



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**



# ***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.



# ***Variance***

## ***Profit Variance***

***Change in Sales***

***Change in cost***

***Material***

***Labour***

***Overheads***

***Fixed***

***Variable***



# Material Variances

**Material Cost Variance**  
[Standard Cost – Actual Cost]  
[(SQ × SP) – (AQ × AP)]

**Material Price Variance**  
[(SP – AP) × AQ]

**Material Usage Variance**  
[(SQ – AQ) × SP]

**Material Mix Variance**  
[(SM – AQ) × SP]

**Material Yield Variance**  
[(SQ – SM) × SP]

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

## Example 1

From the following details Calculate Material Variances

<b>Material</b>	<b>Budget</b>			<b>Actual</b>		
	<b>Qty</b>	<b>Price</b>	<b>Amount</b>	<b>Qty</b>	<b>Price</b>	<b>Amount</b>
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	<b>80</b>		460	<b>700</b>		4300



# Labour Variances

**Labour Cost Variance**  
[Standard Cost – Actual Cost]  
[(SH × SR) – (AH × AR)]

**Labour Rate Variance**  
[(SR – AR) × AH]

**Labour Efficiency Variance**  
[(SH – AH) × SR]

**Idle Time Variance**  
Idle Hours × SR

**Labour Mix Variance**  
[(SM – AHW) × SR]

**Labour Yield Variance**  
[(SH – SM) × SR]

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

<b>Labour</b>	<b>Hours</b>	<b>Rate</b>
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.

<b>Labour</b>	<b>Hours</b>	<b>Rate</b>	<b>Amount</b>
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





# Fixed Overheads Variances

**Fixed Overhead Cost Variance**  
*Absorbed Fix Overheads – Actual Fix Overheads*

**Fixed overhead Expenditure Variance**  
*Budgeted Fix Overheads*  
(-)  
*Actual Fix Overheads*

**Fixed Overhead Volume Variance**  
*(Budgeted units – Actual units) x*  
*Budgeted rate per unit*

**Fixed Overheads Calendar Variance**  
*(Budgeted Days*  
*(-) Actual Days ) x*  
*Budgeted Rate per Day*

**Fixed Overheads Capacity Variance**  
*(BH – AH) SR*

**Fixed Overheads Efficiency Variance**  
*(SH-AH)SR*

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

### **Example 3**

<b><i>Particulars</i></b>	<b><i>Budget</i></b>	<b><i>Actual</i></b>
<i>Days</i>	<i>25</i>	<i>26</i>
<i>Hours</i>	<i>30000</i>	<i>33000</i>
<i>Units</i>	<i>30000</i>	<i>32500</i>
<i>Fixed Overheads</i>	<i>45000</i>	<i>50000</i>
<i>Variable Overheads</i>	<i>60000</i>	<i>70000</i>

*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*



---

**THANK YOU**