materials. The transfer value of such items should be cost unless the department or subsidiary company concerned supplies to third parties in the normal course of business in which case the transfer prices should be equivalent to the prices charged to third parties.

7. Any trade discounts or rebates directly applicable to the materials used in the product should be credited to the material cost. Any other discounts received should be credited to administration and selling expenses.

Direct Labour

8. Direct labour may be defined as the work engaged in altering the form or shape of materials in fabricating or processing. The direct labour cost should be based on whichever of the following bases is appropriate:

(a) The piece work prices paid plus the national award or cost of living bonus, and any incentive or production bonus paid to direct operatives.

(b) The piece work times allowed evaluated at the budgeted labour cost per hour, plus the national award or cost of living bonus related to the hours worked, and time saved at the bonus rate per hour and any incentive or production bonus paid to direct operatives.

(c) Where day work rates are paid the costs should be based on the day work rate, which would consist of the basic rate per hour plus national award and the lieu bonus rate. This consolidated rate should be applied to the hours charged to the job. Any incentive or production bonus paid to direct operatives should be included in the direct labour cost.

9. Where piece work prices or times allowed include the cost or time for setting by the operative this should be included in the direct labour cost. Where setting is performed by a setter the cost should be charged to the job where possible but otherwise should be included in the general works overheads. All other labour engaged in supervision, servicing, transporting materials including crane men and slingers, and general labouring should be included in the general works overhead charges.

Overhead Expenses

10. The overhead expenses should be based on budgets for the period of production and where necessary should be adjusted to reflect normal activity i.e. 80% of single shift working plus normal overtime plus double shifting of some key machine tools. If Budgets are not used then the latest available financial accounts should be used and adjustments made for any fluctuations in prices and wage rates between the period of production and the period of the financial accounts and should reflect normal activity.

11. The overhead expenses should be segregated between—

(a) General Works Expenses (paragraphs 12–17).

(b) Administration and Selling Expenses (paragraphs 18–21).

(c) Packing Expenses (paragraph 29).

(d) Site (paragraphs 22 and 23).

(e) The Selective Employment Tax should be regarded as an overhead expense and should be segregated between the classes of overhead expense as set out above. Any refunds or premiums received should be regarded as a reduction of the overhead expenses.

The type of expenses normally shown under groupings (a) (b) and (c) is shown in appendix A attached.

General Works Expenses

12. The general works expenses should be allocated between departments, shops or cost centres. Where possible, expenses should be directly allocated to the department, shop or cost centre and where that is not possible reasonable arbitrary bases of apportionment should be used for example—

Type of expenses	*Basis of apportionment*
Rent, rates	Floor space occupied
Lighting	Wattage of lamps
Heating	Cubic area of floor space
Power	Metered consumption or horse power of motors in use
Maintenance of buildings	Floor space occupied
Depreciation of plant	Capital value of plant
Gas	Technical estimate base on the number of jets used
General labouring	Direct labour