

Definition of Standard Costing

When standard costs are used for the purpose of cost control, the technique is known as standard costing. Thus, standard costing is a technique of cost ascertainment and cost control. It is the preparation of standard costs and applying them to measure variations from standard costs and analysing causes of variations with a view to maintain maximum efficiency. According to CIMA, London, standard costing is "a technique which uses standards for costs and revenues for the purpose of control through variance analysis". Standard costs are established for each element of cost.

Actual costs incurred are compared with the standard costs. The difference between the two is called variance. Variances are analysed by causes so that inefficiencies may be quickly brought to the notice of the persons responsible for them and appropriate action may be taken.

Features of Standard Costing

The following are the important characteristics of the standard costing system:

1. It is used in addition to other methods of costing.
2. It is a technique of costing based on the preparation and use of standard costs.
3. Standard costs are set for various elements of total cost.
4. It makes a comparison of actual cost with standard cost.
5. The main purpose of standard costing is controlling costs by analysing the causes of variances.
6. Variances are reported to the management for the purpose of taking remedial action.
7. A standard costing system is appropriate where activities are repetitive in nature. Thus it is suitable for industries which produce identical goods in large quantities (e.g., process industry).

Difference between Standard Costing and Historical Costing

The differences between historical costing and standard costing are as follows:

<i>Historical costing</i>	<i>Standard costing</i>
1. Actual costs	1. Predetermined costs.
2. Past costs	2. Future costs.
3. Always recorded in accounts	3. May or may not be recorded in accounts.
4. Aims at ascertaining actual cost	4. Aims at cost control.
5. Not much useful for managerial decision-making	5. More useful in managerial decision making

Difference between Standard Costs and Estimated Costs

Both standard costs and estimated costs are future costs. However, they differ in the following respects:

1. Standard costs are determined on scientific basis. But estimated costs are prepared on the basis of past experience or personal opinion.