

Indirect Cost Rates

Overhead

G&A

Fringe

Indirect Costs

- Indirect costs are allocated to contracts or intermediate cost objectives
- Allocation is through an indirect cost rate
- Usual rates are Overhead (OH), and General and Administrative (G&A)
- Fringe rate optional – intermediate or final

Homogenous and Beneficial Relationship

- Pool – Accumulation of costs by logical cost groupings
- Base – Allocation base that benefits from the pool cost
- Activity of the base creates expenses which can be pooled
- UA cost is excluded from claimed pool
- UA cost remains in base

Accumulating - Allocating

Accumulating:

Group costs by pool – consider reasons why such costs occur

Allocating:

Selected base should be on basis of benefits accruing to contract

Base Selection

- Reasonable measure of the activity
- Be measurable without undue expense
- Fluctuate concurrently with the activity causing source of the cost

Need to Change Base?

When the nature of the business changes substantially:

- Change in volume of commercial or government business
- Technical modernization of manufacturing facilities
- Don't change base when present provides equitable and objective results

Overhead Rate

- Pool is usually supervision, facilities and support cost
- Base:
 - Direct labor dollars (may include fringe benefits)
 - Direct labor hours
 - Direct materials – material handling OH (purchase, receiving, shipping)
 - Unit of production / Machine hours

General and Administrative – Non Home Office

- Pool – Management and financial expenses for the management and administration of the business unit as a whole
- Base – Common to all objectives to which the pool is allocated
 - A measure of the total business activity
- Cost Input – Total CI; Value Added; Single element cost input
- Cost of Goods Sold – often identical to TCI or is all direct cost
- Cost of Sales – includes selling cost while COGS does not

Fringe Pool

- Workers compensation tax
- Social Security tax
- Unemployment tax
- Pension and 401K contributions
- Life and Health insurance premiums
- Paid time off –vacation, sick, bereavement, etc
- Stock bonus and ESOP
- Severance
- Bonuses – sign-on, relocation and retention, incentive compensation

Fringe Rate Base

- Labor worked
 - Direct labor
 - Indirect labor OH and G&A labor:
 - Time for safety meetings, general meetings
 - Travel status
 - Training

LIFE CYCLE OF INDIRECT RATES

