

Indirect Cost Rate (ICR) Training

Where Do The
Numbers
Come From?

(Module 4)

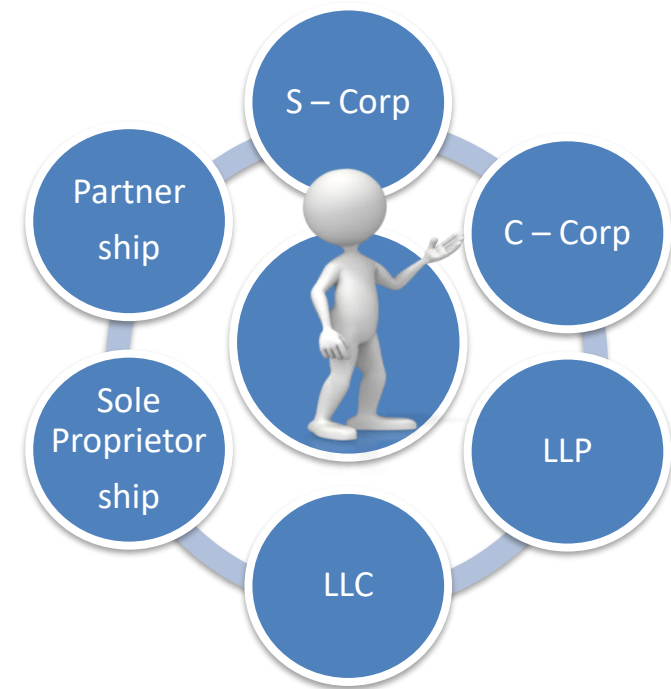


Indirect Cost Rate (ICR) Building Blocks

Business Structure

There are various types of business structures. This will determine how compensation and certain expenses are recorded.

- Determine services that are allowable and allocable per Federal Acquisition Regulations (FARs).
- Establish policies and procedures that outline costs considered as direct or indirect.



Payroll Records

- Represents what employees were actually paid.
- One source for labor expense accounts is the General Ledger (GL).
- May not line up with fiscal year – adjusting entries needed to align labor reported during the year in the financial records to the Indirect Cost Rate (ICR) Schedule – [See Module 5.](#)

Owner Draws

- Shown on the Balance Sheet, not the Income Statement – [See Module 5.](#)
- Source for Owners raw labor rate.
- [All labor must be documented whether the payment is through a payroll register, a draw, or a distribution.](#)



Compensation

Timesheets

- Source document to support labor hours (all hours worked).
- Source document for labor billed to an agreement.
- Should segregate direct labor from indirect labor.
- Record ALL hours worked for employees/owners (*to include administrative time*)

Refer to the timekeeping training –

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

Your timekeeping policies and procedures should meet the Federal requirements in Chapter 6 of the AASHTO Audit Guide.



Timesheets

Source Document

Direct Hours

Indirect Hours

Labor Reports



Labor Distribution Report (LDR)

- Populated from timesheets and from payroll records for Fiscal Year.
- Shows direct, premium overtime, and various indirect labor accounts separately.
- Indicate if employee is hourly or salary.
- Show standard rate for salary employees (Salary/2,080 Hours) and hourly rate for hourly employees (Payroll Rate).
- The LDR will show uncompensated overtime, if it applies to your firm.
- For Examples of LDRs, please refer to Module 2.

Some firms may have an automated labor report, such as a Staff Utilization Report, please check with our office to determine if your report will satisfy the labor distribution report requirement.



Standard LDR	Hourly Rate	Total Hrs. Worked	Direct Hours	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	2,111.5	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	828.0	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	2,297.5	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	2,246.0	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	147.5	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
Total			7,630.5	5,171	\$309,995.52	36	\$1,347.00	1,511	\$72,011.59	121	\$5,764.55	244	\$13,921.17	474	\$29,800.09	111	\$7,017.13	\$439,857.04	\$27,944.54

Chart Of Accounts



Definition — Chart of Accounts is a listing of accounts used to document assets, liabilities, revenues and expenses. This should be tailored to reflect the operations of your company.

- Used to develop the General Ledger (GL) accounts.
- The list of accounts should be specific to your firm.
- Establish separate accounts for direct labor and indirect labor.
 - Indirect labor further segregated by type (e.g. bid & proposal, unallowable advertising, etc.).
- Establish accounts for Federal Acquisition Regulations (FARs) unallowable activities.
- Segregate allowable from unallowable – [See Module 6](#)

Example — Travel accounts. Your Chart of Accounts should include an allowable travel and an unallowable travel account.

- Identify unallowable expenses at point of entry (when entered into the accounting system).



ABC Engineers

Chart of Accounts

Asset Accounts

- 1020 - Checking
- 1035 - Petty Cash
- 1120 - Accounts Receivable
- 1130 - Allowance for Doubtful Accounts
- 1200 - Work in Progress
- 1320 - Supplies
- 1390 - Prepaid Insurance
- 1500 - Furniture & Fixtures
- 1550 - Vehicles
- 1600 - Land
- 1650 - Building
- 1670 - Accumulated Depr. - Building
- 1700 - Equipment
- 1750 - Accumulated Depr. - Equipment

Liability Accounts

- 2000 - Accounts Payable
- 2050 - Notes Payable
- 2100 - Sales Tax Payable
- 2200 - Wages Payable
- 2250 - Payroll Tax Payable
- 2300 - Interest Payable
- 2400 - Unearned Revenues
- 2550 - Mortgage Loan Payable

Owner's Equity Accounts

- 2900 - Mary Smith, Capital
- 2950 - Mary Smith, Drawing

Non-Operating Revenues and Expenses, Gains, and Losses

- 8100 - Interest Revenues
- 9100 - Gain on Sale of Assets
- 9600 - Loss on Sale of Assets

Operating Revenue Accounts

- 4000 - Consulting Income
- 4100 - Reimbursable Income
- 4150 - Subconsulting Income

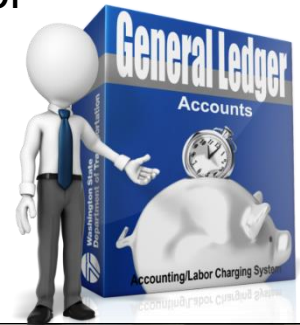
Operating Expense Accounts

- 5000 - Direct Labor
- 5021 - Reimbursable Travel
- 5025 - Reimbursable Meals
- 5030 - Reimbursable Auto
- 5050 - Consultant Expense
- 5075 - Other Direct - Mileage/Parking
- 6000 - Indirect Labor
- 6010 - B&P Labor
- 6011 - U/A Advertising Labor
- 6012 - Direct Selling Labor
- 6020 - Advertising
- 6030 - Payroll Variance
- 6100 - Payroll Taxes
- 6120 - Travel
- 6125 - U/A Travel
- 6130 - Meals
- 6135 - U/A Meals
- 6140 - Auto
- 6030 - Bank Charges
- 6090 - Insurance
- 6120 - Legal/Accounting Expenses
- 6130 - License & Fees
- 6170 - Office Expense
- 6190 - Postage
- 6195 - Printing/Reprographics
- 6200 - Professional Memberships/Licenses
- 6210 - Rent
- 6280 - Telephone
- 6300 - Training/Conferences
- 6350 - IRA Contributions
- 7500 - Depreciation

General Ledger (GL)

Accounting Systems

- The General Ledger (GL) is developed from the firm's Chart of Accounts.
 - A number of small firms are using **QuickBooks** as their accounting system to track labor and expenses.
 - This is an acceptable method as long as there are additional controls in place to maintain the integrity of the data and documentation.
 - Please refer to the following link for help on setting up internal controls when using **QuickBooks**: <http://longforsuccess.com/wp-content/uploads/2010/09/Good-Internal-Controls.pdf>
 - **Excel** is another method, but is not as secure as **QuickBooks**. For **Excel** to be accepted, the firm will need to keep supporting documentation to show a complete audit trail (track changes).
- We recommend you use an automated accounting system to maintain Your accounting records.*



Financial Statements



Income Statement

It is produced from the General Ledger (GL) at fiscal year end after adjusting entries are performed (*balances do not carry forward to next fiscal year*).

- Shows revenue and expenses over a specific accounting period (fiscal year).



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	4,905
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
6050 - Severance Pay	5,400
6070 - Bonus Pay	65,000
6100 - Advertising	25,550
6150 - Public Relations	18,240
6200 - Direct Selling	9,400
6250 - Employee Training/Recruiting	2,100
6400 - Worker's Comp Insurance	15,980
6450 - Health Insurance	25,490
6500 - Insurance	23,789
6600 - Professional Fees	38,000
6605 - Taxes & Fees	38,900
6700 - Automobile	16,420
6710 - Maintenance & Repair	13,340
6750 - Travel	25,600
6755 - Travel - Meals	42,000
6760 - Depreciation & Amortization	22,140
6800 - Professional Memberships/Licenses	6,500
6850 - Rent	98,000
6860 - Utilities	9,671
6870 - Telephone	11,125
6900 - Payroll Taxes	120,125
6910 - IFA Contributions	150,240
6950 - Interest	450
6980 - Computer	28,400
6990 - 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

Financial Statements



Income Statement

It is produced from the General Ledger (GL) at fiscal year end after adjusting entries are performed *(balances do not carry forward to next fiscal year).*

- Used to fill in the Indirect Cost Rate (ICR) Schedule financial statement column.



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

Description	Financial Statement Amount	XYZ Adj.	WSDOT Adj.	Ref.	Accepted Amount	%
Direct Labor	<u>\$432,206</u>				<u>\$432,206</u>	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				O	(28,400)	-6.57%
Total Fringe Benefits	<u>\$404,640</u>	<u>(\$33,800)</u>	<u>\$0</u>		<u>\$370,840</u>	<u>85.80%</u>
General Overhead						
Indirect Labor	\$198,249				\$198,249	45.87%
Payroll Variance Account	(36,355)				(36,355)	-8.41%
Bid & Proposal Labor	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	65,000	(65,000)		Q	0	0.00%
Rent	98,000	(24,612)		A	73,388	16.98%
Maintenance & Repairs	18,340	(997)		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%
Telephone	11,125				11,125	2.57%
Utilities	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	18,240	(15,140)		M,I	3,100	0.72%
Direct Selling Expenses	9,400	(4,800)		N	4,600	1.06%
Professional Fees	38,000	(22,369)		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	<u>\$727,555</u>	<u>(\$286,274)</u>	<u>\$0</u>		<u>\$441,281</u>	<u>102.10%</u>
Total Indirect Costs & Overhead	<u>\$1,132,195</u>	<u>(\$320,074)</u>	<u>\$0</u>		<u>\$812,121</u>	<u>187.90%</u>
Indirect Cost Rate (Less FCC)	261.96%	187.90%			<u>187.90%</u>	
Facilities Cost of Capital					\$0	0.00%
	<u>\$1,132,195</u>	<u>(\$320,074)</u>	<u>\$0</u>		<u>\$812,121</u>	
Indirect Cost Rate (Includes FCC)					<u>187.90%</u>	

Financial Statements



Income Statement

It is produced from the General Ledger (GL) at fiscal year end after adjusting entries are performed (*balances do not carry forward to next fiscal year*).

- Direct and indirect labor (indirect labor should be further segregated into to the proper administrative and selling activity categories) should be segregated.



ABC Engineers

Income Statement

December 31, 2013

Financial Statements in U.S. Dollars

Revenue	
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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

Balance Sheet

Details what a firm owns and owes, as well as the amount invested by the owners/shareholders at a point in time. Includes the following sections:

- Assets
- Liabilities
- Owner's Equity
 - Balances carry forward to next reporting period.
 - Most small firms that we see are currently having their financial statements prepared by an outside CPA or bookkeeper to assist with preparation of their Federal income taxes.

ABC Engineers

Balance Sheet

December 31, 2013

ASSETS

Current Assets	
Cash	\$60,000
Accounts receivable	50,000
(less doubtful accounts)	(5,000)
Prepaid expenses	6,000
Total Current Assets	\$111,000
Fixed Assets	
Property and Equipment	200,000
(less accumulated depreciation)	(30,000)
Total Net Fixed Assets	\$170,000

TOTAL ASSETS **\$281,000**

LIABILITIES

Current Liabilities	
Accounts payable	\$10,000
Short-term notes	5,000
Interest payable	200
Taxes payable	2,000
Accrued payroll	30,000
Total Current Liabilities	\$47,200
Long-term Liabilities	
Long-term liabilities	20,000
Total Long-Term Liabilities	\$20,000

Equity	
Partner Draws	(\$60,000)
Partner Equity	20,000
Retained earnings	253,800
Total Equity	\$213,800

TOTAL LIABILITIES & EQUITY **\$281,000**



Uncompensated Overtime



UNCOMPENSATED OVERTIME MAY OR MAY NOT APPLY TO YOUR FIRM!

- Uncompensated overtime can apply to exempt salaried staff and/or owners who take draws/distributions.
- Uncompensated overtime is caused by hours worked over 40 in a week, or over 2,080 per year without additional pay.
- A variance account should be used to track the dollar value of these excess hours worked.
- The variance is reported in your General Ledger; on your Labor Distribution Report (LDR); on your Income Statement; and on your Indirect Cost Rate (ICR) schedule.



See our [Indirect Cost Rate Uncompensated Overtime Guidance](#)



Uncompensated Overtime Example



Ten Person Firm With Staff Payroll And Uncompensated Overtime Example

- The firm has ten employees with a mix of hourly and salary employees.
- Of the ten, five are salary and five are hourly.
- All salaried employees worked over the standard 2,080 hours per year.

How does the firm account for the uncompensated overtime?

- The firm will first set up their Chart of Accounts with accounts for direct labor, indirect labor, and uncompensated overtime (Payroll Variance).
- During the year, the firm will need to record each employee's labor in the proper designated labor accounts. If the salaried employees worked more than the 2,080 standard hours during the year, their labor will be offset by the Payroll Variance (Uncompensated OT) account. Take the following employee of the firm for example:

ABC Engineers

Chart of Accounts

Asset Accounts

1020 - Checking
1035 - Petty Cash
1120 - Accounts Receivable
1130 - Allowance for Doubtful Accounts
1200 - Work in Progress
1320 - Supplies
1390 - Prepaid Insurance
1500 - Furniture & Fixtures
1550 - Vehicles
1600 - Land
1650 - Building
1670 - Accumulated Depr. - Building
1700 - Equipment
1750 - Accumulated Depr. - Equipment

Liability Accounts

2000 - Accounts Payable
2050 - Notes Payable
2100 - Sales Tax Payable
2200 - Wages Payable
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2300 - Interest Payable
2400 - Unearned Revenues
2550 - Mortgage Loan Payable

Owner's Equity Accounts

2900 - Mary Smith, Capital
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Non-Operating Revenues and Expenses, Gains, and Losses

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9600 - Loss on Sale of Assets

Operating Revenue Accounts

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Operating Expense Accounts

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5050 - Consultant Expense
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6130 - Meals
6135 - U/A Meals
6140 - Auto
6030 - Bank Charges
6090 - Insurance
6120 - Legal/Accounting Expenses
6130 - License & Fees
6170 - Office Expense
6190 - Postage
6195 - Printing/Reprographics
6200 - Professional Memberships/Licenses
6210 - Rent
6280 - Telephone
6300 - Training/Conferences
6350 - IRA Contributions
7500 - Depreciation

Uncompensated Overtime Example

Ten Person Firm With Staff Payroll And Uncompensated Overtime Example

- The firm has ten employees with a mix of hourly and salary employees.
- Of the ten, five are salary and five are hourly.
- All salaried employees worked over the standard 2,080 hours per year.

How does the firm account for the uncompensated overtime?

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- During the year, the firm will need to record each employee's labor in the proper designated labor accounts. If the salaried employees worked more than the 2,080 standard hours during the year, their labor will be offset by the Payroll Variance (Uncompensated OT) account. Take the following employee of the firm for example:

C. Colton, a salaried employee, worked 2,260.5 hours during the year and receives a yearly salary of \$143,692. Their standard hourly rate is \$69.08.

- The entries to the accounting system (General Ledger) would appear as follows (figures are rounded):

Direct Labor	\$104,453	(1,512 hours x \$69.083 per hour)
Office Labor	\$20,932	(303 hours x \$69.083 per hour)
B&P Labor	\$3,800	(55 hours x \$69.083 per hour)
Direct Selling Labor	\$3,938	(57 hours x \$69.083 per hour)
Education Labor	\$414	(6 hours x \$69.083 per hour)
Holiday	\$6,079	(88 hours x \$69.083 per hour)
Vacation	\$11,12	(161 hours x \$69.083 per hour)
Sick	\$5,423	(78.50 hours x \$69.083 per hour)
<u>Payroll Variance</u>	<u>(\$12,469)</u>	<u>(180.5 hours not paid x \$69.083 per hour)</u>

Total Labor **\$143,692**
(Matches what employee was paid yet still records the value of the 2,260.5 hours worked)

Uncompensated Overtime Example (Cont.)

How does the firm account for the uncompensated overtime? (Cont.)

- Once the firm has correctly accounted for each employee's labor in the firm's General Ledger (GL), then the labor and uncompensated overtime should tie correctly to the firm's Labor Distribution Report (LDR), Income Statement and the Indirect Cost Rate (ICR) Schedule.
- Looking at the previous employee and the firm's Labor Distribution Report (LDR), you can see the dollar amount recorded in the GL matches the hours recorded on the timesheets and the amount paid through payroll.

C. Colton, a salaried employee, worked 2,260.5 hours during the year and receives a yearly salary of \$143,692. Their standard hourly rate is \$69.08.

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Vacation	\$11,122	(161 hours x \$69.083 per hour)
Sick	\$5,423	(78.50 hours x \$69.083 per hour)
Payroll Variance	(\$12,469)	(180.5 hours not paid x \$69.083 per hour)
Total Labor	\$143,692	

(Matches what employee was paid yet still records the value of the 2,260.5 hours worked)

Standard LDR																											
Employee	Salary / Hourly	Hourly Rate (based on)	Total Hrs. Worked	Direct Hours	Direct \$	Direct OT Hours	OT \$ at 1.5	Indirect - Office Hrs	Office \$	B&P Labor	B&P \$	Advertising Labor	Advertising \$	Public Relations	Public Relations \$	Direct Selling 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	2,174.50	1,811	\$83,440.08	0.00	\$0.00	72.50	\$3,340.37	0.00	\$0.00	0.00	\$0.00	56.0	\$2,580.15	0.00	\$0.00	7.00	\$322.52	80.00	\$3,685.92	128.00	\$5,897.48	20.00	\$921.48	\$100,188.00	\$4,354.00
B. Bigsby	Hourly	\$30.00	836.00	125	\$3,750.00	22.00	\$990.00	500.50	\$15,015.00	65.50	\$1,965.00	0.00	\$0.00	0.0	\$0.00	105.00	\$3,150.00	8.00	\$240.00	28.00	\$840.00	0.00	\$0.00	4.00	\$120.00	\$26,070.00	\$0.00
C. Colton	\$143,692	\$69.08	2,260.50	1,512	\$104,453.03	0.00	\$0.00	303.00	\$20,932.06	55.0	\$3,799.55	0.00	\$0.00	0.0	\$0.00	57.00	\$3,937.71	6.00	\$414.50	88.00	\$6,079.28	161.00	\$11,122.31	78.50	\$5,422.99	\$156,161.45	\$12,469.45
D. Dean	\$143,692	\$69.08	2,256.00	1,710	\$118,131.40	0.00	\$0.00	295.00	\$20,379.39	0.00	\$0.00	0.00	\$0.00	0.0	\$0.00	0.00	\$0.00	10.00	\$690.83	48.00	\$3,315.97	185.00	\$12,780.30	8.00	\$552.66	\$155,850.55	\$12,158.55
E. Edwards	Hourly	\$17.00	154.50	13	\$221.00	14.00	\$357.00	134.50	\$2,286.50	0.00	\$0.00	0.00	\$0.00	0.0	\$0.00	0.00	\$0.00	7.00	\$119.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	\$2,983.50	\$0.00
F. Franks	\$92,700	\$44.57	2,124.50	1,175	\$52,366.59	0.00	\$0.00	691.75	\$30,829.44	0.00	\$0.00	0.00	\$0.00	0.0	\$0.00	0.00	\$0.00	7.00	\$311.97	88.00	\$3,921.92	123.75	\$5,515.20	39.00	\$1,738.13	\$94,683.25	\$1,983.25
G. Grant	\$102,375	\$49.22	2,189.50	1,062	\$52,270.31	0.00	\$0.00	689.00	\$33,911.72	0.00	\$0.00	0.00	\$0.00	0.0	\$0.00	65.50	\$3,223.83	10.00	\$492.19	80.00	\$3,937.50	246.00	\$12,107.81	37.00	\$1,821.09	\$107,764.45	\$5,389.45
H. Hewitt	Hourly	\$27.35	2,139.25	522	\$14,276.70	0.00	\$0.00	1300.00	\$35,555.00	123.00	\$3,364.05	0.00	\$0.00	0.0	\$0.00	0.00	\$0.00	6.00	\$164.10	80.00	\$2,188.00	88.50	\$2,420.48	19.75	\$540.16	\$58,508.49	\$0.00
I. Irvin	Hourly	\$45.00	855.00	0	\$0.00	6.00	\$405.00	708.00	\$31,860.00	0.00	\$0.00	89.00	\$4,005.00	0.0	\$0.00	0.00	\$0.00	3.00	\$135.00	20.00	\$900.00	35.00	\$1,575.00	0.00	\$0.00	\$38,880.00	\$0.00
J. Johnson	Hourly	\$15.00	387.00	103	\$1,545.00	0.00	\$0.00	276.00	\$4,140.00	0.00	\$0.00	0.00	\$0.00	0.0	\$0.00	0.00	\$0.00	8.00	\$120.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	\$5,805.00	\$0.00
Total			15,376.75	8,033	\$430,454.12	42.00	\$1,752.00	4970.25	\$198,249.47	243.50	\$9,128.60	89.00	\$4,005.00	56.0	\$2,580.15	227.50	\$10,311.54	72.00	\$3,010.10	512.00	\$24,868.59	967.25	\$51,418.58	206.25	\$11,116.51	\$746,894.66	\$36,354.67

Uncompensated Overtime Example (Cont.)



How does the firm account for the uncompensated overtime? (Cont.)

- Once the firm finalizes their Income Statement generated from the General Ledger (GL), then the finalized figures should match the firm's Labor Distribution Report (LDR) with the Payroll Variance (Uncompensated OT) account being reported as a separate account (Your labor is reconciled).

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
6050 - Severance Pay		5,400
6070 - Bonus Pay		65,000
6100 - Advertising		25,550
6150 - Public Relations		18,240
6200 - Direct Selling		9,400
6250 - Employee Training/Recruiting		2,100
6400 - Worker's Comp Insurance		15,980
6450 - Health Insurance		25,490
6500 - Insurance		23,789
6600 - Professional Fees		38,000
6605 - Taxes & Fees		38,900
6700 - Automobile		16,420
6710 - Maintenance & Repair		18,340
6750 - Travel		25,600
6755 - Travel - Meals		42,000
6760 - Depreciation & Amortization		22,140
6800 - Professional Memberships/Licenses		6,500
6850 - Rent		98,000
6860 - Utilities		9,671
6870 - Telephone		11,125
6900 - Payroll Taxes		120,125
6910 - IRA Contributions		150,240
6950 - Interest		450
6980 - Computer		28,400
6990 - Supplies & Miscellaneous		36,900
Total Expenses		1,132,195
Net Operating Income		542,480
Other Income		
4050 - Interest Income		650
9000 - Gain (Loss) on Sale of Assets		2,500
Total Other Income		3,150
Net Income (Loss)		545,630

Standard LDR		Hourly Salary / Rate (based on)	Total Hrs. Worked	Direct Hours	Direct OT	Indirect - Office	B&P Labor	B&P Labor	Advertising Labor	Advertising \$	Public Relations	Public Relations \$	Direct Selling Labor	Direct Selling \$	Education Labor	Education \$	Holiday Hrs	Holiday \$	Vacation Hrs	Vacation \$	Sick Hrs	Sick \$	Total Column	Uncomp. O/T			
A. Adams	Hourly	\$93,834	2,174.50	1,811	363.50	72.50	\$3,340.37	0.00	0.00	0.00	56.0	\$2,580.15	0.00	0.00	7.00	\$322.52	80.00	\$3,683.92	128.00	\$5,897.48	20.00	\$921.48	\$100,188.00	\$4,354.00			
B. Bigsby	Hourly	\$30.00	836.00	125	711.00	22.00	\$990.00	500.50	\$15,015.00	65.50	\$1,965.00	0.00	0.00	0.00	105.00	\$3,150.00	8.00	\$240.00	28.00	\$840.00	0.00	\$0.00	\$120.00	\$26,070.00	\$0.00		
C. Colton	Hourly	\$143,692	2,260.50	1,512	748.50	303.00	\$20,932.06	55.00	\$3,799.55	0.00	0.00	0.00	0.00	57.00	\$3,937.71	6.00	\$414.50	88.00	\$6,079.28	161.00	\$11,122.31	78.50	\$5,422.99	\$156,161.43	\$12,469.43		
D. Dean	Hourly	\$143,692	2,256.00	1,710	546.00	295.00	\$20,379.39	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.00	\$690.83	48.00	\$3,315.97	185.00	\$12,780.30	8.00	\$552.66	\$135,850.53	\$12,158.25			
E. Edwards	Hourly	\$17.00	154.50	13	141.50	14.00	\$357.00	134.50	\$2,286.50	0.00	0.00	0.00	0.00	0.00	7.00	\$119.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	\$2,983.50	\$0.00			
F. Franks	Hourly	\$92,700	2,124.50	1,175	949.50	691.75	\$30,829.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.00	\$111.97	88.00	\$3,921.92	123.75	\$5,315.20	39.00	\$1,738.13	\$94,683.25	\$1,983.25			
G. Grant	Hourly	\$102,375	2,189.50	1,062	1,127.50	689.00	\$33,911.72	0.00	0.00	0.00	0.00	0.00	0.00	65.50	\$3,223.83	10.00	\$492.19	80.00	\$3,937.50	246.00	\$12,107.81	37.00	\$1,821.09	\$107,764.43	\$3,389.43		
H. Hewitt	Hourly	\$27.35	2,139.25	522	1,617.25	1300.00	\$35,555.00	123.00	\$3,364.05	0.00	0.00	0.00	0.00	0.00	6.00	\$164.10	80.00	\$2,188.80	88.50	\$2,420.48	19.75	\$540.16	\$38,308.49	\$0.00			
I. Irvin	Hourly	\$45.00	853.00	0	853.00	6.00	\$405.00	708.00	\$31,860.00	0.00	0.00	89.00	\$4,005.00	0.00	0.00	3.00	\$135.00	20.00	\$900.00	35.00	\$1,575.00	0.00	\$0.00	\$38,880.00	\$0.00		
J. Johnson	Hourly	\$15.00	387.00	103	284.00	0.00	\$0.00	276.00	\$4,140.00	0.00	0.00	0.00	0.00	0.00	8.00	\$120.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	\$5,805.00	\$0.00			
Total			15,376.75	8,083	430,454.12	42.00	\$1,752.00	4970.25	\$198,249.47	243.50	\$9,128.60	89.00	\$4,005.00	56.0	\$2,580.15	227.50	\$10,311.54	72.00	\$3,010.10	512.00	\$24,868.59	967.25	\$51,418.58	206.25	\$11,116.51	\$746,894.66	\$36,354.67

Uncompensated Overtime Example (Cont.)



How does the firm account for the uncompensated overtime? (Cont.)

- The firm will then create the Indirect Cost Rate (ICR) Schedule from the Income Statement figures with the Payroll Variance (Uncompensated OT) account presented in the overhead section of the schedule.

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

Description	Financial Statement Amount	XYZ 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	<u>\$404,640</u>	<u>(\$33,800)</u>	<u>\$0</u>		<u>\$370,840</u>	<u>85.80%</u>
General Overhead						
Indirect Labor	\$198,249				\$198,249	45.87%
Payroll Variance Account	(36,355)				(36,355)	-8.41%
Bid & Proposal Labor	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	65,000	(65,000)		Q	0	0.00%
Rent	98,000	(24,612)		A	73,388	16.98%

ABC Engineers Income Statement

December 31, 2013

Financial Statements in U.S. Dollars

Revenue		
4000 - Sales	2,143,974	2,143,974
Net Sales		
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)		<u>1,674,675</u>
Expenses		
6000 - Indirect Labor	198,249	
6005 - Payroll Variance	(36,355)	
6010 - B&P Labor	9,129	
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6020 - Direct Selling Labor	10,312	
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6041 - Sick Pay	11,117	
6042 - Holiday Pay	24,869	
6050 - Severance Pay	5,400	
6070 - Bonus Pay	65,000	
6100 - Advertising	25,850	
6150 - Public Relations	18,240	
6200 - Direct Selling	9,400	
6250 - Employee Training/Recruiting	2,100	
6400 - Worker's Comp Insurance	15,980	
6450 - Health Insurance	25,490	
6500 - Insurance	23,789	
6600 - Professional Fees	38,000	
6605 - Taxes & Fees	38,900	
6700 - Automobile	16,420	
6710 - Maintenance & Repair	18,340	
6750 - Travel	25,800	
6755 - Travel - Meals	42,000	
6780 - Depreciation & Amortization	22,140	
6800 - Professional Memberships/Licenses	6,500	
6850 - Rent	98,000	
6880 - Utilities	9,671	
6870 - Telephone	11,125	
6900 - Payroll Taxes	120,125	
6910 - IRA Contributions	150,240	
6950 - Interest	450	
6980 - Computer	28,400	
6990 - Supplies & Miscellaneous	36,900	
Total Expenses		<u>1,132,195</u>
Net Operating Income		<u>542,480</u>
Other Income		
4050 - Interest Income	650	
9000 - Gain (Loss) on Sale of Assets	2,500	
Total Other Income		<u>3,150</u>
Net Income (Loss)		<u>545,630</u>

Be Sure to Visit Us Online

WSDOT Safe Harbor Program:

URL –

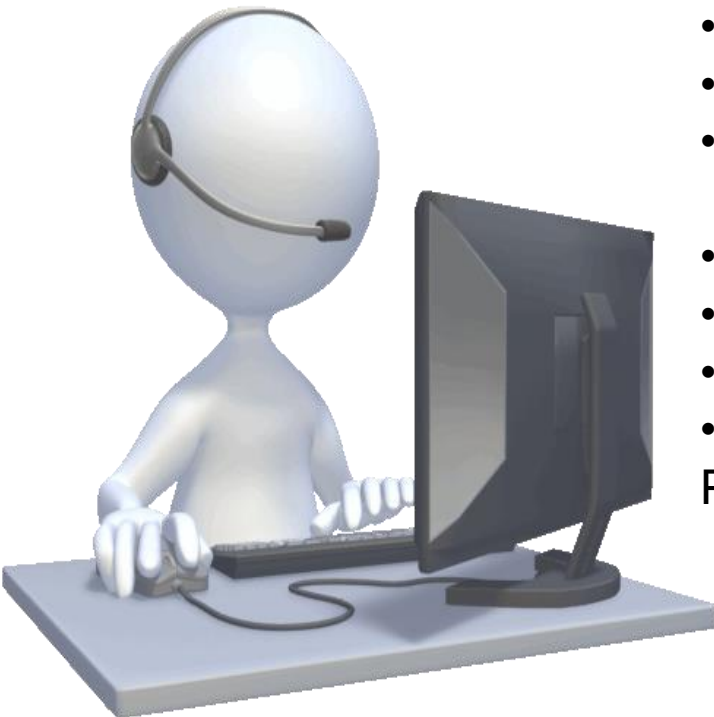
<http://www.wsdot.wa.gov/Audit/SafeHarborICR.htm>

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 continuing to add further topics:

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

Please check this site regularly for updates.

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





Thank you

For Additional Guidance and Contact Information

Please refer to the end of Module 6!



Questions? Comments?



**We are more than
happy to help you!**

