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**APPENDIX**

**Indirect Cost Allocation Methodology**

Indirect cost allocation is required when a service provider offers multiple services. In that case, you will need to report the total indirect cost incurred and then determine the fraction of the total cost that is applicable to each component for which you are filling out workbooks.

The instructions below provide multiple options for determining the appropriate fraction for the individual cost items found on the indirect CAPEX and indirect OPEX tabs. The first option(s) are more detailed based on how individual cost items are used and are the preferred methods for allocating costs.

The last option that can be used for any cost item is an allocation based on direct OPEX costs and can be used when the required data is not known for the more detailed methods. Under this option, the fraction applied to an individual component should equal the ratio of all direct OPEX costs for that component compared to the total direct OPEX costs for the service provider. For example, if an indirect cost item needs to be allocated for Component A, and Component A accounts for 30% of the total direct OPEX costs incurred by the service provider, you can use 0.3 as the ‘fraction applied to shared costs’ for any indirect cost item.

### INDIRECT CAPEX

1. **Physical assets:**
   1. **Land for office:**
      * Option 1: Allocate based on the square meters/square feet of the office area used by an individual component compared to the total area of the office. For example, if one floor of a four-story office space is dedicated to the individual component, apply a ratio of 0.25 to the total cost of land for this component.
      * Option 2: Allocate based on the number of personnel working in the office (both direct and indirect staff) who are dedicated to an individual component compared to the total number of personnel working in the office.
      * Option 3: Allocated based on the ratio of direct OPEX costs for this component compared to the total direct OPEX costs for the operator.
   2. **Purchase or construction of office building:**
      * Option 1: Allocate based on the square meters/square feet of the area used by an individual component compared to the total area of the office. See example above for land.
      * Option 2: Allocate based on the number of personnel working in the office (both direct and indirect staff) who are dedicated to an individual component compared to the total number of personnel working in the office.
      * Option 3: Allocated based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
      * ***Note***: *The fraction used here should be the same as the fraction used for purchase of land for an office if both costs are incurred and reported.*
   3. **Office equipment:**
      * Option 1: Allocate based on the number of equipment allocated to an individual component compared to the total number of equipment. This method might require further breakdown of the office equipment. For example, if the total reported cost for office equipment includes computers, desks and chairs, you can determine how many out of the total for each type is dedicated to an individual component.
      * Option 2: Allocate based on the number of personnel working in the office (both direct and indirect staff) who are dedicated to an individual component compared to the total number of personnel working in the office.
      * Option 3: Allocate based on the square meters/square feet of the area used by an individual component compared to the total area of the office.
      * Option 4: Allocated based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
   4. **General use vehicles:** 
      * Option 1: Allocate based on the number of general use vehicles allocated to an individual component compared to the total number of general use vehicles owned by the operator. This option can only be used if vehicles are not shared between different services.
      * Option 2: Allocate based on the approximate number of hours the vehicles are used (annually, monthly or weekly) for an individual component compared to the total number of hours vehicles are used.
      * Option 3: Allocated based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
   5. **Other or combined physical assets:**
      * Option 1: Allocate using one of the options outlined for any of the other physical assets. Choose which one is most applicable.
      * Option 2: Allocated based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
2. **Major and extraordinary repairs:** The fraction used for cost allocation should be the same as the one used for the corresponding physical asset.
3. **Taxes and financing costs:** The fraction used for cost allocation should be the same as the one used for the corresponding physical asset.
4. **Professional development and training:**
   * + Option 1: Allocate based on the amount of training time and materials required for an individual component compared to the total training time and materials required for the total operation.
     + Option 2: Allocate based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
5. **Other indirect CAPEX:**
   * + Option 1: Allocate using any previously outlined option that is applicable to the item that you are describing.
     + Option 2: Allocated based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.

### INDIRECT OPEX

1. **Salaries:**
   * + Option 1: For each category of staff, allocate the cost based on the number of personnel or number of personnel-hours dedicated to an individual component compared to the total number of personnel or personnel-hours dedicated to all services offered by the operator. For example, if you have five staff members on the sales team, and two of them are dedicated to selling Component A, you would use 0.4 as the “fraction applied to shared costs” for the sales team salary costs for Component A. Alternatively, if the five staff members on the sales team are not dedicated to a specific product or service, but you approximate that they each spend about half of their time on Component A, then you would report 0.5 as the “fraction applied to shared costs” for the sales team salary costs for Component A.
     + Option 2: Allocate based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
2. **Other expenses for salaried indirect staff:**
   1. **Insurance:**
      * Option 1: Allocate based on the number of indirect personnel requiring insurance dedicated to an individual component compared to the total number of indirect personnel requiring insurance.
      * Option 2: Allocate based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
   2. **Annual vaccinations:** 
      * Option 1: Allocate based on the number of vaccinations given to personnel dedicated to an individual component compared to the total number of vaccinations given to the total number of personnel.
      * Option 2: Allocate based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
   3. **Other or combined expenses:** 
      * Option 1: Allocate based on the amount of other expenses relating to indirect salaried staff (employee housing, paid leave, etc.) that is dedicated to the individual component compared to the overall other expenses for salaried staff.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
3. **Professional development and training:**
   * + Option 1: Allocate based on the amount of training time and materials required for an individual component compared to the total training time and materials required for the total operation.
     + Option 2: Allocate based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
4. **Equipment, land and buildings:**
   1. **Office building:** 
      * Option 1: Allocate based on the square meters/square feet of the area utilized by the staff for an individual component compared to the overall area used by the operations. For example, if one floor of a four-story office space is dedicated to the individual component, apply a ratio of 0.25 to the rental costs for this component.
      * Option 2: Allocate based on the number of personnel or number of hours dedicated for the individual component compared to the overall work done by the operations.
      * Option 3: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
   2. **Land:** Typically this is rent or maintenance of land used for an office, so the fraction can be determined using the same options as for an office building above.
   3. **Office equipment:**
      * Option 1: Allocate based on the number of personnel working in the office who are dedicated to an individual component compared to the total number of personnel working in the office.
      * Option 2: Allocate based on the square meters/square feet of the area used by an individual component compared to the total area of the office.
      * Option 3: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
      * ***Note:*** *If costs were already allocated for larger office equipment on the indirect CAPEX tab, you can use the same fraction for allocating costs here.*
   4. **Vehicles:** Includes either rent of vehicles or maintenance of vehicles that have been purchased. If reporting maintenance of vehicles that were purchased, use the same fraction here that you used for the purchase of vehicles on the indirect CAPEX tab. If reporting rent of vehicles, use the options below.
      * Option 1: Allocate based on the number of general use vehicles allocated to an individual component compared to the total number of general use vehicles owned by the operator. This option can only be used if vehicles are not shared between different services.
      * Option 2: Allocate based on the approximate number of hours the vehicles are used (annually, monthly or weekly) for an individual component compared to the total number of hours vehicles are used.
      * Option 3: Allocated based on the ratio of direct OPEX costs for an individual component compared to the total direct OPEX costs for the operator.
   5. **Other operational costs for buildings:**
      * Option 1: If cost is for rent or maintenance of a warehouse or storage building, allocate based on the fraction of the building area that is used for this specific component.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
   6. **Other or combined costs for equipment:**
      * Option 1: Allocate based on the number of equipment allocated to each component compared to the overall operation
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
5. **Consumables**
   1. **Utility expenses:** 
      * Option 1: Allocate based on the square meters/square feet of the area used by each component compared to the area of the entire operation.
      * Option 2: Allocate based on the number of personnel or number of hours dedicated for individual component.
      * Option 3: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
      * ***Note***: *The fraction used here should be the same as the fraction used for purchase of land for an office, purchase or construction of an office, and/or rent of an office depending on which of those expenses are incurred.*
   2. **Office supplies**:
      * Option 1: Allocate based on the number of personnel working in the office who are dedicated to an individual component compared to the total number of personnel working in the office.
      * Option 2: Allocate based on the square meters/square feet of the area used by an individual component compared to the total area of the office.
      * Option 3: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
      * ***Note:*** *If costs were already allocated for larger office equipment on the indirect CAPEX tab, you can use the same fraction for allocating costs here.*
   3. **Fuel for general use vehicles:** Fraction applied to shared costs should be the same as that used for purchasing general use vehicles on the indirect CAPEX tab.
   4. **Other or combined consumable expenses:** 
      * Option 1: If applicable, allocate the cost based on the specific component for which the cost was incurred.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
6. **Services:**
   1. **Insurance:** 
      * Option 1: Allocate the cost based on the amount spent on the specific component versus the total insurance cost.
      * Option 2: Allocate based on the square meters/square feet of the office area used by each component compared to the overall operation footprint.
      * Option 3: If insurance is for vehicles or other large equipment, allocate based on the number of equipment allocated to each component compared to the overall operation.
      * Option 4: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
   2. **Legal:**
      * Option 1: Allocate based on the budget for legal services for the specific component versus the total marketing expenses paid.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
   3. **Financial:**
      * Option 1: Allocate based on the budget for financial services for the specific component versus the total marketing expenses paid.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
   4. **Marketing:** 
      * Option 1: Allocate based on the budget for marketing services for the specific component versus the total marketing expenses paid.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
   5. **Consulting or advisory:** 
      * Option 1: Allocate based on the specific component for which the consulting fees were incurred.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
   6. **Other or combined services:** 
      * Option 1: Allocate based on the third-party services spend used for an individual component compared to the overall third-party services spend incurred by the overall operation.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
7. **Administrative fees, taxes and financing**
   1. **All administrative charges and permits considered indirect operating expenses:**
      * Option 1: Allocate the cost based on the specific component for which the administrative fees were incurred.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
   2. **Annual taxes:** 
      * Option 1: If applicable, allocate the cost based on what the tax was incurred for. For example, property tax on land should be allocated with the same fraction as purchase of the land while property tax on vehicles should be allocated with the same fraction as purchase of vehicles. If multiple annual taxes are combined, you should use an average of the appropriate fractions weighted based on the value of the tax.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.
   3. **Annual financing charges:**
      * Option 1: If applicable, allocate the cost based on what the financing charges were incurred for, similar to Option 1 for annual taxes above. If multiple annual taxes are combined, you should use an average of the appropriate fractions weighted based on the value of the tax.
      * Option 2: Allocate based on the ratio of direct OPEX for an individual component compared to the total direct OPEX costs for the operator.