Exercise 10-3 (20 minutes)

1.

Number of meals prepared	4,000
Standard direct labor-hours per meal	× 0.25
Total direct labor-hours allowed	1,000
Standard direct labor cost per hour	× $9.75
Total standard direct labor cost	$9,750
Actual cost incurred	$9,600
Total standard direct labor cost (above)	9,750
Total direct labor variance	$ 150 Favorable

2.

Actual Hours of Input, at the Actual Rate (AH × AR)	Actual Hours of Input, at the Standard Rate (AH × SR)	Standard Hours Allowed for Output, at the Standard Rate (SH × SR)
960 hours × $10.00 per hour = $9,600	960 hours × $9.75 per hour = $9,360	1,000 hours × $9.75 per hour = $9,750

Rate Variance, $240 U

Efficiency Variance, $390 F

Total Variance, $150 F

Alternatively, the variances can be computed using the formulas:

Labor rate variance = AH(AR – SR)
= 960 hours ($10.00 per hour – $9.75 per hour)
= $240 U

Labor efficiency variance = SR(AH – SH)
= $9.75 per hour (960 hours – 1,000 hours)
= $390 F