What is Labor Efficiency Variance?

Worksheet

Labor efficiency variance equals (Actual Hours worked Standard Hours allowed) Standard Rate. A positive result is unfavorable (more hours used than standard); a negative result is favorable.

$$\text{LEV} = (\text{SH} - \text{AH}) \times \text{SR}$$

Questions

1. Standard hours allowed is 400, actual hours worked is 380, standard rate is $20/hr. What is the labor efficiency variance?

A) $400 Unfavorable
B) $400 Favorable
C) $7,600 Favorable
D) $20 Favorable

2. Which rate is always used for the labor efficiency variance formula?

A) Actual hourly rate
B) Standard hourly rate
C) Market rate
D) Overtime rate

3. An unfavorable labor efficiency variance means the company

A) Paid a higher wage rate
B) Used more hours than the standard allowed
C) Used fewer hours than standard
D) Paid a lower wage rate

4. Labor efficiency variance isolates which factor?

A) Wage rate paid
B) Hours-based productivity
C) Material usage
D) Sales price

5. Standard hours allowed for a job is 500 hours at a standard rate of $15/hr. Actual hours worked were 520. Find the labor efficiency variance.

6. Standard hours allowed is 500 at $12/hr, but actual hours worked were only 450.

7. A crew took 1,100 actual hours against 1,000 standard hours allowed, at a standard rate of $10/hr.

8. Define: What is the labor efficiency variance formula?

9. Define: What does a positive LEV mean?

10. Define: What does a negative LEV mean?

Answer Key

1. B) $400 Favorable - (380400)$20 = $400, favorable since AH < SH.
2. B) Standard hourly rate - Standard rate is used so the variance isolates the hours effect only.
3. B) Used more hours than the standard allowed - Unfavorable means AH > SH - more hours used than standard for the output achieved.
4. B) Hours-based productivity - It measures only the hours-worked difference, holding the rate at standard.
5. AH SH = 520 500 = 20 hr LEV = 20 $15 = $300 Since AH > SH, the variance is $300 Unfavorable
6. AH SH = 450 500 = 50 hr LEV = 50 $12 = $600 Since AH < SH, the variance is $600 Favorable
7. AH SH = 1,100 1,000 = 100 hr LEV = 100 $10 = $1,000 Since AH > SH, the variance is $1,000 Unfavorable
8. LEV = (Actual Hours worked Standard Hours allowed) Standard Rate.
9. Unfavorable - more hours were used than the standard allowed.
10. Favorable - fewer hours were used than the standard allowed.