Variance Variations for Managerial Accounting

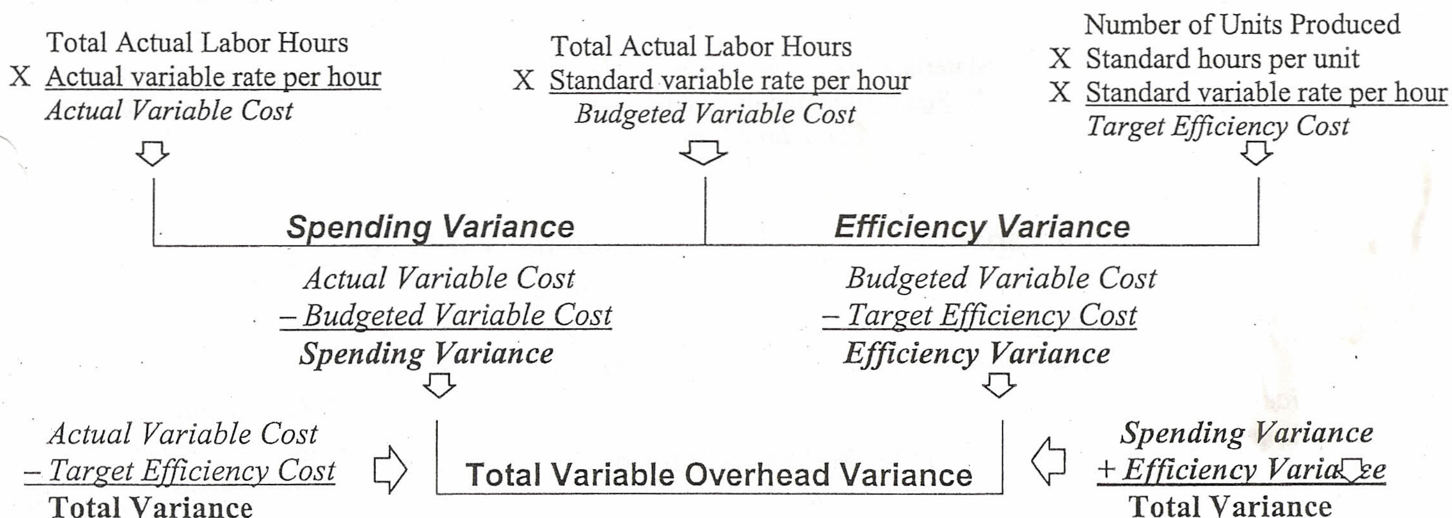
The purpose of this handout is to eliminate some confusion in calculating variances by *fully* illustrating the calculations for each step. To make better use of space, the overhead variances appear first instead of last. When using this handout, a positive sum or difference means that you have an *unfavorable* variance and a negative sum or difference means that you have a *favorable* variance. This is because the goal is to have actual costs that are lower than your standard costs. Also, the use of "X" means "multiplied by" throughout the handout.

One Way Overhead (O/H) Variance:

This is a simple variance to calculate. It can also be used to double check the other overhead variances.

Applied Overhead = Units of production X standard hours per unit X standard overhead rate.
– Actual Overhead = The total dollar amount actually paid in overhead costs for the period.
One Way Variance = Should be equal to the sum of the two Overhead **Total** Variances.

Variable Overhead (O/H) Variances:



Fixed Overhead (O/H) Variances: