

$$\text{Revised std. qty of A} = \frac{16}{40} \times 50 = 20 \text{kg} \quad \text{B} = \frac{24}{40} \times 50 = 30 \text{kg}$$

$$\text{MYV} = \text{Std. rate} \times (\text{Actual yield} - \text{Revised Std. yield})$$

$$\text{Std. rate} = \frac{\text{Std. cost of revised std. mix}}{\text{Net std. output}}$$

A = 20 x 75 =	₹ 1,500
B = 30 x 250 =	₹ 7,500
Total	₹ 9,000

$$\text{Revised standard yield} = 50 - 10\% = 45 \text{ kg}$$

$$\text{Std. rate} = \frac{9,000}{45} = \text{Rs. } 200$$

$$\text{MYV} = \text{Std. rate} \times (\text{Actual yield} - \text{Revised std. yield})$$

$$= 200 (42 - 45) = \text{₹ } 600 \text{ (unfavourable)}$$

Labour Variances

The labour variance or wage variance is similar to material variance. When standard cost of labour differs from actual wage cost, the labour variance arises. The following are the important labour variances:

- (1) Labour cost variance
- (2) Labour rate variance
- (3) Labour efficiency variance
- (4) Idle time variance
- (5) Labour mix variance
- (6) Labour yield variance

Labour Cost Variance

Labour cost variance is also called wage variance. It is the difference between standard cost of labour allowed for actual output achieved and the actual cost of labour. The formula for computation of labour cost variance is as follows:

$$\text{LCV} = \text{Std. cost of labour} - \text{Actual cost of labour or actual wages}$$

Labour Rate Variance (Labour Rate of Pay Variance)

This is similar to material price variance. It is that part of the labour cost variance, which arises due to the difference between standard rate specified and the actual rate paid. The formula for the calculation of the labour rate variance is as follows:

$$\text{LRV} = \text{Actual time} \times (\text{Std. rate} - \text{Actual rate})$$

Labour rate variance arises due to: (a) change in the basic wage rate, (b) use of different methods of wage payment, (c) unscheduled overtime etc.

Labour Efficiency Variance

It is also called labour usage or quantity variance. It is that portion of labour cost variance which arises due to the difference between standard hours specified for the actual output and the actual hours spent. The formula for the computation of LEV is as follows

$$\text{LEV} = \text{Std. rate} \times (\text{Std. time} - \text{Actual time})$$

Here, actual time means actual hours paid minus abnormal idle time

This variance arises due to: (a) lack of proper supervision, (b) lack of sufficient training, (c) poor working conditions, (d) increase in labour turnover, (e) failure to maintain machinery in proper condition, (f) change in the production process.

Idle Time Variance

Idle time variance is that portion of labour cost variance which arises due to the abnormal idle time of workers on account of sickness, power failure, machine breakdown etc. It is computed as under:

$$(\text{ITV}) \text{ Idle time variance} = \text{Abnormal idle time} \times \text{Std. rate}$$

It should be noted that idle time variance would always be unfavourable.

Verification

$$\text{LCV} = \text{LRV} + \text{LEV} + \text{ITV}$$

Example 7

Data relating to a job are as follows:

Std. rate of wages per hour	₹ 6
Std. hours	300
Actual rate of wages per hour	7
Actual hours paid	280 (out of which 20 hours are abnormal)

Calculate labour variances.

Solution

Labour cost variance	= Std. cost of labour - Actual cost of labour
Standard cost	= Std. hours x Std. rate
	= 300 x 6 = 1,800
Actual cost	= Actual hours x Actual rate
	= 280 x 7 = 1,960
Labour cost variance (LCV)	= 1,800 - 1,960 = ₹ 160 (unfavourable)
Labour rate variance	= Actual time x (Std. rate - Actual rate)
	= 280 x (6 - 7) = ₹ 280 (unfavourable)
Labour efficiency variance	= Std. rate x (Std. time - Actual time)
	= 6 x (300 - 260) = 240 (favourable)