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Advanced Cost Accounting

Chapter 1

Standard Costing

المحاضرة الأولى

نظام التكاليف المعيارية 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.

1. *CONCEPT OF STANDARD COSTING* مفهوم التكاليف المعيارية

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 is an excellent system of control of costs and of measuring

efficiency and improving upon it.

2- THE PROCESS OF STANDARD COSTING :- عملية أعداد التكاليف المعيارية

The process of standard cost is as below:

♠ 1- **Setting of Standards:** وضع المعايير The first step is to set standards which are to be achieved, the process of standard setting is explained below.

♠ 2- **Ascertainment of actual costs:** التأكد من التكاليف الفعلية Actual cost for each component of cost is ascertained. Actual costs are ascertained from books of account, material invoices, wage sheet, charge slip etc.

♠ 3- **Comparison of actual cost with standard cost:** مقارنة التكاليف الفعلية مع التكاليف المقارنة Actual costs are compared with the standards costs and variances are determined.

♠ 4- **Investigate the reasons for variances:** فحص أسباب الانحرافات Variances arises are investigated for further action. Based on this, performance is evaluated and appropriate actions Are taken.

♠ 5- **Disposition of variances:** التخلص من الانحرافات Variances arise are disposed-off by transferring it the relevant accounts (costing profit and loss account) as per the accounting method (plan) adopted.

Standard costs are not to be confused with actual production costs system – these are *actual* , costs incurred in trial runs etc. are record when production happen . Standard costs are exactly *determined* before start of production.

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

3. Definition and Meaning :- التعريف والمعنى

Standard Cost :- التكلفة المعيارية

ما هي التكلفة المعيارية (القياسية أو النمطية) ? What is the standard costs ?

Standard costs are" carefully predetermined costs; they are target costs, and determined in advance of a scientific method of what a unit cost should be " .

التكاليف المعيارية هي التكاليف المحددة مسبقاً بعناية ؛ إنها تكاليف مستهدفة ، ويتم تحديدها مسبقاً بطريقة علمية لما ينبغي أن تكون عليه تكلفة الوحدة "

Standard cost is defined as “the planned unit cost of the product, component

or service produced in a period. The standard cost may be determined on a number of bases. The main use of standard costs is in performance measurement, control, stock valuation and in the establishment of selling prices.”

التكلفة المعيارية هي "تكلفة الوحدة المخططة للمنتج أو المكون أو الخدمة المنتجة في فترة ما. ويمكن تحديد التكلفة المعيارية بناءً على عدد من الأسس. ويتمثل الاستخدام الرئيسي للتكاليف المعيارية في قياس الأداء والرقابة وتقييم المخزون وفي تحديد أسعار البيع".

From the above definition Standard costs can be said as :-

- a- Planned or predetermined cost. هي تكلفة مخططة أو محددة مسبقاً.
- b- Costs that what should be attained for a unit cost of product. هي ما يجب أن تكون عليه تكلفة الوحدة
- c- Determined on a base or number of bases(.of a scientific method) تيم (تحيدها بناءً على عدد من الأسس (بطريقة علمية

Standard Costing :- نظام التكاليف المعيارية

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

This technique can be summarized as :-

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

4. Advantages of Standard Costing:- فوائد التكاليف المعيارية

the benefits that result from a business using a standard cost system are:

1. Improved Cost Control لتحسين الرقابة على التكاليف
2. Better Performance Evaluation لتقييم أداء أفضل
3. use in Planning , and preparing budgets لأستخدامها في التخطيط وأعداد الموازنات
4. Better Pricing لتحسين عملية تحديد الاسعار
5. Identifying Inefficiencies لتحديد مواطن عدم الكفاءة
6. More reasonable and easier inventory measurements. قياس المخزون بطريقة علائقية وسهلة
7. Possible reductions in production costs. امكانية تخفيض التكاليف

5. Types of Standards :- أنواع المعايير

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 :-

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

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

C- Expected Standard: - المعايير المتوقعة 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.

D- Normal Standard : - المعايير الطبيعية The average standard which it is anticipated can be attained over a future period of time, preferably, long

enough to cover one trade cycle.

E- Ideal Standard: - المعايير المثالية This standard can be attained only under the most ideal conditions. It is a standard which can be attained under the most favorable condition, with no allowance for normal losses, waste and machine down time.