



Chapter: 10

Accounting for Labour

1 Theory question for 1 or 2 marks

1 Numerical question for 2 marks

Labour cost

Labour cost

- The amount of money paid to the workers against their effort and contribution of time and service is called *labour cost*.
- It is a part of total cost of production.
- Labour cost is also commonly called *wage*.
- Monetary and non-monetary benefits provided to workers and employees for their physical and mental labour in converting raw materials into finished outputs.

Types of labour cost

1. Direct labour cost:

- * It is the amount spent by the factory for those workers who directly involve in the manufacturing process.
- * It can be measured conveniently and accurately on per unit of output basis.

2. Indirect labour cost:

- * It is the amount spent by the factory for those workers who are not directly engaged in the production process but support in manufacturing process.
- * It refers to the expenses incurred in remunerating such workers who assist the direct labour to complete the manufacturing processes

Labour Cost Control

Meaning of Labour Cost Control

- Is one of the managerial functions that ensures maximum outputs of better quality at low cost through proper utilization of the labour force.
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- Basically, management is concerned with controlling labour cost.
- Labour cost control is a mechanism relating to systems, procedures, techniques and tools used by the management in order to keep the labour cost of the product or job as minimum as possible.

Needs of Labour Cost Control

- To make economic utilization of labour force in production processes.
- To obtain maximum quantity of output with the least amount of materials and other resources.
- To obtain better quality output with the least effort and time of the workers.
- To reduce the cost of production of the products manufactured or services rendered.
- To ensure the satisfaction of the workers by creating a good working environment in the factory.

Forms Used for Labour Cost Control

Forms Used for Labour Cost Control

1. Labour Requisition Form
2. Personal or Personnel Statement
3. Labour History Card
4. Time Card
5. Job Card
6. Pay-roll Sheet
7. Biometric Machine

1. Labour Requisition Form

- Human resource department starts the recruitment of workers immediately after receiving the 'Labour Requisition Form' from the concerned departments.
- Labour requisition form is a formal document that the concerned department uses to request for new labours.
- It is an essential aspect of the hiring and staffing processes.
- On the basis of labour requisition form, the human resource department recruits and selects the required number of right candidates to fulfil the vacancy of different departments.

2. Personal or Personnel Statement

- A personal or a personnel statement is a statement, which includes the personal information of the labour working in the organization.
- It is prepared by an organisation to maintain the personal record of the labour.
- It provides the information of labour regarding name, address, age (date of birth), education, work experience, training, skill composition, ability, special knowledge etc.
- It facilitates for the planning of labour relating to appointment, training and development, promotion, transfer, demotion and termination of labour.

3. Labour History Card

- Human resource department keeps the complete and detail records of each employee in a card.
- A card which is used to keep the record of the labour working in the organization is known as 'Employee's History Card.'
- It provides the detailed information about a labour such as name, address, education, marital status, number of children, concerned department, previous employer, reasons of leaving, starting pay, category, etc.

4. Time Card

- The time keeping department involves in recording the time of each worker engaged in the factory.
- This department uses 'Attendance Register or Time Card to record the time contributed by each worker in the factory.
- Time card is a card, which is maintained to record the time of normal working hours, overtime as well as total time worked by the workers in the factory.
- It also records incoming and outgoing time of the workers, which helps in preparing pay-roll, meeting legal requirements and maintaining discipline.

5. Job Card

- Job card is used to keep the correct record of the time spent by each worker on each job.
- It helps to calculate the labour cost of a job accurately and conveniently.
- Job card can be used for each worker or for each job as per the need of the factory.

6. Pay-roll Sheet

- The pay-roll department prepares the pay-roll sheet on the basis of time spent by the workers and wages rate.
- It prepares the pay-roll sheet for each department separately and makes the payment of wages to each worker.
- Pay-roll sheet is a statement, which is prepared to keep the detail records of workers regarding their working hours and total payment.

7. Biometric Machine Form

- A biometric machine is a device, which is used to verify the identity of the workers.
- It is used to keep the record of attendance of the workers working in the organization.
- It identifies a person through finger print or face recognition or voice patterns or iris etc.
- This machine helps to keep the exact time spent by the workers in the job.
- **Biometric machine form is printed copy of time records through biometric machine.**

Chapter: 10

Accounting for Labour [Wage calculation]

1 Numerical question for 1 or 2 marks

1 Theory question for 1 marks

Systems of Wage Payment

Systems of Wage Payment

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Time Rate System

Piece Rate System

1. Time Rate System

- Time rate is one of the wage payment system in which the workers are paid on the basis of time spent by them in the job.
- Under this system, the workers and employees are paid wages on the basis of the time they have worked rather than the volume of output they have produced.
- **Under this system, total wage is calculated as follows:**

Total wages = Time spent × Wage rate per hour/day/week/month

Or,

If wages are paid on hourly basis,

Total wages = Time spent (Hours) × Wage rate per hour

Advantages

- It is simple to understand and easy to calculate.
- It is quite useful for organisations that use costly inputs for quality outputs.
- It is beneficial for average and below average workers.
- It assures regular income and creates the feeling of economic security among the workers.
- It does not discriminate the workers and is preferred by trade unions.

Disadvantages

- It does not help in increasing output and improving efficiency as there is no correlation between effort and reward.
- It is not justifiable to differentiate between efficient and inefficient workers and skilled and unskilled workers.
- It pays for idle time, which increases the cost of production.
- It encourages a go-slow tendency among workers during working hours and encourages them to work for overtime.

2. Piece Rate System

- Piece rate system is another wage payment system in which the workers are paid on the basis of the units of output produced.
- It does not consider the time spent by the workers.
- It is a method of remunerating the workers according to the number of units produced or job completed.
- **Under this system, total wage is calculated as follows:**
$$\text{Total wages} = \text{Production units} \times \text{Wage rate per unit}$$

Advantages

- It pays wages according to the output produced by the workers. It encourages efficient workers.
- It helps to reduce idle time.
- It gives incentive to the workers to adopt a better method of production for increasing their production and earning.
- It helps the management to determine the exact labour cost per unit for submitting quotation.
- It requires less supervision cost.

Disadvantages

- It does not help in producing quality output as the workers are concentrated more on quantity instead of quality.
- It does not help for a uniform flow of production and makes difficult to regulate the production schedule.
- It creates greater chances of ineffective use of materials, tools and equipment due to more concentration on increasing output.
- It requires extra supervision cost for quality output and effective use of materials, tools and equipment.