

Lesson 10

Standard Costing-Part II (continued)

10.1 Introduction

Standard costs are pre-determined cost. Standard costing is a control system for comparing the planned costs and revenues with actual results in order to report variances for the purpose of performance measurement and control.

10.2 Learning Outcomes

By the end of this lesson, you should be able to:

- calculate direct labour rate variance, direct labour efficiency variance, direct labour idle variance;
- calculate direct material price variances, direct material usage variance; and
- explain the causes generated from variance

10.3 Required Readings

Drury, Chapter 17

10.4 Points to Ponder/Takeaways

Standard Costing	Standard costing is control technique that reports variances by comparing actual costs to pre-set standards.
Variances	Differences between actual results and expected results.
Direct material price variance	$(SP - AP)AQ$
Direct material quantity variance	$(SQ - AQ) SP$
Direct labour rate variance	$(SR - AR)AH$
Direct labour efficiency variance	$(SH - AH)SR$

Labour idle time variance (Idle hour x SR)

10.5 Learning Materials

Direct material variances

1. Can be analysed by price and quantity.

1. Material price variance

$$(SP - AP) \times AQ$$

$$(\pounds 10 - \pounds 11) \times 19\,000 = \pounds 19\,000A \text{ (Material A)}$$

$$(\pounds 15 - \pounds 14) \times 10\,100 = \pounds 10\,100F \text{ (Material B)}$$

2. Material usage variance

$$\bullet (SQ - AQ) \times SP$$

$$(9\,000 \times 2 \text{ kg} = 18\,000 - 19\,000) \times \pounds 10 = \pounds 10\,000A \text{ (Mat.A)}$$

$$(9\,000 \times 1 \text{ kg} = 9\,000 - 10\,000) \times \pounds 15 = \pounds 16\,500A \text{ (Mat.B)}$$

Direct labour variance

1. Can also be analyzed into price and quantity.

1. Wage rate variance

$$(SR - AR) \times AH$$

$$(\pounds 9 - \pounds 9.60) \times 28\,500 = \pounds 17\,100A$$

2. Labour efficiency variance

$$(SH - AH) \times SR$$

$$(9\,000 \times 3 \text{ hours} = 27\,000SHP - 28\,500AH) \times \pounds 9 = \pounds 13\,500A$$