

# What is a Standard Costing System?

## Worksheet

Standard costing sets a standard cost per unit (standard quantity standard price) in advance, then compares it to actual costs to compute favorable or unfavorable variances used for budgeting and performance control.

## Questions

1. A standard costing system primarily helps managers to...
  - A) Avoid budgeting entirely
  - B) Compare actual costs to predetermined standards and analyze variances
  - C) Eliminate the need for accounting records
  - D) Set selling prices only
2. Standard quantity is 200 units at a standard price of \$6. What is the standard cost?
  - A) \$206
  - B) \$1,200
  - C) \$33.33
  - D) \$1,000
3. If actual cost is higher than standard cost, the variance is...
  - A) Favorable
  - B) Unfavorable
  - C) Zero
  - D) Not measurable
4. Standard costs are typically set based on...
  - A) Random guesses
  - B) Efficient operating conditions and historical/engineering data
  - C) Whatever competitors charge
  - D) Last year's actual costs only, with no analysis
5. The standard quantity of material allowed for a batch is 500 kg at a standard price of \$4 per kg. Find the standard material cost.
6. Standard labor time for a job is 20 hours at a standard rate of \$18 per hour. Find the standard labor cost.
7. A factory sets a standard of 2 hours of machine time per unit at \$25 per hour for 300 units produced. Find total standard overhead cost.
8. Define: What is standard costing?
9. Define: What is a standard cost made of?
10. Define: Why do companies use standard costing?

## Answer Key

1. B) Compare actual costs to predetermined standards and analyze variances - Its main purpose is variance analysis by comparing actual to standard costs.
2. B)  $\$1,200 - 200 \$6 = \$1,200$ .
3. B) Unfavorable - Spending more than the standard produces an unfavorable variance.
4. B) Efficient operating conditions and historical/engineering data - Standards reflect expected efficient performance, often derived from engineering studies and historical data.
5. Standard cost = SQ SP Standard cost =  $500 \$4 = \$2,000$
6. Standard cost = SQ SP Standard cost =  $20 \$18 = \$360$
7. Standard hours allowed =  $2 \ 300 = 600$  hours Standard cost =  $600 \$25 = \$15,000$
8. A system that assigns predetermined standard costs to products, then compares them to actual costs to find variances.
9. Standard quantity allowed multiplied by standard price or rate.
10. To budget more easily, control costs, and quickly spot inefficiencies via variance analysis.

### **Bounlu**

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