

Labour Cost

By

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LABOUR COST :

The second Major element of cost in most of the manufacturing undertakings is labour cost. Proper accounting and control of labour cost, therefore, constitutes one of the most important problems of management. In controlling labour cost, the problem is complicated by the human element. This is so because labour consists of a lot of different individuals, each with a different mental and physical capacity and each with a different personality. Proper control over labour cost involves the following :

1. Appropriate systems for recruitment and selection, training and placement of workers.
2. Satisfactory methods of labour remuneration.
3. Healthy working conditions consistent with legal requirements and competitive undertaking.
4. Method of assuring efficient labour performance.

Classification of labour cost:

Direct and Indirect Labour Costs : For the purpose of accounting, labour costs are classified into

- (i) Direct Labour cost and
- (ii) Indirect Labour cost.

Direct Labour Cost : The labour cost incurred on the employees who are engaged directly in making the product, their work can be identified clearly in the process of converting the raw materials into finished product is called direct labour cost. For example, wages paid to the workers engaged in machining department, fabrication department, assembling department etc.

Indirect Labour Cost : The indirect employees are not directly associated with the conversion process but assist in the process by way of supervision, maintenance, transportation of materials, material handling etc. Their work benefits all the items being produced and cannot be specifically identified with the individual products. Hence, the indirect labour cost should be treated as production overhead. These costs will be accumulated and apportioned to different cost centres on equitable basis and absorbed into product cost by applying the overhead absorption rates.

Items of Labour Cost : The labour cost can be analysed into the following:

- Monetary benefits payable immediately
- Salaries and Wages, Dearness and other allowances, production incentive or bonus.
- Monetary benefits after some time in the future.
Employer's contribution to P.F., E.S.I., Pension, Gratuity, Profit linked bonus, etc.
- Non-monetary benefits (Fringe benefits) Free or subsidised food, free medical or hospital facilities, free 'or subsidised education to the employees children, free or subsidised housing etc.

System of Wage Payment :

There is no single method of wage payment which is acceptable both to the employers and the workers. The system of wages should result into higher production, improved quality of output and a contented labour force. There are two principal wage systems:

- (i) Payment on the basis of time spent in the factory irrespective of the amount of work done. This method is known as time wage system.
- (ii) Payment on the basis of the work done irrespective of the time taken by the worker. This method is called piece rate system.

Other methods called premium plans or bonus and profit sharing schemes are used with either of the two principal methods of wage payment.

Time Wage System:

Under this method of wage payment, the worker is paid at an hourly, daily, weekly or monthly rate. This payment is made according to the time worked irrespective of the work done.

This method is highly suitable for following types of work:

1. Where highly skilled and apprentices are working.
2. Where quality of goods produced is of extreme importance
eg., artistic goods
3. Where the speed of work is beyond the control of the workers.
4. Where close supervision of work is possible.
5. Where output cannot be measured.

Disadvantages of this method are:

1. Workers are not motivated.
2. Workers will get payment for idle time.
3. Efficient workers will become inefficient in the long run as all of them get same wages.
4. Employer finds it difficult to calculate labour cost per unit as it varies as production increases and decreases.
5. Strict supervision is necessary to get the work done.
6. Inefficiency results in upsetting the production schedule and increases the cost per unit.
7. It will encourage a tendency among workers to go slow so as to earn overtime wages.