

# LABOUR COST- ACCOUNTING AND CONTROL



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# INTRODUCTION

- o Labour represent human resources used in production.
- o After material cost, labour cost is the second major element of cost.
- o Role of labour is very significant as productivity of all other resources depends on the productivity of human resources.
- o In other words, higher efficiency of labour helps in lowering the cost per unit of production
- o Therefore, there is a special need for proper organisation for accounting and control of labour cost.

# DIRECT AND INDIRECT LABOUR

## o DIRECT LABOUR

- o Directly engaged in production work
- o Can be conveniently identified or attributed wholly to a particular job, process or cost unit
- o Examples- wages of a machine operator, wages paid to a tailor in a factory manufacturing readymade garments

## o INDIRECT LABOUR

- o Wages paid to those workers who are not directly engaged in converting raw materials into finished products.
- o Such costs cannot be conveniently identified with a particular job. Product or cost unit
- o Examples- supervisors, inspectors, clerks, instructors, peons, watchmen and cleaners



# ORGANISATION FOR ACCOUNTING AND CONTROL OF LABOUR COST

There are mainly **five departments** in an organisation which deal with labour-

## ❖ Personnel Department

- o Recruitment and selection of workers
- o Training of workers and development of human resources
- o Placement of workers according to their abilities
- o To plan for efficient use and control of labour

## ❖ Engineering Department

- Specification of jobs
- Makes job analysis
- Conducts time and motion studies
- Makes provision for safe working conditions, and
- Supervises production activities

## ❖ Time-keeping Department

- Recording of time put in by the workers for the purpose of attendance, wage calculation, cost analysis and apportionment of labour cost over various jobs.



## ❖ Payroll Department

- Maintains a record of job classification and wage rate of each employee
- Preparation of payroll or wage sheet for the computation of wages payable to employees
- Responsible for disbursement of wages

## ❖ Cost Accounting Department

- Accumulates and classifies all cost data
- Analyses the payroll and prepares routine and special labour cost reports for submission to management

# LABOUR TURNOVER



- o In all business organisations, it is a common feature that some workers leave the employment and new workers join in place of those leaving.
- o This change in work force is known as labour turnover.
- o Labour turnover varies greatly between different trades and industries.
- o For example, where part time and seasonal labour is employed, the rate will be higher.



# MEASUREMENT OF LABOUR TURNOVER

## 1) Separation Method

This method takes into account only those workers who have left the organization during a particular period.

$$\text{LTR} = \frac{\text{No. of workers left during a period}}{\text{Average No. of workers during the period}} \times 100$$

$$\text{Average Number} = \frac{\text{No. of workers in the beginning} + \text{No. of workers at the end of the period}}{2}$$

## 2) Replacement Method

This method takes into account only those new workers who have joined in place of those who have left.

$$\text{LTR} = \frac{\text{No. of workers replaced during a period}}{\text{Average No. of workers during the period}} \times 100$$

### 3) Flux Method

This method shows the total change, in the composition of labour force due to separations and replacement of workers.

$$\text{LTR} = \frac{\text{No. of workers left} + \text{No. of workers replaced}}{\text{Average No. of workers}} \times 100$$



# MEASUREMENT OF LABOUR TURNOVER

Q- Calculate Labour Turnover Rate by applying-

(a) Separation Method

(b) Replacement Method

(c) Flux Method

**No. of workers on the payroll:**

At the beginning of the month	900
At the end of the month	1100

During the month, 10 workers left, 40 persons were discharged and 150 workers were recruited. Of these, 25 workers are recruited in the vacancies of those leaving, while the rest were engaged for an expansion scheme.

# MEASUREMENT OF LABOUR TURNOVER

## o Solution:

Average No. of workers =  $900 + 1100 / 2 = 1000$

No. of workers left =  $10 + 40 = 50$

(a) Separation Rate =  $50 / 1000 * 100 = 5\%$

(b) Replacement Rate =  $25 / 1000 * 100 = 2.5\%$

(c) Flux Rate =  $50 + 25 / 1000 * 100 = 7.5\%$



# CAUSES OF LABOUR TURNOVER

## o Avoidable Causes

- o Redundancy due to seasonal fluctuations, contraction in the market or lack of proper planning
- o Dissatisfaction with the job, remuneration or working conditions
- o Strained relationship with supervisors or fellow workers
- o Lack of proper amenities like medical and other facilities, recreational centres, etc.
- o Other factors like lack of proper training facilities, inadequate security and retirement benefits.

## o Unavoidable Causes

- o Change of service for personal betterment
- o Retirement due to old age and ill health
- o Death
- o In case of women employees, domestic responsibilities, pregnancy or marriage
- o Discharge on disciplinary grounds or continuous long absence

# **COST OF LABOUR TURNOVER**

## **o Preventive Costs**

Costs which are incurred by a firm to keep the labour force contented so that excessive labour turnover may be prevented.

Examples-

- o Cost of personnel management-** for maintaining good relations between management and workers



- o Cost of welfare activities and services- canteen meals, educational and transport facilities, housing schemes, etc.
- o Cost of medical services
- o Pension schemes
- o Extra bonus and other perquisites

# **COST OF LABOUR TURNOVER**

## **o Replacement Costs**

Includes all such losses and wastages arising because of the inexperienced new labour force replacing the existing ones as well as the cost of recruitment and training of the new workers

**o** Loss of output due to some time taken in obtaining new labour

- o Loss of output and quality due to inefficiency of new labour
- o Cost of training of new employees
- o Cost of tools and machine breakages
- o Cost of excessive scrap and defective work
- o Cost of accidents



# CONTROL OF EXCESSIVE LABOUR TURNOVER

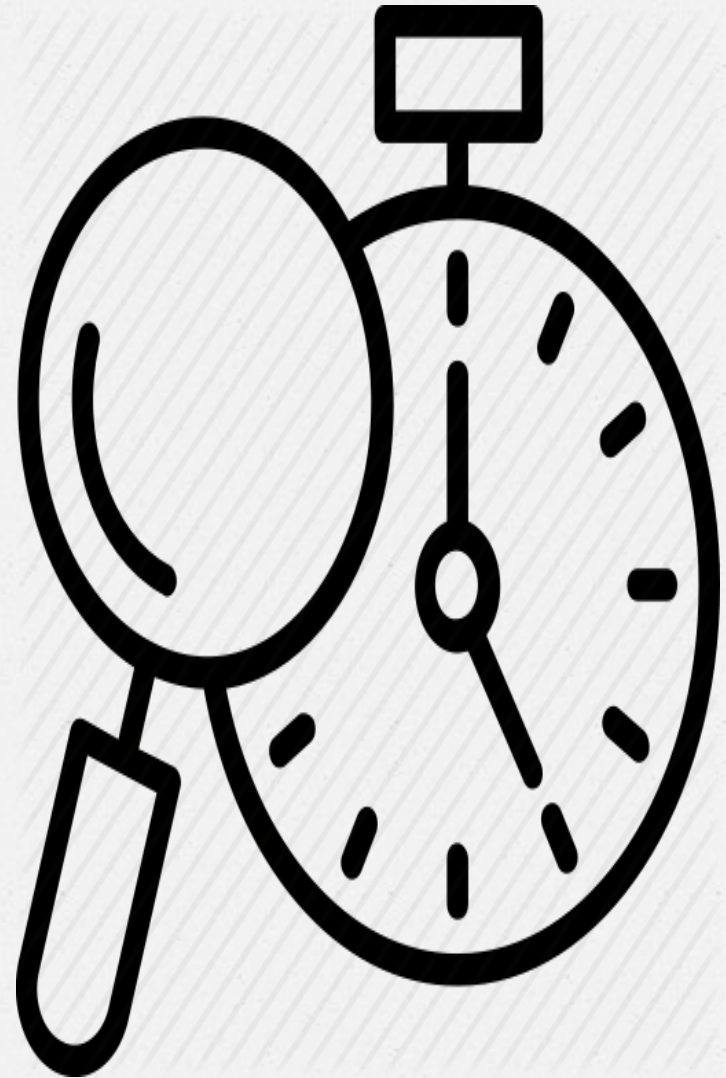
- o An adequate and satisfactory wage system
- o A sound personnel policy for recruitment, induction and training of labour
- o A satisfactory level of amenities and welfare measures like canteen facilities, medical services, recreation, etc.

- o A satisfactory security scheme like family pension, provident fund, accident compensation, etc.
- o A satisfactory policy for transfers and promotions
- o Effective grievance redressal procedure
- o Labour participation in management and joint consultation scheme

# TIME KEEPING

Two functions of Time Keeping Department-

- **Time-keeping** i.e. recording time for attendance purpose and for calculation of wages
- **Time-booking** i.e. records time spent on different jobs or processes for determining labour cost of jobs/processes.





# TIME KEEPING

3 Methods of recording attendance of workers-

## 1) Attendance Register:

- ❑ In this method, attendance of each worker is recorded in the register maintained for this purpose.
- ❑ This register provides sufficient number of columns for attendance of each worker.
- ❑ Entries in the arrival and departure columns may be made by the worker himself.
- ❑ This method can be used only when the number of workers is small.

### 3 Methods of recording attendance of workers-

#### 2) Token or Disc Method:

- ❑ Each worker is allotted an identification number and that number is suitably painted or engraved on a round metal token with a hole in it.
- ❑ All such tokens are hung in a serial order on a board placed at the factory gate.

- ❑ As the worker arrives, he removes his token from the board and puts it in a box kept nearby or hangs it on another board which is specially kept for this purpose
- ❑ After the fixed time, the box or the second board is removed
- ❑ Those coming late have to hand over their tokens personally at the time office so that exact time of their arrival can be noted.



## 3 Methods of recording attendance of workers

### 3) Time Recording Clocks

- ❑ Mechanical method of recording attendance and proves quite useful when the number of workers is fairly large.
- ❑ Each worker is allotted a Clock Card which bears his identification number, name, department, etc.
- ❑ These cards are kept in a rack in a serial order.

- ❑ There are usually two racks, an *In rack* and an *Out rack*.
- ❑ On arrival, the worker will pick up his card from the 'Out' rack, put it in the slot of the clock, press a button and the exact time is printed on the card.
- ❑ After this the card is put in the 'In' rack.
- ❑ An inspection of the 'Out' racks will reveal absentees.

# TIME KEEPING

## Biometric Time Recording Clock

- o New generation technique which is fast replacing the old type of time recording clocks.
- o Biometric time recording clock is an electronic device to record attendance of workers.
- o Under this, the worker simply places his finger or hand on the Fingerprint Reading Sensor and his attendance is recorded in the machine.



# TIME BOOKING

- In addition to recording workers time of arrival and departure, it is necessary to record the particulars of work done by workers and the time spent on each job or process.
- Recording of workers' time spent on different jobs is known as time-booking.



## o Objectives-

- o To ensure that the time for which a worker is paid is properly utilized;
- o To ascertain the labour cost of work done
- o To provide a basis for apportionment of overheads; and
- o To ascertain the idle time so as to control it.

# OVERTIME

- Overtime occurs when a worker works beyond normal working hours as 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.
- The Factories Act also provides for payment of overtime wages at double the normal rates of wages.



## o Disadvantages-

- o Leads to excessive labour cost
- o Puts an extra strain on plant and machinery
- o During overtime hours, labour productivity is decreased because of diminishing labour efficiency.
- o Bad effect on the health of workers
- o Certain overheads, like lighting cost, increase because of work in the evening.
- o Workers may develop a tendency to work in overtime and take overtime wages as a part of their normal earnings.

# OVERTIME

## Treatment of overtime

Payment for overtime consists of two elements-

- (a) Normal amount of wages, and
  - (b) Additional amount paid for overtime work, i.e., overtime premium
- o The normal amount is charged to the cost unit or production order on which the worker is working.
  - o The difficulty lies in the treatment of overtime premium.

# OVERTIME

The overtime premium is charged differently under different circumstances as stated below-

- **Charge to jobs as direct cost:** When overtime is worked at the request of the customer due to urgency of work and the customer agrees to bear the entire charge of overtime, it should be charged direct to the job or work order concerned.



o **Charge to overheads:** when overtime is payable due to general pressure of work or seasonal nature of production, it should be charged as overhead.

o **Charge to Costing Profit and Loss Account:** overtime required due to abnormal factors like flood, fire, earthquake, etc. or due to factors like defective planning or faulty management, it should not be charged to cost but to Costing Profit and Loss Account.

# IDLE TIME

- o Represents the time for which workers are paid but no production is obtained.
- o For example, time lost between factory gate and department, time when production is interrupted by machine maintenance, tea breaks etc.
- o Idle time may occur owing to:
  - a) Productive causes
  - b) Administrative causes
  - c) Economic causes



# IDLE TIME

## a) Productive causes

- Machine breakdown
- Power failure
- Waiting for tools and/or raw materials
- Waiting for instructions

## b) Administrative causes

- Caused by administrative decisions like decision of not to utilize the surplus capacity during depression
- Such idle time arises out of abnormal situations and is generally not controllable



### **C) Economic causes**

- ❑ Caused by fall in demand of products, say, due to severe competition, seasonal nature of certain industries like woolen goods, ice cream industry, etc., where production cannot be evenly distributed throughout the year
- ❑ In such cases, it is not possible to get rid of workers during slack season.

# Treatment of idle time

## A. Normal Idle Time

- ❑ That wastage of labour time which cannot be avoided and has to be borne by the employer
- ❑ Examples, time which elapses between the completion of one job and commencement of the next, personal needs, time spent in setting machines etc.
- ❑ Treated in one of the following two ways-
  - ❑ Charged to factory overhead
  - ❑ Wage rate is inflated, so as to make allowance for normal loss of labour time

# Treatment of idle time

## B. Abnormal Idle Time

- Arises due to reasons in no way connected with the usual routine of manufacture and for which employer must pay.
- For example, strikes and lockouts, time lost due to breakdown of machinery, accidents, etc.
- Attributed to defective planning, inefficiency or bad luck.
- Payment for such idle time is not included in cost and is charged to Costing Profit and Loss Account.



# FRINGE BENEFITS

- Benefits given to workers in addition to basic wages and dearness allowance
- These benefits are not related to quantity of work done
- Cost of such benefits should be treated as production overheads which are allocated to various departments
- Examples-medical facilities, canteen benefits, sick pay, holiday pay, leave pay, pension and other retirement benefits etc.



A framed chalkboard with the words "Thank You" written in white, serif font. The chalkboard is set on a rustic wooden desk. To the left is a red rotary telephone, and to the right is a black typewriter. A green plant is visible in the upper right corner. The entire scene is set against a light blue wall.

Thank  
You