COMMON COST ALLOCATION POLICY

OF

Center of Participatory Research and Development-CPRD

Adopted in February 2019

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Approved by

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1. Definition

Cost allocation is the distribution of one **cost** across multiple entities, business units, or **cost** centers. It is the method of splitting costs between different activities or projects.

2. Types of Cost

There are two types of Cost:

2.1 **Direct cost:** Direct costs are those that can be identified specifically with a particular final cost objective. These costs are easy because they relate entirely to one activity or project and can be charged straight to the project or activity concerned. Examples include; travel for one project, staff who work only for one project, rent of property used only by the project.

2.2 **Indirect cost:** Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. These costs cover several projects at the same time as well as central or core costs. Good examples might be the executive director's salary or the rent of the organization's office. These costs relate to whole organization but benefit all its projects and activities.

3. Purpose of Common Cost Allocation Plan

The purpose of this cost allocation plan is to summarize, in writing, the methods and procedures that this organization will use to allocate costs to various programs, grants, contracts and agreements. **There are three main reasons:**

3.1 **For grant applications:** Understanding how costs will be charged to projects can help make sure that we apply for the right amount of grant. This is where the term "full costing" is most often used. Core cost allocation helps us work out the real, "full" cost of a project. Some grantors only fund direct costs. Others will fund direct costs plus an addition for "administration" or "office costs" or "on-costs". Some grantors effectively do the same but they allow the additional amounts to be broken down over several budget lines such stationery, communications, finance support and so on. A grant application should include enough in this budget line (or these lines) to cover the amounts that will be charged when the project actually starts

3.2 **For grant reporting.** If the grant budget includes lines for costs that must be allocated then there must be some structured way of allocating them. If we have a clearly defined method of allocating costs, it will also make it very much easier to answer questions from funders who ask us to justify why and how we have calculated those charges to the grant.

3.3 **For managing our projects and our organization:** A proper system for allocating core expenses helps project managers and more senior management understand the real cost of running a project or activity. This is useful information even if the overhead costs are not being funded by the grantor; it is part of good budgetary control.

4. 4. Ways/methods of Allocating Costs

There are three steps:

4.1 Identifying the costs that could be charged directly and which will be allocated
4.2 Working out a policy for charging the allocated costs to different projects or activities
4.3 Calculating the allocations and make the accounting entries

Steps 1 and 2 involve some background work to set up our cost allocation system. Step 3 requires some calculations, usually once a month, and then some accounting entries.

5. 5. Allocation of Cost:

The following information summarizes the procedures that will be used by CPRD.

5.1 **Compensation for Personal Services:** Documented with timesheets showing time distribution for all employees and allocated based on time spent on each program or grant. Salaries and wages are charged directly to the program for which work has been done. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program’s salaries to the total of such salaries. Costs that benefit all programs will be allocated based on the ratio of each program’s salaries to total salaries.

5.2 **Travel Costs:** Allocated based on purpose of travel. All travel costs (local and out of-town) are charged directly to the program for which the travel was incurred. Travel costs that benefit more than one program will be allocated to those programs based on the ratio of each program’s salaries to the total of such salaries. Travel costs that benefit all programs will be allocated based on the ratio of each program’s salaries to total salaries.

5.3 **Professional Services Costs (such as consultants, accounting and auditing services):** Allocated to the program benefiting from the service. All professional service costs are charged directly to the program for which the service was incurred. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program’s expenses to the total of such expenses. Costs that benefit all programs will be allocated based on the ratio of each program’s expenses to total expenses.

5.4 **Office Expense and Supplies (including office supplies and postage):** Allocated based on usage. Expenses used for a specific program will be charged directly to that program. Postage expenses are charged directly to programs to the extent possible. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total of such expenses. Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses.

5.5 **Printing (including supplies, maintenance and repair):** Expenses are charged directly to programs that benefit from the service. Expenses that benefit more than one program are allocated based the ratio of the costs to total expenses. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total of such expenses. Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses.

5.6 **Telephone/Communications:** Long distance and local calls are charged to programs if readily identifiable. Other telephone or communications expenses that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total of such expenses. Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses.

5.7 **Training/Conferences/Seminars:** Allocated to the program benefiting from the training, conferences or seminars. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's salaries to the total of such salaries. Costs that benefit all programs will be allocated based on the ratio of each program's salaries to total salaries.

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