

Date: 13 April 2021

## VIRTUAL COACHING CLASSES ORGANISED BY BOS, ICAI

## INTERMEDIATE LEVEL PAPER 3: COST & MANAGEMENT ACCOUNTING TOPIC COVERED: STANDARD COSTING

#### **Faculty: VIPIN BOHRA**

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# **STANDARD COSTING**



#### Meaning

Standard costing is a method of costing which measure the performance or an activity by comparing actual cost with standard cost, analyses the variances and reporting of variances for investigation.

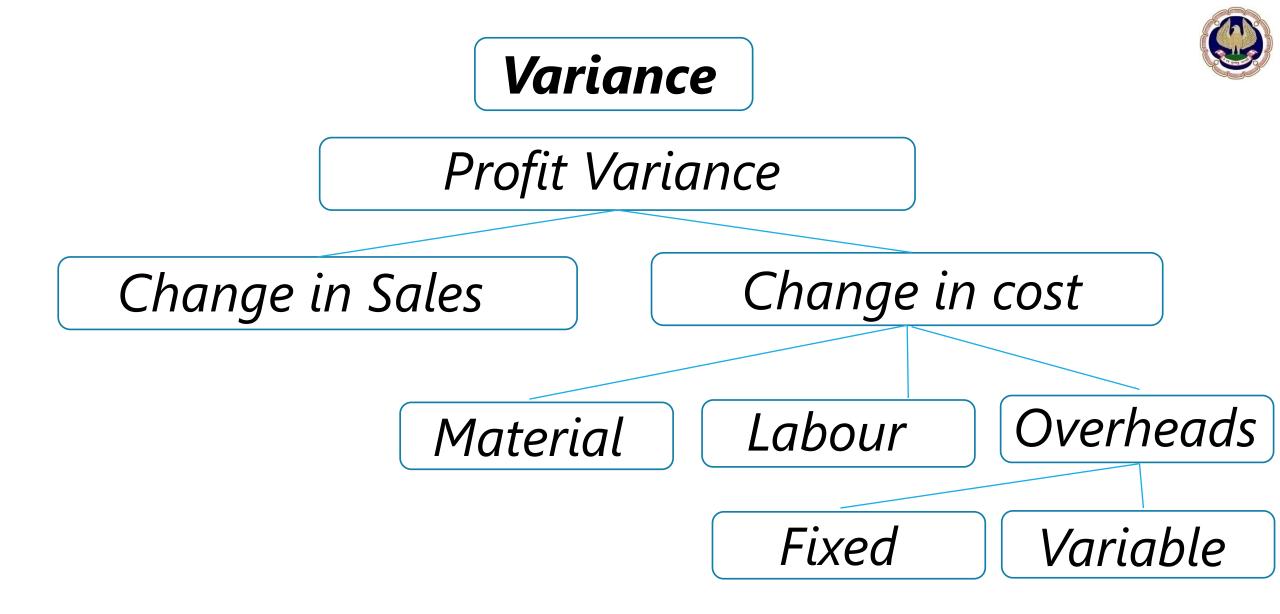
#### Process

- Setting of Standards
- > Ascertainment of actual costs
- Comparison of actual cost with standard cost
- > Investigate the reasons for variances
- > Disposition of variances

## Key points



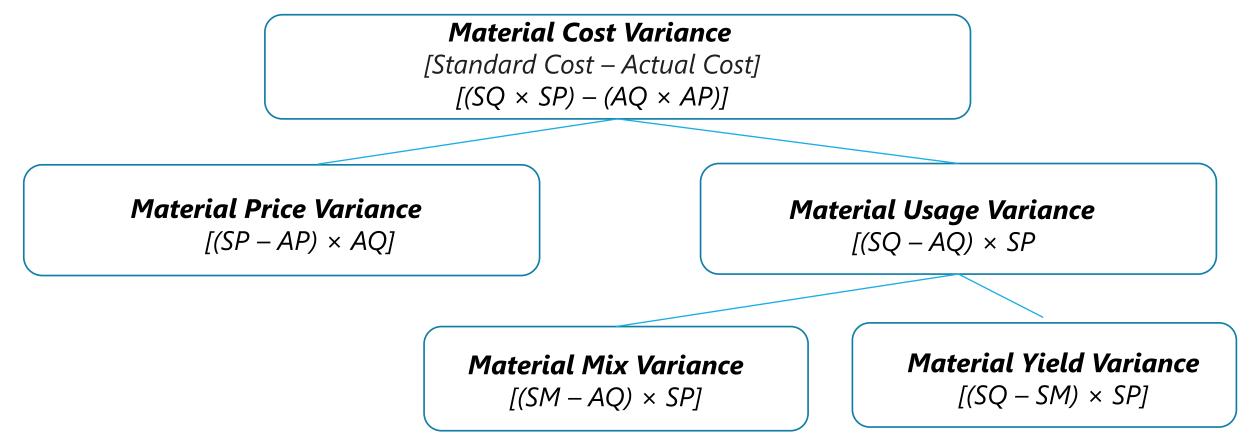
- Standard Cost : It is a planned unit cost of the product, component or service produced in a period.
- Standard Price : A predetermined price fixed on the basis of a specification of a product or service and of all factors affecting that price.
- Standard Time : The total time in which task should be completed at standard performance.
- Variance : A divergence from the predetermined rates, expressed ultimately in money value, generally used in standard costing and budgetary control systems.
  - **Favourable Variance :** Variances which are profitable for the organisation are known as favourable variance.
  - **Adverse Variance :** Variances which increase the cost for the organisation are known as adverse variance.



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### **Material Variances**





SQ- Standard Quantity , AQ– Actual Quantity , SM – Standard Mix , SP – Standard Price , AP – Actual Price

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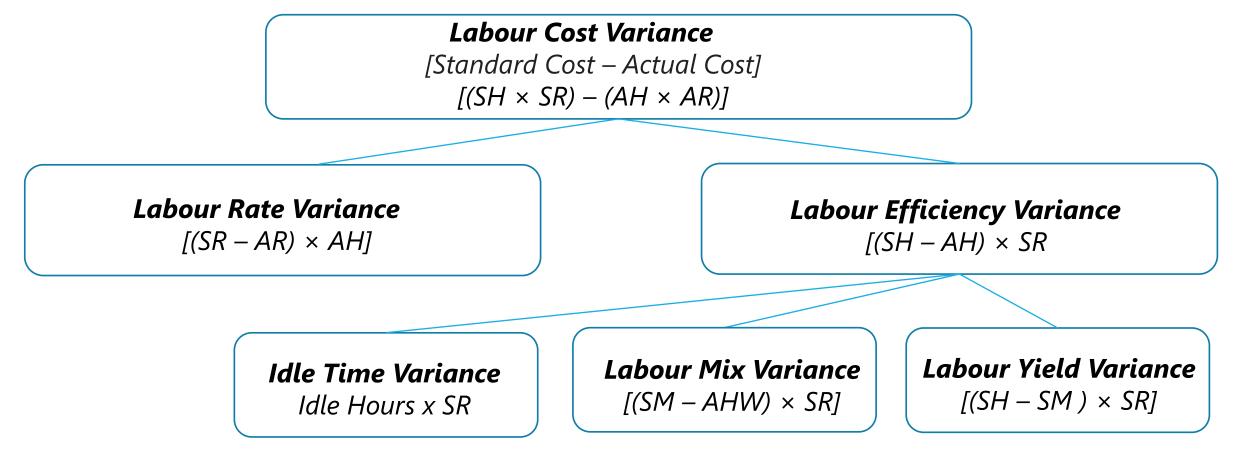
#### Example 1

From the following details Calculate Material Variances

Budget			Actual			
Material	Qty	Price	Amount	Qty	Price	Amount
X	60	5	300	700	4	2800
Y	40	4	160	300	5	1500
Total Input	100		460	1000		4300
Normal Loss	20		-	300		-
Output	80		460	700		4300

## Labour Variances





SH - Standard Hours , AH – Actual Hours Paid , SM – Standard Mix , SR – Standard Rate , AR – Actual Rate , AHW – Actual Hours Worked

## Example : 2

Following is the budgeted data for production of a unit of Product A

Labour	Hours	Rate
Skilled	2	5
Semi-Skilled	3	3
Un- Skilled	5	2
Total	10	

In the month of January total 5000 Units were produced, following are the details.

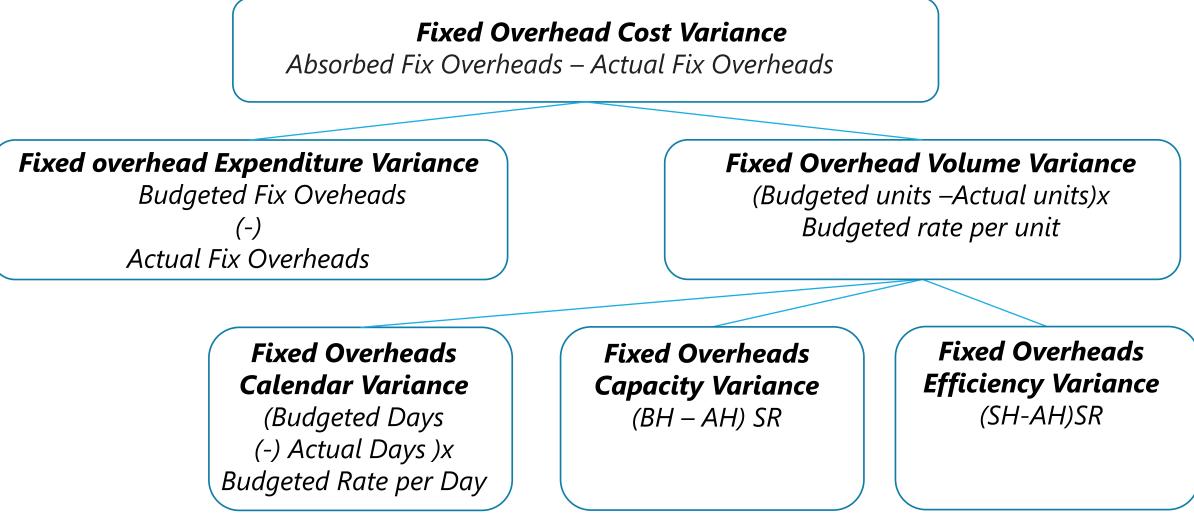
Labour	Hours	Rate	Amount
Skilled	9000	7	63000
Semi-Skilled	17000	2.75	46750
Un- Skilled	30000	1.5	45000
Total	56000		154750

Idle hours for skilled , semi skilled and unskilled workers is 500 hours , 400 hours and 100 hours respectively Calculate labour Variances

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#### **Fixed Overheads Variances**





BH – Budgeted Hours , AH – Actual Hours , SR – Standard Rate Per Hour

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#### Example 3

Particulars	Budget	Actual
Days	25	26
Hours	30000	33000
Units	30000	32500
Fixed Overheads	45000	50000
Variable Overheads	60000	70000

Calculate Fixed Overhead and Variable Overheads Variances

### Variable Overheads Variances



#### Variable Overhead Cost Variance

(Standard Variable Overheads for Production – Actual Variable Overheads)

#### Variable Overhead Expenditure Variance

Standard Variable Overheads for Actual Hours Less Actual Variable Overheads or [ (SR-AR) AH ]

#### Variable Overhead efficiency Variance

Standard Variable Overheads for Production Less Standard Variable Overheads for Actual Hours or [(SH – AH) SR]

SH – Standard Hours , AH – Actual Hours , SR – Standard Rate Per Hour

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## **THANK YOU**

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