

PROTECT COMMERCIAL (when completed)

Ministry of Defence

Cost Assurance and Analysis Service (CAAS)

On behalf of

Her Majesty's Government

Contractor:

Questionnaire on
Method of Allocation of Costs (QMAC)

for the year commencing _____
covering: (a) the whole of the operations of the contractor
 (b) only the following : _____

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Summary of Schedules

Schedule	Title
Certificate Instructions	
Schedule 1	General Information
Schedule 2	Recovery of indirect costs
Schedule 2a	Classification of labour job roles
Schedule 2b	Evaluated labour base hours included in overheads
Schedule 3	Direct labour cost
Schedule 4	MOD CAAS cost engineering specifics
Schedule 4a	Consumable items
Schedule 4 b	Production processes and services
Schedule 5	Direct materiel cost
Schedule 6	Basis of allocating costs as direct charge or overhead charge
Schedule 7	Treatment of specific cost elements or transactions
Schedule 8	Capitalisation practices
Schedule 9	Inter group, inter unit and corporate recharges
Schedule 10	UK Supplemental QMAC, in lieu of filing Form No CASB-DS-1
QMAC Guidance Notes	

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To: _____
| |

CERTIFICATE

This certificate's standard wording must not be altered without the prior authorisation of CAAS

I certify on behalf of | | that, to the best of my knowledge and belief, the allocation of costs as detailed in the following schedules | | are a comprehensive, accurate and up to date disclosure of the cost allocation system employed by the company to support the production of its financial accounts. This together with other disclosures contained within this QMAC will be followed for the purpose of pricing all work priced in accordance with the Government Profit Formula and its Associated Arrangements subject to any variation agreed and recorded within Annex 2 to each Equality of Information Pricing Statement, for the year commencing | |

Signature: _____

Name: | | _____

Financial Director: | | _____
(or in the case of authorised signatory, please state office held)

Telephone: | |

E mail address : | |

Name and address of company /Relevant Unit(s):
| |

Date : | | _____

Certification is for QMAC, Issue | | dated | |

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Cont...

CERTIFICATE Continued

Noted and Agreed

CAAS Cost Accountant

: Signature

: Name

| |

: Section

| |

Date: | |

Noted and Agreed

CAAS Cost Engineer

: Signature

: Name

| |

: Section

| |

Certification is for QMAC, Issue	dated	
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Instructions

Introduction

The Questionnaire on the Method of Allocation of Costs (QMAC) is issued by the MOD CAAS to support the pricing of MOD non-competitive contracts. A standard QMAC is used for all types of organisations whether they are in the manufacture or the service sector. The layout and content of the QMAC, together with the guidance notes, has been agreed between the MOD and the Joint Review Board Advisory Committee (on behalf of Industry). The QMAC has been designed to describe the contractor's cost accounting practices as they affect contracts priced in accordance with the Government Profit Formula and its Associated Arrangements. The QMAC forms an important part of the disclosure of information required for the pricing of these contracts.

Instructions

1. Persons completing the QMAC are required to ensure that answers and explanations given are complete, accurate and up to date as of the date referenced in the certificate.
2. A QMAC should be submitted by the contractor to support the totality of their H.M.G. non-competitive work where prices are agreed in accordance with the Government Profit Formula and its Associated Arrangements (e.g. their claims for overhead rates, costs under DEFCONs 643 and 653 and post-costing under DEFCON 648 or their equivalents) for costs incurred after the date referenced in the certificate.
3. A full QMAC should be completed and submitted for each year and whenever there are either (a) proposed changes to the accounting or costing systems or procedures previously disclosed or (b) new matters which have arisen which require additional disclosures to be made. Any proposed changes for (a) must be formally notified to CAAS prior to the change allowing sufficient time for discussion and comment. MOD will not necessarily accept liability for any costs incurred unless proper consultation has taken place.
4. A separate QMAC must be submitted covering the practices at each of the contractor's relevant unit(s) involved in HMG non-competitive work where the cost accounting practices are not similar. Where the practices are similar, only one QMAC need be submitted, but each relevant unit must be identified.
5. U.K. Supplemental QMAC (Schedule 10) for the U.S. Department of Defense is optional for those UK contractor's performing US Government contracts and sub-contracts where a completed Form No. CASB-DS-1 (or an alternative issued by the US CASB) is required. Segments and home offices of UK contractors may submit the completed Supplemental QMAC, accompanied by the completed basic UK QMAC (as set out in Schedules 1-9), in lieu of filing Form No. CASB-DS-1, as permitted by the provisions at 48 CFR 9903.202-1. Completion of both the UK QMAC and UK Supplemental QMAC will exempt U.K. Contractors from the requirement to complete the U.S. Disclosure Statement Form No. CASB-DS-1. All U.K. contractors performing U.S. Government contracts must comply with applicable CAS Board rules and regulations as contained in 48 CFR 9903. In addition, 48 CFR 9903.201-1(b)(4) requires that U.K. contractors comply with 48 CFR 9904.401 and 402 which cover consistency in estimating, accumulating and reporting of costs; and, consistency in allocating costs incurred for the same purpose.

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Instructions (continued)

6. Full use should be made of the "Remarks" column to amplify or explain any allocation, or when an answer to a "yes" or "no" question needs further clarification. The contractor's costing system should be the same for H.M.G. and commercial work. If it is proposed that the allocation on Government work should differ from that on commercial work this should be clearly stated and full explanations provided.
7. Clear definitions must be used to avoid ill-defined allocations such as "D/X". "D/X" allocations will only be accepted in exceptional circumstances, and where the segregation of costs can be clearly defined.
8. Where space on the printed schedules is insufficient to give the required information extra schedules or appendices to schedules, as appropriate should be used.
9. All extra schedules and appendices must be numbered and listed in the summary of schedules.
10. In the case of questions dealing with accounting, costing and estimating systems and procedures, reference may be made to the relevant sections of the contractor's procedure manual(s). Such procedures should either be made available to MOD and incorporated by reference or repeated in full in appendices.
11. The company has responsibility for timely and effective communication and subsequent enforcement of its declared cost accounting practices in the accumulating, estimating and recording of such costs.
12. If any difficulty is experienced in completing the QMAC or if there are any queries or matters requiring prior discussion, contact should be made with the CAAS Cost Accountant.

Schedule 1

1 General Information

1.1 Name and address of ultimate holding company

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1.2 Description of your Cost Accounting System. (Check all used and state where each is used)

- Standard costs - Job order
- Standard costs – Process
- Actual costs - Job order
- Actual costs – Process
- Other(s) (describe below)

--

1.3 Is your cost accounting system capable of producing incurred or derived contract /unit costs?

- | | <u>Yes</u> | <u>No</u> |
|--------------------------------------|--------------------------|--------------------------|
| a. During the currency of a contract | <input type="checkbox"/> | <input type="checkbox"/> |
| b. On completion of a contract | <input type="checkbox"/> | <input type="checkbox"/> |

If the answer to both is 'Yes' and you have agreed with CAAS the process for its computation the description of this process should be included as an annex to this Schedule 1.

If the answer to either of these is 'No' you are unlikely to be able to satisfy the requirements of certain DEFCONs and you should therefore discuss the situation with the relevant CAAS officer.

1.4 Are your cost accounting and financial systems fully integrated?

YES | NO

If NO, are the cost accounts reconciled with the financial accounts?

YES | NO

If YES, how frequently is the reconciliation prepared?

--

If NO, how, and how frequently, is the authenticity of the cost accounts verified.

--

Schedule 1

1.5 Treatment of foreign exchange translations, transactions and cash flow hedging

Set out the accounting treatment adopted for the translation and transaction costs incurred and income received in a foreign currency. Where hedging is undertaken to mitigate the exposure to changes in the value of foreign currencies set out the accounting treatment adopted including where a cash flow hedge becomes subject to 'fair value adjustment'.

--

1.6 Adopted GAAP (Check one)

- IFRS
- FRS
- FASB
- Other (specify)

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

1.7 Time value of money

Are any cost accounting inventory records so adjusted? If yes, state methodology used.

--

Schedule 2

2.3 The allocation bases

2.3.1 Direct Labour Hours base.

2.3.1.1 State the criteria and control system used in determining which labour resource types or groups are required to record details of work performed (treated as a direct resource). Schedule 2a sets out detail by skill employed.

--

2.3.1.2 Explain how hours worked are reconciled to time allocated and the treatment adopted for uncompensated overtime.

--

2.3.1.3 State the system used and controls in place to record the time taken to undertake the work performed and the hours worked.

--

2.3.1.4 For those employees required to record details of work performed state which if any hours worked are not included in the rate denominator.

--

2.3.1.5 For those hours that are included in each denominator state those activities, if any, where the evaluated cost is also included within overhead recovery pools. Details at Schedule 2c

--

2.3.1.6 State method of dealing with direct activity, if any, undertaken by indirect resource (contra diversions)

--

2.3.1.7 State process where work is carried out in a different cost recovery pool.

--

2.3.1.8 If non standard rates are used for any activity give specific details.

--

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Schedule 2

2.3.2 Facility Hours Base.

2.3.2.1 For each facility usage denominator referenced in 2.2 above state the criteria used in determining which facility resource types or groups have details of work performed recorded.

--

2.3.2.2 State how machine/facility hours worked are reconciled to time available.

--

2.3.2.3 State which, if any, facility hours worked are not included in the rate denominator.

--

2.3.2.4 If non standard rates are used for any activity give specific details.

--

2.3.3 Other denominators. For each:

- Set out the criteria used and controls in place to ensure that each denominator listed in 2.2 above (and not addressed in 2.3.1 and 2.3.2 above) is maintained as complete, current and accurate

Other Denominators	Criteria and Controls

Schedule 2

2.4 Special cases (if not already addressed above)

a. Is any labour, or other cost, charged direct without full overhead recovery?

YES | NO

2.4.1 If YES, give details

--

2.4.2 For Outside work (Site Workers, Service Mechanics, etc.) give details below of basis of computation of any separate overhead rate and the base of direct labour to which they apply.

--

Schedule 2a

Classification of labour job roles

For all of the job roles employed show in the table below classification of personnel as either Direct (D) or Indirect (X)

Management Area	Job Role	D or X	Rate Pool (s)	Remarks

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Schedule 2b

Evaluated labour base hours included in overheads

Evaluated Overheads (complete where applicable)	Identify the Rate Pool Denominator(s) affected	Is the overhead cost included in the same rate pool?	If different rate pool(s) state which.
Experimental Research/Development			
Work in aid of Production			
Jigs, Tools and Pattern Designs			
Project / Project Support			
Preparation of Technical Publications			
Work in aid of Installation			
Services to other Departments			
Bids and Proposals			
Direct Selling & Marketing Effort			
Advertising & Publicity			
Other(s):			

If Bid and Proposal costs are allocated to contract state the basis, if not state the basis of charge to overhead

Schedule 3

3 Direct Labour cost

NOTE: This section is only applicable if Direct Labour cost is specifically allocated direct to contracts exclusive of associated overhead cost recovery i.e. if a composite labour and overhead hourly rate is used then all labour costs are effectively allocated to contracts through the hourly composite rate and this section is not applicable.

3.1 **Basis of rate calculation**

3.1.1 State basis used to determine, hourly, daily etc. rate of Direct Charge (D) (e.g. individual rates - typically hourly average, weekly, monthly or quarterly average rates, for each type of direct worker) for:

3.1.1.1 Estimating

--

3.1.1.2 Cost Recording

--

3.1.2 State whether the Direct Charge rates are reviewed and if they are, how often?

--

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Schedule 3

3.2 Indicate which of the supplementary elements below are included in the Direct Labour Cost (D) and which are included in the Overhead Charge (X).

Columns A to D are provided to record the individual Rate Pools applicable:

A = | |

B = | |

C = | |

D = | |

--	--

D = Direct Labour Rate
X = Overhead Rate (Schedule 2)

	A	B	C	D	REMARKS
Attendance at Meetings					
Back Dated Awards					
Bonuses: Piece Work					
Productivity					
Merit					
Output					
Other:					
Employers Contributions:					
National Insurance					
Company Pensions					
Other:					
Guaranteed Week Supplement					

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		A	B	C	D	REMARKS
Holiday Pay:	Statutory Annual					

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**Schedule 3
Direct Labour cost (continued)**

A = | |
 B = | |
 C = | |
 D = | |

D = Direct Labour Rate
 X = Overhead Rate (Schedule 2)

	A	B	C	D	REMARKS
Idle Time					
Waiting Time					
National awards - where awards are in Overheads state date of base rate					
Premiums: Night Shift					
Other Shift					
Overtime					
Other: 					
Redundancy Payments					
Sick Pay					
Others: 					

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Schedule 4b

4.2 Production Processes and Services

- 4.2.1. If separate overhead rates are used indicate the basis of computation (Cross reference to schedule 2).
- 4.2.2. If direct recovery is achieved by the use of Tariff or Scale Charges, indicate the method used and the area involved Cross reference to schedules 2 and 3).
- 4.2.3. If the costs are not separated from Production, indicate the items treated as Direct Charges (D) and those treated as Overhead Charges (X).

D = Direct Charge	L = Labour
X = Overhead Charge	M = Material

Processes	In House	Sub. Cont.	L	M	Remarks
Anodising	 <input type="checkbox"/>	 <input type="checkbox"/>			
Bonding	 <input type="checkbox"/>	 <input type="checkbox"/>			
Deburring	 <input type="checkbox"/>	 <input type="checkbox"/>			
Degreasing	 <input type="checkbox"/>	 <input type="checkbox"/>			
Foundry	 <input type="checkbox"/>	 <input type="checkbox"/>			
Furnace Power	 <input type="checkbox"/>	 <input type="checkbox"/>			
Heat Treatment	 <input type="checkbox"/>	 <input type="checkbox"/>			
Painting	 <input type="checkbox"/>	 <input type="checkbox"/>			

Cont...

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Schedule 4b

Production Processes and Services Continued

D = Direct Charge	L = Labour
X = Overhead Charge	M = Material

PROCESSES	In House	Sub. Cont.	L	M	REMARKS
Plating	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Polishing	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Sand or Shot Blasting	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Welding	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Flow (Wave) Soldering	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Reflow Soldering	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Carbon (Matrix) Fibre	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Ceramics	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Electron Beam Machining	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Electron Beam Welding	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Electro Chem. Machining	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	

Cont...

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Schedule 4b

Production Processes and Services Continued

D = Direct Charge	L = Labour
X = Overhead Charge	M = Material

PROCESSES	In House	Sub. Cont.	L	M	REMARKS
Non Destructive Testing:	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
Others	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	
	 <input type="checkbox"/>	 <input type="checkbox"/>	 	 	

Cont...

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Schedule 4b

Production Processes and Services Continued

D = Direct Charge	L = Labour
X = Overhead Charge	M = Material

SERVICES	In House	Sub. Cont.	L	M	REMARKS
Electricity 	 □	□			
Gases Industrial 	 □	□			
Gases Heating 	 □	□			
Water 	 □	□			
Others 	 □	□			
 	 □	□			
 	 □	□			
 	 □	□			
 	 □	□			

If computer facilities are charged direct, then describe where in the table below

	 □	□			
--	-------	---	--	--	--

Schedule 5

5 Direct Materiel Cost

Note The term ‘Direct materiel’ throughout Section 5 is taken to include not only purchased materials and parts, but also own production sub-assemblies and parts passing through a store. This cost therefore incorporates direct labour and overhead cost incurred in the manufacture and acquisition of these items.

5.1 Method of charging

State, in respect of each store type, how Direct Materiel are treated for costing purposes:-

5.1.1 Charged from a contractor owned stores inventory (Check boxes applicable)

Method of recording and reporting	Store Group		Store Group		Store Group	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Actual Cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Actual Cost plus Handling/Administration Charge	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
First in, First out (F.I.F.O.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Base Stock	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Average Costs -simple	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Average Costs - rolling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Standard Costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (describe on separate sheets)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5.1.2 Specify any departures for purchases or transfers from other group companies:

5.1.2.1 Within the same Relevant Unit

<input type="checkbox"/>	
--------------------------	--

5.1.2.2 From another Relevant Unit (business within the same group)

<input type="checkbox"/>	
--------------------------	--

5.1.3 Specify any departures for estimating purposes:

5.1.3.1 Within the same Relevant Unit

<input type="checkbox"/>	
--------------------------	--

5.1.4 From another Relevant Unit (business within the same group)

<input type="checkbox"/>	
--------------------------	--

Note: If valuation methodology differs by store then clearly show the basis for each store type and the criteria used to determine which store is utilised for a transaction

Schedule 5

5.2 Purchased items not through a contractor owned inventory account

Method	Store Group	Store Group	Store Group
Actual invoiced Cost (foreign currency converted in accordance with Schedule 1. 5)			
Actual Cost plus Handling/Administration Charge			
Standard Costs			
Other (describe on separate sheets)			

5.2.1 Specify any departures for purchases or transfers from other group companies:

5.2.1.1 Within the same Relevant Unit

--	--

5.2.1.2 From another Relevant Unit (business within the same group)

--	--

5.2.2 Specify any departures for estimating purposes:

5.2.2.1 Within the same Relevant Unit

--	--

5.2.2.2 From another Relevant Unit (business within the same group)

--	--

Schedule 5

5.3 Method for dealing with special situations

(Describe on separate sheet(s) if necessary):

5.3.1 Transfers between contracts

--	--

5.3.2 Transfers between Cost Collection Numbers

--	--

5.3.3 Apportionment of Bulk Purchases through fungible inventory

--	--

5.3.4 Surplus Stocks and Work in Progress:

5.3.4.1 Valuation

--	--

5.3.4.2 Transfer of surplus materials from one contract to another or to stock

--	--

5.3.4.3 Disposal of items for which no use identified

--	--

Schedule 5

5.3.5 Explain the following, on separate sheets if necessary:-

5.3.5.1 In the case of items charged at Standard (note: Includes labour cost)

5.3.5.2 How the Standards are set (see also note at start of Schedule 5)

--	--

5.3.5.3 Types of variances recorded, the level at which they are accumulated and the method of disposal

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5.3.5.4 How often Standards are revised

--	--

5.3.5.5 In the case of items charged at Average Cost: (see also note at start of Schedule 5)

5.3.5.6 How the averages are calculated

--	--

5.3.5.7 How often the averages are recalculated

--	--

5.3.5.8 In the case of items charged at FIFO or Replacement Cost how are input costs calculated?

--	--

5.3.5.9 In the case of items charged using other valuations, explain how the valuations are made.

--	--

Schedule 6

6 Basis of allocating costs as direct charge or overhead charge

6.1 Describe on a continuation sheet your criteria for determining when costs incurred for the same purpose, in like circumstances, are treated either as direct costs only or as indirect costs only when incurred for a similar purpose e.g. Travel, accommodation, electricity, industrial gases, gases – heating, water.

Account code(s)	Cost type description	Criteria for when direct

6.2 State any cost allocation differences between those staff employed on a permanent employment contract, and a fixed (or short term) employment contract

--	--

6.3 State any cost allocation difference between employees referenced in 6.2 above and agency sub-contract staff under day to day management of the company

6.3.1 Working at contractor’s premises

--	--

6.3.2 Not working at contractor’s premises - Site Workers, Service mechanics etc. (contractor’s premises are to be defined if there are differences in treatment).

--	--

6.3.3 If the hired labour is provided by a transfer from an internal group source how is the transfer charge computed? Does the charge include an administration premium and/or profit element? Is the hired labour from another CP:CE ratio unit?

--	--

6.4 Labour Offload. Where activity is not performed in house, but the company has the capability, state how such costs are treated

--	--

Schedule 7

7 Treatment of specific cost elements or transactions

7.1 Special Equipment; Jigs, Tools, Patterns and other

7.2 Scrap and Rectification

7.3 Packing

7.4 Carriage and Transport

7.5 Other miscellaneous costs

7.6 Outside work locations

7.7 Miscellaneous credits

The treatment of these items varies considerably. Some may be separately costed by the use of special overhead rates or the labour content may attract overhead charges at normal factory rates.

The costs so computed together with charges from outside suppliers may be treated as Direct Charges or Overhead Charges according to the nature of the costs or the circumstances in which they are incurred.

This Schedule should therefore be completed in such a way as to indicate quite clearly the method of cost computation (own work) and the basis of the charge.

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Schedule 7

Treatment of specific cost elements or transactions

7.1 Special Equipment; Jigs, Tools, Patterns and other

D = Direct Charge
X = Overhead Charge

Special Equipment; Jigs, Tools, Patterns and other	D or X	REMARKS
Jigs, Tools, Gauges a. First Cost b. Maintenance (Incl. calibration) c. Replacements	 	
Patterns and Moulds a. First Cost b. Maintenance (Incl. calibration) c. Replacements	 	
Other Special equipment a. First Cost b. Maintenance (Incl. calibration) c. Replacements	 	

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Schedule 7
Treatment of specific cost elements or transactions

7.2. Scrap and Rectification

D = Direct Charge
X = Overhead Charge

L = Labour M = Material

	L	M	REMARKS
Cost of Work scrapped			
Cost of replacing scrapped work			
Cost of rectifying own work			
Cost of rectifying outside supplies			
Modifications accepted as Contractor's liability.			

7.3. Packing

D = Direct Charge
X = Overhead Charge

L = Labour M = Material

Packing	L	M	REMARKS
Normal:			
a. For despatch			
b. In works use			
Special (including Preservation, Identification, and Packaging)			

Cont...

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Schedule 7
Treatment of specific cost elements or transactions

7.4. Carriage and Transport

D = Direct Charge
X = Overhead Charge

L = Labour M = Material

Carriage and Transport	L	M	REMARKS
Inwards			
a. Importation costs			
b. Within UK			
Outwards:			
a. Own Transport			
b. Outside Transport			

7.5. Other miscellaneous costs including hired plant (Please identify costs not disclosed in previous sections)

D = Direct Charge
X = Overhead Charge

L = Labour M = Material

Other miscellaneous costs including hired plant	L	M	REMARKS
Hired Plant			

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Schedule 7

Treatment of specific cost elements or transactions

7.6 Outside Work locations:

State the basis of recovery of the following types of expenditure.

D = Direct Charge X = Overhead Charge

Outside work locations	D or X	REMARKS if 'D' indicate whether part of Direct Labour rate (Schedule 3)
Car Mileage Allowance		
Carriage to Site		
Consumable Stores		
Consumable Tools		
Electricity		
Hired Plant		
Portable Plant		
Site Office Expenses		
Subsistence Allowances		
Telephones		
Travelling Expenses		
Travelling Time		
Waiting Time		
Vehicles		
Other Items		

NOTES:

- i) The above treatment is mainly designed to cover away work engaging a number of personnel. The treatment of short visits by individuals, specialists or small groups should be detailed if it differs from that shown above.
- ii) If any of the items above are charged by means of a Scale or Tariff, mark "S" against the item concerned and give details on Schedule 2.

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Schedule 7

Treatment of specific cost elements or transactions

7.7. Miscellaneous credits

Miscellaneous credits	D or X	REMARKS
Containers and Packaging		
Discounts :		
Cash: a. Subcontract and Direct Purchases		
b. Stock Material		
Trade		
Rebates: a. Quantity		
b. Others		
Others:		
Rent Received		
Royalties Received		
Sale of Scrap :		
a. Shop arisings, swarf, off cuts		
b. Obsolete or surplus stores/parts		
c. "Special" metals		
Sale of sub standard parts etc.		
Transport Recoveries		
Use of other services (specify)		
Other Credits excluding overhead recoveries		

Schedule 8

8 Capitalisation practices

Criteria for Capitalisation.

8.1 The minimum capitalisation value (if separate thresholds exist for individual and group/mass purchases show both values)

--	--

8.2 Describe the criteria used to distinguish between items that are capitalised as business assets and those which are treated as special equipment and the cost directly allocated to an end cost object.

--

8.3 Is interest cost included within the value capitalised?

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Schedule 9

9 Inter Group, Inter Unit and Corporate Recharges

9.1 Specify the various categories of business expenditure that are recharged to other divisions or group companies, the basis of computation and the method of treating those recharges. Include below any, research and development and sales and marketing recharges made.

Major function, activity or cost element	Description of the allocation base	Cost credited to

9.2 Specify the various categories of business expenditure that are recharged from other divisions or group companies, the basis of computation, the method of treating those recharges and the method of establishing any unallowable overheads. Include below any research and development, and sales and marketing recharges incurred. Where the basis of these recharges is already disclosed in Schedule 9 Section 9.1 of other extant QMACs within other divisions or group companies then Section 9.2 below should only refer to those agreed QMACs.

Major function, activity or cost element	Description of the allocation base	Cost allocated to

Schedule 10 (Optional)

Segments and home offices of UK contractors may submit this Supplemental QMAC, accompanied by the basic UK QMAC, in lieu of filing a Form No. CASB-DS-1, as permitted by the provisions at 48 CFR 9903.202-1.

*A **segment** means one of two or more divisions, product departments, plants, or other subdivisions of an organization reporting directly to a home office, usually identified with responsibility for profit and/or producing a product or service. The term includes Government-owned contractor-operated (GOCO) facilities, and joint ventures and subsidiaries (domestic and foreign) in which the organization has majority ownership. The term also include those joint ventures and subsidiaries (domestic and foreign) in which the organization has less than a majority of ownership, but over which it exercises control.*

*A **home office** means an office responsible for directing or managing two or more, but not necessarily all, segments of an organization. It typically establishes policy for, and provides guidance to the segments in their operations. It usually performs management, supervisory, or administrative functions, and may also perform service functions in support of the operations of the various segments. An organization which has intermediate levels, such as groups, may have several home offices which report to a common home office. An intermediate organization may be both a segment and a home office.*

Where the cost accounting practice being disclosed is clearly set forth in the contractor's existing written accounting policies and procedures, such documents may be described and incorporated by reference at the option of the contractor. In such cases, the contractor should provide the date of issuance and effective date for each accounting policy and/or procedures document cited. Alternatively, copies of the relevant parts of such documents may be attached as appendices to the Supplemental QMAC.

1. General Information. List the name of the segment or home office filing the Supplemental QMAC:

Segment Name | |

Home Office Name | |

The segment or home office filing the Supplemental QMAC is a:

- A Business Unit comprising an entire business organization which is not divided into segments
- B Corporate Home Office
- C Intermediate Home Office
- D Segment or business unit reporting directly to a home office

2. Unallowable Costs. Costs that are not reimbursable as allowable costs under the terms and conditions of United States Federal Government contract awards (e.g. allowable costs under FAR Part 31) are identified as follows: (Mark all that apply and if more than one is marked, describe on a continuation sheet the major cost groupings, organizations, or other criteria for using each marked technique).

Incurred Costs.

- A Specifically identified and recorded separately in the formal financial accounting records.
- B Identified in separately maintained accounting records and workpapers.
- C Identifiable through use of less formal accounting techniques that permit audit verification.
- D Determinable by other means (describe the other means).
| |

Estimated Costs.

- A By designation and description (in backup data, workpapers, etc.) which have specifically been identified and recognized in making estimates.
- B By description of any other estimating technique employed to provide appropriate recognition of any unallowable amounts pertinent to the estimates.
- C Other (describe) | |

3. Assignment of Direct Material Costs. Describe the point in time that direct material costs are assigned to United States Federal Government contracts or similar cost objectives (e.g., when orders are placed, when material and invoices are received, when material is issued, when invoices are paid, other)

| |

4. Travel Expenses. Provide the basis for measurement of travel costs (e.g. actual costs, per diem rates, other).

| |

5. Credits and Transfers. When United States Federal Government contracts or similar cost objectives are credited for transfers to other jobs/contracts, are the rates of direct labor, other direct costs, and applicable indirect costs always the same as those for the original charges (If the answer is “No” explain how the credit differs from the original charge.

- A. Yes
- B. No | |

6. Incentive and Deferred Bonus Plans (Other than Pensions). For those deferred bonus plans that represent the largest dollar amount of costs charged to United States Federal Government contracts, describe how the costs are charged (direct, indirect, or both), the indirect cost pool to which the costs are charged, and the method of assigning costs (when fully funded, when paid to the employee, or other). If costs are charged both, describe the circumstances when the costs are charged direct and when the costs are charged indirect.

| |

7. Training Costs. Describe how the costs are charged (direct, indirect, or both) the indirect cost pool to which the costs are charged. If costs are charged both, describe the circumstances when the costs are charged direct and when the costs are charged indirect.

| |

8. Contract and Subcontract Administration. Describe how the costs are charged (direct, indirect, or both) and the indirect cost pool to which the costs are charged. If costs are charged both, describe the circumstances when the costs are charged direct and when the costs are charged indirect.

| |

9. Start-up and Preproduction Costs. Describe how the costs are charged (direct, indirect, or both) and the indirect cost pool to which the costs are charged. If costs are charged both, describe the circumstances when the costs are charged direct and when the costs are charged indirect.

| |

10. Tangible Capital Assets:

Capitalizing and Depreciating Tangible Capital Assets for United States Federal Government Contracts. For each of the following categories, enter (i) the capitalization policies (the minimum £ sterling amount of acquisition cost and the minimum number of expected life years of capitalized assets), and (ii) the appropriate codes that describe the depreciation practices for those asset categories:

<i>Asset Category</i>	<i>Minimum Acquisition Cost for Capitalization</i>	<i>Minimum Expected Life Years for Capitalization</i>	<i>Depreciation Method Code</i>	<i>Useful Life Code</i>	<i>Property Unit Code</i>	<i>Residual Value Code</i>
Land improvements						
Buildings						
Building improvements						
Leasehold improvements						
Machinery and equipment						
Furniture and fixtures						
Automobiles and trucks						
Data processing equipment						
Programming/reprogramming costs						
Patterns and dies						
Tools						
Other categories(describe)						

Depreciation Method Code:

- | | |
|----------------------------|---|
| A. Straight Line | F. Use Charge |
| B. Declining Balance | G. Other or more than one method (describe) |
| C. Sum-of-the-Years Digits | H. Asset category is not applicable |
| D. Machine Hours | |
| E. Unit of Production | |

Useful Life Code

- A. Replacement experience adjusted by expected changes in periods of usefulness
- B. Term of lease
- C. Other or more than one method (describe)

Property Unit Codes:

- A. Individual units are accounted for separately
- B. Applied to groups of assets with similar service lives
- C. Applied to groups of assets with varying service lives
- D. Other or more than one method (describe)

Residual Value Code:

- A. Residual value is estimated and deducted before computing depreciation
- B. Residual value is covered by the depreciation method (e.g., declining balance)
- C. Other or more than one method

11. Capitalizing or Expensing Specific Costs. Indicate the practices for capitalization and expensing of the following costs (if the cost is sometimes expensed and sometimes capitalized, mark both lines and describe the circumstances when each method is used):

<i>Cost</i>	<i>Expensed</i>		<i>Capitalized</i>	
Freight-in	<input type="checkbox"/>		<input type="checkbox"/>	
Sales taxes	<input type="checkbox"/>		<input type="checkbox"/>	
Excise taxes	<input type="checkbox"/>		<input type="checkbox"/>	
Architect-engineer fees	<input type="checkbox"/>		<input type="checkbox"/>	
Overhauls (extraordinary repairs)	<input type="checkbox"/>		<input type="checkbox"/>	

12. Fully depreciated assets. Is a usage charge for fully depreciated assets charged to United States Federal Government Contracts?

- A. Yes (describe the computation/basis of the usage charge)
 B. No

13. Treatment of gains and losses on disposition of assets. Gains and losses are:

- A Credited or charged currently to the same overhead or G&A pools to which the depreciation of the assets was charged.
 B Taken into consideration in the depreciation cost basis of the new items, where trade-in is involved.
 C Not accounted for separately, but reflected in the depreciation reserve account.
 D Other (describe) | |

14. Group or mass purchases. Are group or mass purchases (original complement) of low cost equipment, which individually are less than the capitalization amount indicated in Item 10 capitalized? (Mark one. If “Yes” is marked, provide the minimum aggregate dollar amount capitalized).

- A. Yes | | -Minimum aggregate dollar amount capitalized
 B. No | |

15. Holiday Pay. Indicate the method used to charge holiday pay (e.g., charged when accrued, charged when taken, other) and to credit any unused holiday pay (e.g. credit to accounts originally charged at least once annually, credit to an indirect cost pool at least once annually, carry over to future cost accounting periods, other).

| |

16. Sick Pay. Indicate the method used to charge sick pay (e.g., charged when accrued, charged when taken, other) and to credit any unused sick pay (e.g. credit to accounts originally charged at least once annually, credit to an indirect cost pool at least once annually, carry over to future cost accounting periods, other).

| |

17. Supplemental Unemployment (Extended Layoff) Benefit Plans. Indicate how the costs of such plans are charged to United States Federal Government contracts (e.g., when actual payments are made directly to employees, when accrued, when contributions are made to a nonforfeitable trust fund, other)..

| |

18. Severance pay and early retirement. Indicate how costs of normal turnover severance pay and early retirement incentive plans are charged United States Federal Government contracts (e.g., when actual payments are made, accrued amounts on the basis of past experience, other).

| |

19. Defined Contribution Pension Plans For those defined contribution plans that represent the largest dollar amount of costs charged to United States Federal Government contracts, describe the basis for the contribution (including the treatment of dividends, credits, and forfeitures) required for each fiscal year (if there are not more than three plans, provide information for all the plans. If there are more than three plans, information should be provided for those plans that in the aggregate account for at least 80% of those defined-contribution plan costs allocable to this segment).

| |

20. Defined Benefit Pension Plans. For those defined benefit plans that represent the largest dollar amount of costs charged to United States Federal Government contracts, identify the following:

A. Actuarial Cost Method . Identify the actuarial cost method used, including the cost method used to value ancillary benefits. Include the method used to determine the actuarial value of assets. In addition, if optional under the actuarial cost method, indicate whether normal cost (service cost) is developed as a level dollar amount or as a level percent of salary. Or, if actuarial practice permits optional methods for attributing the normal cost to accounting periods, indicate which attribution method is employed.

| |

B. Actuarial Assumptions. Describe the events or conditions (e.g., retirement, mortality, termination of employment, election of lump sum settlement, percentage of participants with spouses) for which significant actuarial assumptions are made for each plan. Do not include the current numeric value of the assumptions, but provide a description of the basis used for determining these numeric values, (e.g., company experience, industry experience, standard or mandated rates, economic indices, etc.). Also, describe the criteria used to evaluate the validity of an actuarial assumption (e.g., regularly scheduled reviews of experience, specific events, specific level of deviation from expected trends, etc.).

| |

C. Market Value of Funding Agency Assets. Indicate if all assets of the funding agency are valued on the basis of a readily determinable market price. If yes, indicate the basis for the market value. If no, describe how the market values are determined for those assets that do not have a readily determinable market price.

| |

21. Allocation of Pension Costs. For each pension plan, indicate whether the cost for the segment is determined for the plan as a whole and indirectly allocated to segments (if so, identify the allocation basis) or directly allocated to the segment based on a separately computed pension cost for one or more segments (if so, identify the segments).

| |

22.. Employee Group Insurance Programs: For the three largest employee group insurance programs (based on costs incurred), provide the method of cost accumulation (accumulated at home office, accumulated at the segment, or other), the cost basis (purchased insurance from unrelated third party, purchased insurance from captive insurer, or other), and the purchased insurance rating (retrospective rated, manually rated, community rated, or other)

| |

23. Workers' Compensation (Employee Liability) Insurance Programs. For the three largest worker's compensation insurance programs (based on costs incurred), provide the method of cost accumulation (accumulated at home office, accumulated at the segment, or other), the cost basis (purchased insurance from unrelated third party, purchased insurance from captive insurer, or other), and the method of crediting dividends and earned refunds (credited in the year earned, credited in the year received. other)

| |

24. Property Insurance Programs. For the three largest property insurance programs (based on costs incurred), provide the method of cost accumulation (accumulated at home office, accumulated at the segment, or other), the cost basis (purchased insurance from unrelated third party, purchased insurance from captive insurer, or other), and the method of crediting dividends and earned refunds (credited in the year earned, credited in the year received. other)

| |

25. All Other Liability Insurance. For the three largest other liability insurance programs (based on costs incurred), provide the method of cost accumulation (accumulated at home office, accumulated at the segment, or other), the cost basis (purchased insurance from unrelated third party, purchased insurance from captive insurer, or other), and the method of crediting dividends and earned refunds (credited in the year earned, credited in the year received. other)

| |

26. Home Office Expenses. The following must be completed for each home office of the company (including home office type operations of subsidiaries, joint ventures, partnerships, etc.) when (1) the home office is responsible for administering two or more segments, (2) the home office allocates costs to such segments, and (3) at least one of the segments to which the home office allocates costs is required to complete Items 1 through 21 of the Supplemental QMAC:

Name of home office | |

Segments and intermediate home offices reporting to the home office:

<u><i>Name of Segment</i></u>	<u><i>CAS-Covered Sales*</i></u>	<u><i>CAS-Covered Sales* as a Percentage of Total Sales</i></u>

**CAS-covered sales represent sales for those contracts that contain the clause at 48 CFR 9903.201-4.*

Method of Allocating Costs to Segments:

Directly Allocated Expenses. List all the expenses that are directly allocated. These are expenses that are charged to specific corporate segments or other intermediate level home offices based on a specific identification of costs incurred.

|

CONTINUATION SHEET

SUMMARY OF SECTIONS

SECTION (S)	TITLE	PAGE NO
	GENERAL ADVICE AND INSTRUCTIONS	1
S1	GENERAL INFORMATION	2
S2	UNALLOWABLE COSTS	
S3	ASSIGNMENT OF DIRECT MATERIAL COSTS	3
S4	TRAVEL EXPENSES	
S5	CREDITS AND TRANSFERS	
S6	INCENTIVE AND DEFERRED BONUS PLANS (Other than Pensions)	
S7	TRAINING COSTS	4
S8	CONTRACT AND SUBCONTRACT ADMINISTRATION	
S9	START-UP AND PREPRODUCTION COSTS	
S10	TANGIBLE CAPITAL ASSETS	5
S11	CAPITALIZING OR EXPENSING SPECIFIC COSTS	6
S12	FULLY DEPRECIATED ASSETS	
S13	TREATMENT OF GAINS AND LOSSES ON DISPOSITION OF ASSETS	
S14	GROUP OR MASS PURCHASES	
S15	HOLIDAY PAY	7
S16	SICK PAY	
S17	SUPPLEMENTAL UNEMPLOYMENT (Extended Layoff) BENEFIT PLANS	
S18	SEVERANCE PAY AND EARL RETIREMENT	
S19	DEFINED CONTRIBUTION PENSION PLANS	8
S20	DEFINED BENEFIT PENSION PLANS	8 - 9
S21	ALLOCATION OF PENSION COSTS	9
S22	EMPLOYEE GROUP INSURANCE PROGRAMS	
S23	WORKERS' COMPENSATION(Employee Liability) INSURANCE PROGRAMS	10
S24	PROPERTY INSURANCE PROGRAMS	
S25	ALL OTHER LIABILTY INSURANCE	
S26	HOME OFFICE EXPENSES	11 - 12
	CONTINUATION SHEET	

QUESTIONNAIRE ON THE METHOD AND ALLOCACATION OF COST (QMAC) GUIDANCE NOTES

The layout and content of the QMAC, together with these guidance notes, has been agreed between the MOD and the Joint Review Board Advisory Committee (on behalf of Industry).

The QMAC document is intended to support each contractor in the effective disclosure by it of its cost accounting methodologies used in the recording and reporting of its costs. This then forms the basis of an understanding of the treatment of a contractor's costs for all parties involved in the pricing of non-competitive MOD contracts. The QMAC document is not intended to be exhaustive and any further information which is relevant to pricing or reporting of MOD non-competitive contracts priced in accordance with the Government Profit Formula (GPF) and Associated Arrangements (GPFAA) should be included as an annex to the QMAC document. The QMAC is a key component of Equality of Information requirements for the agreement of overhead rates and contract prices with MOD.

The QMAC structure and layout is designed to enable a contractor to show MOD its cost accounting practices and how these are incorporated into the contractor's business operating system, procedures, processes, controls and documentation. Reference should be made to the relevant sections of the contractor's procedure manual(s) and those procedures should either be accessible to MOD and incorporated by reference or repeated in full in appendices.

The guidance is set out for each Schedule of the QMAC and the references refer to those sections included within the QMAC document. Only those references that are thought to benefit from clarification of the disclosure requirement are included in these guidance notes.

Sample statements are set out in **yellow** below. Each sample statement is stand alone and therefore has not been developed to describe any actual integrated business.

SCHEDULE 1 - GENERAL INFORMATION

1.2. This question addresses the cost accounting methodology used by the business in the production of its management and internal financial accounts and requires that the inventory valuation method used for each area of the business or activity type is disclosed. It is recognised that many companies employ standard costs for some business activity and actual costs for others e.g. standard costs may be used for own-manufacture sub-assemblies passing through stores, but actual costs may be used for the final assembly process. For own-manufacture sub-assemblies, 'actual costs' should only be checked where labour hours, materials, sub-contract costs and expenses are all allocated at actual and this value is used for recording input to and output from stores. The cost accounting system used in the production of its management and internal financial accounts is required to provide the financial record from which the company is able to report to MOD the actual cost incurred evaluated at MOD non-competitive fully absorbed rates; where this is impracticable the basis for ascribing a value to enable reporting of contract or job/unit costs to MOD should be disclosed e.g. where valuation of own-manufacture sub-assemblies passing through stores is not segregated by cost element.

For Numerically Controlled (NC) Machine Shop all output is evaluated at standard cost at budgeted rates used for financial and internal accounting/recording. All other cost recovery pools are evaluated using actual hours (and materials) at budgeted rates used for financial and internal accounting/recording. Records of variances and under/over recovery of overheads are maintained. Direct expenses incurred in the performance of a contract are allocated at actual cost. An elemental cost breakdown is maintained whereby hours, materials, parts and direct expenses can be evaluated at rates agreed with MOD CAAS for estimating, and reporting of contracts priced in accordance with the Government Profit Formula and its Associated Arrangements. The restatement of contract costs from rates used for financial and internal accounting/recording to MOD CAAS agreed rates and structure will use, where needed, the SAP cost certification process as agreed with MOD CAAS and set out in Annex 1

1.3. An important aspect of pricing and reporting on non-competitive MOD contracts is the ability for each contractor to be able to report actual cost incurred, at MOD rates, in support of —

- (1) equality of information obligations;
- (2) a requirement to provide access to cost information for 'post costing'; and
- (3) negotiating a contract price based on actual costs.

These reports can either be taken directly from the financial records or, where appropriate, be derived from them. For companies that have multi-layered manufacturing processes or utilise standard cost techniques, the development of reports will require variances to be apportioned and may require cost elements of sub-assemblies to be derived through use of agreed algorithms. Where the reporting requires the use of algorithms or routines that apportion or approximate costs this process should be agreed with MOD as part of the cost accounting arrangements adopted by the company to support reporting of actual costs incurred. These agreements should be documented and recorded within the QMAC as approved methodologies to be applied consistently.

The SAP and excel process agreed with MOD CAAS for the computation of incurred or derived contract/unit costs during and on completion of a contract is set out in Annex 1.

1.4. For this purpose “Fully Integrated” means that the transaction updating the financial ledger (as used for statutory reporting) simultaneously updates the cost accounting record. This will almost certainly be the case for most modern Enterprise Resource Planning systems where, for example, a receipt of goods recorded within the material management system will not only record the logistic transaction but also cause a payable/accrual to be created within the financial system and a cost allocation within the project cost control system. A requirement to reconcile subsidiary and financial ledgers is not an indicator of less than full integration of the cost accounting and financial systems. It is expected that financial values held in subsidiary ledgers are reconciled to control accounts held within the financial ledger. The financial system should be taken to mean those nominal/general ledger accounts that are used to establish statutory financial accounts, including the statement of financial position and income statement for issue to shareholders.

1.5. For those costs incurred in other than the contractor’s functional currency, this section should set out in sufficient detail the cost and financial accounting arrangements where those costs are established into the business’s functional currency. It should also describe the method by which various translations, transactions and cash flow hedges establish —

- (1) direct costs
- (2) indirect costs included within MOD pricing and reporting rates, and
- (3) those indirect costs which are excluded as interest or financing, or both.

For direct costs, these should be segregated between those costs which are directly allocated to an end cost object and those costs which are apportioned between end cost objects e.g. on a basis similar to that adopted for variances within a standard costing system.

The treatment of items (both those that are subject to an effective cash flow hedge and those that are not) are set in Annex 2. The Annex also sets out the treatment of transactions that arise as a consequence of any Ineffective Cash Flow Hedges. All accounting transactions are in accordance with the relevant IASB requirements as set out in applicable IFRS and IAS.

Fair value adjustments to financial instruments and cash flow arising from financial instruments are treated as financing costs. Differences on exchange arising as a consequence of change in exchange rates between those used at initial recognition and payment are treated as a manufacturing variance and allocated to contracts in accordance with the SAP and excel process agreed with MOD CAAS for the computation of incurred or derived contract/unit costs during and on completion of a contract as set out in Annex 1.

1.7. As noted in the GPFAA, the IASB requires that the acquisition cost of inventory excludes the cost or benefit of extended payment terms and that the transaction value is aggregated between the finance and non-financing element. If this adjustment occurs then the methodology should set out the threshold for that adjustment and the basis of computation.

The company has adopted IFRS and therefore makes such adjustments as are necessary to segregate any significant financing element of the acquisition price agreed with the supplier. A threshold of £50k is applied to the accretion or discount of such interest imputed. The adjustment would be calculated in accordance with the provisions of IAS 23 and the value of imputed interest would be established at the marginal cost of borrowing.

SCHEDULE 2 - RECOVERY OF INDIRECT COST RATES

2 For those companies that do not separate the cost of Direct Labour from their business Overhead rates then the Overhead rates set out in Schedule 2 fully incorporate the cost of all labour and the denominator used to establish overhead rates will typically include reference to hours consumed by Direct Labour in the performance of contracted work and other similar end cost objects – this is typically referred to as ‘direct hours’. Where Direct Labour is treated as a direct cost then the denominator used to establish overhead rates will typically include reference to the cost of that Direct Labour. Note: only where Direct Labour is treated as a direct cost should Schedule 3 be completed.

2.1 This should be a simple listing of the overhead rates used in the valuation of inventory for the production of a company’s management accounts and the basis for development of the company’s financial accounts. For ‘Allocation base’ show the denominator for each Cost Recovery Pool used within the business internal accounting system. For many companies the rate structure used for internal accounting will differ from that used for MOD GPFAA contract estimating and reporting and ‘Section 2.2 Cost Recovery Pool’ is there to show the mapping of Cost Recovery Pool between 2.2 and 2.1.

Cost Recovery pool name	Allocation base	Section 2 Cost Recovery pool
Design Engineering	Productive Hours	Technical Labour
Development Engineering	Productive Hours	Technical Labour
Systems Engineering	Productive Hours	Programme Management
Programme Management	Productive Hours	Programme Management
NC Machine Shop	NC Machine run Hours	NC Machine run Hours
Fabrication Shop	Productive Hours	Blue Collar Labour
Harness Shop	Productive Hours	Blue Collar Labour
Composites Shop	Productive Hours	Blue Collar Labour
Material Handling	Direct materials and parts	Material Handling
System Configuration test rig	Hours in rig on test	Test Rig Hours

2.2. This sets out those rates used for the pricing and reporting on MOD GPF contracts. Specifically these rates will include period expenses excluded from 2.1 above and should also include recovery rates applicable to product development. It is expected that each of these rates will appear on each rate promulgation letter issued by MoD CAAS.

Cost Recovery pool name	Allocation Base	Supporting schedule reference in Section 2.3 below (allocation base)
Technical Labour	Productive Technical Hours	2.3.1.1
Programme Management	Productive PM Hours	2.3.1.1
Blue Collar Labour	Productive Blue Collar Hours	2.3.1.1
NC machine Hours	NC machine run hours	2.3.2.1
Automatic Test Rig Hours	Hours in Rig on test	2.3.2.1
Material Handling	Direct materials and parts	2.3.3
Product X PV	Units per investment case	2.3.3
Product Y PV	Units per investment case	2.3.3

2.2.1 It is expected that the rate pack used for estimating and agreeing prices is consistent with that used for reporting of actual costs incurred. In the event that the contractor and authority have agreed differences they should be recorded here. Any differences should not include cost estimating relationships established to provide a simplified basis of estimating as these are not rates, but are an aid to estimating costs; nor should they include a contract specific special arrangement where the cost accounting methods described elsewhere in the QMAC are not considered appropriate and adjustments are agreed. These should be recorded within the Equality of Information Pricing Statement and appropriate adjustments included within labour and overhead rates to account for the differences.

2.3.1. This section deals with those rates which use direct labour hours as the rate denominator. Rates with other denominators are addressed in sections 2.3.2 and 2.3.3.

2.3.1.1. This is a key element of the disclosure for rates where direct labour hours are used as the rate denominator. The criteria used to determine which labour resource types or groups are treated as direct (either for determination of a Direct Labour cost rate denominator or a Direct Labour hours rate denominator – see 2.1 above) needs to be effectively communicated to the MOD. The criteria need to be set out so that it is clear to MOD CAAS and the contractor organisation where a person (cost or time as is appropriate to that rate pool – see 2.1 above) should be allocated as a direct or indirect; Schedule 2a sets out the specifics of the classification of personnel. Like people performing like tasks in similar circumstances should be allocated in the same way. The approach therefore could be to describe those like circumstances and those like people and the skills they employ in their day to day activity. The list of trades as either performed by direct or indirect personnel is disclosed in Schedule 2a. Company operating system documentation used to record controls and the business process should be referred to when available.

The Human Recourse (HR) Function is responsible for the correct allocation, and subsequent maintenance, of all employees and on site sub-contractors as either Direct or Indirect. Like persons performing like tasks are subject to a consistent classification as either Direct or Indirect.

On site sub-contractors working under the day to day management of company employees are treated as an extension of the employed workforce and the classification of all such staff is consistent with that of employees.

Where sub-contractors are engaged for a skill type of a type not generally employed the sub-contractor will be classified as a consultant, the hours excluded from rate denominator and the cost allocated as a direct contract charge or overhead as appropriate.

Sub-contractors located off site and operating under the day to day management of their employing company are treated as a direct cost and the hours excluded from rate denominators.

Staff seconded to other group companies and under day to day management of that company's employees are allocated as indirect and their full cost of employment is recharged.

Staff seconded to the company from other group companies and who work under day to day management of company employees are allocated as direct or indirect as if employed staff.

Each white collar employee/sub-contractor designated as direct by the HR function is assigned to an activity type and it is the activity type that determines the hourly rate that is used to evaluate the 'productive' hours worked. A listing of activity types e.g. b3b is available from Finance on request.

Each blue collar employee/sub-contractor designated as direct (direct blue collar) by the HR function is assigned to a work centre and it is the work centre that determines the hourly rate that is used to evaluate the 'productive' hours worked. A listing of blue collar work centres; is available from Finance on request.

Each employee/sub-contractor designated as indirect by the HR function is not assigned to an activity type or assigned to a blue collar work centre. Hours are not evaluated.

HR allocates 'like persons performing like tasks' as direct or indirect on a consistent basis. Where the time consumed in performance of contract statement of work or other similar end cost objective (e.g. bidding and proposals) then HR will make all such personnel direct.

Only where 'like persons performing like tasks' are not able to allocate sufficient of their time to the performance of a contract or other similar end cost objective will the all such persons be treated as indirect.

Where more than 25% of the time worked by such individuals can be so allocated the employees performing that role in that area of the business will be designated direct. HR regularly reviews percentages of time allocated to ensure that where viable and consistent the allocation of employees to direct is maximised.

Time not allocated to contract or other similar end cost objects is not evaluated (the hours are excluded from the rate denominator) and largely comprise that time taken by direct personnel performing productive administrative tasks.

Each employee/sub-contractor is allocated; a personnel number and a job title. His HR record records these together with the functional area, cost centre, work centre and employee sub-group to which he is assigned.

If his employment conditions are subject to a procedural collective bargaining then his (PC) grade is shown; if his pay is not subject to a procedural agreement (NPC) then his NPC grade is shown.

Employee Sub-Group is also recorded on the HR database.

A list of functional areas e.g. Audit, Administration Finance and control; is available from finance on request.

A list of cost centres and work centres e.g. Manufacturing Planning and Control; is available from Finance on request.

Employee Sub-Groups e.g. Blue collar, White collar, Manager; are available from HR through Finance on request.

NPC employee pay and benefit grades and descriptions e.g. A, B, C are available from HR through Finance on request.

PC employee pay and benefit grades e.g. 1A, 2B are available from HR through Finance on request.

2.3.1.2. Specific consideration may need to be given to travel time, home working, uncompensated overtime, minimum call out time, and unpaid absence.

All direct 'Blue Collar' staff record their time allocation to tasks and their attendance time on the SAP 'Time and Attendance' system.
All Direct 'White Collar' staff record their time allocation to tasks on the SAP Cross Application Time Sheet System (CATS).
All staff, other than Vice Presidents and Senior Directors record their attendance time and this is system matched to the time allocation record for all 'direct' personnel.
Uncompensated overtime is included within the rate denominator for directs.
Compensated travel time and travel time eligible for flexible working hours is recorded and included in the rate denominators.
Unpaid absence is recorded and excluded from the rate denominator.
Where minimum call out times are payable the actual hours attended are recorded and any excess is excluded from rate denominators.

2.3.1.3. This should include communication of task order numbers and verification and correction of time records.

For blue collar staff a SAP bar code work sheet is issued with the job. A "clock on – clock on" recording system is utilised. Shop floor management are responsible for verification of time attended and time allocation records. Changes to time records are required to follow the procedure set out in Corp Doc 47g95 (copy available from finance on request).
For white collar workers a SAP task order is issued that shows the SOW to be performed, the schedule required and the cost collection number to be recorded on the CATS timesheet. Changes to time records are required to follow the procedure set out in Corp Doc 47g95 (copy available from finance on request).

2.3.1.4 This aspect deals with performance of overhead or indirect tasks and the contractor should set out which activities are excluded from the rate denominator.

Interruptions of less than 15 minutes are not separately recorded.
A full listing of diversion codes and descriptions for Blue Collar
• *Show the list*
A full listing of diversion codes and descriptions for white collar
• *Show the list*

2.3.1.5. Examples may include research, bids and proposals.

All are as set out in Schedule 2b.

2.3.1.6. Include details of minimum times or periods. State if no such adjustment is made or if restricted to certain labour groups.

No adjustment or record is made or maintained.

2.3.1.7. Where work is carried out in a different cost recovery pool, are labour hours evaluated at the rate where the work was performed or at the rate of the labour performing the work?

Costs are evaluated at the rate of the person performing the work.

2.3.1.8. Consider if any labour hours are evaluated exclusive of period expense overhead, e.g. is the cost of product development or research evaluated at the financial costing rates or is it converted to the outturn or forecast MOD rate consistent with that used for pricing and reporting of contract costs?

2.3.2 Consider facility utilisation rates. These should comprise tangible facilities only. Intangible e.g. Product Development recovery rates, should be included within section 2.3.3.

2.3.2.1. Describe the equipment boundaries of the facility and the hours for which equipment is included within the facility base.

All NC Machines in the NC Machine Shop use a facility hour rate. Work on non NC machines within this facility is not recorded e.g. deburring and pillar drills. All time used, including clean, convert, set, run and production of test pieces is allocated to the job in hand.

2.3.2.2 Describe the controls in place to record the hours utilised and process used to apportion between jobs where multiple batches are processed in the same run.

Available hours comprise hours that the facility is available for use and exclude: facility repair time due to breakdown, planned maintenance and calibration, idle capacity and factory close. All other time is allocated to jobs on a “clock on to clock on” basis of time recording. Machine cleaning and or conversions are charged to the job that requires the use of the equipment in the revised state. Where multiple jobs are performed then back flushing of hours based upon planned times are used to allocate the actual hours across the jobs.

2.3.2.3. Consider examples such as set, load, test, idle time, or calibration.

2.3.3. Define each rate denominator, e.g. Materials comprise, Product Y PV

Other Denominators	Criteria and Controls
Commodities (raw materials) and purchased parts/components	Acquisition cost of direct commodities (supplied to a material specification) and parts/components (supplied to the manufacturer’s specification).
Engines	Acquisition cost of aircraft engines

Product Sygnut PV

Original Business case volume of sales

2.4 Set out any rates utilised that have not been detailed in sections 2.1 through 2.3 above.

2.4.2 If not already addressed in section 2.3 set out any different rates that would apply to 'outside work'. Include any minimum period for which the rate would be applicable. If already fully addressed in Section 2.3 there is no requirement to repeat the disclosure.

2.a This section looks at the consequences of the categorisation of labour set out in 2.3 above.

Job roles should be generic and address the primary skill of the employee/sub-contractor and need the job title unless this improves clarity. The list is not expected to be complete, not to be maintained as current; it is expected to convey the consequences of the criteria consistently employed by the company in the classification of personnel.

Management Area	Job Role	D or X	Rate Pool (s)	Remarks
Engineering	Administration & Management	X	Technical	
Engineering	Engineer Aerodynamics	D	Technical	
Engineering	Engineer Aircraft Performance	D	Technical	
Engineering	Engineer Airframe Systems	D	Technical	
Engineering	Engineer Avionic Systems	D	Technical	
Engineering	Engineer Design Airframe	D	Technical	
Engineering	Engineer Diagnostic Systems	D	Technical	
Engineering	Engineer Electrical Design	D	Technical	
Engineering	Engineer Electrical Systems	D	Technical	
Engineering	Engineer Weights	D	Technical	
Engineering	Engineer Environmental Control	D	Technical	
Engineering	Engineer Stress	D	Technical	
Engineering	Engineer Flight Mechanics	D	Technical	
Engineering	Engineer Flight Test	D	Technical	
Engineering	Engineer Fuel Systems	D	Technical	

2.b. This section looks at hours that are evaluated labour base hours but included in overheads

Evaluated Overheads (complete where applicable)	Identify the Rate Pool Denominator(s) affected	Is the overhead cost included in the same rate pool?	If different rate pool(s) state which.
Experimental Research/Development	Technical	No	GS&A
Work in aid of Production	Technical	No	Production
Jigs, Tools and Pattern Designs	Technical, production	No Technical	Production
Project / Project Support	NA		
Preparation of Technical Publications	NA		
Work in aid of Installation	NA		
Services to other Departments	Technical, production, Programme management	Yes	
Bids and Proposals	Technical, production, Programme management	No	GS&A
Direct Selling & Marketing Effort	Technical, production, Programme management	No	GS&A
Advertising & Publicity	NA		
Other(s)	NA		

If Bid and Proposal costs are allocated to contract state the basis, if not state the basis of charge to overhead **Bid and proposal costs are treated as an overhead and allocated to GS&A as incurred**

SCHEDULE 3 - DIRECT LABOUR COST

3.1. Set out the calculation of the rate used for actual cost allocation and recording. This rate may relate to the wages of an individual for an accounting period divided by the hours paid for them. In this circumstance, the recorded costs for 1 hour will be different for each individual and will alter upon implementation of any pay award. In this case, the estimating methodology set out may refer to the average salaries of a group of personnel and the estimate may refer to the average hourly rate for each type of direct worker for an accounting period or a quarter. In this section you should set out the arithmetic used for cost recording and cost reporting, and the arithmetic used for the estimating of these costs. It is recognised that the estimating methodology may utilise a cost estimating relationship where the business avoids the need to develop estimates of the actual employee expected to perform the work: 'the who', as well as the 'how long', in order to derive a product cost estimate.

3.2. You are reminded that this section only relates to those companies where direct labour is treated as a direct cost. For those companies where Direct Labour hours is used to establish the denominator for calculation of overhead recovery rates Schedule 3 is not applicable and should remain blank.

Schedule 4a Consumable Items

This section requires the contractor to set out its treatment of consumable items. Particular, but not exclusive, attention should be given to:

- Personal Safety Equipment including that necessary to work in hazardous conditions or locations
- Welding rods
- Fasteners
- Oils and fuels
- Detergents and solvents
- Small tools.

The listing provided is not expected to be complete or fully up to date but it should be sufficient to enable any additional items to be consistently assigned by analogy to those scheduled.

Schedule 4b Production Processes and Services

These sections are considered self explanatory. Assistance will be provided by MOD CAAS Cost Engineering on Request.

List others as required and take care to include any that would for a typical industrial company be expected to be treated as indirect e.g. Electricity, Water, Computer facilities.

Schedule 5 Direct Material Cost

5. The term 'Direct material' throughout section 5 is taken to include not only purchased materials and parts, but also own production sub-assemblies and parts passing through a store. Such cost therefore incorporates direct labour and overhead cost incurred in the manufacture and acquisition of these items.

5.1 If valuation methodology differs by store then clearly show the basis for each store type and the criteria used to determine which store is utilised for a transaction.

5.1.1 This is for non-contract specific stores, sometimes referred to as co-mingled inventory and sometime referred to as fungible inventory. The inventory in such stores is available for multi contract use.

5.2 This is for contract specific stores or acquisitions not passing through a store account.

Schedule 6 Basis of allocating costs as direct charge or overhead charge

6.1 Like costs incurred for similar purposes are required to be treated consistently as either direct or indirect. Therefore there may be cost types (costs of a similar nature) that are treated as direct or indirect dependent upon circumstances or the purpose for which they are incurred e.g. travel, accommodation; set out for each the criteria used to determine when it is treated as direct. Where the contractor's chart of account is wholly on the basis of cost by type (origin) of expenditure those account codes that are allocated to both direct and indirect should be listed and the criteria for allocation described.

Where a contractor's chart of accounts includes codes which are based upon the destination (e.g. direct expenses) then the cost types that are allocated to that code need to be set out and where such cost types are also sometimes overhead then the criteria for the allocation should be described.

Account code(s)	Cost type description	Criteria for when direct
47a52	Travel	Direct employees on performance of a contract SOW or costed private venture activity
52f67	Tooling	Special tooling required for the performance of a contract. See section 7
44j69	Printing	Technical publication manuals as part of a contract deliverable

6.4 Where the company has capability to perform a task that is treated as direct but is offloading for capacity or other business reasons how are the acquisition costs treated.

Schedule 7 Treatment of specific cost elements or transactions

7.1 The term 'Special' should be taken to include costs arising under DEFCON 23 and costs for similar goods and services acquired for the performance of similar contracts.

7.5 It is expected that the any allocation of costs for hired plant as direct to contract will follow the same criteria as acquired through finance leases or outright purchase. You should state if the criteria is different and the areas where such difference occurs.

Schedule 8 Capitalisation practices

This Schedule is considered as self explanatory.

Schedule 9 Inter Group, Inter Unit and Corporate Recharges

This Schedule is considered as self explanatory.

Schedule 10 Supplemental QMAC

This Schedule is optional for the contractor and includes additional information required by the US Cost Accounting Standards Board in lieu of filing a Form No. CASB-DS-1, as permitted by the provisions at 48 CFR 9903.202-1.

Guidance notes, as prepared by the US, are included within the document.