

COST ACCOUNTING - STANDARD COSTING

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Planned cost is a key for effective cost control which is not provided by historical cost concepts. The standard costing system was developed to overcome the drawbacks of the historical costing system. Since historical costing deals only with the actual costs incurred, it is not an effective device of cost control.

Standard costing tells us what should be the cost of the product and if the actual cost exceeds the projected cost, the standard costing system can point to the reason of deviation.

Points Related to Standard Costing

- Standard costing includes pre-determination of costs under specific working conditions.
- In this process, the standard quantity of machine time, labor time, and material is calculated and the future market trend for price standards is analyzed.
- Standard costing helps in variance analysis.
- Along with fixation of sale price, it also provides valuation of stock and work in progress.
- Material, labor, and overheads cost are ascertained.
- Actual cost is measured.

Standard Cost Card

Format

Standard Cost Card

No

Product... ..

Date of setting Standard... ..

Element of Cost	Quantity of Hours	Rate Rs.	Standard Cost
1. Direct Material			
Material A	400 units	5.00	2,000
Material B	100 units	4.00	400
	500 units		2,400
Less: Normal Loss 5%	25 units	Scrap Value	400
Normal Output	475 units		2,000
2. Direct Labour	100 hrs	20	200
3. Overheads			