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COST ALLOCATION POLICY

Bheemabhai Mahila Mandali

(A Non Profit Organization)

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1) **Introduction:**

Cost Allocation is comparatively a new phenomenon in the Voluntary Sector. It has been observed that sometimes, the Organizations allocate Expenses based on the availability of Budget in the Project rather than the Nature and Justification of the same. However, as a Good Practice, by implementing the Cost Allocation approach, Common Costs can be allocated across various Project Cost centers on the basis of certain commonly accepted principles .Eventually, this also leads to Better Governance, Management and reporting in Voluntary Organizations.

2) **Purpose:**

The Purpose of Cost Allocation Policy is to summarize in writing the methods and procedures that Bheemabhai Mahila Mandali (BMM) use to allocate costs to various Programs, Grants, and Agreements.

3) **Allocation of Costs:**

Cost Allocation is a method for apportioning shared Expenses or shared Costs also called Common Costs or Directly allocable Costs across Functional Areas. It generally works well to dump all Shared Costs into Cost Centers, temporary holding tanks for Functional Areas and then allocate them out across those Functional areas on a Periodic basis, usually monthly or Yearly.

4) **Cost Allocation Approach:**

The Cost element in the Voluntary Sector can also be divided into Direct Costs and Indirect Costs. The Allocation of Costs becomes relevant as soon as Voluntary Organizations start receiving Funds from more than one Donor or more than one Project. Cost Allocation works on the foundation of classification or breaking of the total Cost on the basis of its Nature, Direct and Indirect Cost.

5) **Direct Costs:**

Direct Costs are those Cost which can easily be identified with a particular Project and Donor Costs are incurred as a Direct result of delivering an Activity. The entire Project related Expenses can be treated as Direct Cost. Direct Costs can further be subdivided into Direct and Direct Allocable Costs.

A) **Direct-Direct Costs:**
Direct-Direct Costs are those Costs which can be easily identified with a Specific Project. For example: Salary of the Mandal level Implementer, as her or his work is Project Specific and hence, can be easily booked to that Particular Project.

B) **Direct-Allocable Costs:** These Costs are Direct in Nature but are not easily identified and hence, need to be allocated before booking it to a particular Project. For example: Rent is a Direct Allocable Expense, as the Office Space is commonly used by all the Projects. Therefore, before booking the Expense to a particular Project, rent should be equitably allocated among all the Projects.

6) **Indirect Costs:**
Indirect Costs are those Costs which cannot be identified with any Project or Donor. These are the Costs that are not directly allocable to a particular Project and are incurred even if no Project is being run by the Organisation. Hence, Indirect Costs refer to the various Organizational Costs, such as Salary of the Project Director .Indirect Costs can be recovered on the basis of a predetermined rate which is calculated on the basis of the past data or by making adjustments to it for any future or probable change which can be perceived .Indirect Costs can also be further subdivided as Indirect and Indirect Allocable Costs.

   A) **Indirect-Direct Costs**: These Costs can be easily identified .For example: Organisation has only one ongoing Project A. Hence, the travel Cost of the Governing Body Members can be directly booked to Project A.

B) **Indirect-Allocable Costs:** These are the Costs that need to be allocated among all the existing Projects equitably. For example: Organisation has three ongoing Projects A, B and C. Hence, the travel Cost of the Governing Body Members has to be allocated equitably among all the three existing Projects.

7) **Classification of Costs:**

In order to understand the very Purpose of Cost Allocation, it is necessary that the Classification of Cost is done on the basis of Fair Reasoning.

8) **Basis of Allocation:**

Having understood the reason as to why some Costs have to be allocated to different Projects, we now need to identify the Basis on which it can be done. Basis of Allocation is the relationship between the Expenditure and the Project. For example: the salary of the Accountant can be easily related to the Expenditure for the Project. Similarly, Rent can be allocated on the basis of the Floor area used by the Program Department for each Project. However, it is not always easy to find the basis and at times more than one basis can be identified. Better understanding of the Operation of Organization and Nature of Expenses helps in arriving at the basis of allocation. Use of Wrong basis would vitiate the very purpose of Cost Allocation and result in inappropriate charging of the Expenses to the Project and in turn the Donor.

9) **Concept of Cost Allocation:**

The Concept of Cost Allocation approach is the process of allocating the Core Costs of the Organization to various Cost Centers in an equitable way.

Cost Centres refers to a specific or group of Activities where Costs are incurred. In the Context of an NGO, Cost Centers can be various Projects that the NGO handles as well as certain other Cost Centers where common Costs are booked. Cost Centers provide a useful structure to the accounts of the Organizations dealing with different Activities or various Fund Sources, more than one Donor. Further, When the Cost Centers are not specifically for a Project or Donor, they can fairly be apportioned and charged to different Donors or Projects. Hence, even though Cost Allocation cannot ensure hundred percent accuracy, it certainly helps mitigate the arbitrary approach of charging expenses to the Donors or Projects to a Large Extent.

10) Conventional Approach:

Once the Cost Centers have been identified within the Organisation, every expense that is incurred can be charged to any one or more of these Cost Centers. After the First level of booking of expenditures is done, the next level would be to allocate those Cost Centers where common Costs are booked to various Project Cost Centres.

The next step would then be to allocate costs to various Donors within the Project.

11) Implementation of the Cost Allocation Approach:

The Cost Allocation Policy must be formulated and implemented by the Chief Functionary of the Organization in Consultation with the Accountant and the Auditor. Once the Cost Allocation Policy is ready the same must be shared with the Governing Body and the Donors.

It is Important to review the existing Cost Allocation Policy every Year or before the start of any New Project as Costs may vary from time to time.

12) Benefits of Cost Allocation Approach:

It is Mandatory to charge the Expenses in a fair and justified manner to the Donor Specific Projects. Hence, the Cost Allocation Approach brings transparency in the charging of Expenses to the Donors as well as to other sources. In addition, the following benefits come attached to it.

Since the Allocation is based on realistic approach, it would be helpful in preparing Budget for the Project.

In case, where Costs are not supported by any Donor, the amount of own means to be generated is clearly defined.

Existence of a valid basis to support the Cost as derived using the Cost Allocation Approach.

Organizations can avoid too many changes in the Donor reversal and charging pattern.

Consistency in Donor Reporting.

13) Three primary reasons for wanting to allocate expenses:

Business Analysis:

In order to understand the true financial performance of each of your core activities, you need to know the true cost of that activity. In addition to direct programmatic costs for each activity, such as the Project Director's salary, there are other legitimate costs associated with each activity such as rent, utilities, technology, paying bills, etc. Allocation is a method of assigning these other expenses to the activity, which then provides a more complete picture of all the expenses or the true cost of that activity.

Cost Recovery: Just as we mentioned the importance of knowing the true cost of an activity to be able to analyze the Organisation, you'll also want to be able to fund raise for the entire cost. This is true whether you're raising money from individuals, foundations, or through government Projects. By allocating expenses you can maximize your cost recovery from grants and Projects. If you plan on recovering the full costs of your services for a Project with the Funding Agency, then you must allocate costs.

It's Easier: Generally Accepted Accounting Principles allow you to allocate certain costs to make it easier for the organization! When an organization buys office supplies it might be difficult and tedious to track which part of the organization is using the most pens. Allocation provides a method to assign these costs to the activity center without driving yourself and your staff crazy with paperwork and bureaucracy.

14) Cost Allocation Plan Certification (Non-profit)

This is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief that:

(1) The information contained in the Plan dated ______________________ was prepared in accordance with 2 CFR Part 230 (formerly OMB Circular A-122),

(2) The costs have been accorded consistent treatment in accordance with generally accepted accounting principles,

(3) An adequate accounting and statistical system exists to support claims that will be made under the Plan,

(4) The information provided in support of the Cost Allocation Plan is accurate, and

(5) All federally unallowable costs have been excluded from allocations.

I declare that the foregoing is true and correct.

Organization: _________________________________

Signature: _________________________________

Name of Official (printed): _________________________________

Title: _________________________________

Date of Execution: _________________________________

(Signed by the official having the authority to negotiate cost allocation plans for the

Organization, or by a higher level official.)

15) LOBBYING COST CERTIFICATE

I hereby certify that the ____

(Name of organization)

has complied with the requirements and standards on lobbying costs in 2 CFR Part 230 (formerly OMB Circular A-122) for the following period: ____

(Fiscal year covered by the cost allocation plan)

Organization: _________________________________

Signature: _________________________________

Name of Official (printed): _________________________________

Title: _________________________________

Date of Execution: _________________________________

(Signed by the official having the authority

to negotiate cost allocation plans for the

Organization, or by a higher level official.)

16) ALLOCATION OF COSTS:

The following information summarizes the procedures used by Bheemabhai Mahila Mandali from 31st March, 2024.

A. Salaries & Related Expenses.

Documented with timesheets showing time distribution for all employees and allocated based on time spent on each program. 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 expenses to the total of such expenses. Costs that benefit all programs will be allocated based on the ratio of each program's direct costs to total direct costs.

1. Fringe benefits are allocated in the same manner as salaries and wages. Health insurance, dental insurance, life& disability and other fringe benefits are also allocated in the same manner as salaries and wages.

2. Vacation, holiday, and sick pay are allocated in the same manner as salaries and wages.

B. Travel Costs Allocated based on purpose of travel. All travel costs local and out station 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 expenses to the total of such expenses. Travel costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses.

C. Contract Services (such as accounting 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.

D. Operating 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.

E. Equipment: BMM depreciates equipment when the initial acquisition cost exceeds Rs 25,000. Items below Rs 25,000 are reflected in the supplies category and expensed in the current year. Unless allowed by the Funding agency, equipment purchases are recovered through depreciation. Depreciation costs for allowable equipment used solely by one program are charged directly to the program using the equipment. If more than one program uses the equipment, then an allocation of the depreciation costs will be 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.

F. Printing and Copying (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.

G. Insurance: Insurance needed for a particular program is charged directly to the program requiring the coverage. Other insurance coverage that benefits all programs is allocated based on the ratio of each program's expenses to total expenses.

H. Telecommunications: Long distance, local calls, and high speed internet service are charged to programs if readily identifiable. Other telecommunications 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.

I. Facilities Expenses: Allocated based upon usable square footage. Expenses are charged directly to a program, service, or activity when calculated square footage is used exclusively by a particular program. The ratio of total square footage used by all personnel to total square footage is calculated. Facilities costs related to general and administrative activities are allocated to programs based on the ratio of program direct costs to total direct costs.

J. Conferences, Conventions, Meetings 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 direct costs to the total of such direct costs. Costs that benefit all programs will be allocated based on the ratio of each program's direct costs to total direct costs.

K. Other Costs (including dues, licenses, fees, etc.): Other joint costs will be allocated on a ratio of each program's total direct costs to total direct costs.

L. Unallowable Costs–Costs that are unallowable including alcoholic beverages, bad debts, advertising (other than help-wanted ads), contributions, entertainment, fines and penalties. Lobbying and fundraising costs are unallowable, however, are treated as direct costs and allocated their share of general and administrative expenses.