

The works overhead expenses should be recovered in costs by machine hour rates related to the cost centres, or by the productive hourly rate related to the department, shop or cost centre, or by percentage of direct labour cost applicable to the department, shop or cost centre.

13. Where budgeted overhead recovery rates are used these should be adjusted by any over or under absorbed expenses to the extent that is necessary to reflect normal activity as defined in paragraph 10. Recoveries as a percentage of the material cost for material handling should not be used.

14. Overhead expenses should be collected for ancillary departments, i.e. tools and patterns, research and development etc. These expenses would be directly charged, where possible, to the products (see paragraphs 25 to 29).

15. Departmental accounts should be maintained for the direct cost of service departments, i.e. power house, maintenance etc. The total cost of such service departments to which general overheads should not be charged would be apportioned to the production departments, shops or cost centres according to the service performed.

16. Notional charges, such as rent where buildings are owned, should not be included in the overhead expenses.

17. The depreciation included in costs should be calculated on the bases adopted by manufacturers in their accounts and should be based on the historical cost of the fixed assets. Investment and similar cash grants received should be deducted from the cost of the relevant fixed assets and depreciation should be calculated on the resulting net cost of those assets.

Administration and Selling Expenses

18. Administration and selling expenses which are attributable to the administration and selling of the products manufactured are those set out in appendix A. Where applicable a due proportion of head office expenses should be included.

19. These expenses which will rate to both home and export trades combined should be segregated as between product divisions but not as between departments, shops or cost centres in view of the arbitrary bases of apportionment which would have to be used and which may direct the costs.

20. The expenses should be recovered in costs as a percentage of the works cost and recoveries as a percentage of the material cost for handling should not be used.

21. Where budgeted recovery rates are used these rates should, if necessary, be adjusted so as to reflect normal activity as defined in paragraph 10, in the period of production.

Erection and Installation on Site

22. Any direct materials used should be charged to the job at cost. Direct labour employed at the site should also be charged to the job at the rates paid. The labour should be confined to the erection, installation and testing on the site. Work normally done in the works but for expediency done on the site, should be included in the works cost.

23. The overhead expenses would be those incurred at the site plus any other overheads directly attributable to the erection organization. The total of the materials, labour and overhead expenses would be a direct charge to the job.

Design and Drawing Office Expenses

24. Design and drawing office time applicable to the job should be charged direct, based on time occupied at hourly rates. These rates should be set to include the overhead expenses of the engineering and drawing offices, or alternatively an addition should be made to the direct costs to cover the overhead expenses concerned.

Tools and Patterns

25. Tools and patterns purchased specifically for the job should be charged direct to the job at cost.

26. Tools and patterns made for the job by the member's own tools and patterns department should be charged to the job at the departmental works cost. The expenses of the department not chargeable direct should be recovered in costs as a percentage of works cost and should be added to the direct costs giving a total cost of tools and patterns applicable to the job.