

Indirect Cost Rate (ICR) Training

Process to Create Your Indirect Cost Rate (ICR) Schedule

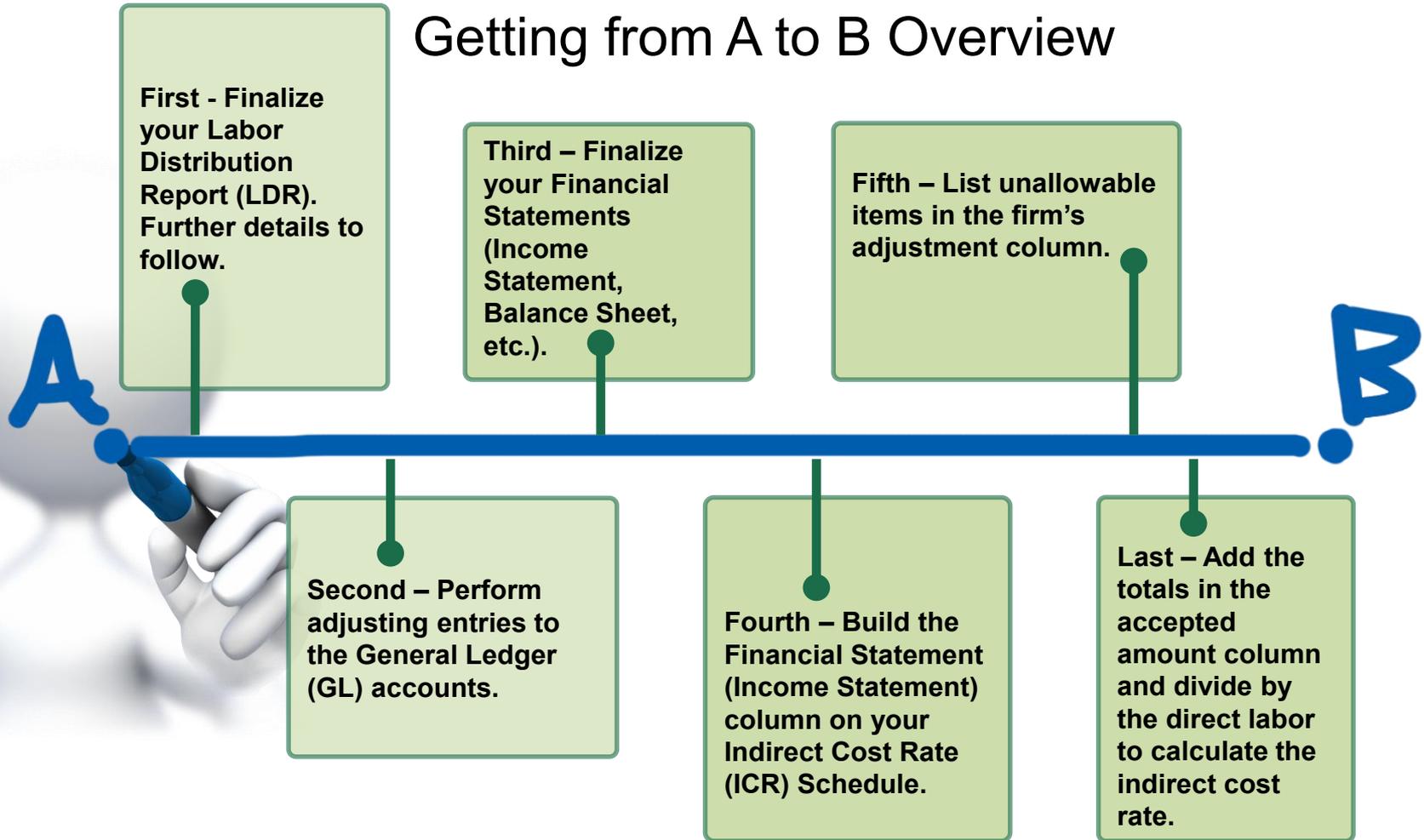
(Module 2)



Process to Create Your Indirect Cost Rate (ICR) Schedule



Getting from A to B Overview



Process to Create Your Indirect Cost Rate (ICR) Schedule

- Labor Distribution Report (LDR) Definition – A report showing the distribution of labor hours and dollars by designated labor categories (direct, indirect, paid time off, etc.) in which an employee worked.
- The firm should finish the LDR prior to starting the Indirect Cost Rate (ICR) Schedule.
- The LDR is created by combining the firm's payroll register and employees' timesheets.
- If the firm performs monthly reconciliations, then those reconciliations can be rolled up to create the firm's annual LDR - [See Module 5](#).

Examples of LDR's on the following slides

- a) Single member firm with draws working less than 2,080 hours per year.
- b) Single member firm with draws working more than 2,080 hours per year, which results in uncompensated overtime.
- c) Ten person firm with staff payroll and uncompensated overtime ([This example is helpful to keep in mind as your firm grows from draws to payroll](#))



Labor Distribution Report (LDR) Example 1



Single Person Firm Standard LDR																				
Example 2	Total Draws	Hourly Rate (based on 2080)	Total Hrs. Worked	Direct Hours	Direct \$	Direct OT Hours	OT \$ at 1.5	Indirect - Office Hrs	Office \$	B&P Labor	B&P \$	Holiday Hrs	Holiday \$	Vacation Hrs	Vacation \$	Sick Hrs	Sick \$	Total \$ Column	Uncomp. O/T	Owner Paid Draws
Owner 1	\$75,000	\$41.67	1,800	1,338	\$55,750.00	0	\$0.00	390	\$16,250.00	72	\$3,000.00	0	\$0.00	0	\$0.00	0	\$0.00	\$75,000.00	\$0.00	\$75,000
		Total	1,800	1,338	\$55,750.00	0	\$0.00	390	\$16,250.00	72	\$3,000.00	0	\$0.00	0	\$0.00	0	\$0.00	\$75,000.00	\$0.00	\$75,000
*Owner draws \$6,250 per month																				

Single Person Firm With Draws Working Less Than 2,080 Hours Per Year

- The owner drew \$6,250 per month.
- The owner worked 1,800 hours during the year.

Hourly Rate Computation

- 1) Add total draws during the year ($\$6,250 \times 12 \text{ months} = \$75,000$ yearly compensation).
- 2) Divide total draws by the total number of hours worked during the year to compute the hourly rate ($\$75,000 / 1,800 \text{ hours} = \41.67 hourly rate).

There should be no uncompensated overtime recorded and/or reported!

Labor Distribution (LDR) Computation

- 1) Fill in each labor category with the hours from the owner's timesheets.
- 2) Multiply each set of hours by the hourly rate previously calculated.
- 3) Add each category dollar amount together to arrive at the total dollar amount (\$75,000).
- 4) The total dollar amount column (\$75,000) should equal the owner draws total (\$75,000), therefore no uncompensated overtime will be recorded.



Labor Distribution Report (LDR)



Example 2

Single Person Firm Standard LDR																				
Example 1	Total Draws	Hourly Rate (based on 2080)	Total Hrs. Worked	Direct Hours	Direct \$	Direct OT Hours	OT \$ at 1.5	Indirect - Office Hrs	Office \$	B&P Labor	B&P \$	Holiday Hrs	Holiday \$	Vacation Hrs	Vacation \$	Sick Hrs	Sick \$	Total \$ Column	Uncomp. O/T	Owner Paid Draws
Owner 1	\$150,000	\$72.12	2,124	1,600	\$115,384.62	0	\$0.00	390	\$28,125.00	62	\$4,471.15	72	\$5,192.31	0	\$0.00	0	\$0.00	\$153,173.08	\$3,173.08	\$150,000
		Total	2,124	1,600	\$115,384.62	0	\$0.00	390	\$28,125.00	62	\$4,471.15	72	\$5,192.31	0	\$0.00	0	\$0.00	\$153,173.08	\$3,173.08	\$150,000
*Owner draws \$12,500 per month																				

Single Person Firm With Draws Working More Than 2,080 Hours Per Year, Which Results In Uncompensated Overtime

- The owner drew \$12,500 per month.
- The owner worked 2,124 hours during the year.

Hourly Rate Computation

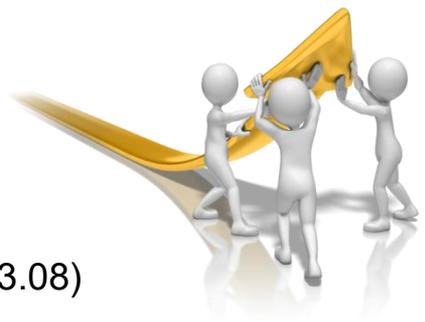
- 1) Add total draws during the year (\$12,500 x 12 months = \$150,000 yearly compensation).
- 2) Divide total draws by the standard 2,080 hours per the year (\$150,000 / 2,080 hours = \$72.12 hourly rate).

Labor Distribution (LDR) Computation

- 1) Fill in each labor category with the hours from the owner's timesheets.
- 2) Multiply each set of hours by the hourly rate previously calculated.
- 3) Add each category dollar amount together to arrive at the total dollar amount (\$153,173.08).
- 4) Since the owner worked more than the standard, the total dollar amount (\$153,173.08) calculated will be more than the owner draws (\$150,000). The variance is the uncompensated overtime (\$3,173.08) worked during the year.



There will be uncompensated overtime due to the fact the owner worked over the standard 2,080 hours!



Labor Distribution Report (LDR) Example 3



Ten Person Firm Standard LDR																				
Example 3	Salary / Hourly	Hourly Rate (based on 2080)	Total Hrs. Worked	Direct Hours	Direct \$	Direct OT Hours	OT \$ at 1.5	Indirect - Office Hrs	Office \$	B&P Labor	B&P \$	Holiday Hrs	Holiday \$	Vacation Hrs	Vacation \$	Sick Hrs	Sick \$	Total \$ Column	Uncomp. O/T	
A. Adams	\$95,834	\$46.07	2,112	1,811	\$83,440.08	0	\$0.00	72.5	\$3,340.37	0	\$0.00	80	\$3,685.92	128	\$5,897.48	20	\$921.48	\$97,285.33	\$1,451.33	
B. Bigsby	Hourly	\$30.00	828	125	\$3,750.00	22	\$990.00	605.5	\$18,165.00	66	\$1,965.00	28	\$840.00	0	\$0.00	4	\$120.00	\$25,830.00	\$0.00	
C. Colton	\$143,692	\$69.08	2,298	1,512	\$104,453.03	0	\$0.00	403	\$27,840.33	55	\$3,799.55	88	\$6,079.28	161	\$11,122.31	78.5	\$5,422.99	\$158,717.49	\$15,025.49	
D. Dean	\$143,692	\$69.08	2,246	1,710	\$118,131.40	0	\$0.00	295	\$20,379.39	0	\$0.00	48	\$3,315.97	185	\$12,780.30	8	\$552.66	\$155,159.73	\$11,467.73	
E. Edwards	Hourly	\$17.00	148	13	\$221.00	14	\$357.00	134.5	\$2,286.50	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	\$2,864.50	\$0.00	
F. Franks	\$92,700	\$44.57	2,118	1,175	\$52,366.59	0	\$0.00	691.75	\$30,829.44	0	\$0.00	88	\$3,921.92	123.75	\$5,515.20	39	\$1,738.13	\$94,371.27	\$1,712.27	
G. Grant	\$102,375	\$49.22	2,167	1,062	\$52,270.31	0	\$0.00	742	\$36,520.31	0	\$0.00	80	\$3,937.50	246	\$12,107.81	37	\$1,821.09	\$106,657.03	\$1,037.03	
H. Hewitt	Hourly	\$27.35	2,133	522	\$14,276.70	0	\$0.00	1300	\$35,555.00	123	\$3,364.05	80	\$2,188.00	88.5	\$2,420.48	19.75	\$540.16	\$58,344.39	\$0.00	
I. Irvin	Hourly	\$45.00	763	0	\$0.00	6	\$405.00	708	\$31,860.00	0	\$0.00	20	\$900.00	35	\$1,575.00	0	\$0.00	\$34,740.00	\$0.00	
J. Johnson	Hourly	\$15.00	379	103	\$1,545.00	0	\$0.00	276	\$4,140.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	\$5,685.00	\$0.00	
			Total	15,190	8,033	\$430,454.12	42	\$1,752.00	5,228	\$210,916.33	244	\$9,128.60	512	\$24,868.59	967	\$51,418.58	206	\$11,116.51	\$739,654.74	85



Ten Person Firm With Staff Payroll And Uncompensated Overtime

- The firm has a mix of hourly and salary employees.
- The firm has a mix of employees working over/under the standard 2,080 hours per year.

Hourly Rate Computation

- 1) For salary employees, divide total salary by the standard 2,080 hours per year. For example, A. Adams hourly rate is \$95,834 / 2,080 hours = \$46.07 hourly rate.
- 2) For hourly employees, the hourly rate from payroll will be added in the hourly rate column.

Labor Distribution (LDR) Computation

- 1) Fill in each labor category with the hours from the employees' timesheets.
- 2) Multiply each set of hours by the hourly rate previously calculated or added from payroll.
- 3) Add each category dollar amount together to arrive at total dollar amount for both hourly and salary employees (\$739,654.74).
- 4) For hourly employees, the total dollar amount should match the total paid to the employee through payroll. No uncompensated overtime should be reported for hourly employees.
- 5) For salary employees, if the employee worked more than the standard, the total dollar amount will be more than the total paid to the employee through payroll. The variance is the uncompensated overtime worked during the year.

Uncompensated Overtime should only be recorded and reported for salaried employees and/or owners!



Process to Create Your Indirect Cost Rate (ICR) Schedule

- After the Labor Distribution Report (LDR) has been finalized, the firm will need to perform adjusting entries to the General Ledger (GL) (The GL is built from your “Chart of Accounts” – [See Module 4](#)) accounts for:
 - Accruals
 - Deferrals
 - Reimbursements
 - Recording error corrections
 - May not apply to cash basis firms
- Once the adjusting entries have been performed, then the firm can finalize the Income Statement.
 - The Income Statement is the basis for the Indirect Cost Rate (ICR) Schedule.
 - Once the Income Statement is finalized, you can create the schedule



Indirect Cost Rate (ICR) Schedule



Process to Create Your Indirect Cost Rate (ICR) Schedule

- The creation of the Indirect Cost Rate (ICR) Schedule commences with the addition of the Income Statement figures to the first column of the ICR Schedule - See Module 4.

- First, add the direct/indirect labor expenses from the finalized Income Statement.

ABC Engineering Indirect Cost Rate Schedule For the Year Ended December 31, 2013					ABC Engineers Income Statement December 31, 2013	
Description	Financial Statement Amount	ABC Adj.	WSDOT Adj.	Accepted Amount	%	
Direct Labor	\$432,206					Revenue
Indirect Costs:						4000 - Sales
Fringe Benefits						5000 - Direct
Vacation Pay	\$51,419			\$51,419	11.90%	5021 - Reimbursement
Sick Pay	11,117			11,117	2.57%	5024 - Consultant Expense
Holiday Pay	24,869			24,869	5.75%	5075 - Other Direct - Mileage/Parking
Payroll Taxes	120,125			120,125	27.79%	Cost of Sales
Health Insurance	25,490			25,490	5.90%	
Workers' Comp. Insurance	15,980			15,980	3.70%	Gross Profit (Loss)
Profit Sharing (401-k)	150,240			150,240	34.76%	
Severance	5,400			5,400	1.25%	
Fringe Benefit Adjustment	0			0	0.00%	Expenses
Total Fringe Benefits	\$404,640	\$0	\$0	\$404,640	93.62%	6000 - Indirect Labor
General Overhead						6006 - Payroll Variance
Indirect Labor	\$198,249			\$198,249		6010 - 88%
Payroll Variance Account	(36,355)					6030 - Education
Bid & Proposal Labor	9,129					6040 - Vacation Pay
Advertising Labor	4,005			4,005	0.93%	6041 - Sick Pay
Public Relations Labor	2,580			2,580	0.60%	6042 - Holiday Pay
Direct Selling Labor	10,312			10,312	2.39%	6050 - Severance Pay
Education/Research Labor	3,010			3,010	0.70%	6070 - Bonus Pay
Incentive Bonus	65,000			65,000	15.04%	6100 - Advertising
Rent	98,000			98,000	22.67%	6150 - Public Relations
Maintenance & Repairs	18,340			18,340	4.24%	6200 - Direct Selling
Automobile	16,420			16,420	3.80%	6250 - Employee Training/Recruiting
Travel	25,600			25,600	5.92%	6400 - Worker's Comp Insurance
Travel - Meals	42,000			42,000	9.72%	6450 - Health Insurance
Insurance	23,789			23,789	5.50%	6500 - Insurance
Telephone	11,125			11,125	2.57%	6600 - Professional Fees
Utilities	9,671			9,671	2.24%	6605 - Taxes & Fees
Taxes & Licenses	38,900			38,900	9.00%	6700 - Automobile
Depreciation & Amortization	22,140			22,140	5.12%	6710 - Maintenance & Repair
Dues & Subscriptions	6,500			6,500	1.50%	6750 - Travel
Employee Train/Recruit/Moving	2,100			2,100	0.49%	6755 - Travel - Meals
Advertising	25,650			25,650	5.93%	6780 - Depreciation & Amortization
Public Relations Expense	18,240			18,240	4.22%	6800 - Professional Membership/licenses
Direct Selling Expenses	9,400			9,400	2.17%	6850 - Rent
Professional Fees	38,000			38,000	8.79%	6880 - Utilities
Interest	450			450	0.10%	6870 - Telephones
Computer	28,400			28,400	6.57%	6900 - Payroll Taxes
Supplies & Miscellaneous	36,900			36,900	8.54%	6910 - IRA Contributions
Total General Overhead	\$727,555	\$0	\$0	\$727,555	168.34%	6950 - Interest
Total Indirect Costs & Overhead	\$1,132,195	\$0	\$0	\$1,132,195	261.96%	6980 - Computer
Indirect Cost Rate (Less FCC)	261.96%	261.96%		261.96%		6990 - Supplies & Miscellaneous
Facilities Cost of Capital	\$0			\$0	0.00%	Total Expenses
Indirect Cost Rate (Includes FCC)	261.96%			261.96%		Net Operating Income
						4060 - Interest Income
						9000 - Gain (Loss) on Sale of Assets
						Total Other Income
						Net Income (Loss)

Indirect Cost Rate (ICR) Schedule



Process to Create Your Indirect Cost Rate (ICR) Schedule

- The creation of the Indirect Cost Rate (ICR) Schedule commences with the addition of the Income Statement figures to the first column of the ICR Schedule - See Module 4.
- Second, verify the labor totals equal the labor totals on

**ABC Engineering
Indirect Cost Rate Schedule
For the Year Ended December 31, 2013**

Description	Financial Statement Amount	ABC Adj.	WSDOT Adj.	Ref.	Accepted Amount	%
Direct Labor	\$432,206				\$432,206	100.00%
Indirect Costs:						
Fringe Benefits						
Vacation Pay	\$51,419				\$51,419	11.90%
Sick Pay	11,117				11,117	2.57%
Holiday Pay	24,869				24,869	5.75%
Payroll Taxes	120,125				120,125	27.79%
Health Insurance	25,490				25,490	5.90%
Workers Compensation	15,980				15,980	3.70%
Profit Sharing	150,240				150,240	34.76%
Severance Pay	5,400				5,400	1.25%
Preretirement	0				0	0.00%
Total Fringe Benefits	\$404,640	\$0	\$0		\$404,640	93.62%
General						
Insurance	\$198,249				\$198,249	45.87%
Performance Account	(36,355)				(36,355)	-8.41%
Waste Disposal Labor	9,129				9,129	2.11%
Printing Labor	4,005				4,005	0.93%
Public Relations Labor	2,580				2,580	0.60%
Product Selling Labor	10,312				10,312	2.39%
Education/Research Labor	3,010				3,010	0.70%
Incentive Bonus	65,000				65,000	15.04%
Rent	98,000				98,000	22.67%
Maintenance & Repairs	18,340				18,340	4.24%
Automobile	16,420				16,420	3.80%
Travel	25,600				25,600	5.92%
Travel - Meals	42,000				42,000	9.72%
Insurance	23,789				23,789	5.50%
Telephone	11,125				11,125	2.57%
Utilities	9,671				9,671	2.24%
Taxes & Licenses	38,900				38,900	9.00%
Depreciation & Amortization	22,140				22,140	5.12%
Dues & Subscriptions	6,500				6,500	1.50%
Employee's Train/Recreation	7,100				7,100	1.64%

ABC Engineering		Hourly Rate (based on 2080)	Total Hrs. Worked	Direct Hours	Direct \$	Indirect - Office Hrs	Indirect - Office \$	B&P Labor	B&P \$	Advertising Labor	Advertising \$	Public Relations Labor	Public Relations \$	Direct Labor	Direct Selling \$	Education Labor	Education \$	Holiday Hrs	Holiday \$	Vacation Hrs	Vacation \$	Sick Hrs	Sick \$	Total \$ Column	Uncomp. O/T		
A. Adams	\$95,834	\$46.07	2,175	1,811	\$83,440	0	\$0.00	72.5	\$3,340.37	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	\$100,188.00	\$4,354.00		
B. Bigsby	Hourly	\$30.00	836	125	\$3,780	22	\$990.00	500.5	\$15,015.00	66	\$1,965.00	0	\$0.00	0	\$0.00	8	\$240.00	28	\$840.00	0	\$0.00	4	\$120.00	\$26,070.00	\$0.00		
C. Colton	\$143,692	\$69.08	2,261	1,512	\$105,360	0	\$0.00	303	\$20,932.06	55	\$3,799.55	0	\$0.00	0	\$0.00	6	\$414.50	88	\$6,079.28	161	\$11,122.31	78.5	\$5,422.99	\$156,161.43	\$12,469.43		
D. Dean	\$143,692	\$69.08	2,256	1,710	\$118,080	0	\$0.00	295	\$20,379.39	0	\$0.00	0	\$0.00	0	\$0.00	10	\$690.83	48	\$3,315.97	185	\$12,780.30	8	\$552.66	\$155,850.55	\$12,158.55		
E. Edwards	Hourly	\$17.00	155	13	\$2,210	14	\$357.00	134.5	\$2,286.50	0	\$0.00	0	\$0.00	0	\$0.00	7	\$119.00	0	\$0.00	0	\$0.00	0	\$0.00	\$2,983.50	\$0.00		
F. Franks	\$92,700	\$44.57	2,125	1,175	\$52,665.59	0	\$0.00	691.75	\$30,829.44	0	\$0.00	0	\$0.00	0	\$0.00	7	\$311.97	88	\$3,921.92	123.75	\$5,515.20	39	\$1,738.13	\$94,683.25	\$1,983.25		
G. Grant	\$102,375	\$49.22	2,190	1,065	\$52,270.31	0	\$0.00	689	\$33,911.72	0	\$0.00	0	\$0.00	65.5	\$3,222.50	0	\$0.00	80	\$492.19	246	\$1,107.81	37	\$1,821.09	\$107,764.45	\$5,389.45		
H. Hewitt	Hourly	\$27.35	2,139	5	\$14,276.70	0	\$0.00	1300	\$35,555.00	123	\$3,364.05	0	\$0.00	0	\$0.00	0	\$0.00	80	\$2,188.00	88.5	\$2,420.48	19.75	\$540.16	\$58,508.49	\$0.00		
I. Irvin	Hourly	\$45.00	855	0	\$0.00	6	\$405.00	708	\$31,860.00	0	\$0.00	89	\$4,005.00	0	\$0.00	3	\$135.00	20	\$900.00	35	\$1,575.00	0	\$0.00	\$38,800.00	\$0.00		
J. Johnson	Hourly	\$15.00	387	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	\$5,805.00	\$0.00		
Total			15,377	8,033	\$430,454.12	42	\$1,752.00	4,970	\$198,249.47	244	\$9,128.60	89	\$4,005.00	56	\$2,580.15	228	\$10,311.54	72	\$3,010.10	512	\$24,868.59	967	\$51,418.58	206	\$11,116.51	\$746,894.66	\$36,354.6

Indirect Cost Rate (ICR) Schedule



Process to Create Your Indirect Cost Rate (ICR) Schedule

- The creation of the Indirect Cost Rate (ICR) Schedule commences with the addition of the Income Statement figures to the first column of the ICR Schedule - See Module 4.

- Third, add the fringe benefits and non-labor indirect expenses from the Income

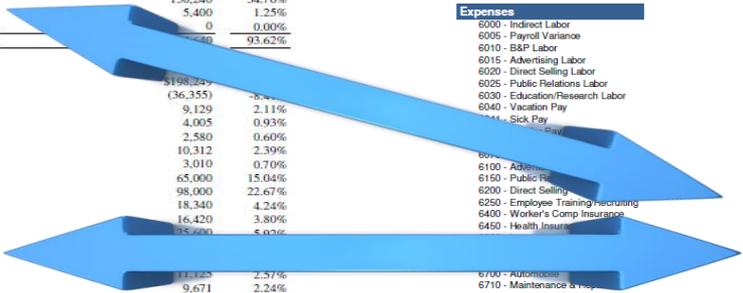
**ABC Engineering
Indirect Cost Rate Schedule
For the Year Ended December 31, 2013**

Description	Financial Statement Amount	ABC Adj.	WSDOT Adj.	Ref.	Accepted Amount	%
Direct Labor	\$432,206				\$432,206	100.00%
Indirect Costs:						
Fringe Benefits						
Vacation Pay	\$51,419				\$51,419	11.90%
Sick Pay	24,869				11,117	2.57%
Holiday Pay	24,869				24,869	5.75%
Payroll Taxes	120,125				120,125	27.79%
Health Insurance	25,490				25,490	5.90%
Workers' Comp. Insurance	15,980				15,980	3.70%
Profit Sharing (401-k)	150,240				150,240	34.76%
Severance	5,400				5,400	1.25%
Fringe Benefit Adjustment					0	0.00%
Total Fringe Benefits	\$404,640	\$0			\$404,640	93.62%
General Overhead						
Indirect Labor	\$198,249				\$198,249	45.64%
Payroll Variance Account	(36,355)				(36,355)	-8.41%
Bid & Proposal Labor	9,129				9,129	2.11%
Advertising Labor	4,005				4,005	0.93%
Public Relations Labor	2,580				2,580	0.60%
Direct Selling Labor	10,312				10,312	2.39%
Education/Research Labor	3,010				3,010	0.70%
Incentive Bonus	65,000				65,000	15.04%
Rent	98,000				98,000	22.67%
Maintenance & Repairs	18,340				18,340	4.24%
Automobile	16,420				16,420	3.80%
Travel	25,600				25,600	5.92%
Travel - Meals	42,000				42,000	9.72%
Insurance	23,789				23,789	5.50%
Telephone	11,125				11,125	2.57%
Utilities	9,671				9,671	2.24%
Taxes & Licenses	38,900				38,900	9.00%
Depreciation & Amortization	22,140				22,140	5.12%
Dues & Subscriptions	6,500				6,500	1.50%
Employee Train/Recruit/Moving	2,100				2,100	0.49%
Advertising	25,650				25,650	5.93%
Public Relations Expense	18,240				18,240	4.22%
Direct Selling Expenses	9,400				9,400	2.17%
Professional Fees	38,000				38,000	8.79%
Interest	450				450	0.10%
Computer	28,400				28,400	6.57%
Supplies & Miscellaneous	36,900				36,900	8.54%
Total General Overhead	\$727,555	\$0	\$0		\$727,555	168.34%
Total Indirect Costs & Overhead	\$1,132,195	\$0	\$0		\$1,132,195	261.96%
Indirect Cost Rate (Less FCC)	261.96%	261.96%			261.96%	
Facilities Cost of Capital					\$0	0.00%
	\$1,132,195	\$0	\$0		\$1,132,195	
Indirect Cost Rate (Includes FCC)					261.96%	

**ABC Engineers
Income Statement
December 31, 2013**

Financial Statements in U.S. Dollars

Revenue	
4000 - Sales	2,143,974
Net Sales	2,143,974
Cost of Sales	
5000 - Direct Labor	432,206
5021 - Reimbursable Travel	5,250
5030 - Consultant Expense	25,320
5075 - Other Direct - Mileage/Parking	6,523
Cost of Sales	469,299
Gross Profit (Loss)	1,674,675
Expenses	
6000 - Indirect Labor	198,249
6005 - Payroll Variance	(36,355)
6010 - B&P Labor	9,129
6015 - Advertising Labor	4,005
6020 - Direct Selling Labor	10,312
6025 - Public Relations Labor	2,580
6030 - Education/Research Labor	3,010
6040 - Vacation Pay	51,419
6041 - Sick Pay	11,117
6042 - Holiday Pay	24,869
6043 - Payroll Taxes	120,125
6044 - Health Insurance	25,490
6045 - Workers' Comp Insurance	15,980
6046 - Profit Sharing	150,240
6047 - Severance	5,400
6048 - Fringe Benefit Adjustment	0
6049 - Fringe Benefit Adjustment	0
6100 - Automobile	16,420
6101 - Maintenance & Repairs	18,340
6102 - Travel	25,600
6103 - Travel - Meals	42,000
6104 - Insurance	23,789
6105 - Telephone	11,125
6106 - Utilities	9,671
6107 - Taxes & Licenses	38,900
6108 - Depreciation & Amortization	22,140
6109 - Professional Memberships/Licenses	6,500
6110 - Rent	98,000
6111 - Utilities	9,671
6112 - Telephone	11,125
6113 - Payroll Taxes	120,125
6114 - IRA Contributions	150,240
6115 - Interest	450
6116 - Computer	28,400
6117 - Supplies & Miscellaneous	36,900
Total Expenses	1,132,195
Net Operating Income	542,480
Other Income	
4060 - Interest Income	650
9000 - Gain (Loss) on Sale of Assets	2,500
Total Other Income	3,150
Net Income (Loss)	545,630



Indirect Cost Rate (ICR) Schedule



Process to Create Your Indirect Cost Rate (ICR) Schedule

- Once the financial statement column is completed, the firm can now make the necessary adjustments, **See Module 6** for unallowable expenses.

- First, add the firm's adjustments for unallowable expenses under the firm's adjustments column.
- Second, in the reference column, add the reference letters pertaining to each adjustment.



**ABC Engineering
Indirect Cost Rate Schedule
For the Year Ended December 31, 2013**

Description	Financial Statement Amount	ABC Adj.	WSDOT Adj.	Ref.	Accepted Amount	%
Direct Labor	\$432,206				\$432,206	100.00%
Indirect Costs:						
Fringe Benefits						
Vacation Pay	\$51,419				\$51,419	11.90%
Sick Pay	11,117				11,117	2.57%
Holiday Pay	24,869				24,869	5.75%
Payroll Taxes	120,125				120,125	27.79%
Health Insurance	25,490				25,490	5.90%
Workers' Comp. Insurance	15,980				15,980	3.70%
Profit Sharing (401-k)	150,240				150,240	34.76%
Severance	5,400	(\$5,400)		R	0	0.00%
Fringe Benefit Adjustment		(28,400)		O	(28,400)	-6.57%
Total Fringe Benefits	\$404,640	(\$33,800)	\$0		\$370,840	85.80%
General Overhead						
	\$198,249				\$198,249	45.87%
	(36,355)				(36,355)	-8.41%
	9,129				9,129	2.11%
Advertising Labor	4,005	(\$4,005)		H	0	0.00%
Public Relations Labor	2,580	(2,580)		H	0	0.00%
Direct Selling Labor	10,312	(10,312)		N	0	0.00%
Education/Research Labor	3,010				3,010	0.70%
Incentive Bonus				Q	0	0.00%
Rent				A	73,388	16.98%
Maintenance & Repairs				P	17,343	4.01%
Automobile	16,420	(15,200)		B,C,P	1,220	0.28%
Travel	25,600	(1,600)		B,C	24,000	5.55%
Travel - Meals	42,000	(42,000)		B,C	0	0.00%
Insurance	23,789	7,000		D,P	30,789	7.12%
	11,125				11,125	2.57%
	9,671				9,671	2.24%
Taxes & Licenses	38,900	(25,140)		E	13,760	3.18%
Depreciation & Amortization	22,140	(7,664)		F,P	14,476	3.35%
Dues & Subscriptions	6,500	(1,175)		G	5,325	1.23%
Employee Train/Recruit/Moving	2,100	(1,500)		I	600	0.14%
Advertising	25,650	(23,250)		M	2,400	0.56%
Public Relations Expense				M,I	3,100	0.72%
Direct Selling Expenses				N	4,600	1.06%
Professional Fees				J	15,631	3.62%
Interest	450	(450)		K	0	0.00%
Computer	28,400				28,400	6.57%
Supplies & Miscellaneous	36,900	(25,480)		L	11,420	2.64%
Total General Overhead	\$727,555	(\$286,274)	\$0		\$441,281	102.10%
Total Indirect Costs & Overhead	\$1,132,195	(\$320,074)	\$0		\$812,121	187.90%
Indirect Cost Rate (Less FCC)	261.96%	187.90%			187.90%	
Facilities Cost of Capital					\$0	0.00%
	\$1,132,195	(\$320,074)	\$0		\$812,121	
Indirect Cost Rate (Includes FCC)					187.90%	

Firm's Adjustments

Reference Letters

Firm's Adjustments

Reference Letters

Indirect Cost Rate (ICR) Schedule



Process to Create Your Indirect Cost Rate (ICR) Schedule

- Once the financial statement column is completed, the firm can now make the necessary adjustments, [See Module 6](#) for unallowable expenses.
- Third, add explanation and FAR references for each adjustment in the reference section at the bottom of the schedule.



*ABC Engineering- In Process
"Indirect Cost Rate still subject to WSDOT Audit"*

References

Add the dollar amount in each reference,

ABC Adjustments:

as an expense account can have multiple adjustments.

- A Unallowable costs of **\$24,612** idle capacity per 48 CFR 31.205-17(c)
- B Lodging (**\$1,600**), Meal (**\$42,000**), and Mileage (**\$3,200**) rates in excess of federal travel regulation unallowable per 48 CFR 31.205-46(a)(2).
- C Inadequate supporting documentation unallowable per 48 CFR 31.201-2(d).
- D Key person life insurance for **\$6,000** unallowable per 48 CFR 31.205-19(e)(2)(v).
- E Unallowable taxes and licenses per 48 CFR 31.205-41.
- F Amortization of goodwill for **\$7,000** unallowable per 48 CFR 31.205-49.
- G Costs of memberships in civic and community organization unallowable per 48 CFR 31.205-1(f)(7).
- H Public relations (**\$1,957**) and advertising (**\$11,615**) unallowable per 48 CFR 31.205-1.
- I Entertainment unallowable per 48 CFR 31.205-14.
- J Legal Costs in relation to litigation unallowable per 48 CFR 31.205-47(f)(5).
- K Interest unallowable per 48 CFR 31.205-20.
- L Contributions unallowable per 48 CFR 31.205-8L.
- M Promotional Marketing unallowable per 48 CFR 31.205-1 and 31.205-38.
- N Unsupported direct selling costs of **\$18,800**, no documentation available to demonstrate and support "person to person" selling unallowable per 48 CFR 31.205-38(b)(5).
- O Fringe Benefit adjustment; directly associated cost to unallowable Advertising (**\$17,360**), Public Relations (**\$8,120**) and Direct Selling Labor (**\$2,920**) unallowable per 48 CFR 31.201-6(a).
- P Auto Allowance payments of **\$12,000** unallowable per 48 CFR 31.205-6(m)(2) and 31.201-2(d), documentation of mileage log not available and unable to support and show segregation of business and personal use. Associated costs for vehicle unallowable per 48 CFR 31.205-46(d) and 31.205-6(m)(2). Associated costs include Insurance (**\$1,000**), Maintenance (**\$997**), and Depreciation (**\$664**).
- Q Bonus payments of **\$65,000** unsupported and not performance based unallowable per 48 CFR 31.205-6 and 2010 AASHTO Audit Guide, Chapter 7, Section 7.12 C
- R Labor Variance Account to show the uncompensated overtime labor adjustment.
Labor Variance account is an offset account to balance to payroll.- \$48,708.88
- S Severance payment does not follow company's established severance policy, **\$5,400** is unallowable per 48 CFR 31.205-6(g).

General Tips – Indirect Cost Rate (ICR)

General Tips to Assist with The Process:

- WHAT NOT TO DO
 - We see some firms who create the Indirect Cost Rate (ICR) Schedule before reconciling labor, creating the Labor Distribution Report (LDR), and/or finalizing the financial statements. This process is backwards and creates more work for the firm. The figures must be correct prior to building the ICR Schedule.
- Your LDR form can be used for monthly labor reconciliations and at year end, the monthly reconciliations can be rolled up into an annual worksheet – [See Module 5](#).
- If your firm's payroll cycle is different from your firm's fiscal year, you will need to complete a reconciliation and an adjusting entry. [See Example](#).



Reconciliation – Payroll Cycle Example

Payroll Adjusting Entries to Align the Payroll Cycle with the Firm's Fiscal Year

- The firm in this example has the following periods:
 - Payroll Cycle (Bi-Weekly, 26 paychecks) runs from 12/23/12 to 12/21/13.
 - Fiscal Year runs from 1/1/13 to 12/31/13.

Payroll Adjusting Entries

- The firm will need to adjust out the wages paid from 12/23/12 to 12/31/12, as the labor was performed in the previous fiscal year.
- The firm will also need to adjust in the wages earned from 12/22/13 to 12/31/13, as the labor was performed in the current fiscal year.
- After the two adjusting entries are calculated, the firm will show the adjustments to arrive at the adjusted payroll total.
- The adjusting entries will align payroll with the labor reported on the firm's Indirect Cost Rate (ICR) Schedule.
- Disclaimer:** This is only one type of method to reconcile labor. The adjusting entries are for your reconciliation **ONLY!**

YEAR-END LABOR RECONCILIATION

Example for Bi-Weekly Pay Cycle

Payroll Register from Paychex (Check dates 12/23/12 to 12/21/13)

Regular Pay	\$	705,230
Overtime	\$	1,752
Bonus	\$	65,000
Severance	\$	5,400
	\$	<u>777,382</u>
12/24/12 - 12/31/12 Accrual Adj	\$	(19,794)
12/22/13 - 12/31/13 Accrual Adj	\$	23,353
Bonus	\$	(65,000)
Severance	\$	(5,400)
	\$	<u>710,541</u>

Labor Matches

Fiscal Year 2013 Income Statement (P&L)

Direct Labor	\$432,206
Vacation	\$51,419
Sick	\$11,117
Holiday	\$24,869
Indirect	\$227,285
Payroll Variance	(\$36,355)
	<u>\$710,541</u>

Labor Distribution Report - 2013

Direct Labor	\$430,454
Direct OP Premium	\$1,752
Office Labor	\$198,249
B&P Labor	\$9,129
Advertising Labor	\$4,005
Public Relations Labor	\$2,580
Direct Selling Labor	\$10,312
Education Labor	\$3,010
Holiday	\$24,869
Vacation	\$51,419
Sick	\$11,117
	<u>\$746,896</u>
Labor Totals on LDR	\$746,896
Payroll Variance (Uncompensated OT)	(\$36,355)
Total	<u>\$710,541</u>

Indirect Cost Rate Schedule - 2013 - Column for Financial Statement Amount

Direct Labor	\$432,206
Vacation/Sick/Holiday Pay	\$87,405
Indirect Labor	\$198,249
B&P Labor	\$9,129
Adv Labor	\$4,005
Public Relations	\$2,580
Direct Selling	\$10,312
Ed/Research Labor	\$3,010
	<u>\$746,896</u> Ties to LDR
Payroll Variance (Uncompensated OT)	(\$36,355)
	<u>\$710,541</u> Balance with Adjusted Payroll

Labor Matches

Bi-Weekly Pay Cycle (26 paychecks)

12/23/2012	12/21/2013	260	2080
Accrual Delete From FY2012 Pay			
12/24/2012	12/31/2012	(6)	(48)
Accrual Add From FY2014 Pay			
12/22/2013	12/31/2013	7	56
	Total		2088

Fiscal Year 2013

1/1/2013	12/31/2013	261	2088
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12/24-12/31, 2012 12/22-12/31, 2013

Adams	\$46.07	(\$2,211.36)	2,579.92
Bigsby	\$30.00	(\$1,440.00)	1,680.00
Colton	\$69.08	(\$3,315.84)	3,868.48
Dean	\$69.08	(\$3,315.84)	3,868.48
Edwards	\$17.00	(\$816.00)	952.00
Franks	\$44.57	(\$2,139.36)	2,756.32
Grant	\$49.22	(\$2,362.56)	2,756.32
Hewitt	\$27.35	(\$1,312.80)	1,531.60
Irvin	\$45.00	(\$2,160.00)	2,520.00
Johnson	\$15.00	(\$720.00)	840.00
		<u>(\$19,793.76)</u>	
Total Accrual Adj			

Labor Matches

Be Sure to Visit Us Online

Our website is filled with educational material and guidance for all firms. We have published several interpretive guidance documents to further assist firms. The website below provides guidance on the following topics and we are in the process of adding further topics:

- Labor
- Uncompensated Overtime
- Direct Selling, Public Relations, Advertising and Bid & Proposal
- Allowable Bonus
- Auto Expense
- Meals
- Airfare

Please check our website on a regular basis for updates.

URL – <http://www.wsdot.wa.gov/Audit/default.htm>

WSDOT Safe Harbor Program:

<http://www.wsdot.wa.gov/Audit/SafeHarbor/CR.htm>



**For Additional Guidance
and Contact Information –
Please refer to the end of
Module 6!**





- **Questions? Comments?**
We are happy to help you!