

4. **Expected standard:** This is the standard which is actually expected during a specified budget period. In setting this standard, a reasonable allowance is made for normal wastage and normal idle time. It is, therefore, more realistic than ideal standard. It is also called *attainable standard*.
5. **Normal standard:** This is the standard based on average figure and can be attained for a long period covering one trade cycle. This type of standard is based on normal conditions.
6. **Historical standard:** This standard is set on the basis of costs incurred in the past.

Difference between Current Standard and Basic Standard

Current standard and basic standard differ in the following ways:

Basic Standard	Current Standard
1. It remains unchanged for a long period.	1. It undergoes periodic changes.
2. It is set for a long period.	2. It is set for a budget period (generally one year)
3. It is revised only when basic changes take place (e.g. technological changes)	3. It is revised from year to year according to current conditions.
4. It is idealistic.	4. It is realistic.

Procedure of Setting Standard Costs

Setting standards is like laying a business foundation. The success of standard costing system depends on the care with which the standards are established. Setting up of standards is a complicated and a lengthy process. The procedure of setting standards involves the following steps:

1. **Studying the relevant factors:** While setting or fixing the standard costs, some important factors should be considered. Consideration should be given to employee skills, their aspirations and their degree of control over costs. In establishing standards, the other factors to be taken into consideration are market conditions, selling methods, buying methods, labour conditions, purchasing power, mechanical equipments etc. Standards should be appropriate and attainable. A technical survey of existing methods should be undertaken for establishing accurate standards.
2. **Deciding the approach of setting the standards:** In order to establish standard costs, the product specification must be considered carefully. The product specifications are usually established by the engineers at the time when they design the product. Once established, the product specifications dictate certain quality requirements for the resource inputs needed. There are several approaches to establish standard costs. Some of them are as follows:

- (a) **Engineering approach:** In this approach a detailed study of each operation is undertaken. This is based on careful specification of material, labour and overheads. Time studies, work sampling, learning curve etc. are used to develop standards.
- (b) **Historical approach:** In setting standards, past records have a role. In the historical approach the standards are based on average past performance for the same or similar operations. Use

of historical past data to set up standards is based on the fact that recent past information can provide valuable insight into what is expected in future. The level of efficiency, normal waste, normal idle time, machine breakdown etc. can be assessed from past records.

(c) **Pragmatic approach:** The managers responsible for the various production activities are in touch with actual operations. So their opinion, judgement and knowledge must be considered in identifying the standards.

3. **Establishing a Standard Committee:** The setting up of standards is an art. It requires the combined thinking and expertise of all persons responsible for occurrence of actual costs. Standards to be set should be neither too tight nor too loose. Standards should be as accurate as possible. For setting accurate standards, it is preferable to set up a Standards Committee. This committee is responsible for determining standards in all aspects of the business and also making suitable revisions. The standards committee usually consists of all the functional managers, like purchase manager, production manager and sales manager, technical experts like Production Engineer, the General Manager and the Cost Accountant. The Cost Accountant's role is very crucial. He has to assign the monetary values for the different standards set by the other experts in each area or function. In short, the main activity of Standard Committee is to co-ordinate the functions of all departments and officers engaged in fixing standards.

4. **Preparing Standards Manual:** A detailed manual should be prepared for the guidance of the staff. This manual is called Standards Manual. This document gives details regarding the constitution of Standards Committee, duties and responsibilities of the Standards Committee, periodicity of meetings, forms and records required for setting standards, guidelines regarding setting of standards, proformas for reporting about standards as well as variances.

5. **Setting the standards for each element of cost:** Standards are set for each element of cost - material, labour and overhead. The procedure of setting standards for different elements of cost may be briefly discussed as follows:

(a) **Standards for direct material cost:** Standards for direct material cost involves two things - material quantity standards and material price standards. The following is the procedure involved in setting material quantity standards:

- (i) Standardisation of products.
- (ii) Classification of products.
- (iii) Standardisation of material.
- (iv) Preparation of bill of materials.
- (v) Experiments and test runs.

Based on the past experience, the normal loss to be expected has to be determined. Based on the expected or permitted loss, the quantity standard per unit is fixed. If two or more materials are mixed in the production, the standard proportion of each material has to be fixed. The production manager and technical experts play the most important role in setting quantity