



JUNE 2007 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION



Paper 7  
Planning, Control and  
Performance Management

# Introduction

This booklet contains the Study Guide for Paper 7: Planning, Control and Performance Management.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

**The study guide for December 2007 will be unchanged from this version. However, please note that the terminology used by examiners will be based on International accounting standards, rather than the UK accounting standards. An article will appear in *student accountant* to help explain this terminology clearly.**

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[www.accaglobal.com](http://www.accaglobal.com)

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## ABOUT ACCA

ACCA is the largest and fastest-growing international accountancy body with 260,000 students and 110,000 members in 170 countries. We aim to offer first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

# Planning, Control and Performance Management

## AIMS

To develop knowledge and understanding of the application of management accounting techniques to support the management processes of planning, decision-making, control and performance measurement.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- identify valid, relevant data from internal and external sources
- present cost information using appropriate methods
- prepare forecasts of income and expenditure
- monitor and analyse actual costs against forecasts and trends
- compare actual costs with standard costs and analyse and explain any variances
- prepare draft budget proposals
- prepare and present reports comparing actual performance with planned performance for the organisation or for responsibility centres and analyse any variances for management control purposes
- prepare and monitor relevant performance indicators, interpret the results and recommend how to reduce costs and enhance value
- make short-term decisions to enhance business performance.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

A thorough knowledge of the costing elements of Paper 2, *Information for Management Control*, and all of Paper 4, *Accounting for Costs*, is required before commencing study for Paper 7.

## SYLLABUS CONTENT

### 1 Principles of cost accounting

- (a) Absorption costing
- (b) Marginal costing
- (c) Activity based costing

### 2 Collection of information

- (a) Internal information
  - (i) accounting information
  - (ii) wage and salary information
  - (iii) strategic plans

- (b) External information
  - (i) on costs, prices, demand and availability of resources (from suppliers, providers of services, competitors, customers and markets), market research
  - (ii) government statistics, trade associations, financial press
  - (iii) uses and limitations of published statistics
  - (iv) impact of the general economic environment / general economic information
- (c) Sampling techniques
  - (i) random, systematic, stratified, multistage, cluster, quota
  - (ii) choice of appropriate method, advantages and disadvantages

### 3 Analysis of information

- (a) Methods of presenting information
  - (i) written reports
  - (ii) graphs
  - (iii) diagrams
  - (iv) tables
- (b) Index numbers to allow for price and volume changes

### 4 Forecasting

- (a) Cost forecasting
  - (i) high-low method
  - (ii) linear regression analysis
- (b) Time series analysis
  - (i) moving averages to determine a trend
  - (ii) linear regression analysis to determine a trend
  - (iii) seasonal variations for both additive and multiplicative models
- (c) Advantages and disadvantages of forecasting techniques
- (d) Impact of product lifecycle
- (e) Usefulness of computer packages and forecasting

### 5 Variance analysis

- (a) Standard costing systems
- (b) Calculation of variances
  - (i) material price and usage

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- (ii) labour rate and efficiency
- (iii) variable overhead expenditure and efficiency
- (iv) fixed overhead expenditure, volume, capacity and efficiency
- (v) sales margin volume and sales price variances
- (c) Reconciliation between budgeted, standard and actual costs and profits
  - (i) absorption costing system
  - (ii) marginal costing system
- (d) Analysis of variances
  - (i) subdivision of variances
  - (ii) factors to consider before investigation
  - (iii) significance and identification of possible reasons for variances
  - (iv) recommended control actions

## 6 Budgetary planning

- (a) Different types of budget
  - (i) for demand
  - (ii) for income
  - (iii) for resource usage (materials, labour and overheads)
  - (iv) for cost of resources usage
  - (v) for capital
- (b) Functions of a system of budgetary planning and control
- (c) Budget development and review process
  - (i) link between planning cycles, budgets and forecasts
  - (ii) principal budget factors (demand, capacity and resource)
  - (iii) order of budget preparation
  - (iv) coordination of sub-budgets
  - (v) revisions for limiting factors
- (d) Alternative approaches to budgeting
  - (i) incremental
  - (ii) zero based
  - (iii) rolling
- (e) Usefulness of computer packages in budgeting

## 7 Budgetary control

- (a) Responsibility accounting
  - (i) link between the design of cost collection and reporting and the control structure of the organisation
  - (ii) controllable and uncontrollable costs
  - (iii) cost centres, revenue centres, profit centres, investment centres
- (b) Flexible budgets
  - (i) fixed versus flexible budgets
  - (ii) preparation of flexible budgets
  - (iii) impact of capacity variations
  - (iv) calculation and analysis of variances
  - (v) presentation of budgetary control reports for management
  - (vi) recommendation of appropriate control action
  - (vii) use of relevant computer packages
- (c) Budgets and behaviour of managers and other employees
  - (i) motivational factors
  - (ii) participation in the budgetary process
  - (iii) goal congruence and dysfunctional decision-making

## 8 Performance measurement

- (a) Use of performance indicators to measure:
  - (i) perspectives of the balanced scorecard
  - (ii) economy, effectiveness and efficiency
  - (iii) unit costs
  - (iv) resource utilisation
  - (v) profitability
  - (vi) quality of service
- (b) Control ratios
  - (i) efficiency
  - (ii) capacity
  - (iii) activity
- (c) Scenario planning ('what-if' analysis)
- (d) Cost reduction and value enhancement recommendations
  - (i) efficiencies
  - (ii) modifications to work processes
  - (iii) benchmarking

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## 9 Decision-making

- (a) Cost behaviour and cost volume profit analysis
- (b) Break-even charts
- (c) Make or buy decisions
- (d) Opportunity costs and relevant costs
- (e) Pricing policies and procedures

## 10 Cost management

- (a) Life cycle costing
- (b) Target costing (including value engineering)
- (c) Activity based costing
- (d) Total Quality Management
  - (i) basic principles
  - (ii) costs of quality

### EXCLUDED TOPICS

The following topics are specifically excluded from Paper 7:

- derivation of random samples
- derivation of coefficients of linear regression equation using formulae.

### KEY AREAS OF THE SYLLABUS

The key topic areas are:

- forecasting
- budget preparation
- flexible budgets
- variance computation and interpretation
- performance indicators
- short-term decision-making
- cost reduction and value enhancement.

### APPROACH TO EXAMINING THE SYLLABUS

The examination is a three-hour written paper. The paper consists of four compulsory questions.

|                                  |                 |
|----------------------------------|-----------------|
| Question 1                       | 40 marks        |
| Questions 2 to 4 (20 marks each) | <u>60 marks</u> |
| Total                            | 100 marks       |

### RECOMMENDED TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examinations.

ACCA's approved publishers:

#### BPP Professional Education

Contact number: +44(0)20 8740 2222

Website: [www.bpp.com](http://www.bpp.com)

#### Kaplan Publishing Foulks Lynch

Contact number: +44(0)118 989 0629

Website: [www.kaplanfoulkslynch.com](http://www.kaplanfoulkslynch.com)

Candidates may also find the following texts useful:

Weetman, P. *Management Accounting – An Introduction* (Prentice Hall)

Dodge, R. *Foundations of Cost and Management Accounting* (International Thomson Business Press)  
ISBN: 041258820X

Lucey, T. *Costing* (DP Publications: 5th Edition) ISBN: 0826455107

Pizzey, A. *Cost and Management Accounting* (Paul Chapman: 3rd Edition)  
ISBN: 1853960497

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

# Planning, Control and Performance Management

## STUDY SESSIONS

### 1 Accounting for management

- (a) Describe the management function within an organisation and how this may vary according to the nature of the business
- (b) Describe the objectives of management accounting information in relation to short-term and long-term planning, control and performance measurement
- (c) Describe the role of the management accountant in an organisation
- (d) Describe the features of useful management information
- (e) Explain the limitations of management information in providing guidance for managerial decision-making
- (f) Explain how cost accounting systems can be maintained and improved

### 2 Absorption costing

- (a) Demonstrate knowledge of the application of absorption costing in an organisation
- (b) Apply absorption costing principles in a job, contract, batch, service, or process costing context
- (c) Prepare management accounts and cost estimates using absorption costing principles
- (d) Evaluate the usefulness of absorption costing in specific situations

### 3 Marginal costing

- (a) Explain the use of marginal costing in an organisation
- (b) Apply marginal costing principles in a job, contract, batch, service, or process costing context
- (c) Explain cost behaviour
- (d) Prepare management accounts and cost estimates using marginal costing principles
- (e) Reconcile marginal costing and absorption costing profits
- (f) Evaluate the use of marginal costing in specific situations
- (g) Compare and contrast the use of absorption and marginal costing

### 4 Activity based costing

- (a) Explain the reasons for the development of activity based costing
- (b) Select appropriate cost pools and cost drivers
- (c) Calculate product costs using activity based costing
- (d) Apply activity based costing principles in a job, contract, batch, service, or process costing context
- (e) Evaluate the use of activity based costing in specific situations
- (f) Compare and contrast the use of absorption, marginal and activity based costing

### 5 Collection of information

- (a) Describe sources of information from within and outside the organisation
  - (i) describe sources of information from suppliers and customers
  - (ii) describe sources of information from suppliers and customers
  - (iii) discuss sampling techniques (random, systematic, stratified, multistage, cluster and quota)
  - (iv) choose an appropriate sampling method in a specific situation
  - (v) describe sources of information from government, trade associations and the financial press
  - (vi) describe benchmarking
  - (vii) discuss the advantages and disadvantages of benchmarking
  - (viii) select appropriate benchmarks at strategic, tactical and operational levels in a specific situation  
(Note: Derivation of random samples will not be examined)

### 6 Presentation of information and use of Indices

- (a) Presentation of information
  - (i) Prepare written reports representing management information in suitable formats according to purpose
  - (ii) Present information using tables, charts and graphs (bar charts, histograms, frequency polygons)

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- (iii) Interpret information (including the above tables, charts and graphs) presented in management reports
- (b) Indices
  - (i) Calculate price and quantity indices on Laspeyres' and Paasche bases
  - (ii) Discuss advantages and disadvantages of Laspeyres' and Paasche indices
  - (iii) Adjust raw data using appropriate indices

## 7 Forecasting

- (a) Use the high-low method to estimate the fixed and variable elements of a cost
- (b) Explain the advantages and disadvantages of the high-low method
- (c) Construct scatter diagrams and lines of best fit
- (d) Describe the use of linear regression analysis in the analysis of cost data
- (e) Use linear regression coefficients to make forecasts of costs and revenues
- (f) Adjust historical and forecast data for price movements
- (g) Explain the advantages and disadvantages of linear regression analysis
- (h) Describe the product life cycle and explain its importance in forecasting

## 8 Time series analysis

- (a) Explain the principles of time series analysis (trend, seasonal variation and random elements)
- (b) Calculate moving averages
- (c) Determination of trend, including the use of regression analysis
- (d) Use trend and seasonal variation (additive and multiplicative) to make budget forecasts
- (e) Explain the advantages and disadvantages of time series analysis
- (f) Describe the concept of the product lifecycle and its implications for sales forecasting  
(Note: Derivation of regression coefficients will not be examined)

## 9 Budgetary planning

- (a) Link between planning cycles, budgets and forecasts
  - (i) describe the planning and control cycle in an organisation
  - (ii) explain how the design of the planning and control system will be affected by organisational structure, business objectives, the organisation's administrative procedures and the nature of the product/service market
  - (iii) compare short-term and long-term business plans and explain how they are related
- (b) Principal budget factors (demand, capacity and resource)
  - (i) explain the importance of the principal budget factor in constructing a budget
  - (ii) describe principal budget factors (demand, capacity and resource)
  - (iii) identify the principal budget factor in a specific situation

## 10 Budgetary planning - preparation, co-ordination and revisions

- (a) Order of budget preparation
  - (i) describe the order of budget construction relating to a specific limiting factor
  - (ii) prepare functional and departmental and master budgets in an appropriate order in a given situation
- (b) Coordination of sub-budgets
  - (i) explain the budget preparation timetable
  - (ii) describe relevant documentation produced and the management accountant's role in its production
  - (iii) describe the involvement of staff at all levels in the organisation in the budget preparation process and the effect on employee motivation of the approach adopted
  - (iv) describe the sources of information required for budget preparation and their likely limitations
- (c) Revisions for limiting factors
  - (i) explain how management might plan for variations in capacity levels
  - (ii) prepare budgets under varying capacity levels

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## 11 Budgetary planning- different types of budgets

- (a) Prepare sales budgets
- (b) Prepare functional budgets (production, raw materials usage and purchases, labour, fixed overheads)
- (c) Discuss the preparation of discretionary expense budgets
- (d) Prepare capital budgets
- (e) Prepare cash budgets
- (f) Prepare master budgets (profit and loss account and balance sheet)

## 12 Budgetary planning - alternative approaches and computer based models

- (a) Alternative approaches to budgeting
  - (i) describe the main features of zero-based budgeting
  - (ii) explain the advantages and limitations of zero-based budgets
  - (iii) compare the use of incremental and zero-based budgeting systems
  - (iv) describe when zero-based budgets are commonly used
  - (v) describe the main features of a rolling budget
- (b) Use of computer based models
  - (i) outline the role of spreadsheet models in budget construction
  - (ii) prepare simple spreadsheet formulae for budget construction
  - (iii) describe financial modelling software
  - (iv) describe "what if" analysis and scenario planning

## 13 Budgetary control - fixed and flexible budgets

- (a) Fixed versus flexible budgets
  - (i) explain the importance of flexible budgets in control
  - (ii) explain the disadvantages of fixed budgets in control
  - (iii) identify situations where fixed or flexible budgetary control would be appropriate
- (b) Preparation
  - (i) flex a budget to a given level of volume
  - (ii) prepare formulae appropriate for flexing a budget
- (c) Impact of capacity variations
  - (i) prepare flexed budgets at various output levels
  - (ii) estimate profit at various output levels

## 14 Budgetary control – calculation and analysis of budget variances

- (a) Calculate simple variances between flexed budget, fixed budgets and actual results for sales, costs and profits
  - (i) calculate sales price and sales margin volume variances
  - (ii) explain the meaning of budget variances
  - (iii) analyse the potential causes of budget variances

## 15 Budgetary control – reports, recommendations and relevant computer packages

- (a) Presentation of budgetary control reports for management
  - (i) prepare control reports suitable for presentation to management
  - (ii) discuss the relative significance of variances
- (b) Recommendation of appropriate control action
  - (i) explain potential actions to eliminate variances
  - (ii) discuss the advantages and disadvantages of particular actions
- (c) Use of relevant computer packages
  - (i) discuss the use of spreadsheets in flexing budgets
  - (ii) prepare spreadsheet formulae for budget flexing

## 16 Budgetary control - responsibility accounting, controllable and uncontrollable costs

- (a) Responsibility accounting
  - (i) define the concept of responsibility accounting
  - (ii) explain its significance in control
  - (iii) evaluate the responsibility of managers in a given situation
  - (iv) explain the problem of joint responsibility
  - (v) design reports appropriate to a given responsibility structure
  - (vi) identify costs to be collected for a given responsibility structure
- (b) Controllable and uncontrollable costs
  - (i) explain the concepts of controllable and uncontrollable costs
  - (ii) distinguish between controllable and uncontrollable costs in a given situation

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## 17 Budgetary control – cost centres, revenue centres, profit centres and investment centres

- (a) Define cost centres, revenue centres, profit centres and investment centres
- (b) Discuss performance measures appropriate to each type of responsibility centre (budget variances, contribution measures, controllable profit, traceable profit, return on investment and residual income)
- (c) Calculate controllable profit, traceable profit, return on investment and residual income in a specific situation
- (d) Distinguish between managerial performance and business unit performance

## 18 Budgetary control – budgets and the behaviour of managers and other employees

- (a) Motivation
  - (i) define motivation
  - (ii) explain the importance of motivation in performance management
  - (iii) identify factors in a budgetary planning and control system that influence motivation
  - (iv) explain the impact of targets upon motivation
  - (v) evaluate managerial incentive schemes
- (b) Participation
  - (i) discuss the advantages and disadvantages of a participative approach to budgeting
  - (ii) explain top down, bottom up, and budget challenging approaches to budgeting
- (c) Goal congruence and dysfunctional decision-making
  - (i) define goal congruence and dysfunctional decision-making
  - (ii) explain the importance of goal congruent behaviour
  - (iii) discuss causes of dysfunctional decision-making
  - (iv) identify dysfunctional behaviour in a specific situation
  - (v) amend budgeting procedures to encourage goal congruent behaviour
  - (vi) describe ideal, attainable, current and basic standards

## 19 Standard costing systems

- (a) Explain the operation of a standard costing system
- (b) Discuss the advantages of standard costing and variance analysis
- (c) Evaluate the appropriateness of standard costing in a specific situation
- (d) Discuss the value of standard costing in a modern manufacturing and service environment
- (e) Define standard absorption and standard marginal costing
- (f) Discuss the advantages and limitations of standard marginal and standard absorption costing
- (g) Prepare standard cost cards (product specification) for standard marginal and standard absorption costing

## 20 Standard costing – calculation of variances

- (a) Calculate material price and usage variances (price variances to be based upon usage or purchases)
- (b) Calculate labour rate and efficiency variances
- (c) Calculate fixed overhead expenditure, volume, capacity and efficiency variances
- (d) Calculate variable overhead expenditure and efficiency variances
- (e) Calculate sales margin volume and sales price variances
- (f) Undertake entries in a standard cost bookkeeping situation

## 21 Standard costing – reconciliation of standard to actual cost

- (a) Prepare a reconciliation of standard to actual cost for an absorption costing system
- (b) Prepare a reconciliation of standard to actual cost for a marginal costing system
- (c) Prepare a reconciliation of budgeted to actual profit for an absorption costing system
- (d) Prepare a reconciliation of budgeted to actual profit for a marginal costing system
- (e) Prepare control reports suitable for presentation to management

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## 22 Standard costing – analysis of variances

- (a) Subdivide variances to reflect responsibility structures
- (b) Calculate idle time variances
- (c) Analyse variances into controllable and non-controllable elements

## 23 Standard costing – variance investigation

- (a) Significance and identification of possible reasons for variances
  - (i) discuss the causes of variances in general
  - (ii) identify potential causes of variances in a specific situation
  - (iii) explain the potential interrelationships between variances
  - (iv) discuss the meaning and significance of variances
- (b) Factors to consider before investigation
  - (i) explain the significance of cost of investigation, cost of correction, benefit of correction, and probability of successful correction in variance investigation
  - (ii) calculate the expected benefit of variance investigation
  - (iii) discuss the role of control charts in variance investigation
- (c) Recommend control action
  - (i) explain potential courses of action to correct a variance
  - (ii) evaluate courses of action to correct a variance in specific circumstances

## 24 Performance measurement – overview

- (a) Performance hierarchy
  - (i) discuss the purpose of mission statements and their role in performance measurement
  - (ii) discuss the purpose of strategic and operational and tactical objectives and their role in performance measurement
- (b) External considerations
  - (i) discuss the impact of economic and market conditions on performance measurement
- (c) Discuss the impact of government regulation on performance measurement

## 25 Performance Measurement – scope

- (a) Discuss and calculate measures of financial performance – profitability, liquidity, activity and gearing
- (b) Discuss the importance of non-financial performance measures
- (c) Discuss the relationship between short-term and long-term performance
- (d) Discuss the measurement of performance in service industry situations
- (e) Discuss the measurement of performance in non-profit seeking and public sector organisations
- (f) Discuss measures that may be used to assess managerial performance and the practical problems involved
- (g) Discuss the role of benchmarking in performance measurement
- (h) Produce reports highlighting key areas for management attention and recommendations for improvement

## 26 & 27 Performance measurement – applications

- (a) Perspectives of the balanced scorecard
  - (i) discuss the advantages and limitations of the balanced scorecard
  - (ii) describe performance indicators for financial success, customer satisfaction, process efficiency and growth
  - (iii) discuss critical success factors and key performance indicators and their link to objectives and mission statements
  - (iv) establish critical success factors and key performance indicators in a specific situation
- (b) Economy, efficiency and effectiveness
  - (i) explain the concepts of economy, efficiency and effectiveness
  - (ii) describe performance indicators for economy, efficiency and effectiveness
  - (iii) establish performance indicators for economy, efficiency and effectiveness in a specific situation
  - (iv) discuss the meaning of each of the efficiency, capacity and activity ratios

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- (v) calculate the efficiency, capacity and activity ratios in a specific situation
- (c) Unit costs
  - (i) describe performance measures which would be suitable in job, batch, contract and process costing environments
- (d) Resource utilisation
  - (i) describe measures of performance utilisation in service and manufacturing environments
  - (ii) establish measures of resource utilisation in a specific situation
- (e) Profitability
  - (i) calculate return on investment and residual income
  - (ii) explain the advantages and limitations of return on investment and residual income
- (f) Quality of service
  - (i) distinguish performance measurement issues in service and manufacturing industries
  - (ii) describe performance measures appropriate for service industries
- (g) Establish performance measures for a service business in a specific situation
- (h) Costs of quality
  - (i) discuss the importance of quality in organisations
  - (ii) establish measures of quality in a specific situation

## 28 Decision-making – cost behaviour and relevant costs

- (a) Analyse total costs into their fixed and variable elements using the high-low method
- (b) Describe the relationship between fixed and variable costs and the time horizon under consideration
- (c) Explain the advantages and limitations of using a marginal costing approach for decision-making
- (d) Discuss the advantages and limitations of absorption costing in decision-making
- (e) Describe the concept of relevant costs and its importance for decision-making
- (f) Outline the advantages and limitations of using an opportunity cost approach for management decision-making

## 29 Decision-making problems

- (a) Use an opportunity cost approach to solve short-term decisions
- (b) Describe the qualitative factors which may influence short-term decisions
- (c) Prepare reports making recommendations for management action in connection with short-term decisions

## 30 Cost / volume / profit (CVP) relationships

- (a) Calculate and explain the break-even point in single product situations
- (b) Analyse the effect on the break-even point of changes in sales price and costs
- (c) Use cost volume profit analysis to make short term decisions
- (d) Use contribution per unit of the limiting factor to allocate scarce resources (including make or buy decisions)
- (e) Prepare and explain break-even charts and profit volume charts
- (f) Describe the advantages and limitations of break-even analysis for management decision-making (Note: break-even analysis will only be examined in the context of single product situations)

## 31 Pricing and demand

- (a) Describe the factors which may influence an organisation's pricing policy
- (b) Prepare and justify cost based approaches to pricing using absorption costing, marginal costing and opportunity costing approaches
- (c) Discuss the merits and limitations of cost based approaches to pricing
- (d) Describe the procedure for preparing cost estimates for fixed price quotations and tenders

## 32 Cost management

- (a) Total Quality Management
  - (i) explain in general terms the costs of quality (prevention, appraisal, internal failure and external failure)

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- (ii) establish measures of the cost of quality in specific situations
- (iii) calculation of the costs and benefits of quality initiatives
  
- (b) Cost reduction and value enhancement recommendations
  - (i) compare cost control and cost reduction
  - (ii) describe and evaluate cost reduction methods
  - (iii) describe and evaluate value analysis
  
- (c) Life cycle costing
  - (i) describe life cycle costing
  - (ii) discuss the benefits of life cycle costing in a specific situation
  
- (d) Target costing
  - (i) describe target costing
  - (ii) discuss the link between target costing and pricing
  - (iii) discuss the role of value engineering in target costing