Std. costing system

Budgeting for variable Costs

raw matl. Cost

Budgeted Cost / unit = Std. Qty × Std. purchase rate (Budgeted)

mkt info

$CaC_2 + H_2O \rightarrow C_2H_2 + CaO$

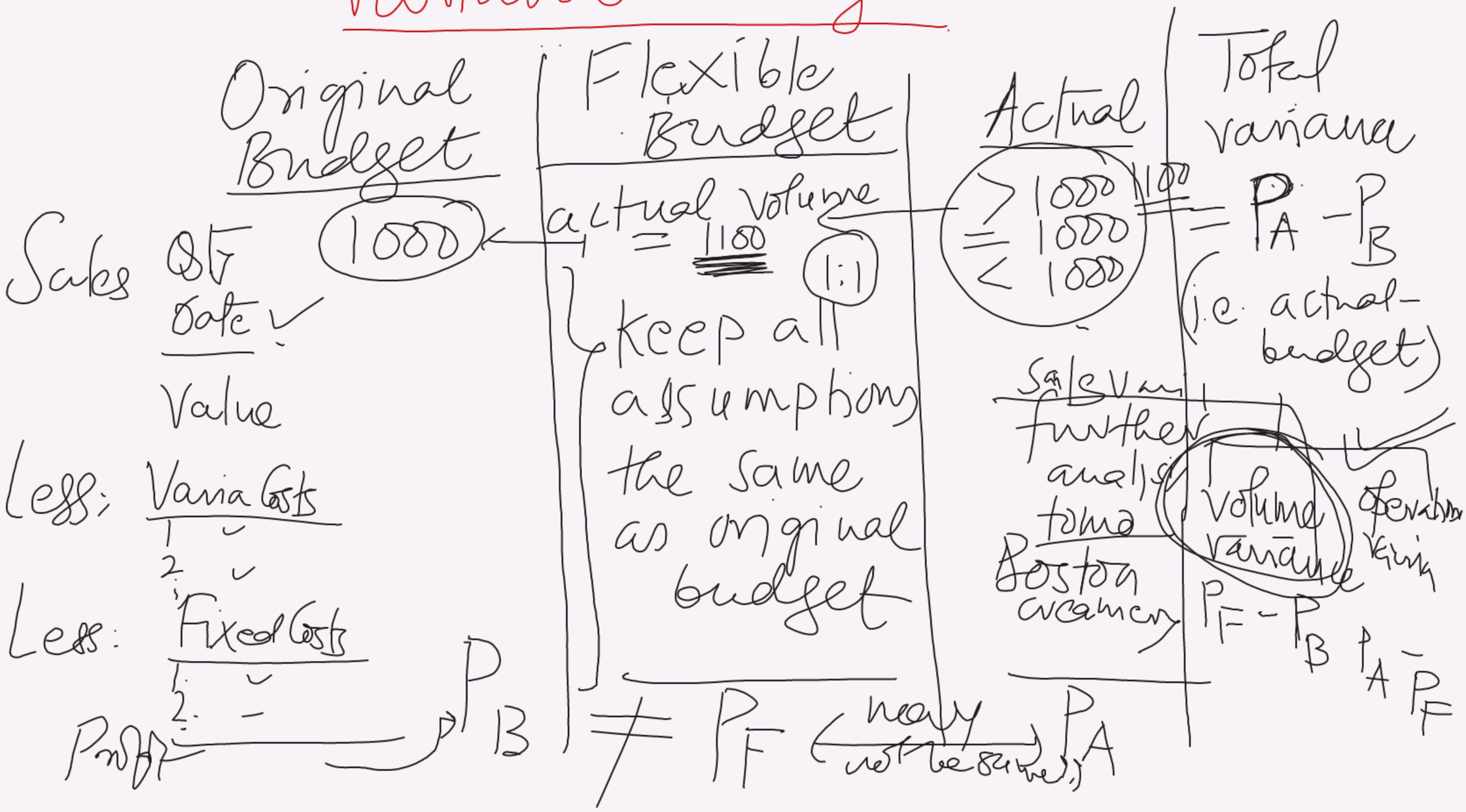
64 — 26 — FG

CaC_2 → r/m

Design → Bill of matl. ← fine-tune

Prototype → testing

Variance analysis



Operation Varia.

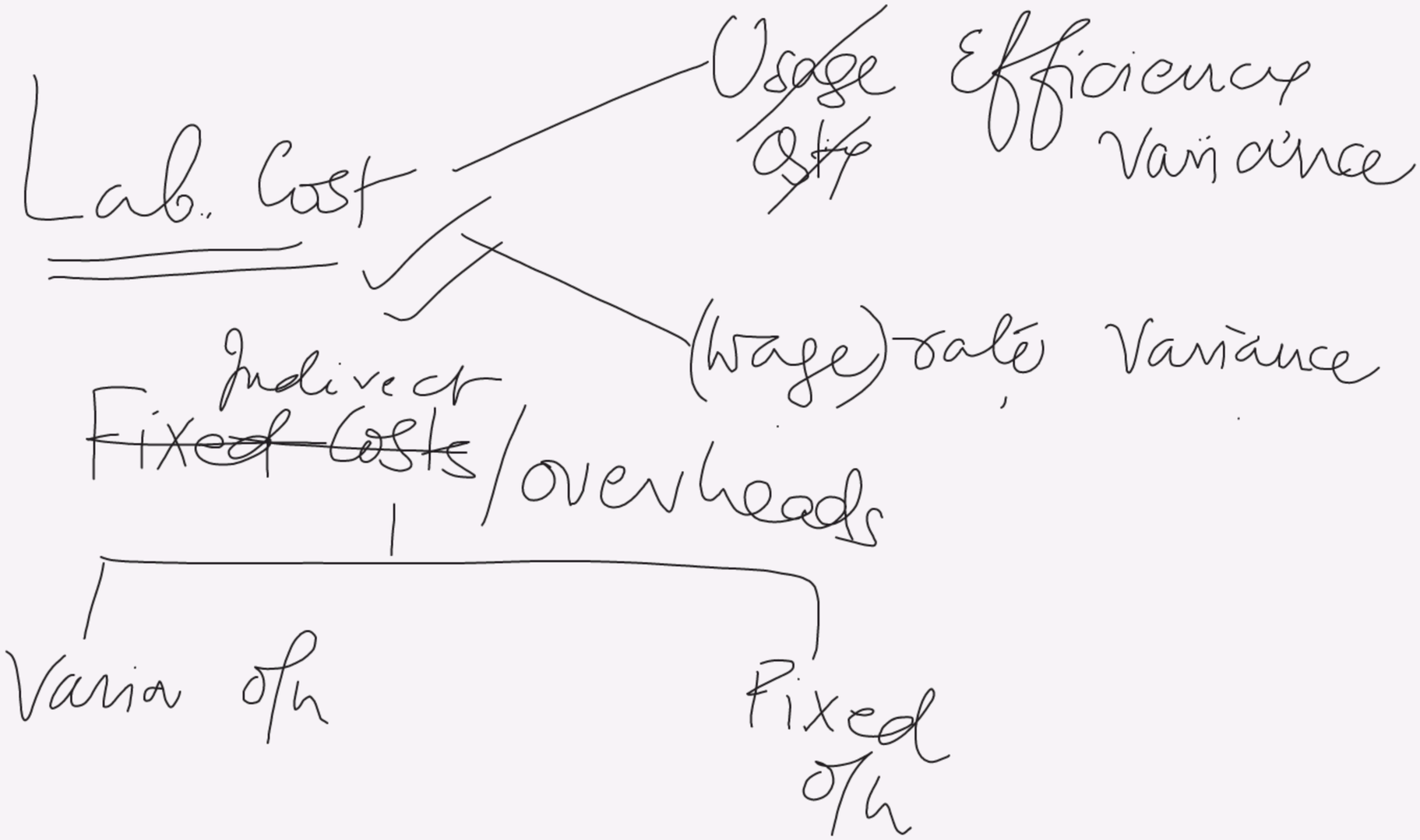
1. Selling Price Varia = (Actual S.P − Budgeted S.P) × Actual Qty sold

Variable Costs Varia

a) Material Cost variance
   - Usage Variance (Q-Var) = (AQ − BQ) × BP — ΔQ × BP
   - Rate Variance = (AP − BP) × AQ — ΔP × AQ
   - Mix variance
   - Yield variance

b) labour Cost Variance

Process


Lab. Cost
Usage Efficiency Variance
(wage) rate Variance
Indirect
Fixed Costs / overheads
Varia o/h
Fixed o/h

Overheads — need allocation

- Variable
- Fixed

Step-by-Step

1. Decide on allocation base
   Examples: Output, DL hours, DL cost
   Mile cycles M/C hrs, M/C cost
2. Decide on capacity base of selected allocation base
   10,000

3. For a given capacity base in step, estimate variable o/h & fixed o/h

e.g. Mile cycles → 10,000 output

Varia o/h = 500,000

Fixed o/h = 700,000

12,00,000

4. Develop O.H. Eqn

(in advance) todgely? $y = mx + c = \frac{500000}{10000}x + 700,000$

m → varia; c → Fixed

5. O.H. Rate for 10,000 level

$\frac{500,000}{10000}$ + $\frac{700,000}{10,000}$

= 50 + 70

= 120

Mile Cycle

OH Rate = 50 + 70 = 120

Actual o/h
- Varia = $\frac{2}{3} \times 850000 = 566{,}000$
- Fixed = 13,00,000 − 566,000 = 734,000

Budgeted o/h
- Varia 500,000
- Fixed 700,000

1,200,000

Spent more somewhere

540,000

Ex. 2

13,00,000

o/h (absorbed) charged to prodn

= 10800 × 120 = 1,296,000

output rate