What is Labor Rate Variance?

Worksheet

Labor rate variance equals (Actual Rate Standard Rate) Actual Hours worked. A positive result is unfavorable (paid more per hour than planned); a negative result is favorable.

$$@text{LRV} = (@text{SR} - @text{AR}) @times @text{AH}$$

Questions

1. Standard rate is $12/hr, actual rate is $10/hr, actual hours are 600. What is the labor rate variance?

A) $1,200 Favorable
B) $1,200 Unfavorable
C) $2,000 Favorable
D) $200 Favorable

2. Which figure is always used for hours in the labor rate variance formula?

A) Standard hours allowed
B) Budgeted hours
C) Actual hours worked
D) Idle hours

3. An unfavorable labor rate variance means the company

A) Used more hours than planned
B) Paid a higher wage rate than standard
C) Produced fewer units
D) Paid a lower wage rate than standard

4. Labor rate variance isolates which factor?

A) Labor efficiency (hours)
B) Material cost
C) Wage rate paid
D) Sales price

5. Standard wage rate is $15/hr. Workers were actually paid $16/hr for 500 hours worked. Find the labor rate variance.

6. Standard rate is $15/hr, but actual rate paid was only $13/hr for 800 hours.

7. A crew of 1,200 actual hours was paid $14.50/hr against a standard of $14/hr.

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

9. Define: What does a positive LRV mean?

10. Define: What does a negative LRV mean?

Answer Key

1. A) $1,200 Favorable - (1012)600 = $1,200, a favorable variance since AR < SR.
2. C) Actual hours worked - Actual hours are used so the variance isolates the pay-rate effect only.
3. B) Paid a higher wage rate than standard - Unfavorable means AR > SR - a higher-than-planned hourly rate.
4. C) Wage rate paid - It measures only the pay-rate difference, holding hours at the actual level.
5. AR SR = $16 $15 = $1 LRV = $1 500 = $500 Since AR > SR, the variance is $500 Unfavorable
6. AR SR = $13 $15 = $2 LRV = $2 800 = $1,600 Since AR < SR, the variance is $1,600 Favorable
7. AR SR = $14.50 $14 = $0.50 LRV = $0.50 1,200 = $600 Since AR > SR, the variance is $600 Unfavorable
8. LRV = (Actual Rate Standard Rate) Actual Hours worked.
9. Unfavorable - workers were paid more per hour than the standard rate.
10. Favorable - workers were paid less per hour than the standard rate.