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COSTING AND CONTROL FOR MATERIALS

Variance Accounting

Ernest Laidler, F.C.M.A.

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Foreword

The use of budgets and standard costs in conjunction with the process of variance analysis has been widely accepted for some time but the term 'variance accounting' is new. It was introduced in *Terminology of Management and Financial Accountancy* (published by the Institute in 1974) at the suggestion of the author, who devised the contextual structure of the management accountancy section and framed the definitions in that section of the terminology.

From his wide knowledge of industrial accounting and his teaching experience Mr Laidler has written a book which should be invaluable to managers as well as students of accountancy.

Both theoretical and practical aspects of the subject are treated in this book and the feasibility of theories is critically examined.

An understanding of the technique of variance accounting contributes to cost control for profit improvement which is vitally important especially in the current economic circumstances. This book provides a comprehensive outline of the technique and should prove of value to accountants and managers in industry concerned with profit improvement.

1976

ALEX I. G. FARQUHARSON

President

*Institute of Cost and Management
Accountants*

Preface

Towards the end of a long career in the field of industrial accounting which ranged over a wide variety of manufactures I turned to the teaching of cost and management accountancy with particular reference to Part IV of the ICMA examinations. In teaching I was deeply conscious of the difficulties experienced by students in relating academic theory to practical applications so the invitation to write this book brought with it an opportunity to attempt to bridge this gap, at least within the context of variance accounting.

The overall concept comprising the use of budgets and standard costs in connection with the process of variance analysis is widely accepted but the term 'variance accounting' is new. It is defined on page 13 of this book and the reasons for its adoption are explained in Chapter 2.

Each management accounting system, whether it incorporates the technique of variance accounting or not, must be tailored to fit a particular combination of background conditions and comply with the special requirements and preferences of the management concerned. These factors differ so widely among industrial organisations that it is perhaps true to say that each undertaking is unique. Whilst it may specialise in a particular range of commodities or services there is usually a wide variety within that range and its functional structure is likely to be complex.

To endeavour to present a system complete in every detail and devised to accommodate the myriad ramifications of an actual organisation would not best serve the readers' interests. Those who would recognise the model as closely akin to the organisations in which they

were personally engaged would represent a tiny minority and, to the rest, the intimate concern with technicalities relating to a type of manufacture in which they had no interest, and the proliferation of figurework necessitated by the product variety, would be tedious in the extreme and there would be no compensating advantages.

Many basic principles and procedures have general application but every effort has been made to explain where they vary between contrasting types of activity. Where it has been necessary to present a series of interrelated working examples these have been identified with an imaginary company – Lingrove Instruments Limited – which, happily, has but two production cost centres and manufactures only two products. This simplicity in no way invalidates the examples.

Despite the considerable diversity of background features to be found in industry, there is sufficient common ground among manufacturing undertakings to admit many valid generalisations. Service industries, on the other hand, differ so markedly from the manufacturing sector and indeed from each other that each merits individual treatment in a separate book. In this book, therefore, the emphasis is substantially on manufacture.

Definitions of cost and management accountancy terms are taken from the Institute's publication *Terminology of Management and Financial Accountancy*.