Standard Costing & Variance Analysis

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Standard Costs

Realistic estimates of costs based on analyses of both past and projected operating costs and conditions.

Standards

Norms and Benchmarks for measuring performance.

- QUANTITY STANDARDS

- COST(PRICE) STANDARDS

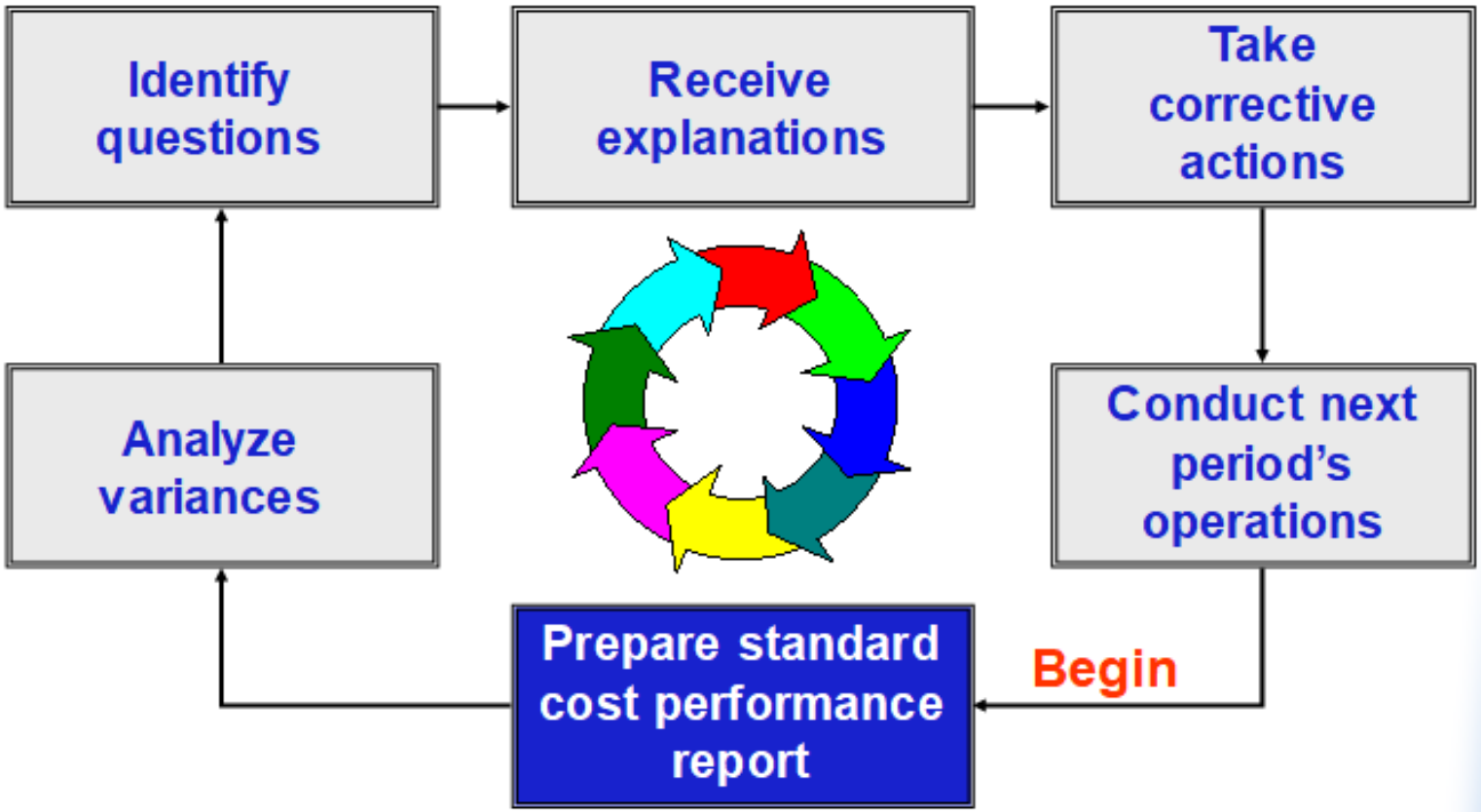
✓ Management By Exception

Purpose of Standard Costing

- Establishing budgets
- Controlling costs and measuring efficiencies
- Promoting possible cost reduction
- Simplify costing procedures and expediting cost reports
- Assigning costs to inventories
- Basis for establishing bids & contracts, and Selling prices

Components of Standard Costing

- Standard costs, which provide a standard , or predetermined, performance level
- A measure of actual performance
- A measure of variance between standard and actual performance



Materials Variances

MATERIALS VARIANCE

Actual Quantity(AQ) X Actual price(AP)	Actual Quantity(AQ) X Standard Price(SP)	Standard Quantity(SQ) X Standard Price(SP)
PRICE VARIANCE	**QUANTITY VARIANCE**	

Material Price Variance (MPV) = AQ (AP – SP)
Material Quantity Variance (MQV) = SP(AQ – SQ)

Labor Variances

DIRECT LABOR VARIANCE

Actual Hours (AH) X Actual Rate (AR)	Actual Hours (AH) X Standard Rate (SR)	Standard Hours (SH) X Standard Rate (SR)
RATE VARIANCE	**EFFICIENCY VARIANCE**	

Labor Rate Variance (LRV) = AH (AR − SR)
Labor Efficiency Variance (LEV) = SR (AH − SH)

Overhead Variance

Actual Var OH (AVOH)		Budg Var OH(BVOH)		Standard Var OH (SVOH)
Act VOH Rate (AR)	X Act Hour(AH)	Std VOH Rate (SR)	X Act Hour (AH)	Std VOH Rate (SR) X Std Hour (SH)
	AH(SR-AR)		SR(AH-SH)	
	Var OH Spending Variance		**Var. OH Efficiency Variance**	

Actual Fxd OH (AFOH)		Budg Fxd OH(BFOH)		Standard Fxd OH (SFOH)
Act FOH Rate (AR)	X Act Hour(AH)	Std FOH Rate (SR)	X Act Hour (AH)	Std FOH Rate (SR) X Std Hour (SH)
	AH(SR-AR)		SR(AH-SH)	
	Fxd. OH Spending Variance		**Fxd Volume Variance**	

OVERHEAD VARIANCE

4-WAY APPROACH

Variable OH Spending Variance

Variable OH Efficiency Variance

Fixed OH Spending Variance

Fixed OH efficiency Variance

3-WAY APPROACH

Spending Variance

Efficiency Variance

Volume/Capacity Variance

2-WAY APPROACH

Controllable Variance

Volume Variance

1-WAY APPROACH

Total Variance

ONE VARIANCE APPROACH:
AFOH – SFOH

TWO-WAY VARIANCE APPROACH:
CONTROLLABLE VARIANCE = AFOH – BASH
VOLUME/CAPACITY/NONCONTROLLABLE VARIANCE = BASH – SFOH

THREE-WAY VARIACNE APPROACH:

SPENDING VARIANCE = AFOH - BAAH

EFFICIENCY VARIANCE = BAAH - BASH

VOLUME VARIANCE = BASH – SFOH

FOUR-WAY VARIANCE APPROACH:
VARIANCE SPENDING VARIANCE = AVOH - BVOH

VARIABLE EFFICIENCY VARIANCE = BVOH - SVOH

FIXED SPENDING VARIANCE = AfOH - BfOH

FIXED VOLUME/CAPACITY VARIANCE = BfOH – SfOH

LEGEND:
AFOH = Actual Factory Overhead
SFOH = Standard Factory Overhead
BAAH = Budget Allowed on Actual Hours
BASH = Budget Allowed on Standard Hours

AfOH = Actual fixed Overhead
SfOH = Standard fixed Overhead
BfOH = Budgeted fixed Overhead (this is a constant amount)
AVOH = Actual Variable Overhead
BVOH = Budgeted Variable Overhead
SVOH = Standard Variable Overhead

COMPUTATIONS:

AFOH = Actual variable OH Cost **+** Actual Fixed OH Cost
SFOH = AQ X SH X SR -> standard rate for both var. plus fixed

BAAH =
For variable = AH x SR -> this is also your budgeted variable overhead
For fixed = Budg Fxd OH

BASH =
For variable = AQ x SH x SR -> this is also your standard variable OH
For fixed = Budg Fxd OH

BVOH = AH x SR
SVOH or SfOH = AQ x SH x SR