STANDARD COSTING

DEFINATION: Standard cost is predetermined costs which are used in production as a basis of comparison with actual cost. Standard costing ascertainment, uses & compare with actual cost after making actual cost.

VARIANCE: Variance is the deviation standard & actual cost. There are two kinds of variance - (1) Favourable variance, & (2) Unfavourable variance.

EXAMPLE: S = Tk 5 per unit; Where, S = standard
If A = TK 4.5 per unit. & A = actual cost.

Variance = Tk 0.5 per unit. (F)
If A = Tk 5.5 per unit.
Variance = Tk 0.5 per unit. (UF)

STANDARD COST INVOLVES-

(1) Ascertainment & use of standard cost.
(2) Measurement of actual cost.
(3) Comparison standard cost with actual cost to develop variances.
(4) Analysis of variances & taking appropriate action where necessary.

REASONS OF VARIANCES:

(1) Material cost variance.
(2) Labour variance.
(3) Factory overhead variance.

MATERIAL COST VARIANCE: The difference between the costs of material specified & cost of material used.

REASONS OF MATERIAL COST VARIANCE:

(1) Price variance,
(2) Uses variance,
(3) Mix variance.

RULES:

Material cost variance = Standard cost – Actual cost.
Price variance = AQ (SP – AP)
Uses variance = SP (SQ – AQ)
Mix variance = SP (SQ – AQ)
Where, AQ = Actual quantity,
SP = Standard price,
AP = Actual price,
SQ = Standard quantity,

SUDIPTO KUMAR GHOSH
RUET ETE-07 01727138371.

EXAMPLE OF VARIANCE:

STANDARD COST:

Material	Units	Rate	Total cost Tk.
A	200 lbs	@ 10	2000
B	300 lbs	@ 5	1500

ACTUAL COST:

Material	Units	Rate	Total cost Tk.
A	250 lbs	@ 9	2250.
B	250 lbs	@ 8	2000.

So, material cost variance = standard cost – actual cost
= 3500 – 4250
= 750 (UF)

ANALYSIS OF VARIANCE:

(1) Price variance = AQ (SP – AP)
In A, price variance = 250*(10 -9) = 250 (F)
In B, price variance = 250*(8 - 5) = 750 (UF)

Total price variance = 500(UF)

(2) Uses variance = SP (SQ – AQ)
SQ = standard (A + B) units = 500 lbs
AQ = actual (A + B) units = 500 lbs
So, uses variance = 0 (zero)

(3) Mix variance = SP (SQ – AQ)
In A, Mix V = 10*(200 – 250) = 500(UF)
In B, Mix V = 5*(300 – 250) = 250(F)

Total Mix variance = 250(UF)

Total variance = (Price + Mix + Uses) variance
= [500(UF) + 250(UF) + 0)
= 750 (UF).

SUDIPTO KUMAR GHOSH
RUET ETE- 07 01727138371.

OUTPUT / YIELD VARIANCE: The difference between target or outputs standard & actual outputs is called output variance.

RULE: Output variance = SR (SO – AO)
Where, SR = standard rate = [total standard cost] / [standard output]
SO = standard output = Total used material – normal loss.
AO = Actual cost or production.

EXAMPLE: Add in example of variance normal loss is 5% & actual production 460 lbs.

Standard input	per unit	Total cost.
A = 200 lbs	@ 10	2000
B = 300 lbs	@ 5	1500
Total input = 500 lbs		Total standard cost = 3500
Less: Normal loss 25 lbs		
Standard output = 475 lbs.		

Standard rate = 3500 / 475 = 7.37 Tk.
Output variance = 7.37*(475 – 460)
= 110.55 (UF) (Ans.)