Chapter 10

Standard costing

Standard cost is a costing system where we compare actual with standard and find out the variance which represents the strength and weakness of the org.

Classification of variance

195 200

1.Favourable when actual < standard

210 200

& Unfavourable when actual> standard

2.Material price variance

Material quantity ‘’

Labour rate “

Labour efficiency “

Variable overhead spending “

Variable “ efficiency “

10-16

Material price variance =AQ (AP-SP)=25000(2.95-2.5)=11250 UV

Material quantity ‘’ =SP(AQ- SQ)=2.5{19800-(5000\*4)}=500 FV

Labour rate “=AH (AR-SR)=3600(8.7-9)=1080 F

Labour efficiency “=SR(AH-SH)=9{3600-(5000\*.6)}=5400 UV

Variable overhead spending “=AH (AR-SR)=1800(2.4-2)=720 UV

Variable “ efficiency “ = SR(AH-SH)=2{1800-(5000\*.3)}=600 Uv

4320/1800=2.4

Total favourable variance=500+1080=1580 FV

Total unfavourable “= 17970 UV

Overall variance=16390 UV

Impact of Unfavourable variance on income statement:

Cost of Goods sold:

Budgeted Variable cost of good sold 80000

+ Unfavorable variance 16390

Actual variable cost of goods sold 96390

Net Income:

Budgeted Net Income 15000

- Unfavorable variance 16390

Actual net operating income (1390)

10-19

Material price variance =AQ (AP-SP)=8000(5.75-6)=2000 FV

Material quantity ‘’ =SP(AQ- SQ)=6{6000-(3000\*1.5)}= 9000 U1.V

Labour rate “=AH (AR-SR)=1600(12.5-12)=800 UF

Labour efficiency “=SR(AH-SH)=12{1600-(3000\*.6)}= 2400 FV

Variable overhead spending “=AH (AR-SR)=1600(2.25-2.5)= 400 FV

Variable “ efficiency “ = SR(AH-SH)=2.5{1600-(3000\*.6)}= 500 Fv

1. .As we get overall unfavourable material variance that’s why we should not go for long term contract with the new supplier.
2. . New labour mix should continue
3. . As direct labour hour is the allocation base for calculating labour and variable overhead efficiency variance that’s why we get favourable variance for these two variances.