

**Detailed competency map:**

**Knowledge requirements**

***(AAT examination)***

### **Fields of competency**

The items listed are shown with an indicator of the minimum acceptable level of competency, based on a three-point scale as follows:

1. Awareness

The candidate demonstrates familiarity with the concept in question; can define it in overview terms and can relate the importance or relevance of the concept to the activities of an accounting technician.

2. Knowledge

This builds upon awareness. The candidate is able to explain the concept; describe and discriminate between its component parts and describe their inter-relationships; recognize instances of the concept; and describe processes, theories and judgement issues; without necessarily being able to perform in those areas with professional skill.

3. Application

This builds upon knowledge. The candidate is able to execute or implement knowledge; apply the knowledge to real world problems in real world situations. In so doing, the candidate displays to a satisfactory degree of the level of competence reasonably to be expected of an accounting technician at career entrance level.

**Paper 3: Management accounting**

**Aim:** This paper aims to develop and assess the understanding of both the principles of cost and management accounting and the application of these principles

**Content**

| <b>Unit of competency</b>  | <b>Activity required to demonstrate competence (Performance indicators)</b>  | <b>Level of competence required</b> |
|--|--|-------------------------------------|
| Comparing cost, management and financial accounting                          | <ul style="list-style-type: none"> <li>▪ Explain and differentiate the purposes of cost accounting, management accounting and financial accounting</li> </ul>  | 2                                   |
|  | <ul style="list-style-type: none"> <li>▪ Appreciate the role of cost accounting in a management information system</li> </ul>  | 1                                   |
|  | <ul style="list-style-type: none"> <li>▪ Appreciate the importance of financial and non-financial information for planning, control and decision-making purposes</li> </ul>  | 1                                   |
| Understanding of cost classification, cost concepts, and costing terminology | <ul style="list-style-type: none"> <li>▪ Recognize the variety of cost units, cost centres and profit centres</li> </ul>   | 1                                   |
|  | <ul style="list-style-type: none"> <li>▪ Understand the nature and purpose of cost classification</li> </ul>   | 1                                   |
|  | <ul style="list-style-type: none"> <li>▪ Appreciate the importance of cost accumulation</li> </ul>   | 1                                   |
|  | <ul style="list-style-type: none"> <li>▪ Differentiate between direct and indirect costs; fixed and variable costs; period and product costs; controllable and uncontrollable costs; avoidable and unavoidable costs; etc</li> </ul> | 2                                   |
|  | <ul style="list-style-type: none"> <li>▪ Identify cost classification for decision-making and planning</li> </ul>  | 2                                   |
|  | <ul style="list-style-type: none"> <li>▪ Appreciate cost behaviour patterns including linear, curvi-linear and step functions</li> </ul>   | 1                                   |
|  | <ul style="list-style-type: none"> <li>▪ Appreciate the importance of unit costs for both financial and management decision making</li> </ul>  | 1                                   |
| Understanding of materials cost as an element of finished goods              | <ul style="list-style-type: none"> <li>▪ Describe the methods and procedure of store-keeping, inventory taking and inventory control</li> </ul>  | 2                                   |
|  | <ul style="list-style-type: none"> <li>▪ Explain and illustrate the periodic and perpetual inventory systems</li> </ul>  | 2                                   |
|  | <ul style="list-style-type: none"> <li>▪ Explain and illustrate the methods available for pricing stores issues and for inventory valuation</li> </ul>   | 2                                   |
| Understanding of labour cost as an element of finished goods                 | <ul style="list-style-type: none"> <li>▪ Appreciate the basic features and functions of direct and indirect labour costs</li> </ul>  | 1                                   |
|  | <ul style="list-style-type: none"> <li>▪ Explain the impact of different remuneration methods on the cost of finished goods</li> </ul>   | 2                                   |
|  | <ul style="list-style-type: none"> <li>▪ Appreciate the process of labour cost accounting</li> </ul>   | 1                                   |

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|--|--|---|
| Understanding of overhead costs as an element of finished goods and absorption costing | ▪ Appreciate the nature of overhead costs and absorption costing   | 1 |
|  | ▪ Explain and illustrate the problems and procedures of identifying, analyzing, allocating and absorbing overhead costs  | 2 |
|  | ▪ Explain the different bases for overhead absorption rates  | 2 |
|  | ▪ Compute overhead absorption rate   | 3 |
|  | ▪ Differentiate and calculate plant-wide overhead rates and departmental overhead rates  | 3 |
|  | ▪ Explain and illustrate the principles and methods of treatment of under and over-absorption of overhead costs  | 3 |
| Understanding of job costing   | ▪ Explain the flow and accumulation of costs when using job costing  | 2 |
|  | ▪ Describe the purpose and content of a job cost sheet   | 2 |
|  | ▪ Demonstrate the methods for accumulating costs for products and services   | 3 |
| Understanding of the principal features of activity based costing (ABC)                | ▪ Define activity cost pools and provide examples  | 1 |
|  | ▪ Compare and illustrate ABC and traditional product costing systems   | 2 |
|  | ▪ Demonstrate how activity bases are used to assign cost pools to units produced   | 3 |
|  | ▪ Outline the benefits and limitations of ABC  | 2 |
|  | ▪ Explain the differences between, and the effect of, using full absorption costing, marginal costing and activity based costing for the allocation of costs to products | 3 |
| Understanding of process costing   | ▪ Demonstrate the application and identification of cost units   | 3 |
|  | ▪ Demonstrate the accounting entries and special features of process cost accounts   | 3 |
|  | ▪ Explain and determine the equivalent units and cost per equivalent unit  | 3 |
|  | ▪ Demonstrate how costs are assigned to equivalent units using process costing   | 3 |
|  | ▪ Demonstrate the cost accounting methods used in cost processes, process losses and work in process   | 3 |
|  | ▪ Explain the difference between joint product and by-product costing  | 2 |
| Understanding of the need for, and benefits of, budgeting                              | ▪ Explain the objectives of budgetary planning and control systems   | 2 |
|  | ▪ Identify and apply techniques for forecasting revenue and expenditure  | 3 |
|  | ▪ Prepare operational, cash and capital expenditure budgets  | 3 |
|  | ▪ Explain the differences between fixed budgets and flexible budgets   | 2 |
|  | ▪ Calculate variances and identify their cases   | 3 |

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|---|--|---|
|   | <ul style="list-style-type: none"> <li>▪ Explain incremental budgeting and zero-based budgeting systems</li> </ul>   | 2 |
|   |  |   |
| Understanding of standard costing   | <ul style="list-style-type: none"> <li>▪ Explain the uses and limitations of standard costing</li> </ul>   | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Identify and determine different standards; ideal, currently attainable and basic standards</li> </ul>  | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Identify and calculate sales and cost variances</li> </ul>  | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Prepare standard product cost and analyze different types of variances between standard and actual product costs</li> </ul>   | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Identify the significance of, and inter-relationship between, variances</li> </ul>  | 2 |
|   |  |   |
| Analyzing cost-volume-profit (CVP) relationships and short-term decision making | <ul style="list-style-type: none"> <li>▪ Explain the principle of marginal costing</li> </ul>  | 1 |
|   | <ul style="list-style-type: none"> <li>▪ Calculate and reconcile the profit by marginal and absorption costing</li> </ul>  | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Calculate and explain the usefulness of contribution margin and contribution margin ratio</li> </ul>  | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Determine the sales volume required to earn a desired level of profit</li> </ul>  | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Identify the purposes of break-even analysis</li> </ul>   | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Illustrate and determine the margin of safety</li> </ul>  | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Use CVP relationships to evaluate a new marketing strategy</li> </ul>   | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Identify assumptions underlying CVP analysis</li> </ul>   | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Prepare a CVP graph</li> </ul>  | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the nature of relevant and irrelevant costs</li> </ul>  | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Apply incremental cost concept in business decisions, eg. Make or buy, limiting factor, accept or reject special orders, sell or process further, eliminate or retain unprofitable product, etc.</li> </ul> | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Identify the qualitative considerations in short-term decision making situations.</li> </ul>  | 2 |