

QuickBooks Tip: Allocating Indirect Costs “below the line”

A method for allocating indirect costs from a shared to specific class without altering each individual line item account.

<u>P&L by Class</u>	<u>Program A</u>	<u>Program B</u>	<u>Shared</u>
Salaries	\$25,000	\$25,000	\$50,000
Fringe	5,000	5,000	10,000
Overhead	20,000	20,000	40,000
Indirect Cost 10%	5,000	5,000	[10,000]

This method is used when direct cost allocations are not possible or practical on each check or when you need to allocate a small fixed amount of overhead to each program. Instead of using multiple distribution lines on each transaction, all such overhead costs are simply posted to a class called “shared” (or “admin” “office” or “overhead”). Then, the total indirect expenses can be distributed across the classes at the end of each month with a single entry and a little bit of calculating:

- 1) Create an Other Expense account called “Indirect Cost Allocation”.
- 2) At the end of the month, calculate the amount to be applied to each class (on a separate worksheet). Common allocation methods are percent of staff time or percent of revenue.
- 3) Use a Journal Entry to credit the total to the Office class and debit each project Class for its percentage.

The new Indirect Cost Allocation account always has a total –0- balance on a consolidated report, but shows balances in all classes when viewing a P&L by Class report. Never post any bills or checks directly to this account.

Using an account of type = Other Expense will cause reports to display a subtotal direct program costs and overhead costs before the allocation. Then the overhead is distributed and the new bottom line reflects the indirect costs.

Note: The above assumes use of the Class field for grant tracking; the same technique can be applied if using the Customer:Job field to track allocations.

This method works when you would like to see these costs allocated to the project/program classes, but a detailed distribution of how each line item is not needed. For detailed line-by-line allocations, you will need to (1) distribute each check directly to multiple programs, (2) record a rather lengthy general journal entry at the end of the month, or (2) use NonProfitBooks, a companion product to QuickBooks Pro 2002 (note: this requires starting fresh with a new QuickBooks data file).

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