

The CIMA Learning System

How to use your CIMA Learning System

This *Fundamentals of Management Accounting Learning System* has been devised as a resource for students attempting to pass their CIMA computer-based assessments, and provides:

- a detailed explanation of all syllabus areas;
- extensive 'practical' materials;
- generous question practice, together with full solutions;
- a computer-based assessments preparation section, complete with computer-based assessment standard questions and solutions.

This Learning System has been designed with the needs of home-study and distance-learning students in mind. Such students require very full coverage of the syllabus topics, and also the facility to undertake extensive question practice. However, the Learning System is also ideal for fully taught courses.

The main body of the text is divided into a number of chapters, each of which is organised on the following pattern:

- *Detailed learning outcomes.* expected after your studies of the chapter are complete. You should assimilate these before beginning detailed work on the chapter, so that you can appreciate where your studies are leading.
- *Step-by-step topic coverage.* This is the heart of each chapter, containing detailed explanatory text supported where appropriate by worked examples and exercises. You should work carefully through this section, ensuring that you understand the material being explained and can tackle the examples and exercises successfully. Remember that in many cases knowledge is cumulative: if you fail to digest earlier material thoroughly, you may struggle to understand later chapters.
- *Question practice.* The test of how well you have learned the material is your ability to tackle assessment-standard questions. Make a serious attempt at producing your own answers, but at this stage do not be too concerned about attempting the questions in computer-based assessment conditions. In particular, it is more important to absorb the material thoroughly than to observe the time limits that would apply in the actual computer-based assessment.
- *Solutions.* Avoid the temptation merely to 'audit' the solutions provided. It is an illusion to think that this provides the same benefits as you would gain from a serious attempt

of your own. However, if you are struggling to get started on a question you should read the introductory guidance at the beginning of the solution, where provided, and then make your own attempt before referring back to the full solution.

Having worked through the chapters you are ready to begin your final preparations for the computer-based assessments. The final section of this CIMA Learning System provides you with the guidance you need. It includes the following features:

- A brief guide to revision technique.
- A note on the format of the computer-based assessment. You should know what to expect when you tackle the real computer-based assessment, and in particular the number of questions that you will be required to attempt.
- Guidance on how to tackle the computer-based assessment itself.
- A table mapping revision questions to the syllabus learning outcomes allowing you to quickly identify questions by subject area.
- Revision questions. These are of computer-based assessment standard and should be tackled in computer-based assessment conditions, especially as regards the time allocation.
- Solutions to the revision questions.

Two mock computer-based assessments. You should plan to attempt these just before the date of the real computer-based assessment. By this stage your revision should be complete and you should be able to attempt the mock computer-based assessments within the time constraints of the real computer-based assessment.

If you work conscientiously through this CIMA Learning System according to the guidelines above you will be giving yourself an excellent chance of success in your computer-based assessment. Good luck with your studies!

Guide to the Icons used within this text



Key term or definition



Assessment tip



Exercise



Question



Solution



Comment or Note



Formula to learn

Study technique

Passing exams is partly a matter of intellectual ability, but however accomplished you are in that respect you can improve your chances significantly by the use of appropriate study and revision techniques. In this section we briefly outline some tips for effective study

during the earlier stages of your approach to the computer-based assessment. Later in the text we mention some techniques that you will find useful at the revision stage.

Planning

To begin with, formal planning is essential to get the best return from the time you spend studying. Estimate how much time in total you are going to need for each paper you are studying for the Certificate in Business Accounting. Remember that you need to allow time for revision as well as for initial study of the material. The amount of notional study time for any paper is the minimum estimated time that students will need to achieve the specified learning outcomes in the syllabus. This time includes all appropriate learning activities, for example, face-to-face tuition, private study, directed home study, learning in the workplace, revision time, etc. You may find it helpful to read *Better Exam Results: a Guide for Business and Accounting Students* by Sam Malone, Elsevier, ISBN: 9780750663571. This book will help you develop proven study and examination techniques. Chapter by chapter it covers the building blocks of successful learning and examination techniques.

The notional study time for the Certificate in Business Accounting Paper *Fundamentals of Management Accounting* is 130 hours. Note that the standard amount of notional learning hours attributed to one full-time academic year of approximately 30 weeks is 1,200 hours.

By way of example, the notional study time might be made up as follows:

	Hours
Face-to-face study: up to	40
Personal study: up to	65
'Other' study – e.g. learning in the workplace, revision, etc.: up to	<u>25</u>
	<u>130</u>

Note that all study and learning-time recommendations should be used only as a guideline and are intended as minimum amounts. The amount of time recommended for face-to-face tuition, personal study and/or additional learning will vary according to the type of course undertaken, prior learning of the student, and the pace at which different students learn.

Now split your total time requirement over the weeks between now and the assessment. This will give you an idea of how much time you need to devote to study each week. Remember to allow for holidays or other periods during which you will not be able to study (e.g. because of seasonal workloads).

With your study material before you, decide which chapters you are going to study in each week, and which weeks you will devote to revision and final question practice.

Prepare a written schedule summarising the above – and stick to it!

It is essential to know your syllabus. As your course progresses you will become more familiar with how long it takes to cover topics in sufficient depth. Your timetable may need to be adapted to allocate enough time for the whole syllabus.

Tips for effective studying

1. Aim to find a quiet and undisturbed location for your study, and plan as far as possible to use the same period of time each day. Getting into a routine helps to avoid wasting time. Make sure that you have all the materials you need before you begin so as to minimise interruptions.
2. Store all your materials in one place, so that you do not waste time searching for items every time you want to begin studying. If you have to pack everything away after each study period, keep your study materials in a box, or even a suitcase, which will not be disturbed until the next time.
3. Limit distractions. To make the most effective use of your study periods you should be able to apply total concentration, so turn off all entertainment equipment, set your phones to message mode, and put up your 'do not disturb' sign.
4. Your timetable will tell you which topic to study. However, before diving in and becoming engrossed in the finer points, make sure you have an overall picture of all the areas that need to be covered by the end of that session. After an hour, allow yourself a short break and move away from your Learning System. With experience, you will learn to assess the pace you need to work at.
5. Work carefully through a chapter, making notes as you go. When you have covered a suitable amount of material, vary the pattern by attempting a practice question. When you have finished your attempt, make notes of any mistakes you made.
6. Make notes as you study, and discover the techniques that work best for you. Your notes may be in the form of lists, bullet points, diagrams, summaries, 'mind maps', or the written word, but remember that you will need to refer back to them at a later date, so they must be intelligible. If you are on a taught course, make sure you highlight any issues you would like to follow up with your lecturer.
7. Organise your paperwork. Make sure that all your notes, calculations etc. can be effectively filed and easily retrieved later.

Computer-Based Assessment

CIMA uses computer-based assessment (CBAs) for all subjects for the Certificate in Business Accounting.

Objective test questions are used. The most common type is 'multiple choice', where you have to choose the correct answer from a list of possible answers, but there are a variety of other objective question types that can be used within the system. These include true/false questions, matching pairs of text and graphic, sequencing and ranking, labelling diagrams and single and multiple numeric entry.

Candidates answer the questions by either pointing and clicking the mouse, moving objects around the screen, typing numbers, or a combination of these responses. Try the online demo at www.cimaglobal.com/cba to see how the technology works.

In every chapter of this Learning System we have introduced these types of questions but obviously we have to label answers A, B, C etc. rather than using click boxes. For convenience we have retained quite a lot of questions where an initial scenario leads to a number of sub-questions. There will be questions of this type in the CBA but they will rarely have more than three sub-questions. In all such cases examiners will ensure that the answer to one part does not hinge upon a prior answer.

For further CBA practice, CIMA eSuccess CD's are available from www.cimapublishing.com.

Fundamentals of Management Accounting and Computer-Based Assessment

The assessment for Fundamentals of Management Accounting is a two-hour computer based assessment comprising 50 compulsory questions, each with one or more parts. Single part questions are generally worth 1–2 marks each, but two and three part questions may be worth 4 or 6 marks. There will be no choice and all questions should be attempted if time permits. CIMA are continuously developing the question styles within the CBA system and you are advised to try the on-line website demo at www.cimaglobal.com, to both gain familiarity with assessment software and examine the latest style of questions being used.

Syllabus (2006) – Paper C01 Fundamentals of Management Accounting

Syllabus Outline

The syllabus comprises:

Topic and Study Weighting

A	Cost Determination	25%
B	Cost Behaviour and Break-even Analysis	10%
C	Standard Costing	15%
D	Cost and Accounting Systems	30%
E	Financial Planning and Control	20%

The percentage study weightings are a guide to the amount of time you should spend studying each topic.

You must study all topics in the syllabus. All questions in the assessment are compulsory and the study weighting does not specify the number of marks that the topic will be given in the assessment.

Learning Aims

This syllabus aims to test student's ability to:

- explain and use concepts and processes to determine product and service costs;
- explain direct, marginal and absorption costs and their use in pricing;
- apply cost-volume-profit (CVP) analysis and interpret the results;
- apply a range of costing and accounting systems;
- explain the role of budgets and standard costing within organisations;
- prepare and interpret budgets, standard costs and variance statements.

Learning Outcomes and Indicative Syllabus Content

A Cost Determination – 25%

Learning Outcomes

On completion of their studies students should be able to:

- (i) explain why organisations need to know how much products, processes and services cost and why they need costing systems;
- (ii) explain the idea of a 'cost object';
- (iii) explain the concept of a direct cost and an indirect cost;
- (iv) explain why the concept of 'cost' needs to be qualified as direct, full, marginal etc. in order to be meaningful;
- (v) distinguish between the historical cost of an asset and the economic value of an asset to an organisation;
- (vi) apply first-in-first-out (FIFO), last-in-first-out (LIFO) and average cost (AVCO) methods of accounting for stock, calculating stock values and related gross profit;
- (vii) explain why FIFO is essentially a historical cost method, while LIFO approximates economic cost;
- (viii) prepare cost statements for allocation and apportionment of overheads, including between reciprocal service departments;
- (ix) calculate direct, variable and full costs of products, services and activities using overhead absorption rates to trace indirect costs to cost units;
- (x) explain the use of cost information in pricing decisions, including marginal cost pricing and the calculation of 'full cost' based prices to generate a specified return on sales or investment.

Indicative Syllabus Content:

- Classification of costs and the treatment of direct costs (specifically attributable to a cost object) and indirect costs (not specifically attributable) in ascertaining the cost of a 'cost object' (e.g. a product, service, activity, customer).
- Cost measurement: historical versus economic costs.
- Accounting for the value of materials on FIFO, LIFO and AVCO bases.
- Overhead costs: allocation, apportionment, re-apportionment and absorption of overhead costs. Note: The repeated distribution method only will be used for reciprocal service department costs.
- Marginal cost pricing and full-cost pricing to achieve specified return on sales or return on investment.

Note: students are not expected to have a detailed knowledge of activity based costing (ABC).

B Cost Behaviour and Break-even Analysis – 10%

Learning Outcomes

On completion of their studies students should be able to:

- (i) explain how costs behave as product, service or activity levels increase or decrease;
- (ii) distinguish between fixed, variable and semi-variable costs;

- (iii) explain step costs and the importance of time-scales in their treatment as either variable or fixed;
- (iv) compute the fixed and variable elements of a semi-variable cost using the high-low method and 'line of best fit' method;
- (v) explain the concept of contribution and its use in cost-volume-profit (CVP) analysis;
- (vi) calculate and interpret the break-even point, profit target, margin of safety and profit/volume ratio for a single product or service;
- (vii) prepare break-even charts and profit/volume graphs for a single product or service;
- (viii) calculate the profit maximising sales mix for a multi-product company that has limited demand for each product and one other constraint or limiting factor.

Indicative Syllabus Content:

- Fixed, variable and semi-variable costs.
- Step costs and the importance of time-scale in analysing cost behaviour.
- High-low and graphical methods to establish fixed and variable elements of a semi-variable cost. Note: regression analysis is not required.
- Contribution concept and CVP analysis.
- Break-even charts, profit volume graphs, break-even point, profit target, margin of safety, contribution/sales ratio.
- Limiting factor analysis.

C Standard Costing – 15%

Learning Outcomes

On completion of their studies students should be able to:

- (i) explain the difference between ascertaining costs after the event and planning by establishing standard costs in advance;
- (ii) explain why planned standard costs, prices and volumes are useful in setting a benchmark for comparison and so allowing managers' attention to be directed to areas of the business that are performing below or above expectation;
- (iii) calculate standard costs for the material, labour and variable overhead elements of cost of a product or service;
- (iv) calculate variances for materials, labour, variable overhead, sales prices and sales volumes;
- (v) prepare a statement that reconciles budgeted contribution with actual contribution;
- (vi) interpret statements of variances for variable costs, sales prices and sales volumes including possible inter-relations between cost variances, sales price and volume variances, and cost and sales variances;
- (vii) discuss the possible use of standard labour costs in designing incentive schemes for factory and office workers.

Indicative Syllabus Content:

- Principles of standard costing.
- Preparation of standards for the variable elements of cost: material, labour, variable overhead.
- Variances: materials – total, price and usage; labour – total, rate and efficiency; variable overhead – total, expenditure and efficiency; sales – sales price and sales volume contribution. Note: students will be expected to calculate the sales volume contribution variance.

- Reconciliation of budget and actual contribution.
- Piecework and the principles of incentive schemes based on standard hours versus actual hours taken. Note: the details of a specific incentive scheme will be provided in the examination.

D Costing and Accounting Systems – 30%

Learning Outcomes

On completion of their studies students should be able to:

- explain the principles of manufacturing accounts and the integration of the cost accounts with the financial accounting system;
- prepare a set of integrated accounts, given opening balances and appropriate transactional information, and show standard cost variances;
- compare and contrast job, batch, contract and process costing;
- prepare ledger accounts for job, batch and process costing systems;
- prepare ledger accounts for contract costs;
- explain the difference between subjective and objective classifications of expenditure and the importance of tracing costs both to products/services and to responsibility centres;
- construct coding systems that facilitate both subjective and objective classification of costs;
- prepare financial statements that inform management;
- explain why gross revenue, value-added, contribution, gross margin, marketing expense, general and administration expense, etc. might be highlighted in management reporting;
- compare and contrast management reports in a range of organisations including commercial enterprises, charities and public sector undertakings.

Indicative Syllabus Content:

- Manufacturing accounts including raw material, work in progress, finished goods and manufacturing overhead control accounts.
- Integrated ledgers including accounting for over and under absorption of production overhead.
- The treatment of variances as period entries in integrated ledger systems.
- Job, batch, process and contract costing. Note: Only the average cost method will be examined for process costing but students must be able to deal with differing degrees of completion of opening and closing stocks, normal losses and abnormal gains and losses, and the treatment of scrap value.
- Subjective, objective and responsibility classifications of expenditure and the design of coding systems to facilitate these analyses.
- Cost accounting statements for management information in production and service companies and not-for-profit organisations.

E Financial Planning and Control – 20%

Learning Outcomes

On completion of their studies students should be able to:

- (i) explain why organisations set out financial plans in the form of budgets, typically for a financial year;
- (ii) prepare functional budgets for material usage and purchase, labour and overheads, including budgets for capital expenditure and depreciation;
- (iii) prepare a master budget: income statement, balance sheet and cash flow statement, based on the functional budgets;
- (iv) interpret budget statements and advise managers on financing projected cash shortfalls and/or investing projected cash surpluses;
- (v) prepare a flexed budget based on the actual levels of sales and production and calculate appropriate variances;
- (vi) compare and contrast fixed and flexed budgets;
- (vii) explain the use of budgets in designing reward strategies for managers.

Indicative Syllabus Content:

- Budgeting for planning and control.
- Budget preparation, interpretation and use of the master budget.
- Reporting of actual against budget.
- Fixed and flexible budgeting.
- Budget variances.
- Interpretation and use of budget statements and budget variances.