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E- CONTENT FOR M.COM (SEMESTER- 2)

SUBJECT: MANAGEMENT ACCOUNTING

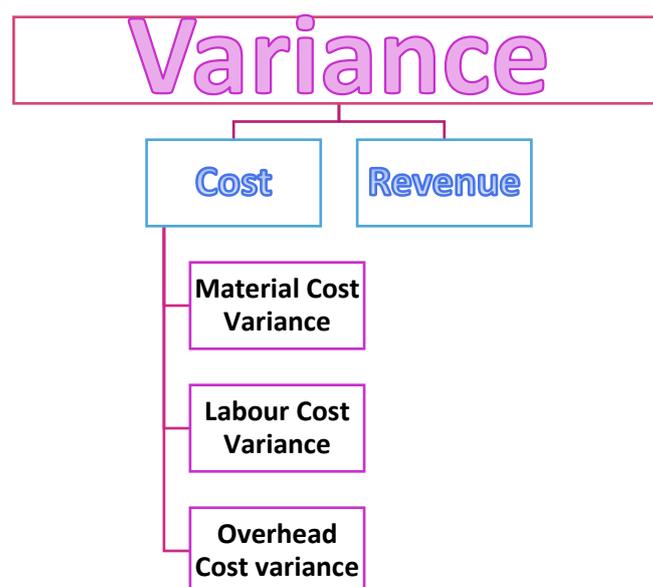
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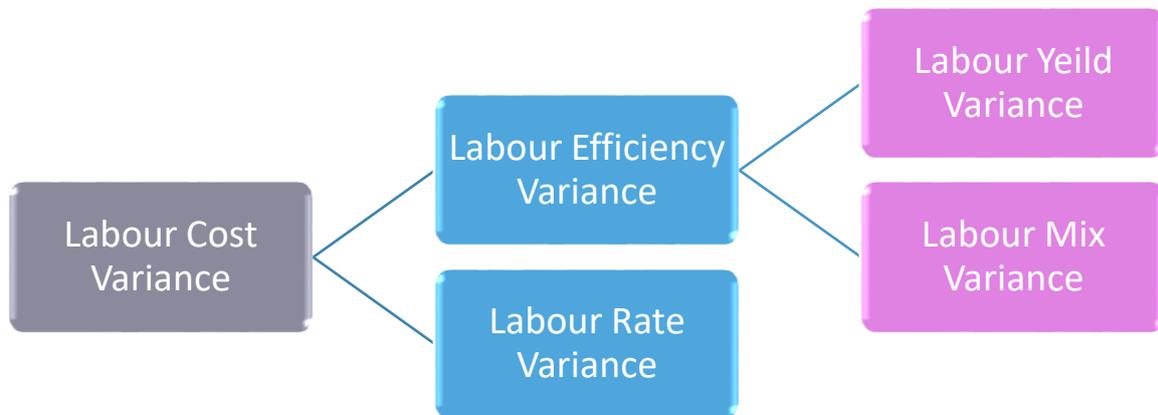
UNIT- III: STANDARD COSTING AND VARIANCE ANALYSIS (Part IV)

TOPIC: LABOUR COST VARIANCE AND ITS COMPONENTS.

NOTE: Refer previous pdfs first.

VARIANCE ANALYSIS





1. Labour Cost Variance or Direct Wage Variance :

It is the difference between the standard direct wages specified for the activity achieved and the actual direct wages paid.

It is similar to those calculated in the case of material cost.

$$\text{Labour Cost Variance} = \text{Standard Labour Cost} - \text{Actual Labour Cost}$$

2. Labour Rate Variance :

It is that portion of labour variance which is due to the difference between the standard rate to pay specified and actual rate paid.

$$\text{Labour Rate Variance} = (\text{Standard Rate} - \text{Actual Rate}) \times \text{Actual Hour}$$

Following are some causes of labour rate variance-

- Change in basic wage structure.
- Employee of more efficient and skilled labour demanding higher rates of wages.
- Scarce supply of labour
- Excess supply of labour
- Overtime allowance bonus and extra shifts.

3. Labour Time (Efficiency) Variance :

It is that portion of labour variance which is due to the difference between standard labour hours specified the activity achieved (actual output) and actual hours expenses.

$$\text{Labour Time Variance} = (\text{Standard Hours} - \text{Actual Hour}) \times \text{Standard Rate}$$

Such variances arise due to following reasons:

- Lack of proper supervision
- Wrong selection of workers
- Defective machinery and equipment.

4. Idle Time Variance :

The hours for which workers are not provided with work facilities are known as idle hours while workers don't produce anything during these hours, they get wages for that.

Reasons:

Strike, lockout, power failure etc.

$$\text{Idle Time Variance} = \text{Idle Hours} \times \text{Standard Rate}$$

5. Labour Mix Variance or Gang Composition Variance :

When the composition of labour force engaged in the factory is in actual not the same as stated in standard, then the variance due to this factor is known as labour mix variance.

When there is shortage of workers having a specific efficiency, such variance tends to arise.

- a) When standard mix ratio is not equal to actual mix ratio and standard labour quantity is equal to actual labour quantity.

$$\text{Labour Mix Variance} = (\text{Standard Hour} - \text{Actual Hour}) \times \text{Std. Rate}$$

There will be no labour efficiency variance.

b) When both standard mix ratio is not equal to actual mix ratio and standard labour quantity is not equal to actual labour quantity.

$$\text{Labour Mix Variance} = (\text{Revised Hour} - \text{Actual Hour}) \times \text{Std. Rate}$$

6. Labour Yield Variance :

It is the difference between standard yield and actual Yield

$$(\text{Standard yield} - \text{Actual Yield}) \times \text{Std. Labour Cost p. u.}$$
