

Meaning of Labour Cost:

Payment of remuneration to the workers for their service to the firm is known as labour payment. This is the second element of total cost. It may be direct or indirect in nature. If it is treated as a direct expense, it will be included with prime cost and if it relates to factory, it will be treated as an item of factory cost.

Direct labour cost or Direct wages is represented as the cost that is incurred directly to change the composition, form or condition of a product. Its primary nature is that it can easily be identified and allocated to specific cost units. It also varies directly with the volume of production/output.

Indirect labour cost, on the other hand, is the amount of wages paid to workers who are not related to change the form, composition of a product but they engage themselves to complete the product, e.g. Supervisor's Salary, works office staff salaries etc.

It is interesting to note that the difference between direct labour cost/direct wages and indirect labour cost/indirect wages depends on the types of work/job done and at the same time, the conditions in which cost of labour is incurred. Under the circumstances, some labour cost is treated as direct whereas the same is treated as indirect in some other cases.

So, labour cost will be treated as a direct one when (a) the payment is made to the workers to change the composition of a product, and (b) identification of the job is possible. Similarly, labour cost will be treated as indirect when (a) the same is not directly related to change or form of a product, (b) identification is not possible.

It is the function of the management to control the cost of labour in every step whether the same is direct or indirect. Individual columns of time sheet and job cards should be maintained for direct and indirect labour cost for proper ascertaining and controlling of the cost of labour.

We know that direct labour cost/direct wage is an element of prime cost whereas indirect labour cost/indirect wage is an element of factory cost. Direct labour cost can be controlled easily as it relates to variable cost which varies with the quantity produced, i.e. if more quantity is produced with the same rate of remuneration, cost per unit must be reduced. But it is not so easy to control the indirect labour cost.