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Theory Q&A

Chp13 Standard Costing

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Chp13. Standard Costing

Theory Notes

(c) *Discuss the steps involved in setting labour time standards.*

Procedure of Setting Labour Time Standards

The following are the steps involved in setting labour standards:

- (a) **Standardisation:** Products to be produced are decided based on production plan and customer's order.
- (b) **Labour specification:** Types of labour and labour time is specified. Labour time specification is based on past records and it takes into account normal wastage of time.
- (c) **Standardisation of methods:** Selection of proper machines to use proper sequence and method of operations.
- (d) **Manufacturing layout:** A plan of operation for each product listing the operations to be performed is prepared.
- (e) **Time and motion study:** It is conducted for selecting the best way of completing the job or motions to be performed by workers and the standard time which an average worker will take for each job. This also takes into account the learning efficiency and learning effect.
- (f) **Training and trial:** Workers are trained to do the work and time spent at the time of trial run is noted down.

(d) *Discuss briefly some of the criticism which may be levelled against the Standard Costing System.*

(d) Criticism of Standard Costing

- (i) **Variation in price:** One of the chief problem faced in the operation of the standard costing system is the precise estimation of likely prices or rate to be paid. The variability of prices is so great that even actual prices are not necessarily adequately representative of cost. But the use of sophisticated forecasting techniques should be able to cover the price fluctuation to some extent. Besides this, the system provides for isolating uncontrollable variances arising from variations to be dealt with separately.
- (ii) **Varying levels of output:** If the standard level of output set for pre-determination of standard costs is not achieved, the standard costs are said to be not realised. However, the statement that the capacity utilisation cannot be precisely estimated for absorption of overheads may be true only in some industries of jobbing type. In vast majority of industries, use of forecasting techniques, market research, etc., help to estimate the output with reasonable accuracy and thus the variation is unlikely to be very large. Prime cost will not be affected by such variation and, moreover, variance analysis helps to measure the effects of idle time.

(c) DISCUSS the Controllable and un-controllable variances.

(c) **Controllable and un-controllable variances:** The purpose of the standard costing reports is to investigate the reasons for significant variances so as to identify the problems and take corrective action.

Variances are broadly of two types, namely, controllable and uncontrollable. Controllable variances are those which can be controlled by the departmental heads whereas uncontrollable variances are those which are beyond their control. Responsibility centres are answerable for all adverse variances which are controllable and are appreciated for favourable variances. Controllability is a subjective matter and varies from situation to situation. If the uncontrollable variances are of significant nature and are persistent, the standard may need revision.