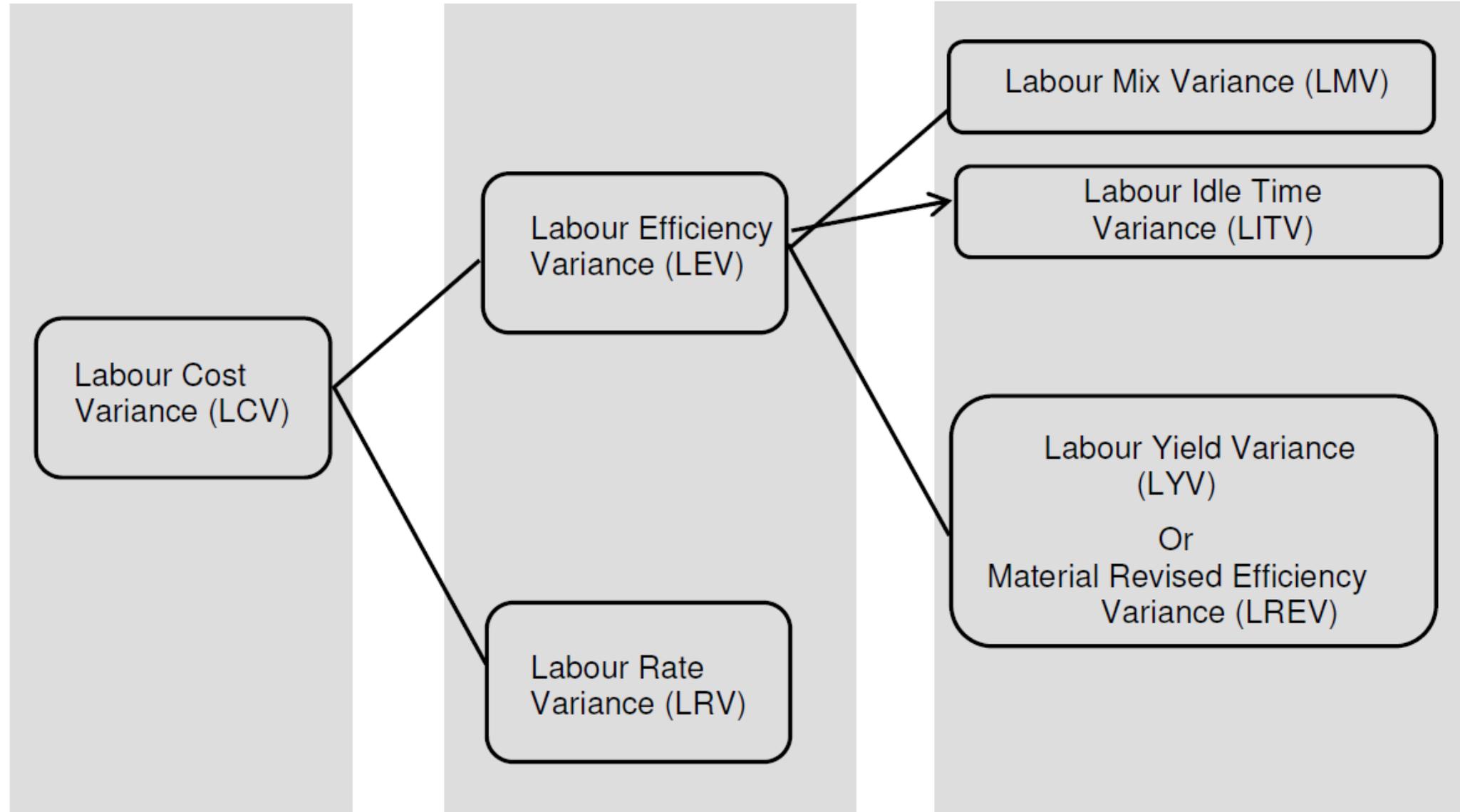


# Standard Costing & Variance Analysis

# Labour Variances



## Labour Cost Variance (LCV)

- It is the difference between the Standard labour costs and the actual labour costs for the production achieved.
- As the cost of labour is determined by labour time and wages, the labour cost variance is composed of either or both of variances relating to labour time and labour rate
- If the Standard Cost is higher, the variation is favourable and vice versa

**=Standard labour cost for actual output- Actual labour output**

**= (Standard hours for actual output \* Standard rate per hour) - (Actual hours \* Actual rate per hour)**

**= (SH \* SR) - (AH \* AR)**

## Labour Rate Variance (LRV)

- It is the difference between the standard and the actual direct Labour Rate per hour for the total hours worked.
- The reasons for labour rate variance can be more efficient and skilled workers might have been employed and higher wages may have been paid to them, new workers not being allowed full normal wage rates, use of different method of payment, higher wages paid on account of overtime for urgent work.
- LRV will be an uncontrollable variance as labour rates are usually determined by demand and supply conditions in the labour market, backed by negotiation skills of the trade union.
- If the standard rate is higher, the variance is Favourable and vice versa.

**=(Standard rate- Actual rate) \* Actual Hours**

**= (SR-AR) \* AH**

## Labour Efficiency Variance (LEV)

- It is the difference between the standard hours for the actual production achieved and the hours actually worked, valued at the standard labour rate.
- The reasons for labour efficiency variance can be defective and bad material, lack of proper supervision or stricter supervision than specified, poor working conditions, breakdown of plant & machinery, failure of power etc.
- When the workers finish the specific job in less than the standard time, the variance is favourable. If the workers take more time than the allotted time, the variance is adverse.

**=(Standard hours for actual output- Actual hours) \* Standard rate**

**= (SH-AH) \* SR**

The algebraic sum of labour rate variance and labour usage variance should be equal to material cost variance

Labour cost variance                      = Labour rate variance + Labour  
efficiency variance  
LCV    = LRV+ LEV

## Idle Time Variance

- It arises because of the time during which the Labour remains idle due to abnormal reasons, i.e. power failure, strikes, machine breakdown, shortage of materials, etc.
- This variance is part of labour efficiency variance
- It is always an adverse variance

**= Standard hourly rate \* Idle hours**

**= SR \* IH**

## Labour Mix Variance (LMV)

- This variance arises if during a particular period the grades of labour used in production are different from those budgeted.
- It is the difference between the standard composition of workers and the actual gang of workers.
- It enables the management to study how much of the labour variance occurred due to the changes in the composition of labour force

**=(Revised Standard hours- Actual Hours) \* Standard Rate**

**= (RSH- AH) \* SR**

**RSH =  $\frac{\text{Total time of actual workers}}{\text{Total time of standard workers}}$  \* Standard Time**

## **Labour Revised Efficiency Variance (LREV)**

- It is similar to Material revised usage variance and is a sub variance of labour efficiency variance.
- It arises due to factors other than those which give rise to idle time variance and labour mix variance.

**= (Standard hours for actual output- Revised standard hours) \* Standard rate**

**= (SH-RSH) \* SR**

## Labour Yield variance (LYV)

- It is the variation in labour cost on account of increase or decrease in yield or output as compared to the relative standard.

**= (Actual Yield- standard yield from actual output)\* Standard labour cost per unit of output**

Labour efficiency variance = Idle time variance+ Labour mix variance + Labour yield variance

LEV = ITV+LMV+ LYV