



COST ACCOUNTING
4TH SEMESTER
BANGALORE CENTRAL UNIVERSITY

LABOUR COST CONTROL

Mahesh S
Asst. Prof
SBMJEC
V.V Puram

Meaning of Labour cost



Labour cost is also known as employee cost.

According to Cost Accounting Standard employee cost is the “the aggregate of all kinds of considerations paid, payable and provision made for future payments for the services rendered by employees of an enterprise.



Direct and Indirect Labour



- Direct Labour is the cost of that labour which is expended in altering the construction, composition or condition of the product.
- Indirect Labour cost is the wages paid to those workers who are not directly engaged in converting raw materials into finished products.



Labour Turnover



- Labour Turnover is thus defined as “the rate of change in the composition of the labour force in an organization”

There are **three** alternative methods by which this rate is computed

- **Separation method**
- **Replacement method**
- **Flux method**

Time Keeping



- The time – keeping department is an important part of a firms system of accounting and control of labour cost. The main function of this department is to accurately record each workers time of arrival and departure in the factory and also the time spent on different jobs or process.





OVERTIME & IDLETIME



- Overtime occurs when a worker works beyond normal working hours. The normal working hours laid down in the Factories Act.
- Accordingly, any worker working for more than 9 hours per day or more than 48 hours per week is entitled to overtime payment.
- Idle time represents loss of labour time. When workers are paid on time basis, some difference between the time for which they are paid and the time for which they actually work is bound to arise.
- Idle time thus represents the time for which they are paid but no production is obtained

TIME RATE SYSTEM



- This is the oldest of the wage payment systems, time is made the basis of payment. Labour is paid for the time worked irrespective of the volume of production during that time. The formula for calculating wages under this is:

Wages = Hours Worked x Rate Per Hour

or = Days worked x Rate per day



PIECE RATE SYSTEM



- Wages under this system are paid according to the quantity of work done. A rate is fixed per unit of production and wages are calculated by the following formula.

Wages = Rate per unit x No. of units produced



INCENTIVES SCHEMES



- Incentives schemes or bonus system is a compromise between the two, combining the good points of each system. Under incentive schemes, time rate and piece rate systems are in such a way that workers are induced to increase their productivity.

- Important Incentives Schemes

- I. Halsey Plan
- II. Rowan Plan
- III. Taylor's Plan



HALSEY PLAN



- It is a simple combination of time and piece method of wage payment. Under this plan, amount of bonus depends upon the time saved by the worker. A standard time is fixed for each job and if a worker completes the job in less than the standard time, he gets wages for the time worked plus a bonus equal to 50% of the value of time saved.
- **Bonus = 50%(Time Saved x Rate Per Hour)**
- **Total Earnings = (Time taken x Rate Per Hour) + 50%(Time Saved x Rate Per Hour)**
- **Time saved = Standard time – Time Taken**

ROWAN PLAN



- This plan was introduced by David Rowan and is similar to Halsey plan, except in the calculation of the amount of bonus. In this plan, bonus is that proportion of the wages of the time taken which the time saved bears to the standard time. Its formula is:
 - $\text{Bonus} = \frac{\text{Time saved}}{\text{Standard time}} \times \text{Time taken} \times \text{Rate per hour}$
 - $\text{Total Earnings} = (\text{Time taken} \times \text{Rate per hour}) + \text{Bonus}$.



Taylor's Differential Piece Rate System

- F.W. Taylor as a part of the scheme of scientific management. Under this system, the standard task is established after careful time and motion study and two piece rates are set. The main features of the scheme may be given as below:
- Day wages are not guaranteed
- A standard time for jobs is established
- Two piece rates are fixed. If the worker does the work within the standard time, he receives the higher piece rate, whereas if he takes longer time he receives the lower piece rate.
- Usually these rates are **83%** of the piece work rate for inefficient workers and **175%** of the piece rate for efficient workers.

