**Example of Piece rate incentive calculation**

**Problem**: A factory is USA pays its employees on wage plus incentive basis. An employee is eligible for hourly wages and overtime along with extra incentive based on production performance. Find an employee’s weekly take home pay using the following information.

* Wage rate is $45/hr
* Overtime rate is Time and a half of the wage rate
* Employee works days 5 days a week (40 hours)
* Standard of production (SOP) is 9 units/hr
* Defective productions will be deducted
* Loss hours for downtime/over haul/power failure etc. will be ignored.

Now, let’s say an employee has worked 62 hours in that particular week and produced 475 units where 35 of them have been rejected by quality control dept. What will be his take home pay that week?

**Solution**:

Wage rate is $45/hr

Overtime rate will be $45 X 1.5 = $67.5/hr

Overtime hours are 62-40 = 22 hours

Standard of production (SOP) is 9 units/hr

SOP per week will be = 9 X 40 = 360 units (for one week). We have to convert this into a week as we are calculating his weekly pay.

Piece rate incentive will be = wage rate/SOP = 45/9 = $5/unit

Now actual extra production is

475-360-35 = 80 units. It means he has successfully produced 80 extra units after meeting his weekly SOP and deduction of defectives. He will be compensated for these extra units using the piece rate incentive.

His weekly take home pay will be

Wage + Overtime wage + Piece rate incentive

(45 X 40) + (67.5 X 22) + (80 X 5) = 1800 + 1485 + 400 = $3685

His take home pay for that week will be $3685.