Allocating Direct Costs – Examples

When selecting an appropriate allocation method, the PI needs to exercise judgment and document the selected allocation method for future reference. The following acceptable allocation methods are common approaches used by Principal Investigators:

**Acceptable Direct Cost Allocation Methods**

- **Usage Based**: The cost of lab supplies allocated based upon the quantity used on each sponsored agreement or documented usage of equipment.
- **Time Based**: The cost of scientific equipment allocated based upon the number of hours used for each sponsored agreement.
- **Effort Based**: The cost of lab supplies proportionately allocated based upon the PI’s percentage of effort charged to each sponsored agreement.
- **Square Footage Based**: The salary of a student cleaning glassware in two laboratories that are conducting similar research proportionately allocated based upon the square footage of the two laboratories.
- **Experiments**: The cost of syringes allocated based upon the number of experiments performed on each sponsored agreement.
- **Clients served**: The cost of personality tests allocated based upon the number of clients served.
- **Allocation based upon FTEs**: The cost of renting space allocated based upon the number of FTEs working on each sponsored agreement.

**Unacceptable Direct Cost Allocation Methods**

The following examples are unacceptable allocation methods to direct charge sponsored agreements:

- **Rotating charges** among sponsored agreements without establishing that the charges accurately reflect the relative benefit to each project during that specified period of time.
- Allocating indirect expenses directly to a sponsored agreement without an approved direct cost justification per the University’s cost policy.
- **Transferring expenses** from other accounts at the end of a project period for the sole purpose of “spending down” the remaining funds on a grant.
- Allocating costs solely on the basis of which project has the most available funds.
- Allocating costs that benefit multiple activities (sponsored and non-sponsored) exclusively to sponsored agreements.