

Left Brain Professionals

Compliance ★ Government Contracts ★ Accounting

Indirect Rates & Pricing Models

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Dynamic Networking for Small Business

Positive Share



“It takes as much energy to wish as it does to plan.”

~ Eleanor Roosevelt

Safety Check



Basic Cost Pools

Fringe

Overhead

G&A

Fringe Pool

Fringe benefit expenses for your W-2 employees:

- ★ Employer Taxes
- ★ Health Insurance
- ★ Retirement
- ★ PTO & Holidays

Fringe Base

Total W-2 Wages

Tip: clearly label and segregate W-2 labor from all other expenses in your chart of accounts

Overhead Pool

Customer or product support expenses not directly associated with a single end item

Expenses to operate a location or division

Tip: Add “OH” to account labels of the same or similar names

Overhead Base

Usually direct labor + applied Fringe

G&A Pool

Administrative expenses to operate the company (vs a location or division) such as accounting, HR, IT, legal, etc.

Includes IRAD and B&P as sub-pools

Tip: Add “GA” to account labels of the same or similar names

G&A Base

Typically Total Cost Input (TCI)

- ★ Direct Costs
- ★ Applied Fringe on Direct Labor
- ★ Applied OH on Direct Labor + Fringe
- ★ Unallowable Direct & OH Costs

IRAD & B&P

Included in G&A Pool

Treated as direct expenses

Bear their portion of Overhead & G&A

Advanced & Intermediate Pools

Multiple Fringe

Multiple Overhead

Facility

IT

Material & Subcontracts Handling (M&SH)

Multiple Fringe

Effective when you offer different benefit packages to different groups of employees such as commercial vs government or SCA vs non-SCA

Multiple Overhead

Effective when you have multiple divisions or functions with unique or unfair distribution of costs such as manufacturing vs engineering

Facility

Separated from Overhead and applied to other cost pools

Effective when one division or function utilizes an unfair portion of space

Allocated based on square footage

IT

Separated from Overhead and G&A, and applied to other cost pools

Effective when one department or division utilizes an unfair portion of resources

Allocated on headcount, devices, or network connections

M&SH

Applied to pass-through Materials and Subcontracts in lieu of G&A

Used when no value added to the purchases

Tip: You can negotiate a handling fee less than your G&A without creating a separate pool

M&SH Pool

Expenses directly associated with pass-through materials and subcontracts

Expenses and base removed from Overhead & G&A

Must have clearly segregated expenses and volume of M&SH work to be effective

M&SH Base

Materials & Subcontracts

Budgets

Budgets used to develop provisional rates

Update as significant changes occur, including bids for new contracts

Updating Rates

Monitor and update rates as appropriate

Request updated rates for current contracts when significant changes occur

Rates

Provisional Billing Rate

Target Rate

Actual Rate

Multiple Rates

Single or Standard Rate

Onsite vs Offsite

Manufacturing vs Engineering

G&A vs M&SH

It's All in the Math

$$\text{Pool} \div \text{Base} = \text{Rate}$$

Splitting pools causes one rate to increase and the other to decrease

Basic GAAP

Homogeneous accounts

Homogeneous pools

Matching principle

Competitive Strategies

Consider splitting pools when:

- ★ One division loses competitiveness
- ★ Costs are unfairly allocated
- ★ Significant disparities in groups of costs

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AGENCY SYSTEMS ★ PROCEDURES
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