SMALL BUSINESS

Charge out rate calculation

1 How much do you need to earn?

Desired income	£ 0
Total cost of labour	£ 0
Total annual overheads	£ 0
Total	**£ 0**

2 Figure out your working hours per year

Number of employees	1
Working days per week (per employee)	5
Productive working hours per day (per employee)	8
Total	**2,080**

3 Calculate any non-chargeable days

Statutory holidays (per employee)	10
Annual leave (per employee)	10
Other (per employee)	3
Total per employee	**23**

Total working hours available per annum **1,896**

4 Other non-chargeable hours per week

Quoting for work (in total)	1.0
Administrative paperwork (in total)	5.0
Other (in total)	0.0
Total	**6.0**

5 Result

Total chargeable hours each year	**1,584**
Charge out rate for direct labour	**£ 0.00**

Note. This is a guide only and should neither replace competent advice, nor be taken or relied upon as financial or professional advice. Seek professional advice before making any decision that could affect your business.

SMALL BUSINESS

How to use your charge out rate template

Your **Charge Out Rate Template** helps you work out how much your business should charge customers, in order to cover your costs and reach your desired level of income.

1. Enter your desired income

If you have an income figure in mind that you would like to reach, enter that number in the top box. If you're unsure or you only want to work out your charge out rate to recover costs, leave this field blank.

As an example, let's plug in a 'Desired income' of $300,000.

2. Enter your cost of labour and overheads

Next, work out the total cost of labour that your business will have to pay for the year.

For example, if you employ three part-time staff for 24 hours each week at $20 an hour, and three full-time staff working 40 hours a week at $25 an hour, your 'Total cost of labour' will come to $230,880 per year.

After calculating your total labour costs, enter your business's total annual overheads as well. In this example, your overheads might consist of:

- Rent at $60,000 per year.
- Internet and phone services costing $6,000 annually.
- Power at $5,000 each year

In this situation, your total annual overheads would be $71,000.

3. Figure out your working hours per year

In the next section labeled 'Working hours in a year', fill in the three boxes. If you have multiple employees, try using a best-guess average.

First, enter the number of employees your business has. Secondly, input how many days per week (again, on average if you have more than one staff member) your employees work.

Lastly, enter the productive working hours per day that your employees work (on average).

Continuing the same example, your business might hire:

- Three full-time staff that work eight hours a day, five days a week, and
- Three part-time staff that each work three days a week for eight hours a day.

You would therefore enter six employees in the first box, four days per week (on average) in the second box, and eight hours a day in the last box.

These numbers are multiplied together, and then by 52 to calculate your business's 'chargeable time' in hours per year (at the bottom of the calculator). In this case, your chargeable time would come to 9,984 hours per year.

How to use your charge out rate template

4. Calculate any nonchargeable days

The following section is headed 'Non-chargeable days.' Here, you can add days during the year when you won't have staff working for you.

First, enter the number of statutory holidays that each employee will have off work. For instance, if we follow our example above that has six employees and they're each entitled to 10 statutory holidays per year, enter 10 in this box.

Next, enter the annual leave per employee, which in this case we'll say is 10 days. After that, add any other non-chargeable days per employee, like sick days for instance.

You may have to come up with your best-guess average for this figure. Here, we'll estimate an average of three days per staff member, primarily for sick days.

Using this example, the total non-chargeable days will come to 23 days per employee. You'll see your 'Total working hours available per annum' figure reduce to 8,880.

5. Add any other nonchargeable hours

The final section of your Charge Out Rate Calculator involves 'Other non-chargeable hours per week.' Here, you can add any other hours that your staff may spend doing tasks that aren't directly related to completing a job.

For example, one of your staff members may spend an hour a week working out quotes for potential customers. Another staff member might be responsible for organizing paperwork, devoting five hours each week to this task.

Under this example, your 'Total non-chargeable hours per week' comes to six and your chargeable time figure falls to 8,586 hours per year.

6. Examine your results

Take a look at your Charge Out Rate Calculator results in bold at the bottom of the calculator.

Using this example, your 'Charge out rate for direct labor' is $70.25.

Re-examine your figures to see where you need to make changes, and do so if necessary.

Note. This is a guide only and should neither replace competent advice, nor be taken or relied upon as financial or professional advice. Seek professional advice before making any decision that could affect your business.