LABOUR VARIANCES

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Labour Variances arise because of (I) Difference in Actual Rates and Standard Rates of Labour and (Ii) The variation in Actual Time taken y workers and the Standard Time allotted to them for performing a job. These are computed on the same pattern as that of Material Variances. For Labour Variances by simply

putting   the word "Time" in place of "Qu

Material Variances. The various Labour Variances can be analysed as follows:

(A) Labour Cost Variance

(B) Labour Rate Variance

(C) Labour Time Or Efficiency Variance

(D) Labour Idle Time Variance

(E) Labour Mix Variance Or Gang Composition Variance

a) Labour Cost Variance (LCV)

This variance represents the difference between the Standard Labour Costs and the Actual Labour Costs for the production achieved. If the Standard Cost is higher, the variation is favourable and vice versa. It is calculated as follows:

Labour Cost Variance: = (Standard Cost of Labour - Actual Cost of Labour)

= (Standard Time x Standard Rate) - (Actual Time x Actual Rate)

= (ST x SR) - (AT x AR)

b) Labour Rate Variance (LRV)

It is the difference between the Standard Rate of pay specified and the Actual

Rate Paid. According to ICMA, London, the variancedifference is between the standard and the actual direct Labour Rate per hour for the total

hours worked. If the standard rate is higher, the variance is Favourable and vice versa.

Labour Rate Variance = Actual Time (Standard Wage Rate x Actual Wage Rate) V

=AT (SR-AR)

C) Labour Time Or 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. 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.

Labour Efficiency Variance (LEV):

=Standard Rate (Standard Time - Actual Time)

=SR (ST-AT)

d) 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. It is always an Adverse variance

Labour Idle Time Variance = Actual Idle Time x Standard Hourly Rate

e) Labour Mix Variance or Gang Compostion Variance (LMV):

It is the difference between the standard composition of workers and the actual gang of workers. It is a part of labour efficiency variance. It corresponds to material mix variance. It enables the management to study the labour cost variance occurred because of the changes in the composition of labour force.

The rates of pay of the different categories of workers-skilled, semi-skilled and unskilled are different. Hence, any change made in composition of the workers will naturally cause variance. How much is variance due to the change, is indicated by Labour Mix Variance.

(i) When the total hours i.e. time of the standard composition and actual composition of workers does not differ the formula is:

Labour Mix variance= (Standard Cost of Standard Mix) - (Standard cost of Actual Mix)

(ii) When the total hours i.e. time of the standard composition and actual composition of workers differs, the formula is:

Labour Mix variance

Total Time of Actual mix

…………………………. x Std cost-(Std.cost ofActualStdMix). mix)

Total Time of Standard mix

If, on account of short availability of some category of workers, the standard composition is itself revised, then Labour Mix Variance will be calculated by taking revised standard mix in place of standard mix.

Labour Yield Variance (LYV)

It is just like Material Yield Variance. It is the difference between the standard labour output and actual output of yield. It is calculated as below:

Labour Yield Variance

=Standard cost per unit {Standard production of Actual mix - Actual Production}