

# Next Generation Higher National Unit Specification

## Performance Management (SCQF level 8)

**Unit code:** J7BD 48  
**SCQF level:** 8 (32 SCQF credit points)  
**Valid from:** session 2024–25

### **Prototype unit specification for use in pilot delivery only (version 2.0) September 2024**

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 helps learners to develop their knowledge and skills in performance management techniques applicable to modern business and accounting environments.

It is suitable for learners studying Higher National Diploma (HND) Accounting. It is primarily intended for learners who want to take up a career or further study in cost or management accounting, but is also appropriate for those who want to develop their management accounting and performance management skills.

Entry to the unit is at your centre's discretion. Before they start the unit, learners should have some prior knowledge and skills in cost and management accounting. They could show this by successfully completing Cost Accounting, Management Accounting Using Information Technology, and/or Management Accounting Principles, all at SCQF level 7, or by having equivalent qualifications or experience.

## Unit outcomes

Learners who complete this unit can:

- 1 distinguish between different rationales for costing
- 2 prepare cost statements using costing techniques to allocate and apportion overheads
- 3 appraise capital investments
- 4 apply variance analysis to reconcile budgeted profit with actual profit
- 5 apply a variety of short-term decision-making techniques to inform a specific management decision
- 6 apply working capital management techniques

## Evidence requirements

You can either assess the outcomes separately, using a single case study and giving information to learners at the point of assessment to allow them to complete the task, or you can combine some or all of the outcomes together for assessment.

### Outcome 1

Learners must produce a report for management in which they:

- ◆ present their analyses on how management accountants can help managers make tactical business decisions and maintain cost competitiveness
- ◆ explain the concept of costing
- ◆ distinguish between different rationales for costing, including reasons for calculating costs

They should generate this evidence under supervised closed-book conditions and complete the task within one and a half hours. We recommend that learners produce their evidence using spreadsheet software and word-processing software.

To achieve this outcome, learners need 70% of the marks available. If learners produce the minimum number of criteria in a report, you should award minimum pass marks in those sections.

## **Outcome 2**

Learners must show they can:

- ◆ prepare cost statements for two products using three of the following costing techniques:
  - absorption versus marginal
  - activity-based costing
  - target costing
  - life-cycle costing
  - throughput accounting
- ◆ justify the treatment of overheads for each technique
- ◆ produce a report for management that compares and contrasts two different costing techniques (one of which should be costing a digital product)

Learners should generate this evidence under supervised open-book conditions and complete the task within two hours. We recommend that they produce this evidence using spreadsheet software and word-processing software.

To achieve this outcome, learners need 70% of the marks available. If learners produce the minimum number of criteria in a report, you should award minimum pass marks in those sections.

## **Outcome 3**

This outcome has two parts.

### **Part 1**

Learners must produce evidence to show they can:

- ◆ appraise capital investment for two different projects, using either the accounting rate of return method or the payback method
- ◆ recommend the best possible capital investment option available
- ◆ produce a cash flow statement relevant to a project using the net present value technique. The statement should include all relevant data and take into account the effects of taxation and inflation.
- ◆ calculate the internal rate of return for the project
- ◆ carry out a sensitivity analysis for the project
- ◆ recommend to management the viability of the project

Learners should generate this evidence under closed-book conditions. We recommend that learners produce the evidence using spreadsheet software and word-processing software.

## Part 2

In addition to the evidence requirements outlined in part 1, in part 2 learners must produce a professional-standard report that shows they can:

- ◆ explain the strengths and weaknesses of investment-appraisal techniques, specifically:
  - a minimum of three potential strengths of each technique
  - a minimum of three potential weaknesses of each technique

Learners should generate this evidence under supervised closed-book conditions, and should complete the task within one hour.

To achieve the outcome, learners need 70% of the marks available in each part. If learners produce the minimum number of criteria in a report, you should award minimum pass marks in those sections. We recommend that they produce this evidence using spreadsheet software and word-processing software.

## Outcome 4

This outcome has two parts.

### Part 1

Learners must produce evidence to show they can:

- ◆ calculate the following sub-variances, showing all workings, including:
  - sales margin: volume, mix, price
  - contribution: volume, mix, price
  - material: yield, mix, price
  - labour: efficiency; idle time, overtime, rate
  - fixed overheads: efficiency, capacity, expenditure
- ◆ reconcile budgeted profit to actual profit

Learners should generate this evidence under supervised open-book conditions and complete the task within two hours. You should give them the variance formula sheet only at the point of assessment.

### Part 2

In addition to the evidence requirements outlined in part 1, learners must provide evidence to show that they can:

- ◆ analyse the sub-variances, indicating any interrelationships, and provide possible reasons for, and solutions to, the problems highlighted
- ◆ explain budgetary systems and different types of budgets, while also considering the human dimensions of budgeting

Learners should generate this evidence under supervised closed-book conditions and should complete the task within two hours.

At the start of the assessment for part 2, you should provide learners with correctly calculated variance figures from part 1 to ensure they apply the theory correctly. You must mark part 1 before learners take part 2 of the assessment, to prevent marking issues compounding with subsequent assessments.

To achieve the outcome, learners need 70% of the marks available in each part. If learners produce the minimum number of criteria in a report, you should award minimum pass marks in those sections. We recommend that they produce this evidence using spreadsheet software and word processing software.

## Outcome 5

Learners must produce evidence to show they can:

- ◆ prepare a relevant cost and revenue statement to provide information for a specific management decision, to include:
  - sunk costs
  - committed costs
  - incremental costs and/or income
  - opportunity costsjustify the treatment of each cost
- ◆ evaluate the various options available to management, taking into account qualitative as well as quantitative factors
- ◆ produce marginal costing statements to inform the product mix  
determine the product mix that maximises profit, making reference to the contribution: sales ratio and limiting-factor analysis
- ◆ apply marginal costing techniques to evaluate various options of cost and/or price and/or volume, taking into account qualitative as well as quantitative factors  
apply marginal costing techniques to evaluate options of make or buy, taking into account qualitative as well as quantitative factors
- ◆ segregate costs into fixed and variable components using appropriate calculations  
calculate the contribution: sales ratio for each of a minimum of three products and in total
- ◆ produce a multi-product profit-volume graph for these three products that highlights break-even point and margin of safety  
make recommendations based on a break-even analysis in a situation where there are changes to selling price, costs and volume. These should outline the limitations of a break-even analysis
- ◆ using a linear programming approach, prepare a clearly labelled graph to identify the optimum product mix where there is more than one limiting factor. The limiting factors should include a minimum of a labour hours constraint and a materials constraint  
prove the optimum mix by mathematical means
- ◆ produce a profit statement with accompanying evaluation to provide recommendations and justifications to management on the optimum product mix

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- ◆ provide an explanation for management that details the uncertainty and risk factors that they should consider when making short-term decisions

Learners should generate this evidence under unsupervised open-book conditions. We recommend that they use spreadsheet software and word-processing software.

To achieve this outcome, learners need 70% of the marks available. If learners meet the minimum number of criteria, you should award minimum pass marks in those sections.

Learners should provide in-text citations and a list of references in a suitable academic style. Referencing should account for 10% of the overall available marks.

## **Outcome 6**

Learners must produce evidence to show they can:

- ◆ apply working capital techniques to produce a clear cash forecast, correctly dealing with depreciation and incorporating:
  - cash and credit sales, and one other inflow
  - cash and credit purchases, and four other outflows
- ◆ recommend uses for cash surpluses and plans for cash deficits
- ◆ describe the constituents of working capital, and how they interact within the working capital cycle, making reference to:
  - inventory
  - trade receivables
  - trade payables
  - cash and overdraft
- ◆ make recommendations about how to manage working capital
- ◆ calculate the cost of settlement discount

Learners should generate this evidence under supervised closed-book conditions and complete the task within two hours. You can give learners a formulae sheet to help them calculate the working capital cycle at the point of assessment. We recommend they produce this evidence using spreadsheet software and word-processing software.

To achieve this outcome, learners need 70% of the marks available. If learners produce the minimum number of criteria in a report, you should award minimum pass marks in those sections.

## Knowledge and skills

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

Knowledge	Skills
<p><b>Outcome 1</b> Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ costing, specifically:               <ul style="list-style-type: none"> <li>— how management accountants help make tactical business decisions</li> <li>— how cost management can help maintain cost competitiveness</li> </ul> </li> </ul>	<p><b>Outcome 1</b> Learners can:</p> <ul style="list-style-type: none"> <li>◆ explain the concept of costing</li> </ul>
<p><b>Outcome 2</b> Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ cost statements               <ul style="list-style-type: none"> <li>— different ways of preparing cost statements</li> <li>— treatment of overheads</li> </ul> </li> </ul>	<p><b>Outcome 2</b> Learners can:</p> <ul style="list-style-type: none"> <li>◆ prepare cost statements using a variety of techniques, including:               <ul style="list-style-type: none"> <li>— absorption versus marginal</li> <li>— activity-based costing</li> <li>— target costing</li> <li>— life-cycle costing</li> <li>— throughput accounting</li> </ul> </li> <li>◆ show they understand how digital products are costed differently</li> </ul>
<p><b>Outcome 3</b> Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ accounting rate of return</li> <li>◆ payback</li> <li>◆ net present value</li> <li>◆ internal rate of return</li> <li>◆ effects of taxation and inflation</li> <li>◆ sensitivity analysis</li> </ul>	<p><b>Outcome 3</b> Learners can:</p> <ul style="list-style-type: none"> <li>◆ critically discuss investment techniques</li> <li>◆ calculate:               <ul style="list-style-type: none"> <li>— the accounting rate of return</li> <li>— the payback period</li> <li>— the net present value</li> <li>— the internal rate of return</li> <li>— a sensitivity analysis</li> </ul> </li> <li>◆ produce professional-standard reports for management</li> <li>◆ make appropriate recommendations to management to inform decision-making</li> </ul>



Knowledge	Skills
<p><b>Outcome 4</b>                      Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ budgetary control statements</li> <li>◆ reconciliation of budgeted with actual profit</li> <li>◆ causes of variances</li> </ul>	<p><b>Outcome 4</b>                      Learners can:</p> <ul style="list-style-type: none"> <li>◆ calculate variances, including:                             <ul style="list-style-type: none"> <li>— sales</li> <li>— contribution</li> <li>— mix</li> <li>— yield</li> <li>— labour</li> <li>— quantity</li> <li>— fixed overhead</li> </ul> </li> <li>◆ reconcile budgeted profit to actual profit</li> <li>◆ explain potential causes of variances</li> <li>◆ explain potential remedial action that could be taken to address variances</li> <li>◆ analyse the human factors managers must consider when budgeting</li> </ul>

Knowledge	Skills
<p><b>Outcome 5</b> Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ qualitative factors involved in decision-making</li> <li>◆ how to produce marginal cost statements</li> <li>◆ segregation of costs (fixed and variable)</li> <li>◆ optimum product mix using a graphical linear programming model</li> <li>◆ optimum mix using simultaneous equations</li> <li>◆ profit statement for the product mix</li> <li>◆ cost behaviour</li> <li>◆ contribution</li> <li>◆ break-even point, margin of safety, contribution: sales ratio</li> <li>◆ multi-product profit: volume graph</li> <li>◆ limiting factor from more than one limited resource</li> <li>◆ how to recommend an optimum product mix based a single limiting factor</li> <li>◆ how to prepare marginal cost statements comparing options resulting from changes to cost, price or volume</li> <li>◆ make or buy decisions</li> <li>◆ sunk costs</li> <li>◆ committed costs</li> <li>◆ incremental cash flows</li> <li>◆ opportunity costs</li> </ul>	<p><b>Outcome 5</b> Learners can:</p> <ul style="list-style-type: none"> <li>◆ prepare a relevant cost and revenue statement</li> <li>◆ justify the treatment of costs and revenues</li> <li>◆ evaluate the various options available to management</li> <li>◆ produce marginal costing statements</li> <li>◆ determine the product mix that maximises profit</li> <li>◆ apply marginal costing techniques to evaluate various options</li> <li>◆ evaluate options of make or buy</li> <li>◆ segregate costs into fixed and variable components</li> <li>◆ calculate the contribution: sales ratio</li> <li>◆ produce a multi-product profit-volume graph that highlights break-even point and margin of safety</li> <li>◆ evaluate limitations of break-even analysis</li> <li>◆ identify the optimum product mix where there is more than one limiting factor</li> <li>◆ prove the optimum mix by mathematical means and produce a resultant profit statement</li> <li>◆ provide an explanation for management that details the uncertainty and risk factors which should be considered when making short-term decisions</li> </ul>

Knowledge	Skills
<p><b>Outcome 6</b>                      Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ cash budgets</li> <li>◆ non-cash flow items (like depreciation)</li> <li>◆ cash deficits and surpluses</li> <li>◆ working capital cycle</li> <li>◆ cost of settlement discount</li> <li>◆ ratios</li> </ul>	<p><b>Outcome 6</b>                      Learners can:</p> <ul style="list-style-type: none"> <li>◆ apply working capital techniques to produce a clear cash forecast</li> <li>◆ recommend uses for cash surpluses and plans for cash deficits</li> <li>◆ describe the constituents of working capital</li> <li>◆ calculate the cost of settlement discount</li> <li>◆ show they understand the management of working capital and make recommendations to managers</li> </ul>

## Meta-skills

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

### Self-management

This meta-skill includes:

- ◆ focusing: filtering provided information to identify the essential elements
- ◆ adapting: nurturing skills in resilience and dealing with unfamiliar situations; building an overall understanding of how management accounting works
- ◆ initiative: building self-belief as they learn to apply new knowledge; making decisions

### Social intelligence

This meta-skill includes:

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

### Innovation

This meta-skill includes:

- ◆ curiosity: identifying significant elements of the task they are working on; asking questions to identify the most relevant information to the task
- ◆ creativity: exploring ideas and identifying solutions
- ◆ critical thinking: analysing and evaluating information to solve complex problems

## **Literacies**

Learners develop core skills in the following literacies.

### **Numeracy**

Throughout all six unit outcomes learners apply a wide range of numerical skills to solve practical problems.

### **Communication**

Learners develop communication skills by receiving and conveying information, and refine these skills as they learn to write reports suitable for their intended audience.

### **Digital**

Learners develop digital skills and computer literacy by using spreadsheet software and word-processing software in their coursework and to complete their project tasks.

## **Delivery of unit**

This is a mandatory unit in HND Accounting. You can deliver it as a stand-alone unit, or partially integrate it with elements of the Business Performance and Managing Risk unit.

While the exact time allocated to the unit is at your centre's discretion, the notional time for delivery and assessment is 160 hours. The amount of time you allocate to each outcome is also at your centre's discretion.

## **Additional guidance**

The guidance in this section is not mandatory.

### **Approaches to delivery**

You can deliver this unit by outcome, but you do not need to do so in numerical order.

### **Approaches to assessment**

You can assess the outcomes separately using a single case study for each and giving learners information at the point of assessment; or, you can assess some or all of the outcomes together.

To achieve this unit, learners need 70% of the available marks for each outcome.

You can assess this unit using a range of sources, such as case study scenarios or individual tasks, asking learners to produce business reports, presentations, or electronic account records where practical.

In outcome 4, learners can present the information for the calculation of the variances as standard cost and budgeted data together with the actual results of two products for a typical budget period. Learners can produce evidence using spreadsheet software.

In outcome 6, learners could present the information for the working capital management report in a case study format, with working capital ratios already calculated, together with industry averages provided for comparison purposes.

## **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](http://www.sqa.org.uk/assessmentarrangements).



## Information for learners

### Performance Management (SCQF level 8)

This information 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 skills in cost and management accounting and reporting. It helps you to prepare cost statements, apply marginal costing techniques, use limiting-factor analysis and appraise capital investments.

It helps you understand and apply accepted management accounting techniques to support the management processes of planning and control. It also introduces you to the role of financial management in the evaluation of working capital.

You make use of information technology to show the numerous ways management information can be displayed.

When you complete this unit, progression to further study or employment in this area may be possible.

Entry to this unit is at your centre's discretion. Before you start the unit, it would be helpful if you had some prior knowledge and skills in cost and management accounting. You can show this by successfully completing one or more of Cost Accounting, Management Accounting Using Information Technology, or Management Accounting Principles, all at SCQF level 7, or by having equivalent qualifications or experience.

Outcome 1 allows you to develop your understanding of:

- ◆ how management accounting fits into and supports a business's operations
- ◆ costing and the different reasons for calculating costs.

In outcome 2, you build on your knowledge of costing techniques to enable you to apply absorption costing and activity-based costing techniques to allocate and apportion overheads.

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Outcome 3 introduces you to the concept of investment appraisal. You learn about four approaches to investment appraisal, and the advantages and disadvantages of each:

- ◆ accounting rate of return
- ◆ payback
- ◆ net present value
- ◆ internal rate of return

In outcome 4, you calculate a comprehensive set of variances, analyse them and make suggestions as to their possible causes as well as recommendations for their correction.

In outcome 5, you identify costs and incomes relevant to a decision to inform management decision-making. You build on marginal costing and break-even techniques to evaluate various decisions facing an organisation, including:

- ◆ the optimum use of limiting factors
- ◆ make or buy decisions
- ◆ changes to prices, costs and volume

You also build on your break-even knowledge to apply the technique to a multi-product situation, as well as adapting your approach to marginal costing to accommodate multiple limiting factors. You do this using a graphical linear programming model.

Outcome 6 introduces you to financial management techniques, which enable you to plan and control working capital. You learn how cash is used in an organisation, and how it is generated, as well as the importance of the timing of these flows.

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

You may be assessed on each outcome separately, or assessment may combine some or all outcomes.

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

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## History of changes

Version	Description of change	Date
2.0	<ul style="list-style-type: none"><li>◆ Outcome 1: Removed duplication of 'identification of most suitable cost types'.</li><li>◆ Outcome 3 Part 1: Removed reference to referencing.</li><li>◆ Outcome 4: Variances changed to open book. Capital appraisal change to closed book.</li><li>◆ Outcome 5: removed requirement for written report.</li></ul>	September 2024

Note: please check [SQA's website](#) to ensure you are using the most up-to-date version of this document.