

**Annex 10.2: Determination of Fixed Capital Employed Applicable to a Contract
(2004-05-14)**

Contracts of \$250,000 and more

Line No.	Details	A	B	C	D	E	F	TOTAL
1.	Amounts for depreciation.							
2.	Net Book Value of Fixed Assets as at beginning of fiscal year. \$							
3.	Re-allocation of cost centres to other cost centres as required by the entrepreneur's cost accounting system. \$							
4.	Adjusted Net Book Value of Fixed Assets by cost centres. \$							
5.	Bases used for recovery of overhead.							
6.	Total amount of each overhead recovery base for the fiscal year.							
7.	Amount of each overhead recovery base allocated to this contract.							
8.	Percentage of Line 7 to Line 6. %							
9.	Net Book Value of Fixed Assets applicable to the contract. Line 8 by Line 4. \$							

Notes:

- Line 1 Amounts for depreciation taken from the contractor's overhead budget in total or by cost centre as agreed during negotiations.
- Line 2 Total amount of the Net Book Value of Fixed Assets (excluding land, and any intangible assets) as found in the contractor's balance sheet as at the end of the fiscal year previous to that being negotiated. If this balance sheet is not available at the time of negotiations, the amount may be estimated. Subsequently, the amount is allocated to cost centres either in accordance with the contractor's records or, if not recorded, in accordance with the depreciation amounts at Line 1 (allocation required only in the event that depreciation by cost centre was agreed during negotiations).
- Line 3 The necessary re-allocation of the amounts at Line 2 if required by the contractor's cost accounting system.
- Line 4 The amounts for Net Book Value of Fixed Assets at Line 2 as adjusted by Line 3.
- Line 5 The base for recovery of overhead costs in total or for each cost centre as per the contractor's cost accounting system.
- Line 6 The total amount of each overhead recovery base included in the contractor's budget for the fiscal year as agreed during negotiation.
- Line 7 The amount for each overhead recovery base allocated to the particular contract as agreed during negotiations.

Line 8 The percentage of Line 7 to Line 8.

Line 9 The amounts determined by applying the percentages at Line 8 to the amount for the Net Book Value of Fixed Assets at Line 4. The total amount on this line is the equivalent of the Fixed Capital Employed Applicable to the contract in the particular fiscal year.

If the contract period extends over more than one of the contractor's fiscal years, the calculation will have to be made for each fiscal year involved, and the sum of the Fixed Capital Employed Applicable to the contract determined for each fiscal year will be the equivalent of the Total Fixed Capital Employed Applicable to the particular contract.

If a contractor does not accumulate overhead by cost centre, the above calculation should be done in total only.

Two examples of the calculation could be found in [Annex 10.4](#).

Annex 10.2.1: Determination of Working Capital Employed Applicable to a Contract

Contracts of \$250,000 and more

Examples of Calculation

Example 1 - Assumptions:

1. The contract period is 12 months.
2. Total contract costs are \$1,313,190 of which \$26,500 is for depreciation.
3. Costs incurred are on an even basis month by month.
4. Progress payments at 85% are paid monthly.
5. The time between forwarding the invoice and receipt of payment is 1 month.

Month	Allowable Contract Cost excluding Depreciation \$	Contract Revenue Less Profit \$	Monthly Working Capital Employed \$	Cumulative Monthly Working Capital Employed \$
1	107,224	--	107,224	107,224
2	107,224	--	107,224	214,448
3	107,224	93,017	14,207	228,655
4	107,224	93,018	14,206	242,861
5	107,224	93,017	14,207	257,068
6	107,224	93,018	14,206	271,274
7	107,224	93,017	14,207	285,481
8	107,224	93,018	14,206	299,687
9	107,224	93,017	14,207	313,894
10	107,224	93,018	14,206	328,100
11	107,224	93,017	14,207	342,307
12	107,206	93,018	14,208	356,515
13	--	93,017	(93,017)	263,498
14	--	289,998	(289,998)	(26,500)
	1,286,690	1,313,190	(26,500)	3,484,512

Working Capital Employed Applicable to the Contract for profit purposes =	<u>\$3,484,512</u> 12 \$290,376
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Example 2 - Assumptions:

1. Contract period is 18 months.
2. Contract is for the design, manufacture and supply of 24 widgets at a cost per widget of \$40,000 for total costs of \$960,000.
3. The total costs include an amount of \$84,000 for depreciation.
4. Costs are incurred on a month by month basis as shown in the attached schedule.
5. Invoices are made on delivery and the delivery schedule is as follows:

1 widget in each of the 8th, 9th and 10th months. 2 widgets in each of the 11th and 12th months. 3 widgets in each of the 13th through 17th months inclusive. 2 widgets in the 18th month.
6. The time between forwarding the invoice and receipt of payment is 1 month.

Month	Allowable Contract Cost excluding Depreciation \$	Contract Revenue Less Profit \$	Monthly Working Capital Employed \$	Cumulative Monthly Working Capital Employed \$
1	24,000	--	24,000	24,000
2	24,000	--	24,000	48,000
3	30,000	--	30,000	78,000
4	30,000	--	30,000	108,000
5	40,000	--	40,000	148,000
6	40,000	--	40,000	188,000
7	60,000	--	60,000	248,000
8	60,000	--	60,000	308,000
9	60,000	40,000	20,000	328,000
10	60,000	40,000	20,000	348,000
11	70,000	40,000	30,000	378,000
12	70,000	80,000	(10,000)	368,000
13	60,000	80,000	(20,000)	348,000
14	60,000	120,000	(60,000)	288,000
15	60,000	120,000	(60,000)	228,000
16	50,000	120,000	(70,000)	158,000
17	40,000	120,000	(80,000)	78,000
18	38,000	120,000	(82,000)	(4,000)
19	--	80,000	(80,000)	(84,000)
	876,000	960,000	(84,000)	3,584,000

Working Capital Employed Applicable to the Contract for profit purposes =	<u>\$3,584,000</u> 12 \$298,667
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