

# The Time to End Standard Costing Has Finally Arrived



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by Benjamin Wann

★★★★☆ 4.4 out of 5

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Standard costing has been the traditional method of costing for decades. It is based on the idea of setting a standard cost for each product or service, and then comparing actual costs to the standard. This method has been used to track costs, set prices, and make decisions. However, standard costing is no longer fit for purpose in today's dynamic business environment.

## The Problems with Standard Costing

Standard costing is based on a number of assumptions that are no longer valid in today's business environment. These assumptions include:

- That costs are stable and predictable.
- That production volumes are constant.

- That product mix is unchanging.

In today's business environment, these assumptions are no longer valid. Costs are constantly fluctuating, production volumes are often variable, and product mix can change rapidly. As a result, standard costing is often inaccurate and misleading.

## **A Better Way to Cost**

There is a better way to cost than standard costing. This method is called activity-based costing (ABC). ABC is a costing method that assigns costs to products or services based on the activities that are required to produce them. This method is more accurate and relevant than standard costing, and it can provide valuable insights into the cost of products or services.

ABC is based on the idea that the cost of a product or service is determined by the activities that are required to produce it. These activities can include:

- Purchasing materials
- Manufacturing the product
- Marketing and selling the product
- Providing customer service

ABC assigns costs to products or services based on the amount of time and resources that are required to perform each activity. This method provides a more accurate picture of the cost of products or services than standard costing, and it can help businesses to make better decisions about pricing, production, and marketing.

## The Benefits of Activity-Based Costing

ABC offers a number of benefits over standard costing, including:

- **Improved accuracy:** ABC is more accurate than standard costing because it assigns costs to products or services based on the activities that are required to produce them. This method takes into account the actual costs of producing products or services, rather than relying on estimates.
- **Increased relevance:** ABC is more relevant than standard costing because it provides information about the cost of specific activities. This information can help businesses to understand the cost of their operations and to make better decisions about pricing, production, and marketing.
- **Improved decision-making:** ABC can help businesses to make better decisions about pricing, production, and marketing. By providing information about the cost of specific activities, ABC can help businesses to understand the impact of different decisions on their profitability.

Standard costing is no longer fit for purpose in today's dynamic business environment. ABC is a better way to cost products or services. ABC is more accurate, relevant, and timely than standard costing, and it can provide valuable insights into the cost of products or services. Businesses that switch to ABC will be able to make better decisions about pricing, production, and marketing.

If you are interested in learning more about ABC, I encourage you to read my book, *The Time to End Standard Costing Has Finally Arrived*. This book

provides a comprehensive overview of ABC, and it explains how to implement ABC in your business.

Thank you for reading!

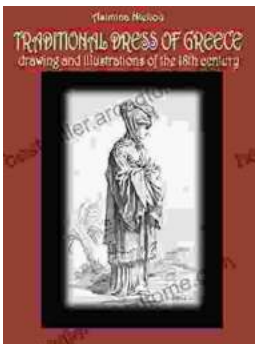


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