

Direct Cost Items
Optional Methods of Cost Allocation

Personnel		Formula/Basis	Module
Employee Salary and Wages		Direct time (can use time studies)	PR
		% of Faculty Load	PR
Student Wages		Direct time (can use time studies)	PR
		% direct time spent on activity	PR
Benefits			
Staff Benefits		Same % as applied for Salaries	PR
Consumables (Defined as Direct)			
Telephone, Measured		* Direct Usage using C/A Module	C / A
		* Enter data from invoice at time of payment or via journal entry	
Printing/Copier		* Direct Usage	C / A
Travel		* Direct Usage	C / A
Supplies		* Direct Usage	C / I
Postage, Freight		* Direct Usage	C / A
Special Maintenance Projects		Actual supplies expense plus direct hourly rate of personnel (including benefits)	C / I

An advantage of using the Cost Allocation (C/A) and/or Consumable Inventory (C/I) modules would be that the system completes the transactions and posting through to accounting.

For management reporting purposes, posting for C/I could occur on a daily, weekly, monthly, quarterly, basis. Posting for C/A should occur monthly for telephone expense allocation. Other C/A allocations could occur monthly, quarterly, at the end of each term or annually.

Other potential methods of allocation for "direct" items	*	% of Total Expenditures	Spread Sheets
	*	% of total budget	Spread Sheets
	*	Credit Hours	Spread Sheets
	*	FTE	Spread Sheets
	*	Total # of Employees	Spread Sheets

Direct Cost Allocation example: A shared photocopy machine between bookstore and food service. A method of allocation would need to be established to determine the cost each entity would be charged. Allocation methods could be based upon actual usage, gross sales, or number of employees, whichever method seems equitable and reasonable.

	Program Code(s)	Formula / Basis	
Depreciation	710	Square Footage	
Buildings and Building Equipment (HVAC)		% of Total Budget	
Utilities	710	% of Total Square Footage	
		% of Total Budget	
		Use studies	
Executive Administration	610	% of Total Budget	
President / V. P.'s		% of Total Compensation	
		% of Total Expenditures	
		Credit Hours/FYE/Student Headcount	
		Number of Employees Served by HEB Fund Code	
Human Resources \ Payroll	620 PR	Number of Employees Served by HEB Fund Code	
	630 HR	Total Employee "Pays" (head count)	
		% of Total Compensation	
		% of Total Budget	
		% of Total Expenditures	
		Time Studies	
Other Administrative	620, 625,630	% of Total Budget	
	650, 670	# of documents processed	
		Time Studies	
Physical Plant / Grounds	710	Total Campus Building Square Footage	
		% of Total Budget	
		% of Total Expenditures	
Security / Public Safety	710	Total Campus Building Square Footage	
		% of Total Budget	
		% of Total Expenditures	
Student Services		Full Year Equivalent	
	510 thru 590	Total head count	
		Total Credit Hours + CEUs	
		% of Total Expenditures	
Marketing		Total Campus Building Square Footage	
	670	% of Total Budget	
		Credit Hours/FYE/Student Headcount	
		% of Total Expenditures	
Academic Support		Full Year Equivalent	
	410 thru 480	Total student head count	
		Total Credit Hours + CEUs	
		% of Total Expenditures	
Debt Service		% of Total Square Footage	
(Interest portion only)	710	% of Total Budget	
		% of Total Expenditures	

Alternate Conceptual Methods for Cost Allocation

There are alternatives to the complexity of the cost allocation process. The most complete and accurate method is the step-down method. It includes all costs for administrative departments whose costs are ultimately allocated to programs and activities. The simpler method only includes direct costs for these departments for purposes of cost allocation. Either method is acceptable.

Step-down method: Most cost accounting textbooks recommend that institutions use the so-called step-down method when allocating costs. This method defines how indirect costs must be allocated to both administrative departments and other programs and activities. According to the recommended sequence, all costs, both direct and indirect, are first allocated to the affected administrative departments. Then all fully-costed administrative department costs are allocated to programs and activities. This method acknowledges costs not only between administrative departments and programs and activities but also among administrative departments.

Example:

The business office costs are to be allocated to an institution's programs and activities. The first step is to accumulate all direct cost of the business office. Next allocate to the business office, its share of all indirect costs. Examples of these would be facilities maintenance, utilities, insurance and HR administration. Then all business office costs – direct and indirect – are allocated based on predetermined rates to other programs and activities such as the bookstore or foodservice.

Simplified, single step method To simplify the indirect cost allocation process an institution may choose to eliminate the step of allocating indirect costs between administrative departments. The business office or HR departments are examples of such departments. Such departments would not be allocated any indirect costs. The result is that the administrative department costs to be allocated as indirect costs would be limited to only the direct costs for these administrative departments.

Example: The business office costs included for purposes of allocation to programs and activities would be limited to direct costs of the office. Thus this simpler allocation method would not include all costs for the business office - only the direct costs.

An additional source of information for the entire subject of cost accounting for colleges and universities is: Cost Accounting in Higher Education, Simplified Macro- and Micro Costing Techniques, published by the National Association of College and University Business Officers.