

Direct and indirect labor

What Is Labor?

Labor represents cost of services of human resources. labor is the most mobile factor of production. Labor is divided into two types:

1. Direct labor
2. Indirect labor

Direct Labor

Direct labor is the effort of such persons who are directly involved in the production of a good. For example. in a small carpentry, the efforts of those persons who cut, join, polish or otherwise handle wood being made into furniture are classified as direct labor. Remuneration paid to persons providing direct labor is called Direct Wages. In the case of manufacturing concerns where the bulk of processing of raw materials is done by machines, direct wages refer to the remuneration paid to employee who actually operates the machines. Such employees, however, do not include supervisors or clerical staff members who assist direct labor but do not actually provide it.

Indirect Labor

Indirect labor is labor that assists direct labor in the performance of their work. It is the labor which does not directly work upon the manufacturing of the finished product. Examples of indirect labor are wages paid to workers for sweeping, cleaning, supervising, inspecting and issuing of raw material etc.

Difference between Direct and Indirect Labor

The main difference between direct labor and indirect labor are as follows:

1. Direct labor can be conveniently identified with a particular cost centre or cost unit but indirect labor cannot be identified.
2. Direct labor can be allocated or charged entirely to a particular cost centre. On the other hand, indirect labor cannot be allocated or charged fully to any particular cost centre.

3. Direct labor is directly concerned with production but indirect labor is not directly concerned with production.
4. Direct labor results in a productive operation itself but indirect labor does not result in productive operation.
5. Direct labor cost forms an essential part of total cost of production, whereas indirect labor cost does not form an essential part of total cost.
6. Direct labor cost can be ascertained easily but indirect labor cost cannot be ascertained easily.
7. Direct labor cost varies directly in proportion to output, whereas indirect labor cost does not vary directly in proportion to output.
8. Direct labor cost can be controlled easily. On the other hand, indirect labor cost cannot be controlled easily.
9. Direct labor cost forms part of direct cost or prime cost, whereas indirect labor cost forms part of overheads, either Factory overheads or Administrative overhead or Selling and distribution overhead.
10. Direct labor cost is controlled through the technique of standard costing. But indirect labor cost is controlled through budgetary control.