Accounting for Labor

Assistant Teacher

Hakeem Hmood

Second Stage

Banking & Finance

Accounting for Labor

**Hourly Rate Plan**

An hourly rate plan establishes a definite rate per hour for each employee. An employee’s wages are computed by multiplying the number of hours worked in the payroll period by the established rate per hour.

The hourly rate plan is widely used and is simple to apply.

Critics argue that it provides no incentive for the employee to maintain or achieve a high level of productivity.

**Ex**: an employee earns $15 per hour and works 40 hours per week.

**Required**: Prepare journal entries for the Recording the payroll and Paying the payroll.

Solution:

Total wage = $600 (40 hour × $15 per hour).

|  |  |  |  |
| --- | --- | --- | --- |
| Work-in-Process Control | | 600 | |
|  | wage payable | | 600 |

|  |  |  |  |
| --- | --- | --- | --- |
| wage payable | | 600 | |
|  | Cash Control | | 600 |

**Piece-Rate Plan**

A company that gives a high priority to the quantity produced by each  
worker should consider using an incentive wage plan, such as a piece-rate  
plan, that bases earnings on the employee’s quantity of production. To  
illustrate, assume that a machine operator will earn $0.30 for each part (or  
‘‘piece’’) finished. If the operator finishes 2,200 parts in a week, he or she  
will earn $660 ($0.30 ×2,200 parts).

**Ex**: Workers produced 500 units during the month of January, Wage was $1,000 per unit.

**Required**: Prepare journal entries for the following:

1. Recording the payroll.

2. Paying the payroll.

Total wage = $500000 (500 units × $1000 per unit).

|  |  |  |  |
| --- | --- | --- | --- |
| Work-in-Process Control | | 500000 | |
|  | wage payable | | 500000 |

|  |  |  |  |
| --- | --- | --- | --- |
| wage payable | | 500000 | |
|  | Cash Control | | 500000 |

**Modified Wage Plans**

Modified wage plans combine some features of the hourly rate and piece rate plans. An example of a modified wage plan would be to set a base  
hourly wage that the company will pay if an employee does not attain  
an established quota of production. If the established quota is exceeded, an  
additional payment per piece would be added to the wage base. This type  
of plan rewards high-performing employees and directs management’s  
attention to employees unable to meet the established quotas.

EX: an employee is Worked 8 hours per day from Monday to Friday, basis Piece-Rate Plan the Wage compute at 15$ per hour or 0.30$ per unit. The following schedule show information pieces finished:

|  |  |
| --- | --- |
| day | Pieces Finished (Quota 400) |
| Mon. | 400 |
| Tues. | 360 |
| Wed. | 420 |
| Thurs | 450 |
| Fri. | 340 |

**Required**:

Compute Wage payable and journalize transaction in general journal.

**Solution**:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| day | Hours Worked | Pieces Finished (Quota 400) | Wage per day  (15 per hour) | Wage per unit | variance | Wage payable |
| Mon. | 8 | 400 | 120 | 120 |  | 120 |
| Tues. | 8 | 360 | 120 | 108 | 12 | 120 |
| Wed. | 8 | 420 | 120 | 126 |  | 126 |
| Thurs | 8 | 450 | 120 | 135 |  | 135 |
| Fri. | 8 | 340 | 120 | 102 | 8 | 120 |
|  | 40 |  | 600 | 561 | 30 | 612 |

|  |  |  |  |
| --- | --- | --- | --- |
| Work-in-Process Control | | 591 | |
| Factory Overhead | | 30 | |
|  | wage payable | | 612 |

**Overtime:**

If an employee works beyond the regularly scheduled time but is paid  
at the regular hourly rate, the extra pay is called overtime pay. If an  
additional rate is allowed for the extra hours worked, the additional  
rate earned is referred to as an overtime premium. The premium rate is frequently one-half the regular rate, resulting in a total hourly rate for overtime that is 150% of the regular rate.

EX: An worker is working 22 days, the average wage of $ 50 per hour, the time allowed for lunch is ½ hours, the employee has worked 15 hour overtime during those days.

**Required:**

If the hours of work in 8 hours per day, Compute total wage and journalize transaction in general journal

**Homework**

**(1):** Ali earns $25 per hour for up to 400 units of production per day. If he produces more than 400 units per day, he will receive an additional piece rate of $0.50 per unit. Assume that her hours worked and pieces finished for the week just ended were as follows:

|  |  |  |
| --- | --- | --- |
| Day | Hours Worked | Pieces Finished |
| Monday | 8 | 400 |
| Tuesday | 8 | 380 |
| Wednesday | 8 | 440 |
| Thursday | 8 | 450 |
| Friday | 8 | 360 |

**Required:** Compute Wage payable and journalize transaction in general journal.

**(2):** Mohammed are produce 1000 units during the month, Wage was $2000 per unit. he has worked 15 hour overtime during those month. the Wage compute at 15$ per hour.

**Required**:

* Compute total wage
* Prepare journal entries for the following:

1. Recording the payroll.

2. Paying the payroll.

**(3):** An worker is working 20 days, the average wage of $ 25 per hour, the hours of work in 8 hours per day, the employee has worked 15 day overtime, the average 4 hours per day.

**Required:** Prepare journal entries for the following:

1. Recording the payroll.

2. Paying the payroll.

A weekly payroll summary made from labor time records shows the following data for Musketeer Manufacturing Company:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Employee | Classification | Hourly Rate | Hourly | |
| Regular | Overtime |
| Yasser | Direct | $12 | 40 | 2 |
| Omer | Direct | 12 | 40 |  |
| Mohammed | Direct | 15 | 40 | 4 |
| Maher | Indirect | 9 | 40 |  |
| Ali | Indirect | 18 | 40 |  |

Overtime is payable at one-and-a-half times the regular rate of pay for an employee and is distributed to all jobs worked on during the period.

**Required**:

* Determine the net pay of each employee
* Prepare journal entries for the following:

1. Recording the payroll.

2. Paying the payroll.