



BANGLADESH  
COST ACCOUNTING  
STANDARDS

BCAS - 13

Standard Costing

## BCAS 13: Standard Costing

### 13.1 Introduction

Standard costing is an important area of cost accounting. Standard costs are usually associated with a manufacturing company's costs of direct material, direct labor, and manufacturing overhead. Rather than assigning the actual costs of direct material, direct labor, and manufacturing overhead to a product, many manufacturers assign the expected or standard cost. This means that a manufacturer's inventories and cost of goods sold will begin with amounts reflecting the standard costs, not the actual costs, of a product. Manufacturers, of course, still have to pay the actual costs. As a result there are almost always differences between the actual costs and the standard costs, and those differences are known as variances. Standard costing and the related variances is a valuable management tool for control purpose. If a variance arises, management becomes aware that manufacturing costs have differed from the standard (planned, expected) costs that warrant careful attention. This standard covers standard costing and resulting variance analysis mechanisms as applied in firms.

### 13.2 Objectives

The objective of this standard is to provide guidelines to firms using or planning to use standard costing. More particularly, this standard targets to present guidelines to ease implementation of standard costing on following areas:

- a) Establishing budgets;
- b) Controlling costs and motivating and measuring efficiencies;
- c) Promoting possible cost reduction;
- d) Simplifying costing procedures and expediting cost reports; and
- e) Assigning costs to materials, work in process, and finished goods inventories.

### 13.3 Scope

13.3.1 The purpose of this standard is to define the managerial role of variance reporting and the role played by standard costs in identifying variances.

13.3.2 More particularly, the standard prescribes -

- a) Standard setting principles
- b) Category of variances
- c) Keeping record of variances and its disposal
- d) Application of variance analysis
- e) Managerial issues in standard setting and analysis of variances

13.3.3 This standard may be followed by companies and other business or non-business organizations where cost and management accounting is in practice either as a statutory obligation or to support management decision making process.

### 13.4 Key Features

The key features of this standard are pointed below -

- a) Presents different type of standards;
- b) Introduces standard cost card;
- c) Puts light on the application of standard costing and resultant variance analysis;

- d) Shows the recording process and its disposal;
- e) Presents the formula of computing different types of variances; and
- f) Highlights the use of performance report.

## 13.5 Definitions

The following terms are used in this standard with the meanings specified -

13.5.1 Budget: A budget is a quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. It expresses strategic plans of business units, organizations, activities or events in measurable terms.

13.5.2 Cost: As defined in BCAS 1.5.1.

13.5.3 Price: Price is the quantity of payment or compensation given by one party to another in return for goods or services.

13.5.4 Overheads: Overhead expense refers to an ongoing expense of operating a business; it is also known as an "operating expense". Overheads are the expenditure which cannot be conveniently traced to or identified with any particular cost unit.

13.5.5 Fixed overhead: "Fixed" manufacturing overhead costs remain the same in total even though the volume of production may increase by a modest amount. For example, the property tax on the manufacturing facility might be Tk. 50,000 per year and it arrives as one tax bill in December. The amount of the property tax bill was not dependent on the number of units produced or the number of machine hours that the plant operated. Other examples include the depreciation or rent on production facilities; salaries of production managers and supervisors; and professional memberships and training for personnel in the manufacturing area. Although the fixed manufacturing overhead costs present themselves as large monthly or annual expenses, they are, in reality, a small part of each product's cost.

13.5.6 Variable overhead: Variable overhead is those manufacturing costs that vary roughly in relation to changes in production output. The concept is used to model the future expenditure levels of a business, as well as to determine the lowest possible price at which a product should be sold.

13.5.7 Material price variance: The materials price variance is the difference between the actual and budgeted cost to acquire materials, multiplied by the total number of units purchased. The variance is used to spot instances in which a business may be overpaying for raw materials and components. The formula is:

$$(\text{Actual price} - \text{Standard price}) \times \text{Actual quantity used} = \text{Material price variance}$$

The key part of this calculation is the standard price, which is decided upon by the engineering and purchasing departments, based on estimates of usage, probable scrap levels, required quality, likely purchasing quantities, and several other factors. Politics can enter into the standard-setting decision, which means that standards may be set so high that it is quite easy to acquire materials at prices less than the standard, resulting in a favorable variance. Thus, the decision-making process that goes into the creation of a standard price plays a large role in the amount of materials price variance that a company report.

13.5.8 Material quantity variance: Material Quantity variance is the difference between the actual

and expected unit quantity needed to manufacture a product. The variance is used in a standard costing system, usually in conjunction with the purchase price variance. These variances are useful for identifying and correcting anomalies in the production and procurement systems, especially when there is a rapid feedback loop. Standards for raw materials are typically set by the engineering department and recorded in a bill of materials for each product.

13.5.9 Labor rate variance: The labor rate variance measures the difference between the actual and expected cost of labor. It is calculated as the difference between the actual labor rate paid and the standard rate, multiplied by the number of actual hours worked. The formula is:

$$(\text{Actual rate} - \text{Standard rate}) \times \text{Actual hours worked} = \text{Labor rate variance}$$

13.5.10 Labor efficiency variance: The labor efficiency variance measures the ability to utilize labor in accordance with expectations. The variance is useful for spotlighting those areas in the production process that are using more labor hours than anticipated. This variance is calculated as the difference between the actual labor hours used to produce an item and the standard amount that should have been used, multiplied by the standard labor rate. If the variance outcome is unfavorable, there will likely to be a review by industrial engineers to see if the underlying process can be improved to reduce the number of production hours required, using such means as:

- A simplified product design to reduce assembly time
- A reduction in the amount of scrap produced by the process
- Increasing the amount of automation
- Altering the work flow

If this cannot be done, then the standard number of hours required to produce an item is increased to more closely reflect the actual level of efficiency. The formula for computing labor efficiency variance is:

$$(\text{Actual hours} - \text{Standard hours}) \times \text{Standard rate} = \text{Labor efficiency variance}$$

13.5.11 Mixed variance: Mixed Variance is the measure of difference between the cost of standard proportion of materials and the actual proportion of materials consumed in the production process during a period.

13.5.12 Material yield variance: Where there is a difference between the actual level of output for a given set of inputs and the standard output for a given set of inputs, a materials yield variance arises.

13.5.13 Idle time variance: Idle time variance is the part of labor variance which happens due to abnormal idle time. We can calculate idle time variance by multiplying standard wage rate with abnormal idle time.

13.5.14 Two variance method: Two variances are controllable variance and volume variance usually used in analyzing manufacturing overhead variance.

13.5.15 Three variance method: Three variances are spending variance, efficiency variance and idle capacity variance which is an extension of two variance method.

13.5.16 Four variance method: Four variances are spending variance, variable efficiency variance, fixed efficiency variance and idle capacity variance.

13.5.17 Idle capacity variance: It is the difference between the budget allowance based on actual hours worked and actual hours worked multiplied by the standard overhead rate.

## 13.6 Standards

13.6.1 The appropriate approach to choosing a cost standard will reflect the organization's unique circumstances. There is no single approach of choosing a cost standard that is best in all settings.

13.6.2 The cost standard chosen should reflect the organization's objectives for using that cost standard and the variances that result from implementing it.

13.6.3 Since the organization is free to define standard cost to suit its internal purposes, and since there is no commonly accepted or recommended method to derive a standard cost, the label "standard cost" implies no authority in terms of using that cost for contracting purposes.

13.6.4 Setting standard cost is very crucial for ensuring expected profit margin irrespective of the nature of company; however, in manufacturing companies it is more critical. There are number of prerequisites for setting up standard costing via setting standards across different cost categories. These prerequisites may be pointed as below:

- a) Define bills of material parameters;
- b) Define resources;
- c) Define the cost centre;
- d) Assign resources to cost centre;
- e) Define overheads and assign to cost centre;
- f) Review routing and bill structures to confirm that costs will roll-up properly;
- g) Control overheads by resource;
- h) Confirm that the WIP parameters, Recognize *Period Variance* and *Require Scrap* □ □  
□ Account are set as required; and
- i) Confirm that the Work in Process accounting classes and their valuations and □ □  
□ accounts are properly set up.

13.6.5 After defining the bill and routing structures, items and unit costs, the person assigned for setting the standard costing should run the summary audits to ensure information integrity. These audits check for bill of material structures with no headers, valued items with no costs and so on.

13.6.6 It is very technical to set the standard materials quantity. How much unit of input materials and how many types of input materials is required for one unit of output is generally set out by the Product Development (PD) or Research & Development (R&D) or such technical department of an entity. They prepare a Bills of Material (BOM) or Recipe or formula of a product. The person (generally from Costing Department) assigned for calculating the unit standard cost of a product will collect the BOM or Recipe or formula and perform general review of the same, can be checked with previous trend to ensure the BOM or recipe is updated.

13.6.7 Special care should be given while setting the standard for material price. Generally, the price of any existing material can be collected from the historical information from the purchase department and then an average standard can be determined. In the case of new item, price can be collected through market survey, from the suppliers or indenters. For imported material, it is desirable to consider the variance resulting from exchange

rate changes. The person assigned for setting the standard cost should collect this information and apply his professional judgment to ensure the accuracy of the cost price.

- 13.6.8 Setting the standard labor hour demands some technicalities. How much standard hour of labor is required for each unit/batch of production is usually fixed up by the production department. Time and motion study is a good tool to find out the standard labor hour. Time card and such other documents can be used to generate the data. Historical labor hour can also be considered to set the standard hour required for each unit/batch of output. Standard can be set for skilled, semi skilled and other categories of labor.
- 13.6.9 Special care should be given while setting the standard labor rate due to the involvement of human factor in it. The standard hourly labor rate can be set from the previous information of the Human Resources Department. Labor rate can be segregated as skilled, semi skilled and other categories. In the case of hourly standard rate, inflationary adjustment and minimum wages requirements of the country, if any should be considered.
- 13.6.10 Setting standard rate for overheads requires some managerial issues to be addressed with caution. The overhead rate can be segregated into fixed and variable categories. Activity based costing can be used for setting the standard. Historical information works as one of the base for setting such standard. Overhead rate can be applied either on the basis of direct labor hour or machine hour depending on the relevance or cause-effect analysis.
- 13.6.11 Perform cost rollup as appropriate to set initial standard costs. With the initial cost rollup/update, complete the setup of the manufacturing cost structure and begin normal processing, including purchase order receipts, material issues, job/schedule creation, shop floor moves, and so on. Later, analyze, report, and distribute costs through the period process.
- 13.6.12 Similar to work in process costing, the cost rollup does not cost the routings assigned to phantom assemblies. The bill of material phantom determines how the component is treated. If one is rolling up the phantom assembly, the cost of the routing is included in this level cost of the assembly. But, for the parent assembly, when the subassembly's supply type is Phantom, the routing costs from the lower level assembly are not included in the cost of the parent assembly. If one change the supply type and the subassembly is no longer a phantom, the parent assembly includes the lower level routing cost in the parent assembly's previous level costs.
- 13.6.13 Perform a cost update for manufacturing costing after rolling up assemblies. This revalues inventory and implements new costs.
- 13.6.14 A provision for normal loss (tolerable limit for variances) can be prescribed for guiding the variance analysis procedure to control any sort of undesirable outcome.
- 13.6.15 Standard cost accounting can hurt managers, workers, and firms in several ways. For example, a policy decision to increase inventory can harm a manufacturing manager's performance evaluation. Increasing inventory requires increased production, which means that processes must operate at higher rates. When (not if) something goes wrong, the process takes longer and uses more than the standard labor time. The manager appears responsible for the excess, even though s/he has no control over the production

requirement or the problem. Thus, it supplements the application of 'Management by Exception' principle.

## 13.7 Recording & Reporting

13.7.1 Variances should be journalized in such a way that will supplement variance analysis for evaluation and control purpose. Standard costing systems assist in this process and often involve recording transactions using standard cost information. When accountants use a standard costing system to record transactions, companies are able to quickly identify variances. In addition, inventory and related cost of goods sold are valued using standard cost information, which simplifies the bookkeeping process.

13.7.2 Two journal entries are needed to record transactions relating to direct materials that include these variances. Typically, many more journal entries would be made throughout the year for direct materials. For the purposes of this example, we will make one journal entry for each variance to summarize the activity for the year. The entry to record the purchase of direct materials and related price variance is -

Raw Materials Inventory				Dr.
Materials Price Variance (UNF)				Dr.
Trade Payables	□	□	□	Cr.

13.7.3 Notice that the raw materials inventory account contains the actual quantity of direct materials purchased at the standard price. Payable reflects the actual cost, and the materials price variance account shows the unfavorable variance. Unfavorable variances are recorded as debits and favorable variances are recorded as credits. Variance accounts are temporary accounts that are closed out at the end of the financial reporting period.

13.7.4 The entry to record the use of direct materials in production and related quantity variance is

Work in process Inventory				Dr.
Materials Quantity Variance	□	□	□	Cr.
Raw Materials Inventory	□	□	□	Cr.

13.7.5 Work-in-process inventory reflects the standard quantity of direct materials allowed at the standard price. The reduction in raw materials inventory reflects the actual quantity used at the standard price and the materials quantity variance account shows the favorable variance.

13.7.6 Labor is not inventoried for later use like materials; thus, only one journal entry is needed to record transactions relating to direct labor. Again, many more journal entries would typically be made throughout the year for direct labor. For the purposes of this example, we will make one journal entry to summarize the activity for the year. The entry to record the cost of direct labor and related variances is -

Work in process Inventory				Dr.
Labor Rate Variance (UNF)				Dr.
Labor Efficiency Variance (F)	□	□	□	Cr.
Wages Payable	□	□	□	Cr.

13.7.7 Work-in-process inventory reflects the standard hours of direct labor allowed at the standard rate. The labor rate and efficiency variances represent the difference between work-in-process inventory (at the standard cost) and actual costs recorded in wages payable.

13.7.8 The entry to record actual overhead expenditures is -

Manufacturing Overhead	□	Dr.	
Various Accounts	□	□	Cr.

The credit goes to several different accounts depending on the nature of the expenditure. For example, if the expenditure is for indirect materials, the credit goes to accounts payable. If the expenditure is for indirect labor, the credit goes to wages payable. Following entry will transfer manufacturing overhead to WIP Inventory -

Work in process Inventory	□	Dr.	
Manufacturing Overhead	□	□	Cr.

The following entry is made to transfer the costs out of work-in-process inventory and into finished goods inventory -

Finished Goods Inventory	□	Dr.	
Work in process Inventory	□	□	Cr.

When finished product is sold, the following entry is made:

Costs of Goods Sold	□	Dr.	
Finished Goods Inventory	□	□	Cr.

Note that the entry shown previously uses standard costs, which means the cost of goods sold is stated at standard cost until the next entry is made.

13.7.9 Most commonly used method of disposal of variances is to adjust with the cost of goods sold. When accounts are closed out to cost of goods sold, after which point cost of goods sold will reflect actual manufacturing costs for the products sold during the period. The following entry is made to accomplish this goal:

Cost of Goods Sold	□	Dr.	
Materials Quantity Variance	□	Dr.	
Labor Efficiency Variance	□	Dr.	
Material Price Variance	□	□	Cr.
Labor Rate Variance	□	□	Cr.

13.7.10 However, there is a "Variance proration" method of variance disposition which allows apportionment of all variances among Work in Process Inventory, Finished Goods Inventory, and Cost of Goods Sold. This accounting treatment reflects the impact of all unusual inefficiency or efficiency in all of the accounts through which the manufacturing cost flow.

13.7.11 The following three steps should be incorporated into a company's inventory accounting processes to assist in managing its standard cost:

a) **Review the company's capitalizable costs:** When setting standard costs, have all appropriately capitalizable costs been considered, such as incoming freight for

procured inventories or overhead for produced inventories? For instance, freight is subject to potentially significant variations due to factors such as the carrier or the quantities being ordered.

- b) **Update standard costs regularly:** Updating standard costs on an annual basis is a good start but is probably not frequent enough to ensure accurate inventory costing (not to mention the potential effects on the company's income statement every time inventory is expensed inaccurately). If the cost of procuring or producing a product has changed since the standard cost was last modified, inventory will be misstated accordingly.
- c) **Maintain a "standard-to-actual" reserve in the balance sheet:** Every time that any component of inventory is acquired or produced at a cost different than the assigned standard cost, that variance hits the income statement and inventory is misstated. If feasible, at the end of every reporting period an analysis of purchase and production costs for capitalizability should be performed. When complete, capitalizable variances should be recorded in a "standard-to-actual" reserve within inventory on the balance sheet with the remainder being appropriately expensed through the income statement. This reserve has the effect of adjusting the company's inventory balances to "actual," which is appropriate under accounting standard.

13.7.12 Standard cost card is an important document which needs to be developed, maintained, reviewed and complied.

## 13.8 Effective date

This standard will be effective from January 1, 2017 onwards.

## Appendix 13A

### Summary of Actual Costing, Normal Costing and Standard Costing

The following table summarizes and compares three commonly-used costing systems.

Cost Types	Actual Costing System	Normal Costing System	Standard Costing System
Direct Costs:	(Actual prices or rates x actual quantity of inputs per output) x actual outputs	(Actual prices or rates x actual quantity of inputs per output) x actual outputs	(Budgeted prices or rates x standard inputs allowed for each output) x actual outputs
Overhead Costs:	Actual overhead rates x actual quantity of the allocation base incurred	Budgeted overhead rates x actual quantity of the allocation base incurred	Budgeted overhead rates x (standard inputs allowed for actual outputs achieved)

The following points are worth noting:

- All three costing systems record the cost of inventory based on actual output units produced. The static budget level of production does not appear anywhere in this table.
- Actual costing and normal costing are identical with respect to how direct costs are treated.
- With respect to overhead costs, actual costing and normal costing use different overhead rates, but both costing systems multiply the overhead rate by the same amount: the actual quantity of the allocation base incurred.
- Normal costing and standard costing use the same overhead rate.
- Standard costing records the cost of inventory using a flexible budget concept: the inputs "that should have been used" for the output achieved.

There are costing systems other than these three. For example, some service sector companies apply direct costs using budgeted prices multiplied by actual quantities of inputs. For example, many accounting firms track professional labor costs using budgeted professional staff hourly rates multiplied by actual staff time incurred on each job.

## Appendix 13B

### Different bases of setting up standard costing method for product costing

There are a number of bases in the process of standard costing. These bases may be pointed as below:

- Historical standards** are based on past performance. For example, this period's standard cost might be 95% of last period's standard cost.
- Theoretical standards** are based on the assumption of ideal performance in ideal settings. These standards are, in effect, an estimate of the highest possible performance level for a given process configuration.
- Practical standards** reflect tight or stretch performance levels. These standards reflect the performance level that should result from a high level of improvement effort over the current level of performance.
- Benchmark standards** reflect the performance level of the best performer of that activity. The choice of the method used to set the standard will reflect the goal of variance analysis in the organization and the assumptions underlying the motivational effect of variance analysis.

There is no generally preferred or recommended approach to setting a cost standard.

## Appendix 13C

### Determination of Standard Cost

How should the ideal standards for better controlling be determined? Consider the following issues:

#### 1. Determination of Cost Center

"A cost center is a department or part of a department or an item of equipment or machinery or a person or a group of persons in respect of which costs are accumulated, and one where control can be exercised." Cost centers are necessary for determining the costs. If the whole factory is engaged in manufacturing a product, the factory will be a cost center. In fact, a cost center describes the product while cost is accumulated. Cost centers enable the determination of costs and fixation of responsibility. A cost center relating to a person is called personnel cost center, and a cost center relating to products and equipments is called impersonal cost center.

#### 2. Current Standard

A current standard is a standard which is established for use over a short period of time and is related to current condition. It reflects the performance that should be attained during the current period. The period for current standard is normally one year. It is presumed that conditions of production will remain unchanged. In case there is any change in price or manufacturing condition, the standards are also revised. Current standard may be ideal standard and expected standard.

#### 3. Ideal Standard

This is the standard which represents a high level of efficiency. Ideal standard is fixed on the assumption that favorable conditions will prevail and management will be at its best. The price paid for materials will be lowest and wastes etc. will be minimum possible. The labor time for making the production will be minimum and rates of wages will also be low. The overheads expenses are also set with maximum efficiency in mind. All the conditions, both internal and external, should be favorable and only then ideal standard will be achieved. Ideal standard is fixed on the assumption of those conditions which may rarely exist. This standard is not practicable and may not be achieved. Though this standard may not be achieved, even then an effort is made. The deviation between targets and actual performance is ignorable. In practice, ideal standard has an adverse effect on the employees. They do not try to reach the standard because the standards are not considered realistic.

#### 4. Basic Standard

A basic standard may be defined as a standard which is established for use for an indefinite period which may be a long period. Basic standard is established for a long period and is not adjusted to the preset conditions. The same standard remains in force for a long period. These standards are revised only on the changes in specification of material and production technology. It is indeed just like a number against which subsequent process changes can be measured. Basic standard enables the measurement of changes in costs. For example, if the basic cost for material is Tk. 20 per unit and the current price is Tk. 25 per unit, it will show an increase of 25% in the cost of materials. The changes in manufacturing costs can be measured by taking basic standard, as a base standard cannot serve as a tool for cost control purpose because the standard is not revised for a long time. The deviation between standard cost and actual cost cannot be used as a yardstick for measuring efficiency.

## 5. Normal Standard

As per terminology, normal standard has been defined as a standard which, it is anticipated, can be attained over a future period of time, preferably long enough to cover one trade cycle. This standard is based on the conditions which will cover a future period of five years, concerning one trade cycle. If a normal cycle of ups and downs in sales and production is 10 years, then standard will be set on average sales and production which will cover all the years. The standard attempts to cover variance in the production from one time to another time. An average is taken from the periods of recession and depression. The normal standard concept is theoretical and cannot be used for cost control purpose. Normal standard can be properly applied for absorption of overhead cost over a long period of time.

## 6. Organization for Standard Costing

The success of standard costing system will depend upon the setting up of proper standards. For the purpose of setting standards, a person or a committee should be given this job. In a big concern, a standard costing committee is formed for this purpose. The committee includes production manager, purchase manager, sales manager, personnel manager, chief engineer and cost accountant. The cost accountant acts as a co-coordinator of this committee.

## 7. Accounting System

Classification of accounts is necessary to meet the required purpose, i.e. function, asset or revenue item. Codes can be used to have a speedy collection of accounts. A standard is a pre-determined measure of material, labor and overheads. It may be expressed in quality and its monetary measurements in standard costs.

# Appendix 13D

## Standard Cost Card

Let us assume that Mr. Ashraf runs a retail outlet that sells T-Shirt of two sizes. Mr. Ashraf suggests that you get into the manufacturing side of the business. So on January 1, 2016 you start up a T-Shirt manufacturing company named as 'Bay Company'. Using the best information at hand, two of you compiled the following estimates to use as standards for 2016:

**Standards Table for T-Shirt Works**

Particulars	Details	Large	Small
Materials required for each T-Shirt		2.00 yd	1.00 yd
Time required to cut and sew each T-Shirt		30 minutes	15 minutes
Materials cost per sq yd (in Tk.)	3.00		
Labor cost per hour (in Tk.)	10.00		
Electricity and supplies used per hour of labor (in Tk.)	2.00		
Rent for equipment (in Tk.)	600.00		
Planned production for the year 2016		5,000 pcs	3,000 pcs
Planned yards in 2016	13,000 yd	10,000 yd	3,000 yd
Planned hours to cut and sew in 2016	2,100 hr.	2,500 hr.	750 hr.

Materials come on rolls that are one yard wide. So one yard (yd.) of cloths is the same as one square yard of cloths. Based on the above information, standard cost card can be designed which will include standards across different cost elements for each product.

A standard cost card contains an itemization of the standard amounts of materials, labor, and overhead required to create one unit of a product. The card also multiplies the standard cost of each of these line items to arrive at the total standard cost of a product. The card has two purposes:

- To derive the standard cost of a product
- To serve as the basis for variance analysis when actual costs for the product are compiled

A sample standard cost card for large T-Shirt is drawn below based on above information:

Standard Cost Card			
Element of Cost	Standard Quantity or Hours	Standard Price or Rate	Standard Cost
Direct Materials	2.00 yard	Tk. 3.00 per yard	Tk. 6.00
Direct Labor	0.5 Hours	Tk. 10.00 per hour	Tk. 5.00
Variable Manufacturing Overhead	0.5 Hours	Tk. 2.00	Tk. 1.00
Total Standard Cost Per Unit			Tk. 12.00

## Appendix 13E

### Illustration: The X Company, Standard Costing Example

The X Company in Bangladesh makes jeans and jackets. Each product line has its own assembly line on the factory floor. The following table shows actual and budgeted information for the year. There was no beginning or ending work-in-process.

Particulars	Budgeted	Actual
Units produced:		
Jeans	500,000	500,000
Jackets	500,000	400,000
Total	1,000,000	900,000
<b>Direct Costs:</b>		
Jeans:		
Materials (denim)		
Price per yard	Tk. 384	Tk. 400
Yards per jeans	x 1.10	x 1.00
Material cost per jeans	Tk. 422.4	Tk. 400
Direct labor		
Wage rate	Tk. 300	Tk. 290
Hours per jeans	x 0.50	x 0.40
Labor cost per jeans	Tk. 150	Tk. 116
Jackets:		
Materials (cotton twill)		
Price per yard	Tk. 352	Tk. 360
Yards per Jackets	x 1.10	x 1.20
Material cost per Jackets	Tk. 387.2	Tk. 432
Direct labor		
Wage rate	Tk. 300	Tk. 290
Hours per Jackets	x 0.70	x 0.75
Labor cost per Jackets	Tk. 210	Tk. 217.5
Factory Overhead	Tk. 3,600,000	Tk. 3,300,000

Assume that, the budgeted overhead rate of Tk. 250 per direct labor hour and that same overhead rate is used by the standard costing system. Based on this information, the standard costing system would debit the finished goods inventory account as follows:

Particulars	Jeans	Jackets
Standard cost per unit:		
Materials	Tk. 422.4	Tk. 387.2
Labor	Tk. 150.0	Tk. 210.0
Overhead	Tk. 250 x 0.50 = Tk. 125.0	Tk. 250 x 0.70 = Tk. 175.0
	Tk. 697.4	Tk. 772.2
Actual units produced	x 500,000	x 400,000
Total	Tk. 34,87,00,000	Tk. 30,88,80,000

As per record The X Company sold 400,000 jeans and 350,000 Jackets. The entries to record the movement of inventory from the finished goods inventory account into the cost-of-goods-sold account would multiply these sales volumes by Tk. 697.4 per jeans and Tk. 772.2 per jackets.

## Appendix 13F

### Performance Report

A performance report provides a clear-cut idea regarding the status of achieving target by the management and possible areas for improvement. A specimen format may be as follows which may be customized to suit the specific needs of the particular firm.

<b>ABC Company Performance Report For the Month ended on June 30, YYYY</b>			
Element of Cost	Actual Costs	Standard Cost at Actual Volume	Cost Variance - (F)/UFV
Direct Materials	Tk. 40,150	Tk. 37,500	Tk. 2,650
Direct Labor	Tk. 38,500	Tk. 36,000	Tk. 2,500
Variable Manufacturing Overhead	Tk. 22,400	Tk. 24,000	(Tk. 1,600)
Total Standard Cost Per Unit	Tk. 101,050	Tk. 97,500	Tk. 3,550
* Figures are hypothetical			
* Standard cost should be computed based on the information on standard cost card			