Variable Manufacturing Overhead Variances

(For Standard Costing)

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Example: A company applies its variable manufacturing overhead costs such as electricity and machine supplies on the basis of direct labor hours or machine hours. (Assume that this company has one direct labor hour for each machine hour.) During a recent time period the actual variable manufacturing overhead costs were *$6,175* and the actual amount of direct labor hours were *620*. During the period there were 210 units of output and each unit had a standard of 3 hours. The standard rate for the variable manufacturing overhead is $10.00 per direct labor hour.

Actual Amount of Variable Manufacturing Overhead Incurred	**Flexible Budget for Variable Manufacturing Overhead**			**Standard Cost of Variable Manufacturing Overhead Applied to the Products:** (The output of 210 units of product will have the following)		
	Actual Hours Used	X	**Standard Cost per Hour**	**Standard Hours for Output** (210 x 3)	X	**Standard Cost per Hour**
	620	X	*$10.00*	*630*	X	*$10.00*
$6,175		*$6,200*			*$6,300*	

Variable Mfg O/H Spending Variance = ***$25*** ***Favorable***

Variable Mfg O/H Efficiency Variance = ***$100*** ***Favorable***

Total Variable Manufacturing Overhead Variance = *$125* *Favorable*

For a blank form see **Form G18**.

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