

Standard costing

Questions and Answers (A level)

Question 1

March 2017

5 Joshua makes a single product and uses standard costing.

REQUIRED

(a) State **one** reason why each of the following variances may arise for a business.

- (i) favourable material usage [1]
- (ii) adverse labour efficiency [1]

Additional information

The standard costs for the month of June were:

		Per unit
		\$
Direct material	5 kilos at \$2 per kilo	10
Direct labour	2 hours at \$8 per hour	16
Fixed production overhead	2 hours at \$4 per hour	<u>8</u>
		<u>34</u>

Budgeted production for June was 19 000 units.

Actual data for the month of June was:

		\$
Direct material	83 100 kilos	182 820
Direct labour	37 500 hours	281 250
Fixed production overheads		115 000

Actual production for the month of June was 17 500 units. There were no opening or closing inventories.

REQUIRED

(b) Calculate the following variances for the month of June:

- (i) Material price [2]
- (ii) Material usage [2]
- (iii) Labour rate [2]
- (iv) Labour efficiency [2]
- (v) Fixed overhead efficiency [3]
- (vi) Fixed overhead capacity [3]

Additional information

There was a favourable fixed overhead expenditure variance of \$37 000.

REQUIRED

- (c) Prepare a statement reconciling the standard cost of production with the actual cost of production. [4]

Additional information

Jenny, Joshua's sister, has told Joshua that it is not necessary to continue operating a standard costing system.

REQUIRED

- (d) Advise Joshua whether or not he should continue to use standard costing. Justify your answer. [5]

[Total: 25]

Question	Answer	Marks
5(a)(i)	Material usage Experienced labour New machinery Better quality materials (less wastage) (1 mark) any one reason, max 1	1
5(a)(ii)	Labour efficiency Less skilled labour Lower grade materials More idle time than budgeted Poor supervision Machine breakdowns (1 mark) any one reason, max 1	1
5(b)(i)	Material price Std 83 100 kilos · \$2 166 200 Actual 182 820 <u>16 620</u> (1) A (1)	2
5(b)(ii)	Material usage Std 17 500 units · 5 kilo 87 500 Actual 83 100 <u>4 400</u> Kilos F \$2 <u>\$8 800</u> (1) F (1)	2
5(b)(iii)	Labour rate Std 37 500 hrs · \$8 300 000 (1) Actual 281 250 <u>18 750</u> (1) F	2

Question	Answer	Marks
5(b)(iv)	Labour efficiency Std 17 500 units · 2 hrs 35 000 Actual 37 500 <u>2 500</u> hrs A \$8 <u>\$20 000</u> (1) A (1)	2
5(b)(v)	Fixed overhead efficiency Actual hours 37 500 Std hours 35 000 <u>2 500</u> \$4 (1) <u>\$10 000</u> (1) A (1)	3
5(b)(vi)	Fixed overhead capacity Actual hours 37 500 Std hours 38 000 <u>500</u> \$4 (1) <u>\$2 000</u> (1) A (1)	3

Question	Answer	Marks
5(c)	Standard cost of actual production \$34 · 17 500 \$ 595 000 (1) Variances Fav Adv \$ \$ Material price 16 620 Material usage 8 800 Labour rate 18 750 Labour efficiency 20 000 Fixed overhead expenditure 37 000 Fixed overhead efficiency 10 000 Fixed overhead capacity 2 000 <u>64 550</u> 48 620 15 930 F (1of) Actual cost of production (1) both <u>579 070</u> (1) Working: Actual cost of production: \$ Direct materials 182 820 Direct labour 281 250 Fixed production overheads 115 000 <u>579 070</u>	4

Question	Answer	Marks
5(d)	Assist in setting budgets. Evaluate managerial performance. Predict future costs for decision making. Motivate staff by providing targets. Provide ways of improving efficiency. Control device – uses variance analysis. Valuing inventories. Expensive Time consuming to operate Requires specialist knowledge Advice 1 mark 4 for reasons	5
		25

Question 3

March 2019

Jack makes a single product and uses a standard costing system. The budget for each month is based on the following standard data per unit.

Direct material	0.5 kilos at \$6 per kilo
Direct labour	1.5 hours at \$4.50 per hour
Fixed production overhead	1.5 hours at \$5 per hour

Budgeted production and sales for each month are 6500 units.

The actual data for the month of September was:

Direct material	2800 kilos cost \$17 350
Direct labour	9500 hours cost \$42 275
Total fixed production overheads	\$52 100

Actual production and sales for September were 5900 units.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

- (a) Calculate the following variances for the month of September.
- | | |
|------------------------|-----|
| (i) Material price | [2] |
| (ii) Material usage | [2] |
| (iii) Labour rate | [2] |
| (iv) Labour efficiency | [2] |
- (b) Suggest **one** possible cause for **each** of the variances calculated in (a). [4]
- (c) Calculate the following variances for the month of September.
- | | |
|--------------------------------|-----|
| (i) Fixed overhead expenditure | [2] |
| (ii) Fixed overhead volume | [2] |

Additional information

For the month of October, Jack has calculated an adverse fixed overhead volume variance.

- (d) Explain how October's fixed overhead volume variance can be further analysed to provide Jack with more information about the performance of the business. [5]
- (e) State **two** advantages and **two** disadvantages to Jack of using standard costing system. [4]

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6(b)	<p>Material price variance – adverse</p> <p>Unexpected price increase.</p> <p>Loss of previous discount from supplier.</p> <p>Better quality materials purchased.</p> <p>(1 mark) × any 1 reason OF</p> <p>Material usage variance – favourable</p> <p>Less wastage due to better quality material.</p> <p>Less wastage due to better skilled/experienced workforce.</p> <p>(1 mark) × any 1 reason OF</p> <p>Labour rate – favourable</p> <p>A planned pay increase was not given.</p> <p>Use of lower skilled labour.</p> <p>Greater supply of labour.</p> <p>(1 mark) × any 1 reason OF</p>	4

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6(b)	<p>Labour efficiency - adverse</p> <p>Use of lower quality material.</p> <p>Use of lower skilled labour.</p> <p>More idle time than budgeted.</p> <p>Poor supervision</p> <p>(1 mark) × any 1 reason OF Accept other valid points.</p>																																					
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6(d)	<p>The fixed overhead volume variance is the difference between the actual and budgeted production and can be broken down further (to show what caused this difference) into the fixed overhead efficiency (1) and fixed overhead capacity. (1)</p> <p>If Jack calculated the fixed overhead efficiency he would know how much of the volume variance was due to the efficiency of his workforce. (1) As the volume variance was adverse for Jack this could mean the workforce worked more slowly than expected (1) due to lack of skills, poor material quality. (1)</p> <p>If Jack calculated the fixed overhead capacity he would know how much of the <i>volume</i> variance was due to number of hours worked. (1) As the <i>volume</i> variance was adverse for Jack this could mean the workforce worked fewer hours than expected (1) due to strikes, machine breakdown or shortage of labour. (1)</p> <p>Accept other valid points.</p> <p>Max 5</p>	5

Question	Answer	Marks
6(e)	<p>Advantages</p> <ul style="list-style-type: none"> Acting as a control device in variance analysis (1) Assisting in budget setting (1) Evaluating managers performance (1) Predicting future costs to aid decision making (1) Providing targets to motivate staff (1) Suggesting ways to improve efficiency (1) Enabling more accurate inventory valuation (1) <p>Disadvantages</p> <ul style="list-style-type: none"> Time consuming to collect data (1) Standards based on estimates (1) Unrealistic standards can demotivate staff (1) Factors causing variances are outside his control (1) <p>Max 2 marks for advantages and Max 2 marks for disadvantages Accept other valid points.</p>	4

Question 4

May June 2018

C Limited produces tables. Each table requires the following:

raw materials	3 metres of wood at \$80 per metre
direct labour	12 hours at \$30 per hour
fixed production	overhead \$10 per direct labour hour

Budgeted production is 5000 tables.

Actual production was 4800.

Actual production costs were:

		\$
direct materials	15 360 metres	1 190 400
direct labour	55 200 hours	1 766 400
fixed production overhead		579 600

All tables produced were sold.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) State **two** limitations of a standard costing system. [2]

(b) Calculate the following variances:

- (i) direct materials price
- (ii) direct materials usage
- (iii) direct labour rate
- (iv) direct labour efficiency
- (v) fixed overhead expenditure
- (vi) fixed overhead volume [12]

(c) Prepare a statement reconciling the budgeted cost of producing 4800 tables with the actual cost. [8]

Additional information

The directors are considering using higher quality wood and increasing the selling price.

(d) Advise the directors whether or not they should make these changes. Justify your answer. [3]

[Total: 25]

Question	Answer	Marks						
6(a)	<p>Responses could include:</p> <p>the setting of standards is time consuming/costly e.g. needs a specialist</p> <p>standards need to be updated regularly as business conditions change rapidly</p> <p>too high a standard may have a demotivating effect on staff</p> <p>setting standards involves prediction which has an element of uncertainty/inaccurate</p> <p>(1 mark) - 2 limitations</p>	2						
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Direct labour efficiency variance	(72 000))																																										
Fixed OH expenditure variance	(20 400)) (1) OF																																										
Fixed OH volume variance	24 000)																																										
Production cost	<u>3 536 400</u>	(1)																																										
W1 Flexed budget	\$																																											
Direct materials 4 800 · \$240	1 152 000	(1)																																										
Direct labour 4 800 · \$360	1 728 000	(1)																																										
Production overhead 4 800 · \$120	576 000	(1)																																										
Production cost for 4 800 units	<u>3 456 000</u>	(1) OF																																										

Question	Answer	Marks
6(d)	<p>Increasing selling price may lose existing customers</p> <p>May gain new customers looking for high quality product</p> <p>Higher quality product will enhance the reputation of the business</p> <p>Will adversely affect the material price variance</p> <p>May improve material usage variance/less wastage</p> <p>May further improve labour efficiency variance with the use of high quality materials</p> <p>Accept other valid points.</p> <p>(2) marks for justification and (1) mark for decision.</p>	3