Standard Costing Method

Last Modified on 01/10/2023 4:38 pm EST

Standard Costing

Standard Costing allows for the standard usage of a cost basis on a Part level to ensure all transaction for the Part are using one cost for all transactions throughout the inventory and usage processes.   With the use of Standard Costing the part value in the Inventory system will always be its quantity multiplied by its Standard Cost.

All issues/returns of a Part will always use the Standard Cost.   This will alleviate the discrepancies and anomalies that occur in the costing and value of inventory when using an average costing method.

Parts received on a Purchase Order that vary from the standard cost in the warehouse will be valued into the inventory at the standard cost. The variance will record to the PPV (purchase price variance) account.

If you have special projects where you are receiving special pricing from a vendor that is much lower than your standard cost, you may direct expense these parts to the Job. This allows you to determine profitability based on the actual part costs associated with the Job.

Standard Cost Advantages

- All parts retain the same value throughout your inventory process until you decide to change them.
- Salespersons will have a standardized cost to reference when quoting jobs.
- Cost fluctuations record to the PPV account for favorable or unfavorable purchase variances to the standard part cost.
- You may direct expense parts on special projects where the purchase price is very different from the standard part cost.

Standard Cost Maintenance

When using the standard costing method, periodically you will need to review your costs to determine when the standards should be changed. This typically occurs at the time of a physical inventory.

When your company makes a change to the standard cost of a part within a warehouse, a general ledger transaction is recorded to the PPV (Purchase Price Variance) account for the difference between the old cost and the new cost times the number of parts in the warehouse. If a part is located in multiple warehouse locations, and a part has the same value in all warehouses, make certain to update the cost in all warehouses.