REVISION NOTES ACCN4

Fixed Costs

Costs that do not normally change when the level of output or activity changes.

- Unaffected by changes in activity level _
- Period change (increase as time span increases)
- Constant at all level of activity within the relevant range

Variable (marginal) Costs

These are the costs where the cost varies in proportion to the level of output or activity.

- Vary directly with activity level
- _ Variable cost per unit is the same for each unit produced

Semi-Variable Costs

Marginal Costing

These are costs where a part of the cost acts as a variable cost, and a part as a fixed cost.



Marginal cost is the cost of one unit of product/service that would be avoided if that unit were not produced/provided = variable price. tesale.co.uk

- Only variable costs charged as cost of sales
- Closing inventories are valued at marginal cost
- Fixed costs or overheads are treated as period costs
- Contribution per unit is constant at all levels of outp ut a

PRICE PER UNIT – VA ABLE COST OF UNIT CONTRIBUTION PER LINIT

D COSTS = PROFIT

OSTING STATEMENT

SALES REVENUE LESS VARIABLE COSTS EQUALS CONTRIBUTION LESS FIXED COSTS EQUALS PROFIT

Advantages

- Contribution (towards fixed costs) is clearly identified
- With the marginal cost of output identified, the managers can focus on the contribution provided by the output
- The effect on costs of changes in sales revenue can be calculated -
- It helps with decision making in the forms of:
 - Costing project

prev

- Make or buy 0
- Acceptance of additional work
- Price setting
- Optimum use of scarce resources 0

REVISION NOTES ACCN4

Purchases Budget

A purchases budget shows the number and value of the goods that need to be bought in order to meet the demands of the production department. It is linked to the creditor budget and the master budget.

	MONTH 1	MONTH 2	MONTH 3
Units			
Sales	Х	Х	Х
Opening Stock	(X)	(X)	(X)
Closing Stock	<u>X</u>	<u>X</u>	<u>X</u>
Purchases	<u>X</u>	<u>X</u>	<u>X</u>
Purchases Cost	Х	Х	Х

Labour Budget

A labour budget is used to plan and control the labour hours and labour costs of production-line employees.

	MONTH 1	MONTH 2	MONTH 3
Labour Hours	Х	Х	Х
Labour Cost	£Χ	£Χ	£Χ

Trade Receivable Budget

A trade receivables budget is used to estimate the timing and amount of receipts from debtors and is linked to the sales budget, the cash budget and the master budget.



Trade Payables Budget

A trade payables budget is used to estimate the timing and amounts of payments to creditors and is linked to the purchases budget, the cash budget and the master budget.

	MONTH 1	MONTH 2	MONTH 3
Opening Creditors	Х	Х	Х
Credit Purchases	Х	Х	Х
Payments	(X)	(X)	(X)
Discount Received	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>
Closing Debtors	Х	Х	Х

Things to consider:

- Any discounts?
- Any bad debt written off?
- What is the trade receivables collection period?
- What is the trade payables payment period?