



BUSINESS LEVEL II MANAGEMENT ACCOUNTING

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ACA

MAAT (Prize Winner)

B.SC (Finance) Special USJ



Labour Cost

Labour cost

The cost of labor is the sum of all wages paid to employees, as well as the cost of employee benefits and payroll taxes paid by an employer.

Example: Salary & Wages
Bonus
Over time



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Salary Calculation Methods

Time based Payment Method



Salary = Total hours worked \times Per hour rate

Example

ABC PLC pay their employee salaries based on the total hours worked. Following information are for employees of the ABC PLC.

Name	Worked hours	Per hour rate	Total
A	100	15/-	
B	90	20/-	
C	120	25/-	
D	130	15/-	

Piece Work System

Straight Piece Work method : The basic rate per unit remains constant irrespective number of units produced

Salary = Unit produced \times Per unit rate

Straight Piecework with guaranteed minimum wage : Employees paid on number of units produced bill one is guaranteed of a minimum wage since there are occasions when production doesn't take place due to unavoidable circumstances e.g. power failure shortage of material machine breakdown etc.

Example :

Sam is paid Rs. 10 for each unit produced she is guaranteed a minimum wage of Rs. 1500 for 40 hour week in a series of 4 weeks she produces 130, 150, 170 and 180 units. Production overheads are added at rate of Rs. 5 per direct labour hour.

Required : Sam's each week salary

Differential Piecework : Employees' basic rate of pay per unit changes as the level of activity changes. The rate per unit increases on additional units produced. It doesn't provide security for a guaranteed wage but it can enhance earning by providing higher rates for higher production.

Example:

X Ltd operates a differential piecework system and the following weekly rates have been set.

Weekly Production	Rate of pay per unit (Rs.)
1 – 1000 Units	2.00
1001 – 2000 Units	3.00
2001 – Above Units	5.00

Required :

How much would be paid to following employees for a week.

- Peter 1500 Units • Mercy 2400 Units

Overtime Payment

- If an employee works for more than the basic daily requirement, this employee may be entitled to an overtime payment.
- For these excessive hours, employee should be paid at higher rate. The extra amount is usually referred to as overtime payment.



Example

ABC PLC pay salary based on the time system. Minimum WEEKLY hours requirement is 40 hours. If employees work more than 8 hours per day, they entitle for overtime payment. Standard rate per hours is Rs.100. Company pay 1.5 times more than per hour as overtime rate.

Required :

Basic salary, Overtime payment and total earnings of following employees.

A – 35 hours

B – 48 hours

C- 50 hours

Bonus Payment



Bonus schemes were introduced to compensate workers paid under time-based system for their inability to increase earnings by working more efficiently.

Example :

XYZ PLC is an engineering company which is undertaking various jobs of clients. Mr. Fernando is an engineer worked for XYZ PLC and he is paid Rs. 1,300 per hour. Each job he does, has a time allowance and he is paid 60 percent of any time he saves each week as a bonus paid at his hourly rate.

During last week, Mr. Fernando had worked for 40 hours and completed jobs having a total time allowed of 48 hours.

Calculate his earnings for last week.

Example

The following information is extracted from **Deen (Pvt) Ltd.:**

Normal working hours per day	8 hours
Basic rate of pay per hour	Rs.300/-
Standard time allowed to produce 1 unit	2.5 minutes
Bonus	80% of the time saved at basic rate

Calculate the earning per day of a worker if he makes 252 units per day.

(04 marks)

Example

The employees of **Win (Pvt) Ltd.** are getting the basic wages based on the working hours. In addition to this, a bonus is paid on the saved time based on the number of units produced.

The following information of an employee is provided:

Normal working hours per week	8 hours per day and 5 working days a week
Basic Wage Rate per hour	Rs.275/-
Standard time allowed for one unit	12 minutes
Bonus	120% of the saved time at basic wage rate
Number of units produced by the employee during the last week	265 units

Based on the above information,

You are required to:

Calculate the total earnings of the employee for the last week.

(05 marks)

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Revision Kit Questions

01. Which of the following would be classified as indirect labour?

- A. Assembly workers in a company manufacturing televisions
- B. A stores assistant in a factory store
- C. Plasterers in a construction company
- D. An audit clerk in a firm of auditors

02. A job is budgeted to require 3,300 productive hours after incurring 25% idle time. If the total labour cost budgeted for the job is Rs. 36,300,000 what is the labour cost per hour?

- A. Rs. 8,250
- B. Rs. 8,800
- C. Rs. 11,000
- D. Rs. 14,670

03. PR LLC manufactures a single product; M. Budgeted production output of product M during August is 200 units. Each unit of product M requires six labour hours for completion and PR LLC anticipates 20% idle time. Labour is paid at a rate of Rs. 70 per hour. What would be the direct labour cost for August?

- A. Rs. 105,000
- B. Rs. 108,000
- C. Rs. 150,000
- D. Rs. 95,000

04. Which of the following could lead to an increase in management bonus, without benefiting the organisation? (1) A manager holds on to heavily depreciated assets in order to avoid heavy investment in the period (2) A manager in a manufacturing division uses absorption costing and builds up high levels of inventory (3) A sales manager changes their fixed target to a relative target based on market share

- A. 1 and 2 only
- B. 1, 2 and 3
- C. 1 only
- D. 2 and 3 only

05. The following data relate to work in the finishing department of a certain factory.

Normal working day 7 hours

Basic rate of pay per hour Rs. 50

Standard time allowed to produce 1 unit 4 minutes

Premium bonus payable at the basic rate 60% of time saved

On a particular day one employee finishes 180 units. His gross pay for the day will be

- A. Rs. 350
- B. Rs. 500
- C. Rs. 560
- D. Rs. 600

06. An employee is paid on a piecework basis. The basis of the piecework scheme is as follows: 1 to 100 units – Rs. 2.00 per unit 101 to 200 units – Rs. 3.00 per unit 201 to 299 units – Rs. 4.00 per unit with only the additional units qualifying for the higher rates. Rejected units do not qualify for payment. During a particular day the employee produced 210 units of which 17 were rejected as faulty.

What did the employee earn for their day's work?

- A. Rs. 479
- B. Rs. 540
- C. Rs. 579
- D. Rs. 630

07. Employee A is a carpenter and normally works 36 hours per week. The standard rate of pay is Rs. 36 per hour. A premium of 50% of the basic hourly rate is paid for all overtime hours worked. During the last week of October, Employee A worked for 42 hours. The overtime hours worked were for the following reasons:

Machine breakdown: 4 hours

To complete a special job at the request of a customer: 2 hours

How much of Employee A's earnings for the last week of October would have been treated as direct wages?

- A. Rs. 1,620
- B. Rs. 1,296
- C. Rs. 1,404
- D. Rs. 1,512

08. Which of the following statements is/are true about group bonus schemes?

- (i) Group bonus schemes are appropriate when increased output depends on a number of people all making extra effort
- (ii) With a group bonus scheme, it is easier to award each individual's performance
- (iii) Non-production employees can be rewarded as part of a group incentive scheme

- A. (i) only
- B. (i) and (ii) only
- C. (i) and (iii) only
- D. All of them

09. A company had 30 direct production employees at the beginning of last year and 20 direct production employees at the end of the year. During the year, a total of 15 direct production employees had left the company to work for a local competitor. The labour turnover rate for last year was:

- A. 16.7%
- B. 20.0%
- C. 25.0%
- D. 60.0%

10. Akila works as a member of a three-person team in the assembly department of a factory. The team is rewarded by a group bonus scheme whereby the team leader receives 40 per cent of any bonus earned by the team, and the remaining bonus is shared evenly between Akila and the other team member. Details of output for one day are given below. Hours worked by team 8 hours Team production achieved 80 units Standard time allowed to produce one unit 9 minutes Group bonus payable at Rs. 60 per hour 70% of time saved The bonus element of Jane's pay for this particular day will be

- A. Rs. 50.40
- B. Rs. 72.00
- C. Rs. 100.80
- D. Rs. 168.00

11. Job 198 requires 380 active labour hours to complete. It is expected that there will be five per cent idle time. The wage rate is Rs. 60 per hour. The labour cost of Job 198 is:

- A. Rs. 21,660
- B. Rs. 22,800
- C. Rs. 23,940
- D. Rs. 24,000

12. A unit of product L requires 9 active labour hours for completion. The performance standard for product L allows for ten per cent of total labour time to be idle, due to machine downtime. The standard wage rate is Rs. 90 per hour. What is the standard labour cost per unit of product L?

- A. Rs. 729
- B. Rs. 810
- C. Rs. 891
- D. Rs. 900

13. A manufacturing firm is very busy and overtime is being worked. The amount of overtime premium contained in direct wages would normally be classed as:

- A. Part of prime cost
- B. Factory overheads
- C. Direct labour costs
- D. Administrative overheads

14. Kavith is paid Rs. 550 for every unit of product he produces but he has a guaranteed wage of Rs. 6000 per eight-hour day. In a week he produces the following number of units:

Monday 12 units
Tuesday 14 units
Wednesday 9 units
Thursday 14 units
Friday 8 units

What is does Kavith earn for the week?

- A. Rs. 34000
- B. Rs. 32950
- C. Rs. 31350
- D. Rs. 30000

