



Minnesota State Colleges and Universities System Procedures Chapter 7 – General Finance Provisions

Guideline 7.3.4.1 Cost Allocation and Implementation

Part 1. Purpose

These guidelines provide detail to assist colleges and universities in the allocation of costs, both direct and indirect. These guidelines may be of assistance as colleges and universities develop their individual procedures to implement the system procedure.

Part 2. Definitions

Direct Cost

Direct costs are those that can be specifically identified and assigned with relative ease and with a high degree of accuracy to a program or activity. These are costs where it is practical to track actual usage by program or activity.

Examples include phone-related charges which can be tracked to a specific phone, copying costs where the number of copies for each cost center are available, and postage costs where these costs are accumulated for each cost center.

Example: College/University A enters postal charges for each department into the Cost Allocation (C/A) module on a daily basis. When the C/A module is run, it will process all charges. College/University B accumulates postal charges for a quarter, allocates the quarter total using a method based on a predetermined calculation such as “Jobs Processed.” College/University B then enters information into the system using a JG. Even though College/University B is using a method of allocation the item charged is still considered a “direct cost.”

Direct costs not charged to the appropriate program or activity on an ongoing basis could be charged to the program or activity on a monthly basis. Other suggested time frames would be daily, weekly, quarterly, end of term, or annually. Each college and university shall include in their written procedure the time frame for the periodic charging of the direct costs.

Examples include:

1. Salaries and Fringe Benefits
2. Equipment Telephone Charges
3. Direct Labor
4. Shipping and Freight
5. Printing Services
6. Copier

7. Fleet Services
8. Postage

Indirect Cost

Indirect costs, often referred to as “overhead,” are costs incurred for multiple programs or activities and cannot be readily or easily identified with those programs or activities. These costs are not accumulated in units easily traceable to individual activities and therefore must be allocated using a rationale and consistent method that approximates the activities’ proportional benefit derived.

Typical costs in this category are facility costs, utilities, maintenance, and other related costs; costs of administrative activities such as human resources and fiscal services; and costs of executive staff, such as presidents and vice presidents. They are to be allocated back based to the appropriate cost center based on a pre-determined method of allocation.

The indirect costs will not be credited back to the object code where the expense was paid, but rather will be treated with a standard journal entry to the “Allocated Indirect Cost” object code (7504).

Indirect cost transactions are to be completed, at a minimum, once per year at year-end. The allocation method could be determined by applying predetermined measurement units to specific types of expenses. The unit of allocation would be established by the college or university and applied consistently to the expense.

Examples:

1. Administrative expenses
2. Executive staff
3. Payroll service
4. Utilities
5. Maintenance

Part 3. Cost Allocation Guidelines

The college or university shall establish a procedure for allocating direct and indirect cost to business activities per System Procedure 7.3.4. These procedures must include the process for determining whether such business activities will be charged for their share of direct and indirect costs or whether another source, such as the General Fund, will either partially or in total, subsidize direct and indirect costs.

Colleges and universities shall charge direct costs and allocate indirect costs to auxiliary and credit or non-credit instruction activities and are strongly encouraged to allocate costs to other business activities such as, but not limited to, parking, child care services, and various summer camps. Regardless of the determination, the bookstore accounts will display, and financial reports will include, all direct and indirect costs associated with the operation.

Colleges and universities choosing to subsidize indirect costs shall include detail of the subsidy in the multi-year financial plan.

On the accounting procedures website is Attachment 1, “Optional Methods for Cost Allocation” (in PDF format). Attachment 1 provides suggestions of most commonly used methods/bases for allocation, but any reasonable method may be used. Also provided is a discussion of alternate cost allocation concepts. These discuss the use of the step-down method of cost allocation or the simple single step method. These are both acceptable methods.

Also on the accounting procedures website are two additional documents, Attachment 2.1 (in PDF format) – “Unsubsidized Cost Allocation Examples” and Attachment 2.2 (in PDF format) – “Subsidized Cost Allocation Examples.” These attachments represent transactions that colleges and universities need to complete for the required cost allocation process. Colleges and universities using the Cost Allocation and Consumable Inventory modules can manage transactions except for subsidies, direct or indirect, that are applied.

Cost Allocation Implementation, Step by Step Process

1. Establish college and university objectives for allocation.
2. Identify direct and indirect costs to be allocated.
3. Identify cost centers where direct and indirect costs are to be posted.
4. Identify and establish allocation methods using the following guidelines:
 - a. Objective and reasonable
 - b. Based on documented principles and procedures
 - c. Based on reliable financial and other information
 - d. Applied consistently
5. Identify tools and methods to complete allocations.
 - a. Consumable Inventory (C\I) module
 - b. Cost Allocation (C\A) module
 - c. Spread sheets
6. Establish written procedures for allocation of direct and indirect costs, to include the method and timeline for posting cost.
7. Create templates for allocation of direct and indirect costs.
8. Create applicable journal entries for direct and indirect costs not already posted or moved.
9. Test allocation methods to ensure the method supplies the outcome desired to meet the campus objectives. (Item one of this list)
10. Implement cost allocation process.
11. Periodically review cost allocation process.

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Date & Subject of Revisions:

8/30/16 - Amended the title for Part 2 Definitions. Additional wording and formatting changes throughout for consistency and clarity.

5/16/11 - Examples under Direct Cost amended to include copier and postage, Cost Allocation Guidelines amended to require that subsidized indirect costs must include detail of subsidy in the multi-year financial plan. Cost Allocation Implementation, Step by Step Process amended to include a periodic review of the cost allocation process.

7/20/09 - Cost Allocation Implementation Step by Step Process has been added.