



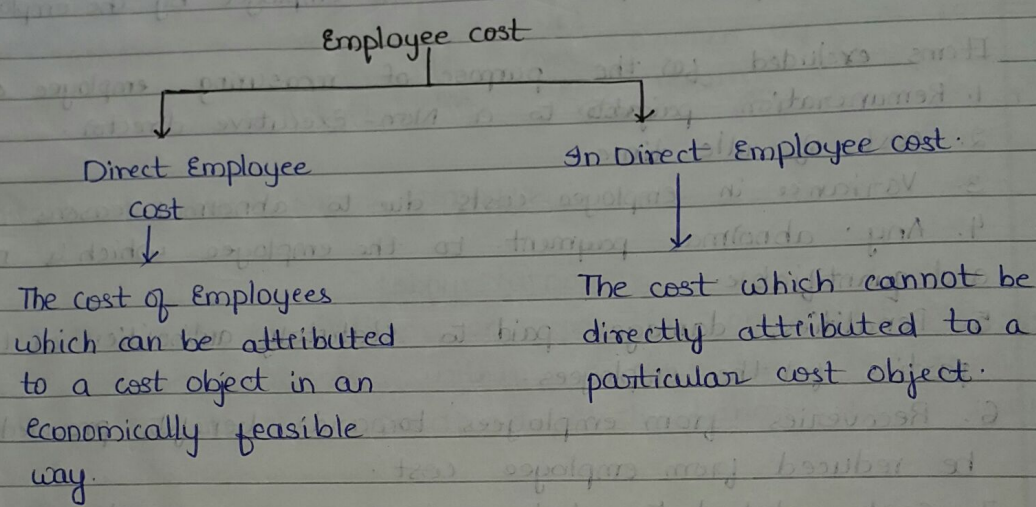
Labour :-
Employee cost :- CAS-7

As per CAS-7, Employee cost is "The Aggregate of all kinds consideration paid, payable and provisions made for future payments of the services rendered by employees of an enterprise (including temporary, part time and contractual employees).

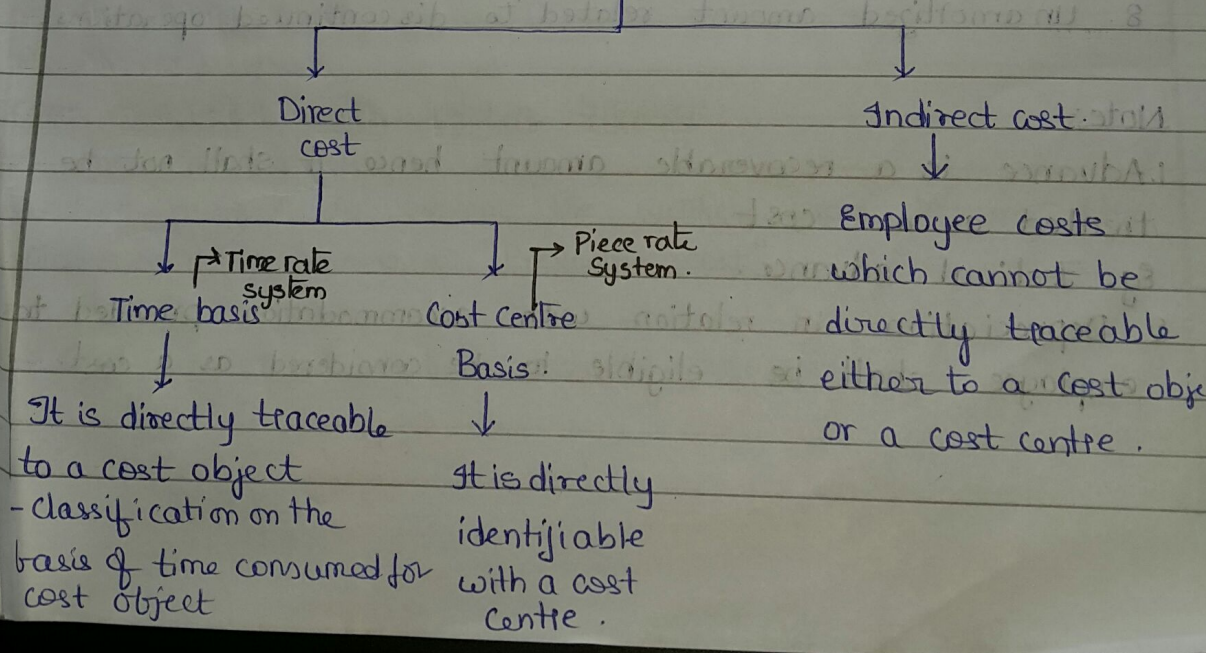
→ Consideration includes

- (i) Wages
- (ii) Salaries
- (iii) Contractual payments and
- (iv) benefits as applicable or

→ Any payment made on behalf of the employee



Principles of Measurement of Employee cost



Items included for the purpose of measuring Employee cost:-

- ↳ Any payment made to an employee either in cash or kind.
- ↳ Gross payments including all allowances payable and includes all benefits.
- ↳ Bonus, Ex-gratia, sharing of surplus, remuneration payable to Managerial personnel including Executive director or other officers.
- ↳ Any amount of amortization arising out of voluntary retirement, retrenchment & termination.
- ↳ Variance in employee payment costs.
- ↳ Any perquisite provided to the employee by the employer.

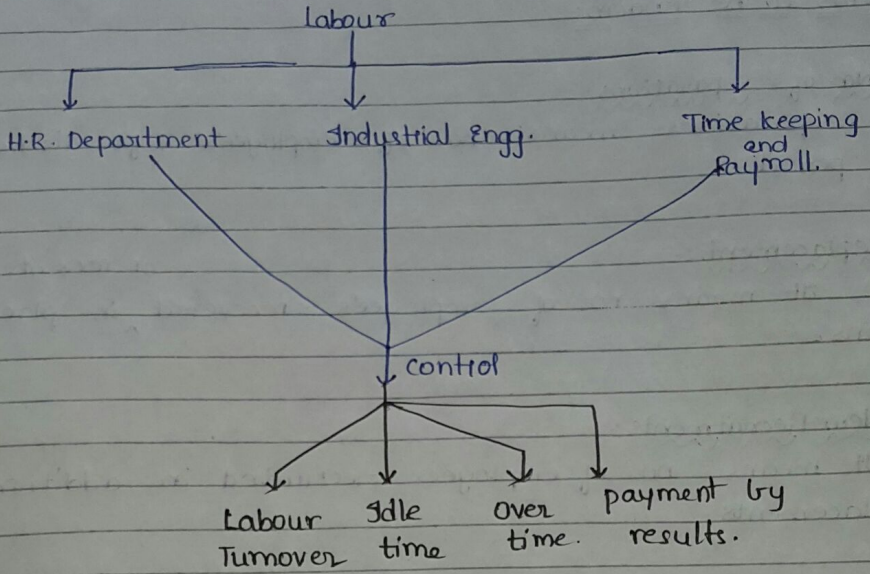
Items excluded for the purpose of measuring employee cost.

1. Remuneration paid to a Non-Executive director.
2. Cost of idle time.
3. Variance in employee costs due to abnormal reasons.
4. Any abnormal payment to the employee which is material and quantifiable.
5. Penalties, damages paid to statutory authorities or third parties for the employees.
6. Recoveries from employees towards benefits provided should be reduced from employee cost.
7. Cost related to labour turnover - recruitment cost, training cost etc.
8. Unamortized amount related to discontinued operations.

Note:-

1. Advance is a recoverable amount hence it shall not be treated as a cost.
Eg: Festival advance.
2. Depreciation in relation with accommodation provided to employee shall be eligible to be considered as a cost.

Factors involved in Employee cost



Objective :- To reduce Labour turnover

Labour turnover

- It is the rate of addition or separation or replacement of Labourers in an organisation within a given time period.
- It also refers to the speed at which Labour force in organisation changes.

Causes of Labour turnover

- (i) Personal causes
- (ii) Unavoidable causes
- (iii) Avoidable causes.

Costs associated with Labour turnover :-

- Preventive costs :-
 - costs incurred to prevent the worker from leaving the organisation is known as "Preventive cost".
- Recruitment costs :-
 - costs incurred due to Labour turnover.

Terms to be known:-

- (i) No. of Separations:-
Separations means no. of employees left discharged during the period.
- (ii) Replacement:-
It means no. of employees recovered or recruited in place of separations.
- (iii) New Recruitments:-
It means no. of employees recruited in addition to replacements.
- (iv) Accessions:-
It means total recruitments during the period.

Methods:-

1. Separation method:-

$$\text{Labour Turnover ratio} = \frac{\text{No. of separations during the Period}}{\text{Average no. of workers.}}$$

2. Replacement method:-

$$\text{Labour Turnover ratio} = \frac{\text{No. of replacements}}{\text{Avg. no. of workers.}}$$

$$\text{Avg. no. of workers} = \frac{\text{Workers at beginning} + \text{Workers at Ending}}{2}$$

3. New Recruitment method:-

$$\text{Labour Turnover ratio} = \frac{\text{No. of New recruitments}}{\text{Avg. no. of workers.}}$$

Accessions method:-

$$\text{Labour Turnover ratio} = \frac{\text{No. of replacements} + \text{No. of new recruitments}}{\text{Avg. no. of workers.}}$$

Flux method

(a) In case of no business expansion

$$\text{Labour Turnover ratio} = \frac{\text{No. of separations} + \text{Recruitment}}{\text{Avg. no. of workers.}}$$

(b) In case of Business expansion

$$\text{Labour Turnover ratio} = \frac{\text{No. of separations} + \text{No. of Additions}}{\text{Avg. no. of workers.}}$$

Additions method

→ No. of employees added during a particular period is taken for computing Labour Turnover.

$$\text{Labour Turnover ratio} = \frac{\text{No. of additions}}{\text{Avg. no. of workers during the Period}} \times 100$$

Separation method

→ No. of employees left during the period is taken in consideration.

$$\text{Labour Turnover ratio} = \frac{\text{No. of separations}}{\text{Avg. no. of workers during the period.}}$$

Flux Method :-

$$\textcircled{1} \rightarrow \frac{\frac{1}{2} (\text{No. of additions} + \text{No. of separations})}{\text{Avg. no. of workers during the period}} \times 100$$

$$\Rightarrow \frac{\frac{1}{2} (\text{No. of replacement} + \text{No. of separations})}{\text{Avg. no. of workers during the period}} \times 100$$

Payment of Wages

(a) Time rate system :-

$$\text{Wages} = \frac{\text{No. of hours worked} \times \text{Rate per hour}}{\text{or}}$$

$$= \text{Actual time taken} \times \text{Rate per hour}$$

Advantages :-

1. Easy to understand and calculate.
2. Workers are provided with guarantee wages.
3. Qualitative output.

Disadvantages

1. Workers may become lazy.
2. No recognition for efficiency.
3. Output may reduce.

(b) Piece rate system :-

$$\text{Wages} = \frac{\text{Actual production} \times \text{Rate per piece}}{\text{or}}$$

$$\text{No. of pieces produced} \times \text{Rate per piece}$$

Advantages :-

1. Laziness of workers may be reduced.
2. Workers efficiency is recognised.
3. Output may increase.

Disadvantages :-

1. Difficult to understand and calculate.
2. Quality of products may reduce.
3. No. guarantee wages.

There are two types of piece rate method.

(i) straight piece rate.

(ii) Differential piece rate.

Efficiency:

(i) On the basis of time.

$$\text{Efficiency} = \frac{\text{Standard time per unit}}{\text{Actual time per unit}} \times 100.$$

(ii) on the basis of output / production.

$$\text{Efficiency} = \frac{\text{Actual production per hour}}{\text{Standard production per hour}} \times 100.$$

Types of Differential piece rate system:

1. Taylor's differential piece rate system.
2. Merricks differential piece rate system.
3. Gantt Task Bonus system.

F.W Taylor's differential piece rate system:

Less than 100% efficiency - 80% Normal piece rate.
More than 100% efficiency - 120% Normal piece rate.

Merricks differential piece rate system

Efficiency	Payment.
upto 83%	Normal piece rate.
83% to 100%	110% of piece rate.
Above 100%	120% of piece rate.

Note:-

1. If nothing is specified about the working hours then assume it as 8 hrs.

Gantt task bonus plan:-

Output	Payment / Incentive.
Below standard	Guaranteed Time rate.
At standard	Time rate + 20% Bonus.
Above standard.	High Piece rate + 20% Bonus

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Individual Bonus plans:-

1. Halsey premium plan
2. Halsey weir premium plan.
3. Rowan premium plan
4. Barth variable sharing plan.

Halsey premium Bonus plan:-

$$\text{Total Earnings} = \text{Time taken} \times \text{Rate per hour} + 50\% \left[\text{Time saved} \times \text{Rate per hr} \right]$$

(Actual)

Time saved \Rightarrow standard time - Actual time.

Premium \Rightarrow 50% [Time saved x Rate per hour]

Effective Earnings = $\frac{\text{Total Earnings}}{\text{Actual time taken}}$.

Halsey weir premium plan:-

$$\text{Total Earnings} = \text{Actual time} \times \text{rate per hour} + \frac{1}{3} \text{rd of (Time saved} \times \text{rate per hour)}$$

Rowan premium bonus plan:-

$$\text{Total Earnings} = \text{Time taken} \times \text{rate per hour} + \frac{\text{Time saved}}{\text{standard time}} \times \text{Time} \times \text{Actual rate per hour}$$

$$\text{Premium} \Rightarrow \frac{\text{Time saved}}{\text{Time allowed}} \times \text{Normal time rate}$$

Note:-

- From point of view of
- (i) Employee:- Rowan premium bonus plan is more beneficial as it yields more effective rate of earnings compared to other plans.
 - (ii) Employer:- Halsey weir premium plan is more beneficial as it yields less amount of expenditure to the management.

Barth's variable sharing plan

$$\text{Total Earnings} = \text{Rate} \times \sqrt{\text{standard time} \times \text{hours worked}}$$

Idle time cost:-

As per CAS-7 idle time is the difference between the time for which employees are paid and employee's time booked against the cost object.

Eg:- Standard time \Rightarrow 2 hrs.

Actual time \Rightarrow 1:45 mins.

Causes of idle time

1. Normal; Inherent or unavoidable idle time.
2. Normal idle time such as waits for jobs etc.
3. Abnormal idle time [Non-availability of Raw materials strikes etc
4. Concealed idle time such as manipulation of Job breaker

Treatment of idle time :-

- As per CAS-7 idle time shall be assigned direct to the cost object or treated as overheads depending upon the economic feasibility and specific circumstances causing such idle time.
- If idle time is unavoidable then it shall be merged with direct labour cost.
- If idle time is avoidable it shall be treated as an overhead.
- Abnormal Idle time cost is to be debited to costing P&L ac instead of charging it to Direct labour.

Overtime premium :-

- As per CAS-7 Overtime premium is defined as the time spent beyond the normal working hours which is usually paid at a rate higher than the normal time rate. The extra amount beyond the normal wages and salaries paid is called "overtime premium".

Treatment :-

- shall be treated as either Direct Labour cost or Overheads depending upon the economic feasibility and specific circumstances requiring such overtime.
- Where overtime is due to urgencies requiring the work to be done then the Basic pay shall be treated as direct labour cost and Overtime premium shall be treated as overhead.
- If overtime is done at the request of the customer then it shall be treated as Direct Labour cost.

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↳ Where the Overtime is worked due to Lack of capacity as general policy of the company, then the total amount paid is treated as direct wages based on the estimated rate of previous years.

↳ Overtime paid due to abnormal conditions shall be debited to costing profit and loss account.

Main Objectives of Group Bonus system

Following are the main objects of group bonus system

- * Creation of team spirit.
- * Elimination of excessive waste materials and time.
- * Recognition of group efforts.
- * Improving productivity.

* Basis of Cost classification as per CAS-1

1. Nature of expenses.
2. Nature of traceability to a cost object.
3. Function
4. Nature of behaviour.
5. Nature of production or operation process.

* Responsibility centre:-

↳ A responsibility centre in cost accounting may be defined as a segment of business ~~activities~~ ^{organisations} for the activities of which responsibility is ^{assigned} ~~ascribed~~ to a specific person.

↳ All costs related to the cost centre are collected and ^{such cost centre} the manager responsible for ^{incurrence of cost} ~~incurrence of cost~~ judges whether such cost is incurred in relation to activity level.

↳ Even an individual machine may be treated as responsibility centre for cost control & cost reduction.

Profit centre:-

- It is a segment of business that is responsible for all the activities involved in production & sales of products, systems & services.
- It encompasses both cost it incurs and revenue it generates.
- It may also be termed as an investment centre.
- These are created to delegate responsibility to individuals and measure their performance.

* Basis of cost classification as per CAS-1

1. Nature of expenses
2. Nature of responsibility for cost object
3. Function
4. Nature of behaviour
5. Nature of production or operation process

* Responsibility centre

→ A responsibility centre is cost assigned to a defined segment of business activities, operations or processes. The activities of which responsibility is assigned to a specific person.

→ All costs related to the cost centre are collected and the manager responsible for incurrence of cost is held answerable. Each cost is incurred in relation to activity for which even an individual location may be treated as responsibility centre for cost control & cost reduction.