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Standard costing and variance analysis

The standard cost is the predetermined cost that is carefully and definition. The estimated cost of the production of a single unit or the cost of different service performance is done (Rajasekaran & Lalitha, 2011). This is the narrow definition of the standard cost. The broad meaning of the standard cost is the estimated production cost that is involved in the projects, operation production and the administrative purposes. The standard costing uses the techniques that standardize the cost and the revenues. This is in the purpose of controlling the cost factors and the determinant through the variance analysis.

It is through a system of accounting cost in determining by the use of the advanced cost standards with the respect of each element of the cost. Therefore, it helps to comparison of the actual performance with the predetermined cost of which the difference gives the variance (Gazely & Drury, 1993). This makes the standard costing be the tool that communicate and giving a response to the management on the appropriate corrective action that should be undertaken.

The manufactures the expected cost on the direct materials, labor and the production of the products instead of using the actual cost. This shows that the production's cost of goods and the inventories that are sold reflects the standard cost but not the actual cost at the company of the product. This results in the difference of the standard cost and the actual cost that is referred to the variance. In the management, the standard costing and the variance have a valuable and a role to play as the management tool. This makes the management observe the trend of the variance as it keeps updating the business management on the actual costing in comparison to the expected cost.

If the variance rises, the management is alerted on the difference of the production cost (Drury, 1992). To improve efficiency in an organization's production activities, standard costing should be integrated. With these efforts, a company will increase its goal achievement capabilities. This provides the management two outcomes of the high and low variance that helps in making the appropriate decision. This signals to the control that the planned company's actual profit has to be affected negatively (Jackson, Sawyers, & Jenkins, 2008). This is at the condition that all other factors that affect the business remain constant.

A comparison of the standard cost provides a favorable variance, then the management becomes aware that if the market remains constant the planned profit will be attained. Therefore, the variance through the use of the costing analysis keeps the management updated on the expectation of the business and especially on the business performance.

The advantages of the standard costing

The standard costing gives the rule of the measurement that helps in the evaluation of the business performance. This is through the variances that help in the evaluation of the business performance. This makes the management be in a position to detect the performance of the business. In making the decision, the standard costing makes the business management make an accurate decision on the pricing in the projection of the future profit expectation (Petrick & Quinn, 1997).

The second benefit of the variance analysis through the standard costing is the cost control. The management is in a position to control the cost of the production and the manufacturing. This is done by the use of the variance measure that helps in the projection of the future price and the expected cost in the business. In additional to this, the management has a role to exercise the cost control as they have the expectation of the business cost as they go for the profit.

The analysis of the costing in the standard and the variance analysis helped in the identification with much ease the wastage and the loss in the business (Arnold, 2005). This makes the management locates the point at which the losses has prevailed whether in the production or the manufacturing stage. This helps the management to take the action on the time in the prevention of the large effect to the entire business making a profit to be low than expected.

Cost consciousness among the workers is the benefit to the business as it helps meet the set objective of the firm. This is developed from the check of the cost through the analysis of the variance to make the worker more sensitive on the cost. This makes them appreciate the performance of the business activity at the minimal cost, therefore, leading to the better performance of the business. The good performance of the business makes the morale of the employees to be enhanced and contribution to the continuity better performance (Bhimani, 2012).

The revenue decision and the diagnosis support in the future projection of the revenue by the use of the planned cost and the variance analysis. This makes the management set the future expectation of the business and having strategic settings of the price and the cost according the current marker situation. This makes the profit aimed to be achieved accordingly through the revenue decision made accurately (Leigh, 2013). The management by exemption principal applies in the business by the help of the standard costing and the analysis of the variance. This makes the management concentrate on the efficiency and inefficiency factors that affect the business. This makes the business management come up with the principals that control the situation that affecting business directly and indirectly of the cost and profit making. Therefore, the analysis makes the management be updated on the factors and how they are affecting the business.

Performance measurement helped in keeping the workers in the check whereby the report of the workers and the performance in the relation to the cost analysis are presented to the management (Holzer & Schönfeld, 1996). This makes the performance, which is offered to the different levels of the authority through the responsibility center, keep in check and act as the actual performance of the individuals responsible to the designated field. The division of the leadership with the responsibility is a function of the cost standardization and the variance analysis.

The delegated duties make the person in charge to be responsible and accountable to the in the actions that involve the cost setting in the manufacturing and production . The duty and responsibility delegation helps the management to have a clear and straight point of the reference. This makes the person given the responsibility to be more concerned on the performance of the business.

Limitation of the standard costing and the variance analysis

The first disadvantage of the standard costing and the variance analysis is focused on the non-standardized whereby the business has no history in the sector of the production (Murinde, 2007). This makes the business to be in a situation where it does not have a past performance especially in the new business venture. The standard costing is based and more suited to the traditional business and in the mass production. The limitation on the lack of the history of the business with a short life cycle cannot predict perfectly on the future performance of the business making it practically infeasible.

It is not easy to practice the standard cost analysis. Installation and the practice of the standard cost are not simple practices due to the operation system. It requires an assessment of all the products being manufactured for the exact figure of the cost of the production. This it is not practical, therefore, making the standard costing establishment difficult. The process of the standard costing requires elaborate procedures and the recording. This makes the study to be time consuming and costly. The record of every product from point of the production to the company takes much time and through this process needs an elaborate procedure that needs to be analyzed.

The standard costing and the valuation of the variance are not applied and not suitable for the non repetitive activities. It needs mass production and of the process that is repetitive in nature. This to help in making the comparison thus limiting the emerging and the business of which has no mass production. This is due of lack of proper control in the production, therefore, making inconsistency in the measurement of the cost and comparison with marker cost at large. Adverse psychological effects as a standard set are of the high level (Jackson, Sawyers, & Jenkins, 2008). This makes and causes the resentments to the workers when the targets are not at the position of being achieved.

There is lowering the worker's morale and mostly of the department that has not met the set goal. This may lead to the adverse effect on the works leading to the continuity on the low production. The standard costing and the variance analysis is not suitable to some companies. These are those businesses that do not deal with the standardized homogeneous product in the business. This is where the production has taken more than one accounting period for the assessment of the previous production outcome on the marketing cost (Leigh, 2013). This requires a firm that has a history.

Conclusion

Standard costing and variances analysis are not applicable to all type and size of the company. This due to the many factors discussed on the advantages and limitation of the analysis of the standard cost and the variance. A new company in the business has no history of the production thus has no at least one accounting period. Therefore, cannot project and forecasting on the future with the use the variance analysis. In another case is on the homogeneous production as part and a requirement of the variance and standard costing. This leads to a standard costing and the variance analysis in inappropriate to any type and the size of the business.

Part bDecision making using the cost and income analysis

In the situation of whether to shut down or keeping open part of the business is critical in the manner that the strategic management making the decision. The consideration of the performance of the business is the key factor that will give the way decision would be focused. The cost of the operating the business and the income flow has the greater magnitude in the viability of the decision. Taking the cost of the operation of the business, there are different departmental and the branches of the business in the different places. This gives a clear indication from the financial report of each department or the branch. This has to play a significant role in the decision making.

If the cash flow of the one of the branch is making the results of the entire business to be low, it is advisable for the management not to shut the entire business but to keep opening the performing part of the business. Compatibility and the reliability of the branches and even department of the business should be the qualitative factor that the strategic management accounting and the business at large should consider. This will helps with coming up with a viable decision. If the business expenditure outweighs the revenue, then the closure of the business can be affected. Then departmental or the branch is the causes of the poor performance should be abolished leaving the profit making.

Pricing product or services

The pricing of the products and services, cost of the production and raw material are the key element to be considered. The strategic management on the pricing of the product should consider the business expected profit per the unit of the product. The business operating with the aim of making profit has various means of setting the price of the product. The approach is on the cost and the incomes that the business is targeting. This may depend on the whether it is a long term or short term basis. The cost of the production and the profit intended per the unit of the product has a significant role. This makes the management come up with the best price of that will attract the customers and company making a profit.

The company also considers the production level whether it is in the mass production. This makes the relative cost of the production to below, therefore, the low pricing the product (Arnold, 2005). The service pricing time is the key factor and the quality that is being rendered. The qualitative factors should be the safety and the reliability of the product and service to the customer must be in place. This makes the customer to be satisfied with the price rendered.

Product mix and the limiting factor analysis

Product mix and the limiting factors are also considered in the decision making. The product mix is focused on the situation of the business and the production level (Gazely & Drury, 1993). The cost and the income dictate the decision of the business to be made. The situation where the no enough resources that can meet the potential need sale leading to the decision making on the mix of the product to be use in the making. This is extended to the resources to be applied for the efficient production.

The limiting factor can be on the subjection of the sales limit of the demand on the resources of the business that can be inadequate. This may be the case of the labor or even the materials being insufficiently making the level of the production being low to meet the need. In the accounting, the management is after the maximum profit out of the production while the cost of the production is low. Therefore, the contribution of the each part makes a huge difference in the maximization of the earnings from every limiting factor (Gazely & Drury, 1993). This helps the management in the decision making where the limiting factor determines the earning contribution of the different products.

Make or buy decision

Make or buy decision is focused to the level of the cost of the capable business strategic business. The product expenses make the decision to be easily made while subjecting to the purpose intended. If the cost of the making or manufacturing the product is less than the market cost, then the company can make a product save the extra cash. This considers the quality and the revenue expected from the product (Murinde, 2007). In a situation where the cost of making the product is high then the market priced, then the management is advised to purchase from the business. This makes the saving the cash from the unexpected costs and the expenditures which can be saved if there is a simpler option of working it out.

The income required from the product also helps in the decision making. If the expected profit of the item being bought will be high, the management may consider going for the original product that will serve for a long period. If it is a short term flow of the income, then making it locally is also advisable to save more hence it can maximally utilize. The qualitative factors should be focused on the compatibility of the made product for the intended function. This helped in the search for the expertise on the production of the same product the quality of the product is adhered to and is safe to meet and undertake the purpose (Murinde, 2007).

In the conclusion, the decision making is a two sided consideration of the subject in the question. The valuation of the possibility and the cause of the situation is a major in the decision to be made. The cost of the product must be critically evaluated for a proper decision. If the cost outweighs the revenue, then the decision of the doing way with the venture is the way forward even though there are several methods that can be applies. This can be outsourcing the fund and restructuring the business.

Income dictates the level at which the business operate whether loss or profit. In the decision making, the management should consider the history and the future of the business. This helps in coming up with the appropriate decision. The cash flow has a role in the decision making where the management observes the expenses and the expenditure of the business. At this point, the conclusion is drawn on the appropriate decision on the business.

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