

Cost Allocation Series #2 - Fringe Benefits

Note: the following article is based on an allocation procedure where the actual fringe benefit rate is used rather than a fixed rate.

The second pool that is included as part of the basic GMS Accounting and Financial Management System is the Fringe Benefit Pool. As with the Leave Pool discussed in the September, 2016, newsletter, how the base is defined and the employee class structure is set up within the GMS software will be the two main factors determining how the fringe benefit costs are allocated to programs. Please refer to the Help Manual under Tools\Cost Allocation Setup, in the Class Setup and Fringe Allocation sections, for the setup of classes and the fringe benefit matrix.

When an expense is coded as a fringe benefit, the element used is 998000. (This is a control account set up in the GMS system and cannot be changed.) Typically, the transaction codes set up for fringe benefits follow **immediately after** GL code 50500. An example would be GL code 50600 – FICA Fringe Benefits. (50500 is the control account that is used to allocate the fringe costs in the pool to the financial statements and cannot be changed.) All transactions coded to element 998000 are accumulated, by line item, on an **agency fiscal year-to-date basis**.

The system then looks at the year-to-date fringe benefit costs, on an individual line item basis, and allocates a percentage of the total cost to each individual class using the ratio of the **YTD base amount (typically salaries and leave) to the YTD total base of the classes that receive each benefit**. For example, let's say the YTD FICA expense for the organization was \$24,400. Class 1 total base was \$168,660 and the agency total base was \$321,330. The ratio of the class 1 base to the total base is $\$168,660/\$321,330$ or .5249. The system then applies the .5249 against the YTD total agency FICA \$24,400. That results in \$12,807.56 FICA expense being allocated to class 1. The system then follows the same procedure for the FICA expense for all remaining classes who receive the FICA benefit.

Once all classes have been accounted for and the total YTD FICA expense has been allocated, the entire process is repeated for the next and all subsequent fringe benefit costs. At the end of the process the total of all fringe benefit costs allocated to each class is then compared to that class' base. For example, if the total allocated class 1 fringe benefit cost is \$60,750, the ratio of that amount against the class 1 base is $\$60,750/\$168,660$ or .3602. That 36.02% fringe rate is then applied to all class 1 salaries during the cost allocation process.

Note: If your organization uses the fringe pool in the GMS software, it is imperative that you use the calculated fringe benefit rate(s) when preparing your program budgets. Too often we see clients using the fringe pool to allocate their fringe benefits but they create program budgets based on individual employee costs. In addition to saving an incredible amount of time in budget preparation when using the fringe rate(s), you should always be using the same procedure for your budgeting as you do your accounting to give you the most realistic budget comparative on your financial statements.