Standard Costing

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- Standard Costing is a technique which uses standards for costs and revenues for the purpose of control through variance analysis
- Standard is a predetermined measurable quantity set in defined conditions against which actual performance can be compared, usually for an element of work, operation or activity.

Basically a standard means

- Predetermined estimates
- Established for inputs and outputs
- Applicable to all routine aspects of an organization's operations
- Accounting for standard costs and obtaining variances
- Reporting to management for taking appropriate action wherever necessary.

Objective Of Standard Costing

- To provide a formal basis for assessing performance and efficiency
- To control Costs by establishing standards and analysis of variances
- To enable the principle of “Management by Exception” to be practised at the detailed operational level.
- To assist in setting budgets

- To assist in assigning responsibility for non-standard performance in order to correct deficiencies or to capitalise on benefits.
- To motivate staff and management
- To provide a basis for estimating
- To provide guidance on possible ways of improving performance

Types of Standards

- **Current Standard-Current Standard is a** Standard established for use over a short period of time, related to current conditions.
- Basic Standard- Basic Standard is a Standard established for use over a long period of time from which a Current Standard can be developed.

- Ideal Standard –It is the Standard that can be attained under most favourable conditions.No provision is made for shrinkage, spoilage or machine breakdown etc.
- Ideal Standards are not generally used because it may influence employee motivation adversely.

- Attainable Standard- It is a standard which can be attained if a standard unit of work is carried out efficiently, on a machine properly utilised or material properly used.
- Allowances are made for shrinkage, spoilage or machine breakdown etc.

Establishing Cost Standard

- Engineering Estimates
- Observed Behaviour
- Predicted Behaviour
- Desired Behaviour

Variance Analysis

- Variance is the difference between planned, budgeted or standard cost and actual cost as well as in respect of revenues.

- Variances can be classified into the following categories:
- Material Variance
- Labour Variance
- Variable Overhead Variance
- Fixed Overhead Variances
- Sales Variances
- Profit Variances

Material Cost Variance

- Standard Cost of Material- Actual Cost of Material
  =(Standard Units x Standard Price) – (Actual Units x Actual Price)

Material Price Variance

- Actual Quantity (Standard Price Per Unit- Actual Price Per Unit)

Material Usage Variance

- Standard Price Per Unit (Standard Quantity-Actual Quantity)

- Material Usage Variance is segregated into
  (i) Material Mix Variance, and
  (ii) Material Yield Variance

Material Mix Variance

- Standard Price (Revised Standard Quantity- Actual Quantity)
- Revised Standard Quantity

  = Total Quantity of Actual Mix

  Total Quantity of Standard Mix

Material Yield Variance

- Standard Cost per unit (Standard Output for Actual Mix – Actual Output)

- Material Cost Variance
  = Material Price Variance+ Material Usage Variance
  Where, Material Usage Variance = Material Mix Variance+ Material Yield Variance

- Thus Material Cost Variance
  = Material Price Variance+ Material Mix Variance+ Material Yield Variance

From the following data compute the material cost variance:

Material	Standard Qty (Units)	Standard Price (Rs.)	Actual Qty (Units)	Actual Price (Rs.)
X	3,500	10	3,700	12
Y	1,500	21	1,650	20
Z	1,000	33	1,250	36

- THANK YOU