

Budget

Budget is a blue Print of a plan expressed in quantitative terms. It is prepared for a definite period well in advance. A budget is the monetary and/or quantitative expression of business plans and policies to be pursued in the future period of time.

Budget,Budgeting&Budgetary Control

A budget is the blueprint of a plan expressed in quantitative terms. On the other hand, budgeting is a technique for formulating budgets.

Budgetary control refers to the principles, procedures and practices of achieving given objectives through budgets.

Objectives of Budgetary Control

1. To Reduce Wastages
2. To predict the capital expenditures
3. To increase profitability
4. To record the actual performance
5. To correct deviations from established standards.

Standard Costing

A predetermined cost which is calculated from management's standards of efficient operation and the relevant necessary expenditure.

Characteristics

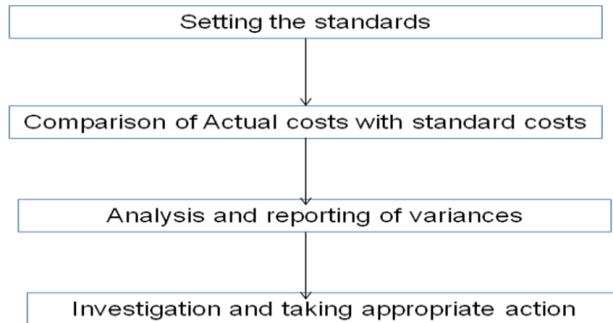
1. Flow of information
2. No Actual costs
3. Appraisal of Performance
4. Appropriate for repetitive activities

Objectives

1. Cost Control
2. Develops cost conscious attitude
3. Fixation of prices
4. Fixing prices and formulating Policies

5. Management planning

Steps of Standard Costing



ADVANTAGES OF STANDARD COSTING

1. Cost control:

Standard costing is universally recognised as a powerful cost control system. Controlling and reducing costs becomes a systematic practice under standard costing.

Elimination of wastage and inefficiency:

Wastage and inefficiency in all aspects of the manufacturing process are curtailed, reduced and eliminated over a period of time if standard costing is in continuous operation.

2. Norms:

Standard costing provides the norms and yardsticks with which the actual performance can be measured and assessed.

3. Locates sources of inefficiency:

It points to the areas where operational inefficiency exists. It also measures the extent of the inefficiency.

4. Fixing responsibility:

Variance analysis can determine the persons responsible for each variance. Shifting or evading responsibility is not easy under this system.

5. Management by exception:

The principle of management by exception can be easily followed because problem areas are highlighted by negative variances.

6. Improvement in methods and operations:

Standards are set on the basis of systematic study of the methods and operations. As a consequence, cost reduction is possible through improved methods and operations.

7. Guidance for production and pricing policies:

Standards are valuable guides to the management in the formulation of pricing policies and production decisions.

8. Planning and Budgeting:

Budgetary control is far more effective in conjunction with standard costing. Being predetermined costs on scientific basis, standard costs are also useful in planning the operations.

9. Inventory valuation:

Valuation of stocks becomes a simple process by valuing them at standard cost.

LIMITATIONS OF STANDARD COSTING

1. It is costly, as the setting of standards needs high technical skill.
2. Keeping of up-to-date standards is a problem. Periodic revision of standards is a costly thing.
3. Inefficient staff is incapable of operating this system.
4. Since it is difficult to set correct standards, it is difficult to ascertain incorrect variance.
5. Industries, which are subject to frequent changes in technological process or the quality of material or the character of labour, need a constant revision of standard. But revision of standard is more expensive.
6. For small concerns, standard costing is expensive.

Standard Setting

Normally setting up standards is based on the past experience. The total standards cost includes direct material, direct labor and overheads. Normally, all these are fixed to some extent. The standards should be set up in a systematic way so that they are used as a tool for cost control.

Process of setting standards

- a. Determination of cost centre
- b. Current standards
- c. Ideal standard
- d. Basic standard
- e. Normal standards

- f. Organization for standard costing
- g. Accounting system
- h. Revision of standards

Variance

Variance is the difference between actual costs and standard costs during an accounting period. It refers to variation of actual results with planned results. Variance analysis is a systematic process which analyses and interprets the variances. It refers to the break-down of the total variances into different components.

Analysis of Variance

“The analysis of variances arising in a standard costing system into their constituent parts”

Classification and computation of Variances

