

Variance – C – Labor Variances

Accounting presentation created by
Rex A Schildhouse
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www.schildhouse.com



Variance – C – Labor Variances

- Labor variances follow the precedence established by materials – Labor Rate Variance first followed by Labor Efficiency Variance.
- The applied methodology is the same, Actual less Standard = Variance
- If the result is positive, it is unfavorable.
- If the result is negative, it is favorable

Variance – C – Labor Variances

- This is the setup information for this presentation.

Labor Variances:	
Standard labor rate per hour:	\$20.00
Standard labor hours to complete the work per unit:	4.0
Actual labor rate per hour:	\$20.50
Actual labor hours to complete the work:	23,000.0
Actual units produced:	6,000.0

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- The standard cost for Level 4 Labor is \$20.00 per hour.
- The work force has an average rate of \$20.50 per hour.
- When production used 23,000 hours of Level 4 Labor they incurred an actual cost of (23,000 hours \times \$20.50) \$471,500.00.

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- However, the standard cost for 23,000 hours is only (23,000 hours \times \$20.00) \$460,000.00.
- The variance of Actual minus Standard is (\$471,500.00 - \$460,000.00) \$11,500.00 is unfavorable as 1) the result of Actual minus Standard is positive, and 2) Actual Rate is greater than Standard Rate.

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- I prefer this matrix presentation for variances as all values are labeled and shown.
- The result is the same, \$11,500.00, unfavorable.

Labor Rate Variance:				
Actual Hours Worked:	×	Actual Direct Labor Rate:	=	Actual Direct Labor Cost:
23,000.00	×	\$20.50	=	\$471,500.00
Actual Hours Worked:	×	Standard Labor Hour Cost:	=	Standard Direct Labor Cost:
23,000.00	×	\$20.00	=	\$460,000.00
The Labor Rate Variance is greater than standard, Unfavorable				\$11,500.00

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- The journal entry would look like this.
- The value moving into Factory Labor is there since you cannot debit Work in Process twice and we have another journal entry to write.
- The next journal entry will assign “Factory Labor” to Work in Process.

Journal Entry Recognizing Only Purchase Price Variance:			
1/10/2015	Factory Labor	460,000.00	
	Labor Rate Variance	11,500.00	
	Wages Payable		471,500.00
	Direct labor rate variances		

Variance – C – Labor Variances

- The value of Factory Labor is Actual Hours \times Standard Labor Rate, 23,000 hours \times \$20.00 per direct labor hour, \$460,000.00.
- The Wages Payable is Actual Hours \times Actual Labor Rate, 23,000 hours \times \$20.50 per direct labor hour, \$471,500.00.

Journal Entry Recognizing Only Purchase Price Variance:			
1/10/2015	Factory Labor	460,000.00	
	Labor Rate Variance	11,500.00	
	Wages Payable		471,500.00
	Direct labor rate variances		

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- With debits to Factory Labor of \$460,000.00 and credits to Wages Payable of \$471,500.00, the variance amount of \$11,500.00, is again identified.
- A debit balances the journal entry.
- As a debit, it is unfavorable.

Journal Entry Recognizing Only Purchase Price Variance:			
1/10/2015	Factory Labor	460,000.00	
	Labor Rate Variance	11,500.00	
	Wages Payable		471,500.00
	Direct labor rate variances		

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- Labor Efficiency Variance is based on the actual hours utilized to complete a production effort minus the standard hours to complete the production effort.
- The setup tells us that production utilized 23,000 hours for the production effort.
- The standard was 4.0 hours per unit and the production run had 6,000 units so standard hours would be (6,000 units \times 4.0 hours each) 24,000 hours.

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- At standard costs, the 23,000 hours are valued at \$20.00 each, \$460,000.00.
- The standard was 4.0 hours per unit for the 6,000 units at a standard cost of \$20.00 per hour so the standard cost is (4.0 hours per unit × 6,000 units × \$20.00 each) \$480,000.00.
- I prefer this matrix presentation for variances.

Material Efficiency Variance:				
Actual Labor Hours:	×	Standard Labor Cost:	=	Actual Cost of Materials:
23,000.00	×	\$20.00	=	\$460,000.00
Standard Labor Hours:	×	Standard Labor Cost:	=	Actual Cost of Materials:
24,000.00	×	\$20.00	=	\$480,000.00
The Labor Efficiency Variance is equal to or less than standard, Favorable				(\$20,000.00)

Variance – C – Labor Variances

- The journal entry looks like this.

Journal Entry Recognizing Only Purchase Price Variance:			
1/10/2015	Work in Process	480,000.00	
	Labor Efficiency Variance		20,000.00
	Factory Labor		460,000.00
	Labor efficiency related variances		

- The amount going into Work in Process is standard hours, 6,000 units \times 4.0 hours per unit \times \$20.00 per direct labor hour.
- The amount coming from Factory Labor, that never used in textbook accounting, is the 23,000 actual hours utilized \times \$20.00 per direct labor hour, \$460,000.

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- The journal entry needs (\$480,000.00 minus \$460,000.00) \$20,000.00 as a credit to balance it.
- As a credit, this variance is favorable, akin to revenues.

Journal Entry Recognizing Only Purchase Price Variance:			
1/10/2015	Work in Process	480,000.00	
	Labor Efficiency Variance		20,000.00
	Factory Labor		460,000.00
	Labor efficiency related variances		

Variance – C – Labor Variances

- So, why the Factory Labor account?
- Had you utilized the Work in Process account earlier, you would have twice amount of direct labor in the Work in Process account.

Journal Entry Recognizing Only Purchase Price Variance:			
1/10/2015	Work in Process	480,000.00	
	Labor Efficiency Variance		20,000.00
	Factory Labor		460,000.00
	Labor efficiency related variances		

Variance – C – Labor Variances

- If textbook accounting utilizes one journal entry to record the hiring and working of the labor force, it might look like this.

1/10/2015	Work in Process	480,000.00	
	Labor Rate Variance	11,500.00	
	Labor Efficiency Variance		20,000.00
	Wages Payable		471,500.00
	Direct labor related variances		

- The values into Work in Process, Labor Rate Variance, and Labor Efficiency Variance are the same.
- Wages Payable is the balancer.

Variance – C – Labor Variances

- The next recommended presentation is
Variances – D – Factory / Manufacturing
Overhead Variances.

Variance – C – Labor Variances

The end.