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Theory and Application of Normal Costing

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Extensive Summary

The subject of normal costing separates general production expenses as variable and fixed in the beginning like today; loads fixed and variable production overheads to their normal cost with multiplying actual input (time, hour) and budgeted general production expenses. In normal costing, it isn't faced more problem when loading variable production overheads to inventoriable cost; variable costs already come to exist just as production and are loaded to inventoriable cost entirely. But it is faced problems when loading fixed production overheads to inventoriable cost. As well as fixed production overheads' characteristics are fixed, they couldn't show regular distribution in fiscal year. To show regular distribution of these general production expenses to fiscal year, it needs to be made correct budgeting and to be determined the load limit of correct budgeted general production expense. Besides that some parts of fixed production overheads can be exist from noncash costs (depreciation etc.) and cash costs (rent and senior manager payoffs). In implementation, there are some tendencies that cause to be mistaken like noncash costs are fixed and cash costs are variable cost. Therefore it is important to be determined fixed specifical general production expenses truely and to be considered when determining budgeted load limit of general production expenses. The sole purpose of normal costing is not only recording the period cost as the part of fixed production overhead that falls to nonutilizable capacity, but also determining the load limit of fixed production overheads and delivering inventoriable cost and period expense correctly. The method of normal costing causes a number of difficulties in terms of business as enabling to compare interperiod cost due to consider fluctuation of production volume, to calculate fixed and variable expenses and to determine capacity variance. In practice there are fixed cost and variable cost in addition semi-variable cost and step-

fixed cost. Some part of semi-variable costs is fixed and some part is variable featured too. Calculating the relationship between this kind of costs and output makes difficulties in practice. Because the variability of variable costs is not always directly proportionate to output. At this point mathematical methods are necessary for discriminating costs as fixed and variable. The possibilities of these methods' usage will quietly wherret implementers. Step-fixed cost bases the assumption of losing fixity of fixed costs in the long view. Normal costing is not only a simple calculation of non-loading the unused part of fixed production overheads, actually it is a cost calculation method or system, assisting to calculate true cost, needs to be placed into cost calculation system.

In this study, it is exemplified that normal costing is an approach of system including budgeting works more than a simple calculation. In the example that stated in the study, general production expenses have been budgeted to two items as variable and fixed. When variable production overheads have fully loaded to cost of output, fixed production overheads have loaded to cost of output according to capacity usage. The part that is fallen to unused capacity has been recorded in the account of "680 Non-operating Expenses and Loses". At the end of period, the part of fixed production overheads that is loaded deficient or more, has been associated with units in production.