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B.Com Honours | Semester I | Calicut University

Essentials of Cost Accounting

Course Code: COM1MN104 • Module 3 Notes

1. Labour Cost: Control, Timekeeping, and Overtime

Labour cost is the second major element of total cost. Unlike materials, labor represents a human resource, making its measurement and control highly complex. Cost management must focus on maximizing productivity, minimizing idle time, implementing fair incentive systems, and tracking employee turnover. This module covers timekeeping, overtime, idle time, incentive systems, labor turnover, and the learning curve concept.

Timekeeping vs. Time Booking

Efficient labor control requires separating the recording of attendance from the recording of work done:

- **Timekeeping:** The process of recording the exact arrival and departure times of employees (attendance). E.g., card punching, biometric scanners. Used for calculating basic wages and ensuring discipline.
- **Time Booking:** The process of recording the exact time spent by an employee on various jobs, operations, or machine runs. Used for allocating labor costs to specific jobs and measuring efficiency.

Idle Time and Accounting Treatment

Idle time represents time for which employees are paid but do not perform productive work. It is classified into:

- **Normal Idle Time:** Unavoidable time losses inherent to factory operations (e.g., travel from gate to machine, tool setup time, normal rest intervals). *Treatment:* Treated as a production cost; charged to factory overheads or added to direct labor rates.
- **Abnormal Idle Time:** Avoidable time losses due to management failure or accidents (e.g., power failure, raw material shortages, machine breakdown, strikes). *Treatment:* Debited directly to the Costing Profit & Loss Account.

Overtime and its Accounting Treatment

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Overtime is work done beyond normal working hours. Employees are paid at premium rates (typically double the basic rate). The treatment of the overtime premium depends on the cause:

- If due to a specific request from a customer to expedite a job: Charged directly to that specific Job/Product.
- If due to general production delays or labor shortages: Charged to factory overheads.
- If due to abnormal events like strikes or management failure: Debited to Costing Profit & Loss Account.

2. Systems of Wage Payment and Incentive Plans

Wage payment systems must balance fair compensation for employees with productivity targets for management.

Basic Wage Systems

- **Time Rate System:** Wages = Time Spent × Hourly Rate. Simple to calculate, encourages quality, but does not incentivize speed.
- **Piece Rate System:** Wages = Units Produced × Rate per Piece. Incentivizes speed and volume, but can lower quality and increase machine wear.

Premium Incentive Plans

These plans guarantee a minimum basic wage on time rate and reward efficient workers with a bonus for time saved:

Halsey Premium Plan

The worker receives their basic wage plus a bonus of 50% of the time saved:

$$Total\ Earnings = (T \times R) + 50\% \times (S \times R)$$

Where: **T** = Time taken, **R** = Hourly rate, **S** = Time saved (Standard Time - Time Taken).

Rowan Premium Plan

The bonus is calculated as a proportion of the time taken to the standard time allowed:

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$$Total\ Earnings = (T \times R) + \left(\frac{T}{Std\ Time} \times S \times R\right)$$

The Rowan plan provides a higher bonus than Halsey at lower levels of time saving, but prevents excessive speed runaways by decreasing the bonus percentage as time taken approaches zero.

3. Labour Turnover and the Learning Curve

Labor turnover measures the rate at which employees leave an organization, reflecting worker satisfaction and recruitment efficiency.

Causes and Costs of Labour Turnover

- **Causes:** Low wages, poor working conditions, lack of promotional prospects, retirement, or domestic relocation.
- **Preventive Costs:** Expenditures incurred to retain workers (e.g., medical benefits, employee welfare, training programs).
- **Replacement Costs:** Expenditures incurred to replace departing workers (e.g., recruitment ads, interviewing costs, training new hires, output losses during training).

Measurement Methods

Method	Formula	Meaning
Separation Method	(Number of Separations / Average Number of Workers) × 100	Measures turnover based on employees leaving.
Replacement Method	(Number of Replacements / Average Number of Workers) × 100	Measures turnover based only on actual replacements.
Flux Method	[(Separations + Accessions) / Average Number of Workers] × 100	Measures the total movement of labor (both in and out).

Learning Curve Concept

The Learning Curve theory states that as the cumulative quantity of units produced doubles, the average labor time required per unit decreases by a constant percentage (e.g., an 80% learning

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rate). This occurs because workers gain familiarity with the task, improve coordination, and reduce setup delays. Managers use this curve to estimate future labor costs, schedule production, and design realistic incentive schemes.

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