



# International association of bookkeepers

**IAB LEVEL 3 DIPLOMA IN COST AND MANAGEMENT ACCOUNTING (VRQ)  
(Qualification Accreditation Number 500/2994/0)  
Accreditation review date 31st December 2017**

## **QUALIFICATION SPECIFICATION**

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## **1 INTRODUCTION**

The overall aim of this qualification is to accredit candidates’ knowledge and understanding of the fundamental principles concerned in the determining the cost of labour, materials and overheads so as to accurately ascertain the cost price and selling price of goods and/or services

Within the qualification, candidates have the opportunity to gain knowledge of the need for company’s to prepare reports for management and to be able to understand the outcome of those reports. Candidates will also be able to calculate Gross Pay and Employer Wages Costs, and complete the necessary calculations associated with Stock Valuation and other material costs. Candidates will also be able to develop the skills necessary to prepare for the calculation of any variance from cost price to selling price and in usage and labour, and more complex calculations relating to Stock. Finally the candidate will be able to prepare analysis of the way the company is performing.

The qualification requires candidates to understand the terminology relating to the costs of materials, overheads and labour, and be able to record these in the Books and accounts of the business. Accuracy, integrity and security of data should always be uppermost in the candidates mind.

Candidates may use this qualification as the basis of further study of manual systems at level 4 of the National Occupational Standards, and use it as underpinning knowledge for the study of the IAB Level 3 Diploma in Accounting and Advanced Book-keeping and the Level 2 Certificate in Manual Payroll

To be awarded the full qualification, candidates are required to successfully demonstrate their competence by means of one external examination. It will also provide progression to the NVQs in Accounting at Levels 3 and 4. Candidates will receive acknowledgement of successful completion of the qualification.

## **2 AIMS**

In summary, the qualification aims to enable candidates to:

- 1 Assess their competence and understanding in carrying out a range of day-to-day book-keeping routines and activities using a manual book-keeping system. The activities will include routine book-keeping tasks and the productions of complex financial statements for a Sole Trader, Partnership or Limited Company from both complete, and incomplete records.
- 2 To assess their understanding of the importance of maintaining accuracy, security and integrity in performing any book-keeping tasks using a manual accounting system.
- 3 Upon completion, progress in their learning to further develop their knowledge, understanding and skills by:
  - Further studies of costing and management accounting routines and procedures at this Level (Level 3) and Level 4 of the National Occupational Standards.
  - Progression to the IAB Level 3 Diploma in Accounting and Advanced Book-keeping (VRQ) and the IAB Level 2 Certificate in Manual Payroll.

### **3 TARGET GROUP**

The IAB qualifications are specifically designed to appeal to those who are aspiring to become, or who are already, professional book-keepers, financial administrators or financial managers.

This Level 3 qualification is primarily designed for the following candidates:

- 1 Those who already have some book-keeping and accounting experience and who wish to acquire further skills and knowledge required of Financial Administrators and managers.
- 2 Those candidates who already hold the IAB Level 3 Certificate in Book-keeping, IAB Level 3 Diploma in Accounting and Advanced Book-keeping (VRQ).
- 3 Those who are already employed in Book-keeping or allied roles and who wish to enhance their firm foundation and the knowledge and skills to perform some advanced routine and non-routine tasks related to costing and management accounting.
- 4 Those preparing for or undertaking an NVQ in Accounting at Level 3 who wish to underpin this with a thorough grounding in the fundamental technical knowledge, understanding and skills associated with producing and processing information at that level.
- 5 Those who may wish to continue to a higher level of study in Book-keeping and Accounting and related subjects and qualifications.

### **4 STATEMENT OF LEVEL**

This qualification has been designed to assess the knowledge and skills of costing and management accounting at Level 3 of the National Qualifications Framework.

### **5 ENTRY REQUIREMENTS**

It is recommended that before commencing a course leading to the IAB Level 3 Diploma in Costing and Management Accounting the prospective student has already achieved the IAB Level 3 Certificate in Book-keeping. Alternatively, they should have comparable prior knowledge and skills acquired through paid or voluntary work experience.

The candidate does not need to provide evidence of a qualification at Level 2 or 3 to the IAB to enable entry for the examination but the Centre/tutor will be required to confirm, through signature on the examination entry form, that they consider that the candidate has either an IAB Level 3 book-keeping qualification or a qualification recognised as equivalent by the IAB or acquired the relevant prior knowledge and skills necessary.

Candidates who are studying independently (ie *not* undertaking a course of study through an IAB accredited centre either by attendance or distance learning), will be required to confirm by their own signature on the examination entry form that either they have an IAB Level 3 qualification in Book-keeping, a qualification recognised as equivalent by the IAB or acquired the relevant prior knowledge and skills necessary.

As the examination tests the application of knowledge, understanding and skills and not simply the recall of facts and figures, a high standard of performance is required.

Information regarding equivalent qualifications can be found via the IAB web-site ([www.iab.org.uk](http://www.iab.org.uk)) or by contacting the IAB directly.

## 6 PROGRESSION

The qualification has been designed to provide the essential knowledge, understanding and skills required to complement and enable candidates to progress to other related qualifications at Level 3 of the National Qualifications Framework.

The qualification will provide a basis for progression to the study A/AS levels in Accounting and related units in the Advanced Vocational Certificate of Education (AVCE) qualifications, and NVQ Level 3 in Accounting.

## 7 THE STRUCTURE OF THE QUALIFICATION

The Level 3 qualification is a single Unit of study

Teachers/trainers may find it necessary to address the Learning Outcomes in a different order initially. Teachers and trainers should ensure that learning programmes are designed to meet the needs of individual candidates. They should also ensure that learning programmes take account of the need for candidates’ to continue to be fully competent in the knowledge and skills gained during the initial study of manual book-keeping or payroll.

It is considered that each Unit has a ‘notional’ estimate of 60 Guided Learning Hours (GLH) or 120 hours of Notional Learning Time (NLT). It is ‘notional’ because the actual GLH, or NLT, of course must take into account the specific needs of the individual candidates for the qualification. For example, candidates who are relatively new to working with numbers may need significantly more GLH/NLT as opposed to those with substantial experience who may need less. Teachers/trainers should use their professional judgement in assessing the needs of candidates and deciding the GLH/NLT to be provided.

## 8 ASSESSMENT AND GRADING

All Learning Outcomes will be assessed through one, externally set and marked, three hour examination consisting of a series of five hand-written questions. The Tasks will build on the candidates’ costing and management accounting knowledge and will assess the candidate’s ability in relation to the Learning Outcomes. Candidates will be required to carry out the tasks accurately and in keeping with current accounting and costing concepts and practice. Faults will be incurred where candidates make errors in numeracy, terminology or failing to follow required procedures.

Results will be graded Pass or Fail only. Pass grades are further categorised into Distinction with Commendation, Distinction, Credit and Pass. Fail grades are categorised into Marginal Fail and Fail.

### **PASS AND FAIL MARKS/PERCENTAGES**

A*	DISTINCTION WITH COMMENDATION	95% and above
A	DISTINCTION	85 – 94.99%
B	CREDIT	70 – 84.99%
C	PASS	55 – 69.99%
M	MARGINAL FAIL	50 – 54.99%
F	FAIL	Below 50%

Candidates may sit the Examination on either the specific dates set and published by the IAB or on dates set by Centres on an ‘On-demand’ basis. Centres are advised to consult the IAB Centre Handbook on the IAB website ([www.iab.org.uk](http://www.iab.org.uk)) or contact the IAB for details of how to arrange an ‘On-demand’ examination. All necessary security of candidate data and information will be undertaken by the IAB.

## **9 CERTIFICATION**

All candidates who achieve a Pass grade will receive a formal Results Letter and may apply for a Unit Certificate. On successful completion of both Units at this Level the candidate may apply for the IAB Level 3 Diploma in Costing and Management Accounting.

## **10 NVQ IN ACCOUNTING LEVELS 2, 3 AND 4 SIGN-POSTING**

A sign-posting map is provided at the end of the Unit Specification, demonstrating the links between this qualification and the knowledge and understanding requirements of the NVQ in Accounting at Levels 2, 3 and 4.

## **11 KEY SKILLS LINKS**

During their study towards the qualification, candidates may have opportunities to develop the knowledge and skills necessary to produce some of the evidence required for the Level 3 for the following Key Skills:

- Communication
- Working with Others
- Application of Number
- Information Communication Technology
- Improving Own Learning and Performance
- Problem Solving

## **12 SPIRITUAL, MORAL, ETHICAL, SOCIAL AND CULTURAL VALUES**

Tutors preparing candidates would have opportunities to introduce relevant ethical, social and moral values throughout a course leading to this qualification. Of specific relevance would be matters of honesty and integrity, probity and confidentiality of information. In addition, the IAB Framework for Regulation and Code of Best Practice (provided at Appendix 4) also underpin all Learning Outcomes of the qualification.

## **13 HEALTH AND SAFETY ISSUES, ENVIRONMENTAL ISSUES AND EUROPEAN DEVELOPMENTS**

There is no specific coverage of these issues within the qualification.

## **14 REASONABLE ADJUSTMENTS FOR CANDIDATES WITH PARTICULAR REQUIREMENTS**

The IAB and IAB Accredited Centres are required to ensure that candidates with particular assessment needs are not disadvantaged and that appropriate arrangements are made to meet their assessment needs. The procedure to make an application for arrangements to meet a candidate's specific needs is detailed in the IAB Centre Handbook.

## **15 ENQUIRIES AND APPEALS**

The IAB and IAB Accredited Centres are required to process all enquiries and appeals in accordance with the IAB established procedures.

## 16 UNIT SPECIFICATION INCLUDING NVQ LEVEL 2, 3 AND 4 IN ACCOUNTING SIGN-POSTING

### IAB Level 3 – Diploma in Costing and Management Accounting (VRQ)

#### SINGLE UNIT (IAB CODE C3.1) – Cost and Management Accounting methods & analysis

##### Aim of the Unit

Upon the completion of study for this unit, it is intended that the candidate will be able to:

- Provide an overview of the purpose of Cost and Management Accounting and its links with the accounting system.
- Describe the principles of Ordering and Coding Materials and the relationships between Order Size and Unit Cost
- Calculate Closing Stock Values
- Explain and define the key Cost Classifications
- Calculate and Record the cost of Labour
- Process overheads using Allocation, Apportionment and Absorption techniques
- Explain and apply Cost-Volume-Profit Analysis
- Explain the use of Variances and calculate Price and Usage Variances for direct and indirect costs

##### Prior Knowledge and Skills Requirements:

There are no requirements for this unit.

Learning Outcome	Assessment Criteria
<p>1 Provide an overview of the purpose of Cost and Management Accounting and its links with the accounting system</p>	<p>Understand and define the terms Cost Accounting, Financial Accounting and Management Accounting.</p> <p>Understand the need for internal cost and management accounting information for both financial and non-financial managers.</p> <p>Understand and explain why organisations need, and the relationship between:</p> <ul style="list-style-type: none"> <li>• An Accounting system</li> <li>• A Costing system</li> </ul> <p>Understand what is meant by, and be able to apply :</p> <ul style="list-style-type: none"> <li>• Job costing system</li> <li>• Batch costing system</li> <li>• Contract costing</li> <li>• Process costing</li> </ul> <p>Be able to prepare:</p> <ul style="list-style-type: none"> <li>• basic accounting entries for an integrated accounting system</li> <li>• A Manufacturing Account from a given Trial Balance following the calculation of the adjustments.</li> </ul> <p>Be able to prepare estimates taking variations in capacity and future costs into account</p> <p>Be able analyse the major factors affecting costs using appropriate accounting techniques including:</p> <ul style="list-style-type: none"> <li>• Short and long term decisions</li> <li>• Break even analysis</li> <li>• Profit targets</li> <li>• Profit volume ratio</li> <li>• Limiting factors</li> <li>• Payback and discounted cash flow methods</li> </ul> <p>Be able to draw conclusions from analysis, stating any assumptions that have been made, and prepare reports according to organisational procedures.</p>

<p>2 Describe the principles of Ordering and Coding Materials and their relationships between Order Size and Unit Cost</p>	<p>Understand and explain the principles relating to the ordering and coding of Materials</p> <p>Understand and explain the relationship between Order Size and Unit Cost.</p> <p>Be able to:</p> <ul style="list-style-type: none"> <li>• Recognise various Cost Centres and code materials accordingly</li> <li>• Use the organisations Coding structure and apply to all relevant Invoices and other forms of Expenditure accordingly.</li> <li>• Extract information from various sources providing comparisons on the cost of materials</li> </ul> <p>Be able to calculate the implications of various Order Sizes</p> <p>Be able to calculate and apply:</p> <ul style="list-style-type: none"> <li>• Direct Material costs, such as Raw Materials</li> <li>• Indirect Material costs</li> </ul>
<p>3 Calculate Closing Stock Values</p>	<p>Understand the need to value stock and record its valuation in the accounts of the business .</p> <p>Be able to value stock using the following valuation methods:</p> <ul style="list-style-type: none"> <li>• First in first out (FIFO)</li> <li>• Last in first out (LIFO)</li> <li>• Average cost out (AVCO) – cumulated weighted average</li> <li>• Adjusted selling price</li> </ul> <p>Be able to:</p> <ul style="list-style-type: none"> <li>• Prepare the Journal entry necessary to account for closing stock</li> <li>• Record closing stock in the Stock Account</li> <li>• Recognise the effect of different stock valuations on the gross profit of the business.</li> </ul>
<p>4 Explain and define the key Cost Classifications</p>	<p>Understand, identify and define what is meant by the following:</p> <ul style="list-style-type: none"> <li>• Materials, Labour and Overhead costs</li> <li>• Direct and indirect costs</li> <li>• Fixed, Variable and Semi-variable costs</li> <li>• Marginal Costs</li> </ul> <p>Be able to analyse and record in accordance with organisational procedures:</p> <ul style="list-style-type: none"> <li>• Direct costs relating to Materials, Labour and Overheads</li> <li>• Indirect costs relating to Materials, Labour and Overheads</li> <li>• Fixed, Variable and Semi-variable costs</li> <li>• Marginal costs</li> </ul>
<p>5 Calculate and Record the cost of Labour</p>	<p>Understand the need to calculate the cost of Labour and the various constituents of Gross Pay.</p> <p>Be able to calculate the cost of labour using the following</p> <ul style="list-style-type: none"> <li>• Basic hourly rates</li> <li>• Salaries</li> <li>• Overtime from information on timesheets or clock/swipe cards/ dockets</li> <li>• Shift pay, stand-by payments and unsocial hours payments.</li> <li>• Commission and bonuses</li> <li>• Performance related pay</li> <li>• Piece Rates</li> </ul> <p>Be able to calculate and apply:</p> <ul style="list-style-type: none"> <li>• Direct Labour costs</li> <li>• Indirect Labour costs</li> </ul> <p>Understand and explain the relationship between the cost of labour and the payroll accounting system</p> <p>Be able to code and record various labour costs in the accounting records of the business.</p>

<p>6 Process Overheads using Allocation, Apportionment and Absorption techniques</p>	<p>Understand the bases of Absorption</p> <p>Be able to distinguish between Absorption and Marginal Costing</p> <p>Understand the bases of allocating and apportioning overheads to relevant Cost Centres</p> <p>Be able to calculate:</p> <ul style="list-style-type: none"> <li>• The effect of Absorption and Marginal Costing on Stock Valuation and Profit.</li> <li>• Overhead Absorption rates in within the agreed base of Absorption e.g Labour Hour method or Machine Hour method</li> <li>• Adjustments for under and over recovered overhead costs in accordance with organisational procedures</li> <li>• Product costs under Absorption and Marginal Costing.</li> <li>• Overhead costs according to allocation and attributed to cost centres and codes, and agreed bases of Allocation and Apportionment e.g Direct Method, Step-down method</li> </ul> <p>Be able to undertake a review of the rates of Allocation, Apportionment and Absorption with other members of staff and within organisational procedures</p>
<p>7 Explain and apply Cost-Volume - Profit analysis</p>	<p>Understand the importance of the Concept of Contribution</p> <p>Be able to apply the Concept of Contribution</p> <p>Be able to:</p> <ul style="list-style-type: none"> <li>• Compile a Break-Even Chart to show the Break-Even point</li> <li>• Interpret a Break-Even Chart</li> </ul> <p>Be able to apply CVP Analysis to profit, Pricing and Costing situations for a single product using Contributions to Sales Ratio and a Break-Even calculations</p>
<p>8 Explain the use of Variances and calculate Price and Usage Variances for direct and indirect costs</p>	<p>Understand and explain how Variances from Standards can be analysed in terms of Price and Volume (usage).</p> <p>Be able to calculate and interpret Price and Usage Variances for:</p> <ul style="list-style-type: none"> <li>• Labour</li> <li>• Materials</li> <li>• Overheads</li> </ul>

**UNIT ASSESSMENT**

Candidates may sit the Examination of this Unit on either the specific dates set and published by the IAB or on dates set by Centres on an ‘On-demand’ basis. Centres are advised to consult the IAB Centre Handbook on the IAB website ([www.iab.org.uk](http://www.iab.org.uk)) or contact the IAB for details of how to arrange an ‘On-demand’ examination. All necessary security of data and information will be undertaken.

**NVQ IN ACCOUNTING LEVEL 2 SIGN-POSTING**

**IAB Level 3 – Diploma in Cost and Management Accounting (VRQ)**

**(IAB Unit Code C3.1) – Cost and Management Accounting Environment**

<b>Learning Outcomes of the IAB Level 3 - Diploma in Cost and Management Accounting (VRQ)</b>	<b>Related to the following Elements of the NVQ in Accounting Level 2</b>
C3.1.1 Provide and overview of the purpose of Cost and Management Accounting and its links with the accounting system.	3.1, 3.2, 3.3 4.1, 4.2, 4.3
C3.1.2 Describe the principles of ordering and coding materials and their relationships between order size and Unit Cost	3.1, 3.2, 3.3 4.1, 4.2
C3.1.3 Calculate Closing Stock values	3.2, 3.3 4.1, 4.3
C3.1.4 Explain and define the key cost Classifications	4.1
C3.1.5 Calculate and record the cost of Labour	3.1, 3.2, 3.3 4.1 71.1, 71.2, 71.3 72.1, 72.2
C3.1.6 Process Overheads using Allocation, Apportionment and Absorption techniques.	4.1, 4.3
C3.1.7 Explain and apply Cost-Volume-Profit analysis	4.1, 4.3
C3.1.8 Explain the use of Variances and calculate Price and Usage Variances for direct and indirect Costs	4.1, 4.3

**NVQ IN ACCOUNTING LEVEL 3 SIGN-POSTING**

**IAB Level 3 – Diploma in Cost and Management Accounting (VRQ)**

**(IAB Unit Code C3.1) – Cost and Management Accounting Environment**

<b>Learning Outcomes of the IAB Level 3 - Diploma in Cost and Management Accounting (VRQ)</b>	<b>Related to the following Elements of the NVQ in Accounting Level 3</b>
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C3.1.1 Provide and overview of the purpose of Cost and Management Accounting and its links with the accounting system.	5.2, 5.3 6.1, 6.2, 6.3 7.1, 7.2, 7.3
C3.1.2 Describe the principles of ordering and coding materials and their relationships between order size and Unit Cost	6.1, 6.2, 6.3 7.1
C3.1.3 Calculate Closing Stock values	5.1, 5.2, 5.3 6.1, 6.2, 6.3
C3.1.4 Explain and define the key cost Classifications	6.1, 6.2, 6.3
C3.1.5 Calculate and record the cost of Labour	6.1, 6.2, 6.3
C3.1.6 Process Overheads using Allocation, Apportionment and Absorption techniques.	6.1, 6.2, 6.3 7.1, 7.2
C3.1.7 Explain and apply Cost-Volume-Profit analysis	6.1, 6.2, 6.3 7.1, 7.2, 7.3
C3.1.8 Explain the use of Variances and calculate Price and Usage Variances for direct and indirect Costs	6.1, 6.2, 6.3 7.1

**NVQ IN ACCOUNTING LEVEL 4 SIGN-POSTING**

**IAB Level 3 – Diploma in Cost and Management Accounting (VRQ)**

**(IAB Unit Code C3.1) – Cost and Management Accounting Environment**

**Learning Outcomes of the  
IAB Level 3 - Diploma in  
Cost and Management  
Accounting (VRQ)**

**Related to the following  
Elements of the NVQ in  
Accounting Level 4**

- |        |   |            |
|--------|---|------------|
| C3.1.1 | Provide and overview of the purpose of Cost and Management Accounting and its links with the accounting system.   | 11.1, 11.2 |
| C3.1.2 | Describe the principles of ordering and coding materials and their relationships between order size and Unit Cost |            |
| C3.1.3 | Calculate Closing Stock values  |            |
| C3.1.4 | Explain and define the key cost Classifications   |            |
| C3.1.5 | Calculate and record the cost of Labour   |            |
| C3.1.6 | Process Overheads using Allocation, Apportionment and Absorption techniques.                                      |            |
| C3.1.7 | Explain and apply Cost-Volume-Profit analysis   |            |
| C3.1.8 | Explain the use of Variances and calculate Price and Usage Variances for direct and indirect Costs                |            |