	CMA TEST- 2 (Solution)	
Time Allowed: 35 Minutes	**TOPIC: EMPLOYEE COST**	**Total Marks: 20 Marks**

Answer to Question no.1

Idle Time

1) In relation to labour cost, idle time refers to the situation where payment is made to the workers but the work is not effectively done. For example, if the worker is employed for 10 hours in a day and payment is made for such 10 hour but the worked has worked only for 8 hour, in such a case, the difference of 2 hrs. Can be regarded as idle time.

2) The problem of idle time may be normal or abnormal in nature. Normal situation is decided on the basis of part experience and nature of the business.

3) If idle time is normal in nature, in such a case, its burden is to be shifted on the customer by inflating the recovery rate. For example, if payment is made for 10 hour @ ` 27 per hour and further assume that idle time is 1 hour. Hence, recovery rate is computed below :-

$$\left[\frac{10 \text{ hrs. X } ₹ 27 / \text{hr.} = ₹ 270}{10 \text{ hrs. - 1 hr.} = 9 \text{ hours}} \right] = ₹ \textbf{30/ hr.}$$

4) If idle time is abnormal in nature, the cost associated with it is to be self- absorbed and charged to costing P/L A/C. Abnormal situation arises due to inefficiency and unexpected events.

Answer to Question no.2:

Let x be the cost of material and y be the normal rate of wages per hour

Factory Cost of output of Ram	(₹)	Factory Cost of output of Sam	(₹)
Material	x	Material	x
Time Wages	30y	Time Wages	40y
Bonus (30 y × 20/50)	12y	Bonus (40y × 10/50)	8y
Overheads 30 hrs × ₹ 20	360	Overheads 40 hrs × ₹ 20	480
Factory Cost	x + 42y + 360		x + 48y + 480

Factory cost of product of Ram is ₹ 3,100 and of Sam is ₹ 3,280.

The two equations are:

x + 42y + 360 = ₹ 3,100

x + 48y + 480 = ₹ 3,280

Solving, we get X = ₹ 2,320 and Y = ₹ 10.

Thus:

(i) Normal Wage Rate is ₹ 10 per hour

(ii) Cost of material used for the product is ₹ 2,320 for each worker

(iii) Input of material in units = 2,320/16 = 145 units used by each worker

Answer to Question no.3:

Statement showing the Profit foregone last year due to labour turnover

Particulars	₹	₹	₹
(A) Avoidable Expenses			
Settlement Cost	43,820		
Recruitment Cost	26,740		
Selection Cost	12,750		
Training Cost	30,490	1,13,800	

(B) Additional Possible Profit

Additional Possible Sales	22,20,650		
(-) Variable Cost (80% of Sales)	17,76,520	4,44,130	**5,57,930**

Computation of Additional Possible Sales

Actual Sales	=	₹ 83,03,300
Total labour hours	=	4,45,000 hours
(-) Unproductive training(½× 30,000 hrs)	=	15,000 hours
Productive time	=	4,30,000 hours

As a result of labour turnover, following productive time is lost:

Unproductive training time	=	15,000	hrs.	
Delayed replacement	=	1,00,000	hrs.	**1,15,000 hrs.**

Hence, the amount of additional sales that could have been achieved had there been no labour turnover is (₹ 83,03,300× 4,30,000 hrs) × 1,15,000 hrs= ₹ 22,20,650