Standard Costing

General

The idea is to set a standard for cost based on experience and historical data. This standard can then be used to cost inventory and as a performance assessment measure to see how actuals compare to the expected standard.

Material Variance

1. **Price -** (AQ x SP) - (AP x AQ) = (adverse) / Favorable
< What **should** it have cost vs what **did** it cost>
2. **Usage -** (SQ - AQ) x SR = (adverse) / favorable
<How many **should** you have used vs what **did** your use>

Labour Variances

1. **Rate -** (AH x SP) - (AH x AR) = (adverse) / favorable
< What **should** it cost vs what **did** it cost>
1. **Idle Time -** Idle hours x SR = (adverse)
2. **Efficiency -** (SH - AH) x SR = (adverse) / favorable
<Hours that **should** have been used vs **actually** used>

- AQ = ACTUAL QUANTITY
- SP = STANDARD PRICE
- AP = ACTUAL PRICE
- AH = ACTUAL HOURS
- AR = ACTUAL RATE
- SH = STANDARD HOURS

Variable Production overheads

1. **Expenditure -** (AH x SR) - Actual cost =(adverse) / favorable
< What **should** the cost be vs what **did** it cost>
1. **Efficiency -** (SH - AH) x SR = (adverse) / favorable
<Hours **expected** vs **actual** hours

KN - No split if changes in overheads is inline with production volume.

Fixed Production Overheads

1. **Expenditure -** Budgeted Overheads - Actual = (adverse) / favorable.
2. **Volume -** Budgeted Production x SR - Actual Production x SR = (adverse) / favorable.
3. **Volume Efficiency -** (SH -AR) x SR = (adverse) / favorable.
4. **Volume Capacity -** (Budgeted Hours - Actual Hours) x SR = (Favorable) / adverse

Sales Variance

1. **Price -** (AU - SR) - Sales = (Favorable) / adverse
< What revenue **should be** at the **SP** vs what it **actually** was>
2. **Volume -** (Budgeted Volumes - Actual Volume) x SP = (favorable) / adverse
<effect on **profit** due to increase / decrease in sales volume>

Standard Costing

Mix Varance

1. Calculate your **standard** mix
2. Calculate your **actual** mix
3. Deduct 1 from 2 x SR

This variance tells us the variance in the formula applied i.e different amounts of inputs to the standard formula.

Discussion Notes

1. Think logically about the **variance** and what it **tells** you.
2. Think about the **inputs** and what **affects** those **inputs.**
3. Key things to comment on:

- Quality of materials.
- Economic conditions affecting stakeholders
- Unforeseen events

Usage Variance

Where there are **Normal Losses:**
(Actual output / (100% - Loss%) x Standard Mix - Actual) x SR

Where a **material** mix is used.

Top 4 reasons for variances

1. Measurement **errors**
2. Out of **date** standards
3. Random / unexpected **fluctuations**
4. Efficient / **Inefficient** operations
5. **Efficient** / Inefficient **controls**

Sales

Sales Quantity - (Actual Sales x Budgeted Sales Mix - Budgeted Sales Units) x SR

Sales Mix - (Actual Sales x Standard Mix - Actual Mix) x SR

- AQ = ACTUAL QUANTITY
- SP = STANDARD PRICE
- AP = ACTUAL PRICE
- AH = ACTUAL HOURS
- AR = ACTUAL RATE
- SH = STANDARD HOURS

Yield Variance

(Material Used) / (100% - normal loss %) - Actual Yield) x SR

Think based on my standard how much **should** I have made based on my production vs how much I **actually** made.