



LABOUR COST COTROL

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Human efforts used for conversion of materials into finished products or doing various jobs in the business are known as **labour**.

Payment made towards the labour is called **labour cost**. Labour cost is the significant element of the total cost of production.



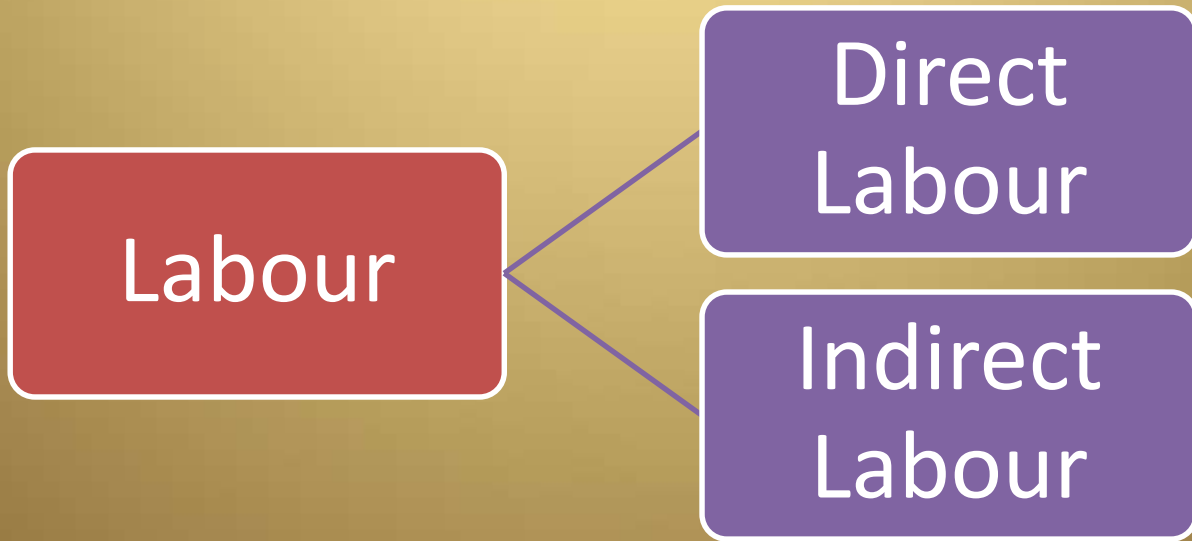
LABOUR

Labour is the most perishable commodity and as such should be effectively utilized immediately.

Therefore, efficient and effective utilization of labour is an important need of the modern business.



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1.DIRECT LABOUR:-

Direct labour is the labour which is directly engaged in the production of goods and services. Such as ... worker on machine, shoemaker making shoes, etc.

2.INDIRECT LABOUR:-

Indirect labour is that labour which is not directly engaged in the production of goods and services but which indirectly helps the direct labour engaged in production. Such as ... watchman, foreman, gardener, cleaners, etc.



LABOUR COST

“Labour Cost, representing the human contribution to production, is an important cost factor which requires constant control, measurement and analysis.”

➔ MATZ, CURRY & FRANK





The Manager's Thought

LABOUR COST IS..

Prime cost of
concern for
the HRD

Important part
of production
process

Decides price
of product



CONTROL OVER LABOUR COST

Labour cost control aims at the control of the labour cost per unit of the production. Control of labour cost is an important objective of management. For labour cost control, following factors kept into mind.....

1. Appointment & selection of employees
2. Labour records
3. Control over production methods
4. Control over arrival & departure time of the employees
5. Labour cost analysis
6. Determination & payment of wages



LABOUR COST CONTROL DEPARTMENT

Personnel
Department

Engineering
Department

Time-keeping
Department

Pay Roll
Department

Cost
Accounting
Department

1. Personnel Department

The main function of the personnel department are recruitment and selection of workers, providing them training and placing them to the jobs they are best fitted.



2. *Engineering Department*

This department maintains control over the production method and working condition for each job, department or process.



3. Time-Keeping Department

Time keeping means recording the arrival and departure time of each worker. Time record is divided into two parts :-

1. Time Keeping
2. Time Booking



4. *Pay roll department*

The payroll department is responsible for making payment of wages or salary to each employee. It maintains all the functions related to the wages and salaries of the employees.



5. *Cost Accounting Department*

The cost accounting department is responsible for the collection and classification of all labour cost with the time cards , job cards , labour cost of various jobs , work orders , etc.



LABOUR TURNOVER

Labour turnover denotes the percentage change in labour force of an organization. High percentage of labour turnover denotes that labour is not stable.

Labour turnover ratio is calculated by the following formula :-

$$\text{LTR} = \frac{\text{Replaced worker}}{\text{Total no. Of workers}} \times 100$$



CAUSES OF LABOUR TURNOVER

1. Personal Cause

- Death
- Ill health
- Dislike for the job
- Marriage of women workers
- Retirement
- Family problem

2. Unavoidable Cause

- Due to insubordination
- Due to lack of attention to duty
- Due to immoral character
- Due to accidents

3. Avoidable Causes

- Lack of job security
- Lack of proper training facilities
- Lack of promotion opportunities
- Lack of medical facilities



Measurement Of Labour Turnover

1. Separation method :-

$$\text{L.T.} = \frac{\text{No. of employees left during a period}}{\text{Avg. No. of employees during a period}} \times 100$$

2. Replacement method :-

$$\text{L.T.} = \frac{\text{No. of workers replaced during a period}}{\text{Avg. No. of workers during a period}} \times 100$$

3. Flux method :-

$$\text{L.T.} = \frac{\text{No. of separations} + \text{No. of additions}}{\text{Avg. No. of employees during a period}} \times 100$$

METHODS OF WAGES PAYMENT



Continued...

1. Time wage rate system :--

In this system the workers are paid on the basis of time spent in the factory irrespective of the amount of work done.

The total earnings are calculated as.....

(**TOTAL EARNINGS = Hours Worked x Rate Per Hour**)



Continued...

2. Piece wage rate system :-

In this system , workers are paid on the basis of work done irrespective of time taken by the worker.

Total earnings is calculated as.....

(TOTAL EARNINGS = No. of units x Rate per unit)

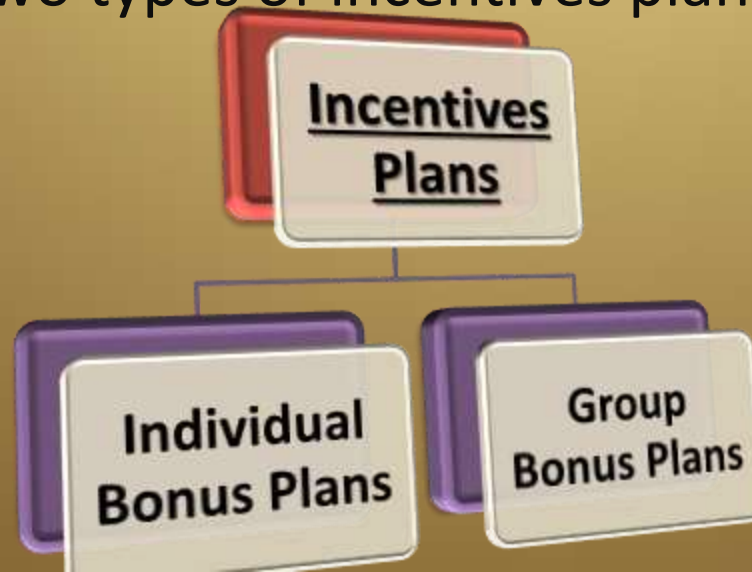


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3. Incentive wage rate system :-

In incentive wage rate system each worker gets , not only wages at normal rate but also receives bonus or premium for his efficiency. This system induces the worker to produce more and earn more.

There are two types of incentives plans as follows :-



Continued...

3.1. Individual Bonus Plans :--

1. Halsey Premium Plan

2. Halsey Weir Plan

3. Rowan Premium Plan

4. Taylor's Differential Piece Rate Plan

5. Gantt Bonus Plan

6. Emerson's Efficiency Plan

7. Merrick's Multiple Piece Rate Plan

8. Bedeaux Point Premium Plan

9. Barth Variable Sharing Plan



CONTINUED....

3.1.1. Halsey premium plan:--

- The worker is paid a %(30% to 90% but usually 50%) of the time saved over the standard rate per piece.
- Standard time is fixed for each job/operation
- If the labour completes at standard time or more he is given the standard price.
- If time saved- wages given for actual hours saved as a bonus.

$$\text{Total Earnings} = \frac{(\text{Hours Worked} \times \text{Rate Per Hour}) + \% (\text{Time Saved} \times \text{Rate Per Hour})}{1}$$

Continued...

3.1.2. Halsey weir plan :--

It is calculated as Halsey Premium Plan , the only difference is that the rate of premium or bonus is only 30% in place of 50%.

$$\text{Total Earnings} = \frac{(\text{Hours Worked} \times \text{Rate Per Hour}) + 30\% (\text{Time Saved} \times \text{Rate Per Hour})}{}$$



Continued....

3.1.3. Rowan premium plan :-

- Wages are paid on time bases.
- If worker takes standard time or more time he is paid for the actual time taken.
- If worker takes less than the standard time , then he is paid a bonus.



Total Earnings = (Hours Worked x Rate Per Hour) + {(Time Saved/Time Allowed) x Hours Worked x Rate Per Hour}



Continued....

3.1.4. Taylor's differential piece rate system :--

This system was introduced by F. W. Taylor. The main features of this incentive plan are as follows:

- 1) Day wages are not guaranteed, i.e. it does not assure any minimum amount of wages to workers.
- 2) A standard time for each job is set very carefully after time and motion studies.
- 3) Two piece rates are set for each job- the lower rate and the higher rate.
 - The lower piece rate is payable where a worker takes a longer time than the standard time to complete the work.
 - Higher rate is payable when a worker completes the work within the standard time.

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3.1.5. Gantt task bonus plan :--



OUTPUT

- Output below standard
- Standard output
- Output above standard

PAYMENT

- Guaranteed time rate
- Time wages+a bonus of 20% normal time wages
- Higher piece rate



Continued...

3.1.6. Emerson's efficiency bonus plan:--

Under this plan,

- ❖ Below 66.67% efficiency – no bonus , only guaranteed time rate wages paid
- ❖ From 66.67% to 100%efficiency – rate of bonus increased gradually
- ❖ At 100% rate of bonus is 20% of normal wage rate
- ❖ Above 100% -- 1% of increase in bonus for 1% increased in efficiency

$$\text{Total Earnings} = (\text{Hours Worked} \times \text{Rate Per Hour}) + \{(\text{EBP}/100) \times \text{Hours Worked} \times \text{Rate Per Hour}\}$$

Continued....

3.1.7. Merrick's multiple piece rate plan :--

Level of efficiency

Up to 83%

83% to 100%

Above 100%

Piece rate

Ordinary piece rate

110% of piece rate

120% of piece rate





Continued...

3.1.8. Bedeaux point premium plan :--

Under this plan, Standard time is divided into Standard minutes. Each minute of standard time is called Bedeaux point or B's. B's are indicated on each job ticket. Time wages are paid until 100% efficiency is reached. Bonus is paid on the basis of number of Bedeaux Points saved. Bonus at 75% of wages of Bedeaux saved is paid to the worker and 25% is paid to the foreman.

$$\text{Total Earnings} = (\text{Hours Worked} \times \text{Rate Per Hour}) + 75\% \{ (\text{Bedeaux point saved}/60) \times \text{Rate Per Hour} \}$$

Continued...

3.1.9. Barth variable sharing plan:--

In this plan guarantee of daily wages is not given to any worker. Total of earning of a worker is calculated as follows :--

$$\text{Total Earnings} = \sqrt{(\text{standard time} \times \text{actual time taken})} \times \text{hourly rate}$$



3.2. Group Bonus Plans

1. Priestiman's Production Bonus Plan

2. Scanlon Plan

3. Towne Plan

4. Profit Sharing And Co-partnership Schemes





Continued...

3.2. 1. Priestiman's Production Bonus Plan:--

A standard performance in terms of output or point is fixed by this scheme. The workers as a whole, becomes entitled to bonus, if by producing output above the standard output, or by securing points more than the standard points, they can be account for better performance. On the basis of the ratio of excess performance to standard performance, bonus is paid according to this scheme. Obviously, time wage is guaranteed under this scheme.

$$\text{Bonus} = \left(\frac{\text{Increase in production}}{\text{standard production}} \right) \times 100$$



Continued...

3.2.2. SCANLON PLAN:--

Under this plan , bonus is paid at a constant proportion of the added value of output to the workers who are responsible for the increase in value.

3.2.3. TOWNE PLAN:--

The main objective of this plan is to encourage the foreman and workers to reduce the cost. A standard labour cost per unit is fixed for a particular period and if actual labour cost is less than the standard labour cost, 50% Of the total saving in labour is divided among the workers and foreman in ratios of their wages.

Continued...



3.2.4. Profit Sharing And Co-partnership Schemes:--

The purpose of introducing these schemes is to strengthen the loyalty of employees to the firm. Workers can be given their share of profits in the form of cash or shares in the company. If a part of profit is paid in cash , it is known as profit sharing and if a part of profit is paid ion the form of shares , it is known as co-partnership.



THANK

YOU

