Seminar 6

- **Standard costing** is an acceptable method of valuing inventories under AASB102 provided the following requirements satisfied:
  - results approximate actual
  - normal levels of materials, labour, efficiency, capacity
  - variances treated appropriately

- A product's standard cost = SQ x SP for each factor of production

- When referring to total costs:
- Budgeted qty (BQ) means the qty (of material, labour etc) we:
  - **<u>should</u>** have used for units we **<u>expected to produce</u>**
- Standard qty (SQ) means the qty we:
  - **<u>should</u>** have used for units we **<u>did produce</u>**
- Actual qty (AQ) means the qty we:
  - **<u>did</u>** use for units we **<u>did produce</u>**

    - A variance is calculated and recorded when costs on job cards (and entered into accounts) are not the actual costs.

- For standard costing:
  - <u>None</u> of the manufacturing costs recorded at actual cost.
  - Therefore variances will be calculated for <u>all three manufacturing costs</u>.

- Preferable from a control point of view – if any problem e.g.:
  - managers buying poor quality to get lower price than budget
  - managers not buying in optimal quantities - paying more than budget
  - managers buying more than required – incurring storage costs top management needs to know about this ASAP

Characteristics:
– The firm isolates/calculates MPV at the earliest possible time **(on purchase)**
– The firm records material purchases at standard price **(on purchase)**
– The firm records material purchases at actual price **(on usage)**
– The firm wants a high level of control over costs **(on purchase)**
– The firm is not particularly concerned with a high level of control over purchases **(on usage)**

Responsibility:
– Material price – purchasing manager
– Labour rate – personnel manager
– Efficiency variances – production manager
– Overhead variances – production manager

Price/rate/spending variances

- Standard is out of date.
- Standard set without due care.
- Efficient or inefficient buying (e.g., discounts).
- Buying different quality material from standard.
- Buying materials from a non-usual source due to urgency.
- Utilising different labour from standard.
- Price changes due to economic conditions; scarcity of supplies.
- Choosing to incur additional discretionary fixed costs.
- More (or less) overtime hours used than budgeted.

Efficiency/usage/quantity variances

- Standard is out of date, set without due care.
- Inefficient use of material/labour, deliberate or otherwise.
- Poor supervision/equipment/maintenance.
- Changes in the production process.
- Learning period associated with process changes.
- Efficiencies from different quality of material or labour from standard.
- More efficient manufacturing than expected in the standard.
- Materials not being available causing idle time.
- Poor production scheduling.
- Industrial disputes.
- Materials not properly recorded in and out of storeroom.

Fixed overhead volume

- Any occurrence causing the firm to produce a number of units different from budgeted production.

Seminar 7

- OH price (spending)
  - Occurs when firm spends more or less on OH for units produced than it planned
- Variable OH efficiency
  - Units of the cost driver (eg machine hours) used for units produced was more/fewer than budgeted

- Actual OH incurred: always on debit side of OH a/c
- The budgeted OH rate is always:

$$\frac{\text{bud OH \$ (static level)}}{\text{bud activity (static level)}}$$

Differences

- OH applied:
  - <u>Accounts</u> same, <u>amounts</u> different

Normal: <u>actual activity</u> (which may be actual DL hours worked; actual machine hours; actual DL cost etc depending on the base chosen by the firm) multiplied by the budgeted OH rate.

Standard: <u>standard</u> machine hours, (or DL hours, or DL cost etc) multiplied by the budgeted OH rate.

REMEMBER: for flexible budget, number of items follows actual, fixed cost and selling price follow static (if selling price is given, if not, calculate)