# OVERHEAD VARIANCE

**B.COM-III**

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## Overhead Cost Variance

It is the difference between standard overheads for actual output i.e. Recovered Overheads and Actual Overheads. It is the total of both fixed and variable overhead variances. The variable overheads are those costs which tend to vary directly in proportion to changes in the volume of production. Fixed overheads consist of costs which are not subject to change with the change in the volume of production. The variances under overheads are analysed in two heads, viz Variable Overheads and Fixed Overheads:

***Overheads Cost Variance***= Standard Total Overheads-Actual Total Overheads

The term overhead includes indirect material, indirect labour and indirect expenses and the variances relate to factory, office or selling and distribution overheads. Overhead variances are divided into two broad categories: (i) Variable overhead variances and (ii) Fixed overhead variances. To compute overhead variances, the following terms must be understood:

a) Standard overhead rate per unit

$$= \frac{\text{Budgeted overheads}}{\text{Budgeted output}}$$

b) Standard overheads rate per hour

$$= \frac{\text{Budgeted overheads}}{\text{Budgeted hours}}$$

c) Standard hours for actual output

$$\frac{\text{Budgeted hours}}{\text{Budgeted output}}$$

d) Standard output for actual time

$$\frac{\text{Budgeted output}}{\text{Budgeted hours}} \times \text{Actual hours}$$

e) Recovered or Absorbed overheads = Standard rate per unit x Actual output

f) Budgeted overheads = Standard rate per unit x budgeted output

g) Standard overheads = Standard rate per unit x Standard output for actual time

h) Actual overheads = Actual rate per unit x Actual output