Exercise 10-4 (20 minutes)

1. Number of items shipped 120,000
   Standard direct labor-hours per item ..... × 0.02
   Total direct labor-hours allowed 2,400
   Standard variable overhead cost per hour ..... × $3.25
   Total standard variable overhead cost ..... $ 7,800

   Actual variable overhead cost incurred..... $7,360
   Total standard variable overhead cost (above) ... 7,800
   Total variable overhead variance..... $ 440 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)
2,300 hours × $3.20 per hour* = $7,360	2,300 hours × $3.25 per hour = $7,475	2,400 hours × $3.25 per hour = $7,800

Variable Overhead Spending Variance, $115 F	Variable Overhead Efficiency Variance, $325 F
Total Variance, $440 F	

*$7,360 ÷ 2,300 hours =$3.20 per hour

Alternatively, the variances can be computed using the formulas:

Variable overhead spending variance:
AH(AR – SR) = 2,300 hours ($3.20 per hour – $3.25 per hour)
= $115 F

Variable overhead efficiency variance:
SR(AH – SH) = $3.25 per hour (2,300 hours – 2,400 hours)
= $325 F