the

analysis and interpretation of over/under absorption.<sup>[S]</sup>

- i) Describe and apply methods of attributing non-production overheads to cost units.<sup>[S]</sup>
- j) Calculate product costs using the absorption costing method.<sup>[S]</sup>

### 2. Marginal costing

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

### 3 Job and batch costing

- a) Identify situations where the use of job or batch costing is appropriate.<sup>[K]</sup>
- b) Calculate unit costs in job and batch costing.<sup>[S]</sup>
- c) Describe the control of costs in job and batch costing.<sup>[K]</sup>
- d) Apply cost plus pricing in job costing.<sup>[S]</sup>

### 4 Process costing

- a) Identify situations where the use of process costing is appropriate.<sup>[K]</sup>
- b) Explain and illustrate the nature of normal and abnormal losses/gains.<sup>[S]</sup>
- c) Calculate unit costs where losses are separated into normal and abnormal.<sup>[S]</sup>



- d) Prepare process accounts where losses are separated into normal and abnormal.<sup>[S]</sup>
- e) Account for scrap and waste.<sup>[S]</sup>
- f) Distinguish between joint products and by-products.<sup>[K]</sup>
- g) Explain the accounting treatment of joint products and by-products at the point of separation.<sup>[K]</sup>
- h) Apportion joint process costs using net realisable values and weight/volume of output respectively.<sup>[S]</sup>
- i) Discuss the usefulness of product cost/profit data from a joint process.<sup>[K]</sup>
- j) Evaluate the benefit of further processing .<sup>[S]</sup>

## 5 Service costing

- a) Describe the characteristics of service costing.<sup>[K]</sup>
- b) Describe the practical problems relating to the costing of services.<sup>[K]</sup>
- c) Identify situations (cost centres and industries) where the use of service costing is appropriate.<sup>[S]</sup>
- d) Illustrate suitable cost units that may be used for a variety of services.<sup>[S]</sup>
- e) Calculate service unit costs in a variety of situations.<sup>[S]</sup>

## D DECISION MAKING

### 1 Cost /volume/profit analysis

- a) Calculate contribution per unit and the contribution/sales ratio.<sup>[S]</sup>
- b) Explain the concept of break-even and margin of safety.<sup>[K]</sup>
- c) Use contribution per unit and contribution/sales ratio to calculate break even point and margin of safety.<sup>[S]</sup>
- d) Analyse the effect on break-even point and

margin of safety of changes in selling price and costs.<sup>[S]</sup>

- e) Use contribution per unit and contribution/sales ratio to calculate the sales required to achieve a target profit.<sup>[S]</sup>
- f) Interpret break-even and profit/volume charts for a single product or business.<sup>[S]</sup>

### 2 Factors affecting short term decision making

- a) Explain the importance of the limiting factor concept.<sup>[K]</sup>
- b) Identify the limiting factor in given situations.<sup>[S]</sup>
- c) Formulate and determine the optimal production solution when there is a single resource constraint.<sup>[S]</sup>
- d) Solve make/buy-in problems when there is a single resource constraint.<sup>[S]</sup>
- e) Explain the concept of relevant costs.<sup>[K]</sup>
- f) Apply the concept of relevant costs in business decisions.<sup>[S]</sup>

### 3 Principles of discounted cash flow

- a) Explain and illustrate the difference between simple and compound interest, and between nominal and effective interest rates.<sup>[S]</sup>
- b) Explain and illustrate compounding and discounting.<sup>[S]</sup>
- c) Explain the distinction between cash flow and profit and the relevance of cash flow to capital investment appraisal.<sup>[K]</sup>
- d) Explain and illustrate the net present value (NPV) and internal rate of return (IRR) methods of discounted cash flow.<sup>[S]</sup>
- e) Calculate present value using annuity and perpetuity formulae.<sup>[S]</sup>
- f) Calculate payback (discounted and non-discounted) .<sup>[S]</sup>

- g) Interpret the results of NPV, IRR and payback calculations of investment viability.<sup>[S]</sup>

## **E CASH MANAGEMENT**

### **1 Nature of cash and cash flow**

- a) Define cash and cash flow.<sup>[K]</sup>
- b) Outline the various sources of cash receipts and payments (including regular/exceptional revenue/capital receipts and payments, and drawings).<sup>[K]</sup>
- c) Describe the relationship between cash flow accounting and accruals accounting.<sup>[K]</sup>
- d) Distinguish between the cash flow pattern of different types of organisations.<sup>[S]</sup>
- e) Explain the importance of cash flow management and its impact on liquidity and company survival ( note: calculation of ratios is not required).<sup>[K]</sup>

### **2 Cash management**

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

### **3 Cash budgets**

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

## **4 Investing and Financing**

- a) Explain how surplus cash and cash deficit may arise.<sup>[K]</sup>
- b) Explain the following types of short term investments and the associated risks/returns.<sup>[K]</sup>:
  - (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.<sup>[K]</sup>

## **SUMMARY OF CHANGES TO MA2**

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders including employers, students, regulatory and advisory bodies and learning providers. These syllabus changes are effective from September 2017 and the next update will be September 2018

There are no changes to the MA2 syllabus