

# PRINCIPLES OF FINANCIAL AND MANAGERIAL ACCOUNTING II

## Standard Costs

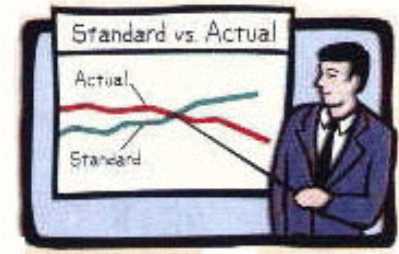
### Overview



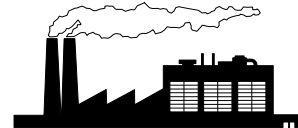
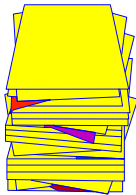
1. Importance of standards
2. Variances from standards
3. Standards in the accounts
4. Variances on the financial statements

### Advantages of Standard Costs (from textbook page 1089)

1. Helps \_\_\_\_\_ plan
2. \_\_\_\_\_ become more “cost conscious”
3. Helps set selling prices
4. Management more able to control \_\_\_\_\_
5. Management deals with \_\_\_\_\_
6. Simplify \_\_\_\_\_ costing and reduce clerical costs



### Variances from Standards



_____	→	_____
_____	→	_____
_____	→	_____

### Example of Standard Cost Variances

Standard costs and actual costs for direct materials, direct labor, and manufacturing overhead incurred for Titan Company in the manufacture of 5,000 units of product during February were as follows:

	<u>Standard Costs</u>	<u>Actual Costs</u>
Direct Materials	7,000 pounds at \$12	7,200 pounds at \$11.50
Direct Labor	2,000 hours at \$15	1,850 hours at \$15.50
Mfg Overhead	Rates per direct labor, based on 100% of capacity of 2,500 labor hours: Variable costs, \$13.20 Fixed cost, \$8.00	\$28,000 variable cost \$20,000 fixed costs

Instructions: Determine (a) the total direct materials cost variance, the price variance, and the quantity variance; (b) the total direct labor cost variance, the price (rate) variance, and the quantity (time) variance; and (c) the total manufacturing overhead cost variance, the controllable variance, and the volume variance.

#### DIRECT MATERIALS COST VARIANCE

Total Materials Variance

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Materials Price Variance

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Materials Quantity Variance

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DIRECT LABOR COST VARIANCE

Total Labor Variance

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Labor Price (Rate) Variance

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Labor Quantity (Time) Variance

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MANUFACTURING OVERHEAD COST VARIANCE

Total Overhead Variance

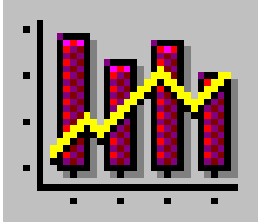
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(How Costs Behave)

	<u>In Total</u>	<u>Per Unit</u>
Variable Costs	_____	_____
Fixed Costs	_____	_____



Overhead Controllable Variance

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Overhead Volume Variance

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Standard Costs in the Accounts

You are strongly urged to learn more about recording standard costs in the accounts by completing the lesson available on the class web page (<http://oruaccounting.com>). It is a continuation of the exercise above. The next sheet in the Note-Taking Guide should assist you in following along. It would be best to complete it before you do your homework assignment on this topic.

