

COST ALLOCATION POLICY

AFGHAN BUREAU COLLABORATION OFFICE

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METHODS OF ALLOCATION

ABCO uses two methods to distribute costs among the units: direct assignment and allocation.

1. Direct Assignment

Direct assignment is used when specific resources, both individual employees and specific cost items, used by a particular unit can be reasonably established. Direct assignment comprises specific identification and management estimation of resources.

There is specific identification of resources where there is a direct relationship between the costs incurred by a support group and the business that causes the costs to be incurred. Estimation of the resources used by the business may be based on current time estimates or historical activity.

2. Allocation

Allocations are used when more than one unit uses a resource but the portions of the resource that each use cannot be directly established. In these cases, a cost driver is used to allocate the costs of the resource. A cost driver is a formula for sharing the cost of a resource among those who caused the cost to be incurred.

Application of Methodology

ABCO continues to use three steps when allocating costs:

Step One - Specific Identification of Resources

- The costs of resources specifically identified to a business are assigned to it.
- Labour costs associated with individuals who support only one business are assigned to it.
- Non-labour costs directly caused by one business are assigned to it.

Step Two - Estimation of Resources

- The next step is to identify the resources in each department that directly support more than one business and to estimate the resources attributable to each business unit. The costs of these resources are directly assigned to each business unit in proportion to the estimated time required by that business unit.

Step Three - Assign Cost Drivers

- ABCO uses the appropriate standardized cost drivers for all remaining activities or expenses.

FURTHER

Costs that are allowable will be charged to the program, grant or activity as follows:

- A. The Organization treats each funding source as a cost centre. Each cost centre's receipts and expenditures are to be tracked separately. Currently tracking is done by divisions in QuickBooks but other methods are allowable that track each funding source separately.
- B. Direct costs are those costs incurred solely for the purpose of one cost centre. All allowable direct costs are to be charged directly to the funding source to which they go.
- C. Shared costs are those costs which can be identified to more than one funding source. Shared costs are to be prorated individually as direct costs using a base most appropriate to the particular cost being prorated. In no case, shall the allocation be based on "availability of funds." Examples of allocation basis are percentage of space utilized, number of units or total staff utilized.
- D. All other allowable general and administrative costs (costs that benefit all programs and cannot be identified to a specific funding source) are to be allocated to funding sources as follows:
 - General and Administrative expenses shall be grouped first according to the cost centres to which they render services or provide benefits
 - The aggregate expenses of each group shall then be allocated to the benefiting cost centres based on the modified total direct costs.