

## Standard Costing & Variance analysis

### 1. Concept of Standard Costing

Continuous cost reduction is the goal of all firms for growth and survival in competition.

To reduce cost, first it is to be ensured that the costs are maintained at the pre-determined current level and not allowed to increase.

This is the main intention of Standard Costing.

## Standard Costing & Variance analysis

### 1. Concept of Standard Costing

If there is inefficiency, its cost is not to be charged to the product, but isolated as a cost variance.

All such variances are analyzed to

- ▶ identify the cause.
- ▶ take corrective action.
- ▶ eliminate recurrence.

## Standard Costing & Variance analysis

### 1. Concept of Standard Costing

Standard costing is an excellent system of control of costs and of measuring efficiency and improving upon it.

#### Standard costing

- ♠ sets cost targets
- ♠ tries to achieve them
- ♠ compares actual cost with targets
- ♠ ascertains reasons for variations
- ♠ records them in accounts for action.

## Standard Costing & Variance analysis

### 1. Concept of Standard Costing

Standard costs are not to be confused with pre-production costs – these are *actual* costs incurred in trial runs etc before production starts. Standard costs are exactly *determined* before start of production.

estimates or forecasts – these are not determined with any exactitude but are just guessed.

## 2. Definition and Meaning

### Standard Cost

“ A standard expressed in money. It is built up from an assessment of the value of cost elements. Its main uses are providing bases for performance measurement, control by exception reporting, valuing stock and establishing selling prices.”

## 2. Definition and Meaning

### Standard Costing

“ A control technique which compares standard costs and revenues with actual results to obtain variances which are used to stimulate improve performance.”

## 2. Definition and Meaning

Standard Costing

This technique can be summarized as

1. Pre-determination of technical data related to production i.e. details of material, labour, quantum of losses etc.
2. Predetermination of standard costs for each element of cost viz, labour, material, and overhead

## Standard Costing & Variance analysis

### 2. Definition and Meaning

Standard Costing

This technique can be summarized as –  
contd.

3. Comparison of actual performance & cost with standards.

4. Analysis of variances in order to determine reasons for deviations.

5. Presentation of information to the appropriate level of management for suitable action.

### 3. Standard Costing & Budgetary Control

The systems of standard costing and budgetary control have the common objectives of controlling business by establishment of predetermined targets, measuring the actual performance and comparing it with the targets for the purpose of having better efficiency and of reducing costs.

### 3. Standard Costing & Budgetary Control

#### Common features

- ☺ The object of improving management control.
- ☺ Presumption that costs are controllable.
- ☺ Analysis of comparison of results & reporting to management.

## Standard Costing & Variance analysis

### 3. Standard Costing & Budgetary Control – points of difference

- Standard Costing
  1. Related with control of expenses and hence more intensive.
  2. Based on technical assessments.
  3. To establish standard costs, it is necessary to have a form of budgeting, to forecast the level of output and prescribed set of working conditions
- Budgetary Control
  1. Concerned with the operation of the business and hence is more extensive.
  2. Budgets are based on past actuals, adjusted to future trends.
  3. Budgetary Control can be applied without standard costing.

## Standard Costing & Variance analysis

### 3. Standard Costing & Budgetary Control – points of difference - contd.

- Standard Costing
  - Budgetary Control
4. Standards are set mainly for production and production expenses.
  4. Budgets are prepared for all items of income and expenditure.
  5. Standard costing is projection of cost accounts.
  5. Budget is projection of financial accounts.
  6. Standards set up targets which are to be attained by actual performance.
  6. Budgets set up maximum limits of expenses above which actual expenditure should not normally exceed.

## Standard Costing & Variance analysis

### 3. Standard Costing & Budgetary Control – points of difference – contd.

- Standard Costing
  7. Variances are analyzed in detail according to their originating causes. The variance are shown by variance accounts.
  8. Standard costs are what cost should be under specific conditions of production.
  9. Standard costs are used in various management decisions- price fixing, value analysis, valuation of closing stock.
- Budgetary Control
  7. Variances are indicated through the related accounts and are revealed in total.
  8. Budgets are anticipated costs meant to be used for forecasting requirements of material, labour, cash etc.
  9. Aims at policy determination, coordination of activities in different divisions and delegation of authority.

## Standard Costing & Variance analysis

### 3. Standard Cost & Estimated Cost – points of difference

- Standard Cost
  1. Standard cost can be applied in a business operating under standard costing.
  2. Standards are meant for controlling future performances.
  3. Standard costs are determined on a scientific basis keeping in view certain factors and conditions of efficiency.
- Estimated Cost
  1. Can be used in any business which is running under historical costing.
  2. Estimates are prepared mainly for fixing prices.
  3. Estimated costs are calculated on the basis of past performance adjusted in the light of anticipated changes.

## Standard Costing & Variance analysis

### 3. Standard Cost and Estimated Cost – points of difference – contd.

- Standard Cost
  - Estimated Cost
4. Standard costs are to be fixed in respect of every element of cost and, therefore, it incorporates whole of the manufacturing process.
  4. Estimated costs can be ascertained for a part of the business and also for a particular purpose.
  5. The use of estimated cost is a statistical data only.

## Standard Costing & Variance analysis

### 4. Advantages of Standard Costing

1. To determine practical standards that represent efficient performance, management has to critically study existing facilities and methods. This study throws out many sources of wastages and losses for management to block them.
2. Setting up of achievable standards automatically forces employees to bring in more efficiency in operations.

## Standard Costing & Variance analysis

4. Advantages of Standard Costing – contd.
3. If standards are challenged periodically on a systematic basis, it will mean a constant increase in efficiency.
4. Standard costing involves pre-determined quantity standards as well as price and rate standards. Use of latter reduces clerical work increases speed at which data is provided to management.

## Standard Costing & Variance analysis

4. Advantages of Standard Costing – contd.
5. Enables objective judgment of the people and to that extent systems of promotions are more acceptable in the firm.
6. Management's time in control is saved as standard costing encourages management by exception.
7. Standard costs isolate fluctuations and inefficiency in developing costs and thereby help establishment of selling prices on a long term basis.

## Standard Costing & Variance analysis

4. Advantages of Standard Costing – contd.
8. Inventories are valued correctly and regularly.
9. Scientifically determined realistic standards enthuse employees towards greater efficiency.
10. Waste of time and materials are eliminated.
11. There is considerable saving in clerical time and expenditure leading to reduction in the cost of the costing system.

## Standard Costing & Variance analysis

### 4. Advantages of Standard Costing – contd.

12. Delegation of authority is facilitated and responsibility is fixed for each department and individual.

13. When standards are constantly reviewed cost reduction is achieved through improved methods, improved quality, better materials and men, effective selection and use of capital resources.

## Standard Costing & Variance analysis

### 4. Advantages of Standard Costing – contd.

14. Assists performance analysis by providing ready means for preparation and interpretation of information

.

15. Eliminates reconciliation between cost and financial accounts as standard costs can be integrated into financial accounts.

## Standard Costing & Variance analysis

### 5. Limitations of Standard Costing –

1. Establishment of standards with a certain degree of exactitude throughout the organization is a very difficult task.
2. The standards become rigid over a time as frequent revisions to standards is costly and problematic.
3. Inaccurate, unreliable and out of date standards cause more harm than gain.
4. Standards set at a high level cause frustration in staff as they are never achieved.

## Standard Costing & Variance analysis

### 5. Limitations of Standard Costing – contd.

5. Variances many times cannot be explained and segregation between controllable and non controllable variances is not possible.
6. Where production cannot be carefully scheduled and there are frequent changes to meet customer needs, standard costing is unsuitable.
7. The method cannot be used for non repetitive or repairs jobs.

## 6. Types of Standards

Standards based on highest possible efficiency are not realistic as wastages , idle time cannot be totally eliminated.

On the other hand standards fixed on past experience will result in perpetuating existing inefficiencies.

Standards, therefore, need to be realistic as well as somewhat idealistic.

## 6. Types of Standards

**Basic Standard:** Is the one determined for use over along period of time. They remain unchanged unless there is a change in quality requirements.

**Current Standard :** Is a scientific standard adjusted to suit current subjective factors. It is for a certain period, certain conditions and certain circumstances.

## 6. Types of Standards

**Expected Standard:** Is a standard which can be attained if a standard unit of work is carried out efficiently, a machine operated properly or a material properly used. Allowances are made normal losses, waste and machine downtime.

**Normal Standard :** The average standard which it is anticipated can be attained over a future period of time, preferably, long enough to cover one trade cycle.

## 6. Types of Standards

### Ideal Standard:

This standard can be attained only under the most ideal conditions. It is a standard which can be attained under the most favourable condition, with no allowance for normal losses, waste and machine down time.

## 7. Concept of Standard Hour

Standard hour means the quantity of work achievable at standard performance in an hour.

This allows output of a dissimilar nature to be expressed by a common factor.

## Standard Costing & Variance analysis

### 7. Concept of Standard Hour

If Machine Shop completed 200 units of Part A and 250 of part B in the first shift, but 200 of B and 250 of A in the next, we cannot compare productivity of the two shifts.

When we know, that one unit of part A needs two standard hours and Part B three, then output of the first shift is  $(200 \times 2) + (250 \times 3) = 1150$  hours; and second shift  $(250 \times 2) + (200 \times 3) = 1100$  hours; and therefore the fact That the first shift was more productive.

## 8. Setting of Standard Costs

Though standard cost is to be determined for each element of cost, i.e. material, labour & overhead; an integrated approach is necessary as right type of materials or automated machinery has direct favorable impact on labour cost.

Success of standard costing system is dependent on how precisely the standard costs for each element are set.

## 8. Setting of Standard Costs

### Factors to be considered:

- \* Technical and operational aspects of the concern.
- \* Industrial engineering criteria for materials, labour etc.
- \* The types of standard to be used.
- \* Proper classification of the accounts so that variance is determined properly.
- \* Responsibility for setting standards. In case of variance, this responsible person accounts for it.

## 9. Direct Material Standards

Depend on quantity and price of materials required per unit. Hence two standards needed

### (i) Material Usage Standard :

Objective in setting this standard is to ensure optimum usage of materials.

'Standard Material Specification' is prepared showing details of material size, grade, quantity etc. by i] reference to the weight of material in the final product, ii] using data from past performance & iii] carrying out test runs.

## Standard Costing & Variance analysis

### 9. Direct Material Standards

Depend on quantity and price of materials required per unit. Hence two standards needed

#### (ii) Material Price Standard :

Efficiency of purchasing along with storekeeping functions are considered for setting this standard. Objective is to minimize direct material costs. The standard provides for discount on purchases, economy of bulk purchases, anticipated changes in market price.

## 10. Standard Cost for Direct Labour

Depends on labor time required per unit and wage rates. Hence two standards needed

### (i) Standard Labour Time:

This indicates the precise time that labour of a particular grade should take to perform a given operation. Objective is to derive maximum labour efficiency. Standard time can be determined on the basis of past performance. Time and motion studies are of great help in determining standard times .

## 10. Standard Cost for Direct Labour

Depends on labor time required per unit and wage rates. Hence two standards needed

### (ii) Labour Rate Standard :

This indicates the wage rates expected to be paid to labour of a particular grade. Objective is to plan for actual wages to be paid. Future trend of wages, collective agreement between labour and management, guaranteed minimum wages, overtime wages, and level of activity requiring overtime operations.

## 11. Standard Overhead Rates

The principal objective is to minimize overhead costs chargeable to production.

### Important Steps :

- Determine the level of activity of production departments & work to be done by service departments.
- Classify overheads into fixed, semi-fixed variable.

## 11. Standard Overhead Rates

Important Steps : contd.

❑ Calculate standard overhead rate for each service department and apply it to production departments.

❑ Determine overhead rates for production in the form of direct labour hour rate, machine hour rate or as a % of wages, material, prime cost etc.

## Standard Costing & Variance analysis

### 11. Standard Overhead Rates

Calculations:

Direct Labour Rate :

$$\frac{\text{Total Standard Overhead Cost for Prodn. Dept.}}{\text{Standard Direct Labour Hours to Prodn. Dept.}}$$

Machine Hour Rate:

$$\frac{\text{Total Standard Overhead Cost for Prodn. Dept.}}{\text{Standard Machine Hours}}$$

## Standard Costing & Variance analysis

### 11. Standard Overhead Rates

Calculations:

Percentage of Direct Wages :

Total Standard Overhead Cost for Prodn. Dept.

\_\_\_\_\_ X 100

Standard Direct Wages to Prodn. Dept.

## 12. Standard Administration Costs

The object of setting a standard administration cost is to secure the maximum quantity and quality of administrative services at minimum cost.

Factors to be considered:

- 1] Past performance
- 2] Advice from Organization and Methods OM study team,

## 12. Standard Administration Costs

Factors to be considered: - contd.

- 3] Time and Motion studies.
- 4] Choosing appropriate 'work units' and fixing standard cost per work
- 5] Classify administration costs into fixed, variable and semi variable before setting standards.

## 13. Standard Costs for Selling and Distribution

### Important Steps :

- ▣ Prepare a sales forecast, as selling & distribution costs are primarily related to volume of sales.
- ▣ Classify overheads into fixed, semi-fixed variable'
- ▣ Examine in details the functions and determine standard units of operation.

## 14. Computation & Analysis of Variances.

Variance is the difference between planned, budgeted or standard cost and actual cost, and similarly for revenue. Revealing variances is the primary object of standard costing.

Variance analysis involves

- ✓ computation of individual variance
- ✓✓ determination of cause for each

## Standard Costing & Variance analysis

### 14. Computation & Analysis of Variances.

If the actual cost is higher than the standard cost, the variance indicates inefficiency and hence it is also called **adverse or unfavourable variance.**

A variance that increases profits is called favourable variance.

## 14. Computation & Analysis of Variances.

A detailed probe into controllable variances helps management to ascertain -

- \* the amount of variance
- \* its occurrence
- \* factors responsible for it
- \* the executive responsible for the variance
- \* corrective action required to reduce or obviate the variance.

## 14. Computation & Analysis of Variances.

### **Favourable and Unfavourable Variances :**

If the actual cost is less than the standard cost , variance is termed favourable, positive or credit variance. This variance increases profit.

If the actual cost is more than the standard cost , variance is termed unfavourable, adverse, negative or debit variance. This variance decreases profit.

## 14. Computation & Analysis of Variances.

### Controllable and Uncontrollable Variances :

If the variance reflects efficiency of a particular individual or department, that variance is controllable.

An uncontrollable variance is one which is not amenable to control by a suitable action.

Management focuses on controllable variances, as action thereon increases profit.

## 14. Computation & Analysis of Variances.

### Revision Variance :

This is an amount by which budget has been revised, but standards have not been altered as a matter of policy.

The revision is caused by changes beyond management control, hence standards are not changed.

**The variance is uncontrollable**

## 14. Computation & Analysis of Variances.

### Method Variance :

This variance is caused by actual production carried by a method different than the normal.

Standards usually consider the most economic method of operation. Hence these variances need to be minimized.

## 14. Computation & Analysis of Variances.

### Precautions for Variance Analysis :

♠ Variances should not be automatically applied for control purposes. It must be checked whether higher costs are justified.

♠ If actual activity levels are different than that used for standards, all variances need to be adjusted for shortfall in activity before using them for control.

## 14. Computation & Analysis of Variances.

**Precaution for Variance Analysis : contd.**

♠ In case of fixed overhead variance it should be noted that what is charged to cost is not the actual cost, but applied overheads which are a function of actual output.

## 14. Computation & Analysis of Variances.

**Two way Analysis of Variance :**

Each variance is to be analyzed as

- i] incurring variance
- ii] recovery variance.

Variance is caused either as a result of degree of efficiency in utilization of resources or changes in prices paid for resources.

## 14. Computation & Analysis of Variances.

Two way Analysis of Variance provides following variances:

Material Cost Variance – Material Price Variance  
Material Usage Variance  
Labour Cost Variance – Labour Rate Variance  
Labour Time Variance  
Overhead Cost Variance – Overhead Expenditure  
– Overhead Volume

## 15. Material Cost Variance.

Material cost variance is the difference between the standard cost specified and the actual cost of material used.

It is due to either variation in the price of material or its usage or both.

**Material cost variance =**

**Standard cost of material - Actual Cost of material used.**

## 15. Material Cost Variance.

### (a) Material Price Variance

This is that portion of material cost variance which is due to the difference between the standard prices specified and actual price paid. This is an 'incurring' variance.

**Material Price Variance =**

**Actual quantity ( standard unit price - actual unit price)**

## Standard Costing & Variance analysis

### 15. Material Cost Variance.

#### (a) Material Price Variance - reasons

1. Changes in market price of material used.
2. Changes in lot size of purchase resulting in different price.
3. Failure to obtain discount provided while setting standards.
4. Rush order to meet short supply.
5. Failure to purchase at the right time when prices were favourable.

## Standard Costing & Variance analysis

### 15. Material Cost Variance.

#### (a) Material Price Variance - reasons contd.

6. Emergency purchase requested by Production/Sales.
7. Change in price caused by change in storage, material handling or carriage inwards expense.
8. Changes in amount of taxes or duties.
9. Change quality or specifications of material.
10. Use of substitute material with a different price.
11. Changes in the pattern of taxes & duties.

## Standard Costing & Variance analysis

### 15. Material Cost Variance.

#### (b) Material Usage Variance -

This is that portion of material cost variance which is due to difference between the standard quantity of materials specified and actual quantity of material used.

**Material Usage Variance =**

**Standard Price ( Actual Quantity - Standard Quantity)**

## Standard Costing & Variance analysis

### 15. Material Cost Variance.

#### (b) Material Usage Variance - reasons

1. Lack of due care in the use of materials.
2. Defective production requiring additional material.
3. Abnormal wastage through pilferage or other losses.
4. Inefficient production, less skilled workers.
5. Use non standard material mix.

## Standard Costing & Variance analysis

### 15. Material Cost Variance.

#### (b) Material Usage Variance - reasons contd.

6. Actual yield different than that provided in the standard.
7. Purchase of inferior or different quality material.
8. Rigid technical specifications and rigid inspection leading to more rejections.
9. Use of substitute materials.
10. Improper machine maintenance, breakdowns causing loss of material.
11. Poor inspection of raw materials.

## Standard Costing & Variance analysis

### 15. Material Cost Variance.

#### (b) Material Usage Variance.

##### i] Material Mixture Variance : -

One of the reasons for material usage variance is change in the composition of the materials mix. If a large proportion, than specified in the standard , of more expensive material, is used in a batch, material usage will indicate higher cost than the standard cost. This is termed material mix variance.

## Standard Costing & Variance analysis

### 15. Material Cost Variance.

#### (b) Material Usage Variance.

##### ii] Material Yield Variance : -

Yield variance is the difference between the standard yield specified and the actual yield obtained.

This variance is significant in process industries.

It is caused by defective methods of operation, sub-standard quality of materials, lack of due care in handling, improper supervision.

## 16. Labour Cost Variances.

Labour cost variance also termed as direct wage variance is the difference between the standard wages specified for the activity and actual wages paid.

It is obtained by subtracting (Actual Hours x Actual Rate) from (Standard Hours x Standard Rate).

It is caused by payment of a different rate than the one specified in the standard or by non standard time taken to complete the activity.

## 16. Labour Cost Variances.

### i] Wage Rate Variance :

This is that portion of labour cost variance which is due to difference between the actual rate the standard rate of pay specified.

Labour Rate Variance =

Actual Hours ( Standard Rate - Actual Rate)

## 16. Labour Cost Variances.

### i] Wage Rate Variance : Reasons-

1. Change in basic wage structure or in piece work rate.
2. Over time work in excess of that provided in the standard.
3. Employment of worker/s of a different grade than the one specified in the standard.

## 16. Labour Cost Variances.

i] Wage Rate Variance : Reasons- contd.

4. Payment of guaranteed wages to a worker who are unable to earn their normal wage.
5. New workers not being allowed full normal wage rates.
6. Payment of piece rate while standards are based on a day rate or *vice versa*.

## 16. Labour Cost Variances.

i] Wage Rate Variance : Reasons- contd.

7. Higher wages paid because of overtime for urgent work.
8. The composition of a gang as regards the skill and rate of wages being different than that laid down in the standard.

## 16. Labour Cost Variances.

### ii] Labour Time or Efficiency Variance :

is that portion of labour wages variance which is due to the difference between standard labour hours specified and the actual hours expended. In other words it is a usage variance.

**Labour Efficiency Variance =**

**Standard Wage Rate ( Standard hours of production - actual hours worked)**

## 16. Labour Cost Variances.

### ii] Labour Time or Efficiency Variance : causes

1. Lack of proper supervision.
2. Poor working conditions
3. Defective machinery & equipment.
4. Discontentment among workers
5. Increase in labour turnover.
6. Use of non-standard material
7. Untrained workers, incorrect or inadequate instructions.
8. Wrong selection of workers.

## Standard Costing & Variance analysis

### 16. Labour Cost Variances.

#### ii] Labour Time or Efficiency Variance :

##### A : Idle Time Variance.

This variance which forms a part of wages efficiency variance, is represented by the standard cost of the actual hours for which the workers remain idle due to abnormal circumstances.

**Idle Time Variance =**

**Standard Rate (Actual hours paid - Actual hours worked)**

## Standard Costing & Variance analysis

### 16. Labour Cost Variances.

ii] Labour Time or Efficiency Variance :

B : Labour Mix Variance.

Also known as Gang Composition variance is a sub-variance caused by change in the composition of a standard gang of combination of labour force.

**Labour Mix Variance =**

**Standard Rate (Actual hours of actual gang -  
Actual hours of standard gang)**

## Standard Costing & Variance analysis

### 16. Labour Cost Variances.

ii] Labour Time or Efficiency Variance :

C : Labour Yield Variance.

This variance is due to the difference in the standard output specified and actual output obtained.

**Labour Yield Variance =**

**Standard Cost (Actual output – Standard output)**

## 17. Overhead Cost Variances.

The total overhead cost variance is the difference between the Standard Cost of overhead cost allowed for the actual output achieved and actual overhead cost incurred.

It is reflected by over- / under-absorption of overheads.

Overhead Cost Variance =

(Actual Output x Standard overhead rate per unit) - Actual overhead cost.

## Standard Costing & Variance analysis

### 17. Overhead Cost Variances.

It is classified into a) Variable & b) Fixed Overhead Variance.

#### a) Variable Overhead Variance.

Variable Overhead Variance is the difference between the Standard variable overhead cost allowed for the actual output achieved and actual variable overhead cost incurred.

## Standard Costing & Variance analysis

### 17. Overhead Cost Variances.

#### a] Variable Overhead Variance.

Some accountants further segregate this variance into

#### i] Variable Overheads Expenditure Variance which is calculated as under

$(\text{Actual hours} \times \text{Standard Variable Overhead rate}) - \text{Actual variable overhead}$  .

## Standard Costing & Variance analysis

### 17. Overhead Cost Variances.

#### a] Variable Overhead Variance.

Some accountants further segregate this variance into

#### ii] Variable Overheads Efficiency Variance which is calculated as under

Standard Variable Overhead rate (Standard hours for actual production - actual hours worked)

17. Overhead Cost Variances.

b] Fixed Overhead Variance.

It is the difference between the standard cost of fixed overhead allowed for the actual output achieved and the actual fixed overhead cost incurred.

This is broadly divided into

- i] Expenditure variance and
- ii] Volume Variance

## Standard Costing & Variance analysis

### 17. Overhead Cost Variances.

#### b] Fixed Overhead Variance.

##### i] Expenditure variance

This is also known as budget variance.

It is calculated by subtracting actual overheads from budgeted overheads.

If actual overheads are more then it is an adverse variance.

## Standard Costing & Variance analysis

### 17. Overhead Cost Variances.

#### b] Fixed Overhead Variance.

##### ii] Volume variance

The difference between overhead absorbed on actual output and those on budgeted output is known as volume variance.

**Volume variance =**

**(Actual output x standard rate) - budgeted fixed overheads**

## Standard Costing & Variance analysis

### 17. Overhead Cost Variances.

#### b] Fixed Overhead Variance.

##### ii] Volume variance

Is further segregated into 1.) Capacity Variance and 2) Calendar Variance

1) Capacity Variance is that portion of volume variance which is due to working at higher or lower capacity level than the standard level.

## Standard Costing & Variance analysis

### 17. Overhead Cost Variances.

#### b] Fixed Overhead Variance.

##### ii] Volume variance

Is further segregated into 1.) Capacity Variance and 2) Calendar Variance

2) Calendar Variance is that portion of volume variance which is due to the difference between the number of working days anticipated in the budget period and the actual days worked in the budget period.

## 17. Sales Variances.

Is the difference between budgeted value of sales and actual sales achieved in the given period.

The variance is analyzed in two ways.

- i] Sales margin variance (on the basis of profit).
- ii] Sales value variance (based on turnover)

## 17. Sales Variances.

i] Sales margin variance (on the basis of profit).

Indicates the difference between actual profit earned and budgeted profit. It is calculated by subtracting product of budgeted quantity of sales and budgeted profit per unit from product of actual quantity of sales and actual profit per unit.

## 17. Sales Variances.

i] Sales margin variance (on the basis of profit).

Is segregated into :

a] Sales Price Variance and

b] Sales Volume Variance.

a] Sales Price Variance is that portion of total sales margin variance which is due to the difference between the standard price of the quantity of sales effected and the actual price of those sales.

## 17. Sales Variances.

i] Sales margin variance (on the basis of profit).

b] Sales Volume Variance is that portion of sales margin variance which is due to the difference between the budgeted quantity of sales and actual quantity sold.

## 17. Sales Variances.

i] Sales margin variance (on the basis of profit).

### Sales Mix Variance

When more than one product is manufactured and sold, the difference in profit can result from the variation of actual mix and budgeted mix of sales. This difference in profit is called Sales Mix Variance.

## Standard Costing & Variance analysis

### 17. Sales Variances.

ii] Sales value variance (based on turnover)

It is the difference between the actual value of sales and the standard value of sales.

It is segregated into

i] Sales Price Variance and

ii] Sales Volume Variance

## Standard Costing & Variance analysis

### 17. Sales Variances.

ii] Sales value variance (based on turnover)

i] Sales Price Variance

It is the difference between the standard and actual prices of the sales effected. It is calculated as

Actual quantity sold ( Actual Price - Standard price)

## 17. Sales Variances.

ii] Sales value variance (based on turnover)

ii] Sales Volume Variance

It is the difference between the actual quantity of sales and the standard quantity of sales. It is calculated as

Standard price ( Actual quantity sold  
- standard quantity of sales)

## Standard Costing & Variance analysis

### 17. Sales Variances.

ii] Sales value variance (based on turnover)

#### ii] Sales Volume Variance

Sales Mix Variance is that part of the sales volume variance that arises due difference in proportion in which various products are sold and the standard proportion.

## 18. Reporting of Variances.

Timely and prompt reporting of variances to management is needed to enable corrective action to arrest unfavourable variances to the extent possible.

The individual or department responsible for the variance should be located. Graphs or charts can be used for attracting management attention.

## 18. Reporting of Variances.

Factors to be considered in reporting:

1. Variances arising out of each factor be correctly reported without any mix up.
2. Controllable variances be reported promptly for timely corrective action.
3. Uncontrollable variances be thoroughly analyzed for any changes in management decisions.

The formats used should be user friendly & data in simple terms.

**Next “ Marginal Costing’ bye . . .**