

Next Generation Higher National Unit Specification

Management Accounting Principles (SCQF level 7)

Unit code: J6E0 47
SCQF level: 7 (32 SCQF credit points)
Valid from: session 2022–23

Prototype unit specification for use in pilot delivery only (version 2.0) July 2023

This unit specification provides detailed information about the unit to ensure consistent and transparent assessment year on year.

This unit specification is for teachers and lecturers and contains all the mandatory information required to deliver and assess the unit.

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Unit purpose

This unit introduces learners to costing techniques and develops their management information decision making and information technology skills. It helps learners to maintain a working accounting system to classify and record cost accounting information for purposes such as inventory valuations, job costing and profit measurement. The unit uses information technology to help learners prepare management information for control and decision making in an organisation.

The unit is suitable for learners who are considering a career or further learning in cost or management accounting. It would be of interest to learners who wish to gain experience in budget preparation, or those with work experience who wish to formalise their management accounting qualifications.

Unit outcomes

Learners who complete this unit can:

- 1 account for materials, labour and overheads and use cost principles to prepare costing statements in different organisations
- 2 prepare budget statements and use a break-even analysis for decision making
- 3 use variance analysis to reconcile budgeted profit with actual profit

Evidence requirements

For all outcomes, you must use a sole trader.

Throughout the unit, learners must use relevant software to produce evidence, for example blank spreadsheets and word processing software.

To successfully achieve the unit, learners must provide the following evidence:

Outcome 1

- ◆ Complete pro-forma inventory control documents relating to moving materials into the business, within the business and from the business.
- ◆ Record and calculate inventory movements and value inventory using two methods of inventory valuation.
- ◆ Use inventory control indicators to calculate minimum inventory levels, reorder levels, maximum inventory levels, reordering costs, inventory holding costs and economic order quantities in a given situation.
- ◆ Calculate wages in differing situations in the workplace to cover basic time rate, overtime rate and differential piece work schemes.
- ◆ Identify overtime and idle time and record it in a cost accounting system.
- ◆ Use an incentive scheme to show effect on labour costs and profit. The incentive scheme used should be from: premium bonus schemes, commission schemes, or group bonus schemes.
- ◆ Identify the overheads that can be allocated and those that must be apportioned.
- ◆ Use four different methods to apportion overheads from: utilising floor space, number of employees, value of plant and/or machinery, revenue volume and power of machinery.
- ◆ Calculate relevant departmental overheads after apportionment and allocation, and then reapportion three service cost centre overheads to two production departments.
- ◆ Calculate overhead absorption rates using the completed overhead analysis, using two different bases from: direct labour hours, machine hours, cost units or prime cost.
- ◆ Calculate over or under absorption of all production department overheads based on a comparison of actual costs and expected costs.

- ◆ Account for costs (direct, indirect, fixed and variable) by:
 - producing a job cost statement that details the build-up of total costs
 - identifying prime cost
 - production cost
 - accurately calculating selling price by correctly applying a profit mark-up or margin
- or**
- ◆ Account for costs (direct, indirect, fixed and variable) by:
 - producing a service cost statement that differentiates between running (variable) and standing (fixed) costs
 - providing a total cost
 - identifying unit operating costs
- ◆ Code costs for each cost statement using a pre-issued coding system.
- ◆ Produce a report for the owner that includes:
 - a summary of the results of the inventory and wages calculations
 - the results of the job or service costs statements with discussion of the key cost classification elements
 - a minimum of six reasons why inventory control is important
 - procedures for recording labour costs, including documentation required
 - a description of the effects an incentive scheme could have on labour turnover for an organisation
 - a description of how the over and/or under absorption of overheads is treated in the financial records of an organisation
 - a recommendation about the selling price of the job or service costed, including a minimum of two qualitative factors (non-financial reasons)

You must assess this outcome under supervised open-book conditions.

To achieve this outcome, learners need a minimum mark of 70% in both computational and theory aspects of assessments with a final minimum overall mark of 70%. If learners produce the minimum evidence requirements, award the minimum pass marks in those sections. Award more marks for more in-depth answers. The report element must equate to no more than 30% of the overall marks available for this outcome.

Outcome 2

Learners should submit evidence digitally to show the formulae used.

- ◆ Prepare individual functional budgets and a master budget using spreadsheet software. Functional budgets must include:
 - revenue
 - production
 - material purchases and usage
 - labour
 - fixed and variable overheads

- cash
- the budgets for a six-month period (prepared using a spreadsheet software containing linked worksheets)

Learners should prepare the master budget in a format suitable for presentation to management.

- ◆ Use financial modelling to prepare a revised master budget incorporating a minimum of two changes in data.
- ◆ Calculate break-even point in revenue and output for original and revised master budgets.
- ◆ Calculate margin of safety in revenue and output for original and revised master budgets.
- ◆ Calculate profit or loss at any given output for original and revised master budgets.
- ◆ Calculate effects on profit or loss of changes in a minimum of two key variables.
- ◆ Prepare a break-even chart showing break-even and margin of safety for one of the scenarios.
- ◆ Prepare a report for the owner that includes:
 - a recommendation based on profit or loss calculated for each of the different scenarios
 - a minimum of three areas of strength and three areas of weakness identified in forecasts
 - a minimum of three reasons that highlight the importance of using break-even analysis when forecasting

You must assess this outcome under unsupervised open-book conditions.

To achieve this outcome, learners need a minimum mark of 70% in both computational and theory aspects of assessments, with a final minimum overall mark of 70%. If learners produce the minimum evidence requirements, award the minimum pass marks in those sections. Award more marks for more in-depth answers. The report element must equate to no more than 20% of the overall marks available for this outcome.

Outcome 3

We recommend you split the assessment into two parts.

Part 1

Under supervised open-book conditions, learners need to produce evidence they can do the following tasks:

- ◆ Prepare a budgetary control report comparing flexed budget with actual figures. The variances to be calculated include:
 - material: price and usage
 - labour: rate and efficiency
 - variable production overheads: expenditure and efficiency

- fixed production overheads: expenditure and volume
- ◆ Reconcile budgeted profit to actual profit.

Part 2

Under supervised closed-book conditions, learners need to produce a report, in two hours, showing they can do the following:

- ◆ Explain the variance analysis process.
- ◆ Explain the variances calculated and prepare a report outlining:
 - a minimum of one reason for each sub-variance calculated
 - a minimum of three potential solutions to improve the variances calculated

We recommend you mark part 1 of the assessment before learners complete part 2 of the assessment. You can give learners the correctly calculated variance figures from part 1 to make sure they apply the theory correctly.

To achieve this outcome, learners need a minimum mark of 70%.

Knowledge and skills

The following table shows the knowledge and skills covered by the unit outcomes:

Knowledge	Skills
<p>Outcome 1 Learners should understand:</p> <ul style="list-style-type: none"> ◆ cost classification ◆ cost behaviour ◆ material costs and inventory control ◆ inventory control documents ◆ methods of inventory valuation ◆ inventory control indicators ◆ labour costs ◆ calculation of wages ◆ idle time ◆ incentive schemes ◆ labour turnover ◆ overhead analysis ◆ overhead absorption rates ◆ over and under absorption and effect on profits ◆ service cost centres ◆ production departments ◆ overhead analysis ◆ overhead absorption rates ◆ over and under absorption and effect on profits ◆ service cost centres ◆ production departments ◆ costs: direct, indirect, fixed and variable ◆ coding systems ◆ job cost statements ◆ service cost statements 	<p>Outcome 1 Learners can:</p> <ul style="list-style-type: none"> ◆ account for the movement of materials in a company ◆ identify and use different material valuation techniques ◆ use formulae to calculate reorder and maximum inventory levels ◆ record labour costs, identifying idle time ◆ calculate wages ◆ use an incentive scheme ◆ identify which overheads can be allocated and which need to be apportioned ◆ calculate overhead absorption rates ◆ calculate over and under absorption of overheads ◆ account for product costs by producing both job and service cost statements ◆ use coding systems efficiently

Knowledge	Skills
<p>Outcome 2 Learners should understand:</p> <ul style="list-style-type: none"> ◆ functional budgets ◆ master budgets ◆ financial modelling using spreadsheets ◆ break-even analysis ◆ break-even charts ◆ effect on profit and loss ◆ decision making based on break-even analysis ◆ how to use spreadsheets to show the graphical and mathematical approach of break-even and the effects on profit 	<p>Outcome 2 Learners can:</p> <ul style="list-style-type: none"> ◆ prepare functional and master budgets ◆ run 'what if' scenarios using spreadsheet software ◆ calculate break-even ◆ calculate margin of safety ◆ calculate profit or loss at given output levels ◆ prepare recommendations for management
<p>Outcome 3 Learners should understand:</p> <ul style="list-style-type: none"> ◆ cost behaviour ◆ flexible budgeting ◆ standard costing ◆ cost variances ◆ reconciliation of budgeted to actual profits ◆ the difference between management and accounting and financial accounting 	<p>Outcome 3 Learners can:</p> <ul style="list-style-type: none"> ◆ compare flexed budget figures with actual figures ◆ calculate material, labour, variable overheads, and fixed overheads variances ◆ analyse these variances and prepare a report for management ◆ show they understand the difference between financial and management accounting

Meta-skills

Throughout the unit, learners develop meta-skills to enhance their employability in the accounting sector.

Self-management

This meta-skill includes:

- ◆ focusing: receiving more information than necessary to complete the task and identifying and filtering out non-essential information
- ◆ adapting: dealing with unfamiliar situations, building resilience and an overall understanding of how management accounting works
- ◆ initiative: developing decision making skills and confidence in their abilities

Social intelligence

This meta-skill includes:

- ◆ communicating: receiving and conveying information and writing reports that are suitable for their intended audience

Innovation

This meta-skill includes:

- ◆ curiosity: identifying the elements of the task that are significant and asking questions to find out what information is most relevant to the task
- ◆ creativity: exploring ideas and producing solutions
- ◆ critical thinking: analysing and evaluating information to solve complex problems

Literacies

Learners develop core skills in the following literacies.

Numeracy

Learners apply a wide range of numerical skills to solve practical problems.

Communication

Learners develop communication skills by receiving and conveying information and writing reports that are suitable for their intended audience.

Digital

Learners develop digital skills and computer literacy by using spreadsheet software and word processing software.

Delivery of unit

The unit is a mandatory unit in the Higher National Certificate (HNC) Accounting. It can be delivered on a stand-alone basis or partially integrated with parts of Financial Accounting Principles at SCQF level 7.

The notional time for delivery and assessment is 160 hours. The amount of time you allocate to each outcome is at your discretion.

Additional guidance

The guidance in this section is not mandatory.

Approaches to delivery

We recommend that you deliver this unit in three parts and in numerical order of outcomes.

For all outcomes, you should use a sole trader, with learners providing costing information, budgets and a budgetary control report to the owner.

Approaches to assessment

To assess the unit, you can use a range of sources such as case study scenarios or individual tasks with learners providing business reports, presentations, or electronic account records.

You can assess the outcomes separately or combine all outcomes together (outcomes 1 and 2, outcomes 2 and 3 or all three outcomes at once). If you use a single case study, you can give learners the information they need to complete the task at each assessment.

To allow continuity of learning and assessment, you can give learners the correct solution to the previous assessment for outcomes 2 and 3. If you use this approach, you must assess the outcomes in numerical order.

Equality and inclusion

This unit is designed to be as fair and as accessible as possible with no unnecessary barriers to learning or assessment.

You should take into account the needs of individual learners when planning learning experiences, selecting assessment methods or considering alternative evidence.

Guidance on assessment arrangements for disabled learners and/or those with additional support needs is available on the assessment arrangements web page:

www.sqa.org.uk/assessmentarrangements.

Information for learners

Management Accounting Principles (SCQF level 7)

This section explains:

- ◆ what the unit is about
- ◆ what you should know or be able to do before you start
- ◆ what you need to do during the unit
- ◆ opportunities for further learning and employment

Unit information

This unit develops your knowledge and practical skills in cost and management accounting and reporting. You use information technology to show the numerous ways in which management information can be displayed. The unit can help you progress to employment in an entry level accounting or finance role, or to further learning in a related accounting qualification.

Account for materials, labour and overheads and use cost principles to prepare costing statements in different organisations (outcome 1)

You learn:

- ◆ about the different methods of inventory valuation and use these methods to complete practical tasks
- ◆ about the importance of inventory control and the key inventory control indicators
- ◆ how to use formulae to calculate these indicators for an organisation
- ◆ about other costs for the business, including labour (employee) costs
- ◆ how to calculate gross wages using hourly rates, overtime rates and incentive schemes
- ◆ how different pay schemes affect costs for the business and how these may impact on labour turnover for the business
- ◆ about idle time and how to allocate labour costs to jobs worked on by staff
- ◆ about overhead costs, indirect costs that may not be directly related to a product or job
- ◆ how the different cost centres or cost units are spread across the business
- ◆ how these costs are shown in the financial records of the organisation
- ◆ how to calculate these costs and how to incorporate them into a job cost or service cost statement
- ◆ how to calculate cost plus pricing and a profit mark-up for the organisation
- ◆ how to allocate a code, using a given coding system, to the costs involved

Prepare budget statements and use a break-even analysis for decision making (outcome 2)

You learn how to prepare budget statements using spreadsheets. The budget statements include functional budgets and master budgets.

The functional budgets covered include:

- ◆ revenue
- ◆ production
- ◆ materials purchase and usage
- ◆ labour
- ◆ fixed and variable overheads
- ◆ cash

You learn about break-even analysis and how this is used for decision making. You calculate break-even levels using a mathematical approach and show the changes using graphs.

Use variance analysis to reconcile budgeted profit with actual profit (outcome 3)

You look at cost variances (material, labour, variable production overheads, and fixed production overheads) and analyse these and prepare budgetary control reports. You also learn the difference between management and financial accounting and how information provided by the financial accountant can be used by the management accountant.

Throughout the unit you show your skills in using spreadsheets to prepare statements and link worksheets wherever possible.

Each outcome may be assessed separately or the assessments may be combined.

Meta-skills

Throughout the unit you develop meta-skills to enhance your employability in the accounting sector.

Meta-skills include self-management, social intelligence and innovation.

Administrative information

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Superclass: AK

History of changes

Version	Description of change	Date
2.0	Evidence requirements updated for outcome 1. Conditions of assessment reviewed and updated for outcomes 1 and 3.	July 2023

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