SUMMARY

This manual presents a model for accounting for indirect costs for higher education institutions in Sweden that specifies and clarifies the costs at different levels within the institution. The aim has been to create a model that will offer simple but nevertheless equitable and cost-effective assistance for sound internal management and monitoring and also help to provide the reliable information required for administrative decisions and review. The model is intended to provide accurate accounts and calculations and also to enable better monitoring of full coverage of the costs of various activities within the higher education institutions. The model also gives researchers a more reliable conception than before of the kind of costs that can be ascribed to their projects. This involves a major change in the principles for the management of indirect costs and is based on the principle of apportioning all revenues and expenditure within an organisation among the cost-bearers and in relation to the direct costs. The model is simple, clear and transparent and will at the same time, if uniformly applied, increase the possibility of making comparisons between different operations and different years.

The basic principles in the model are the following:

- The operations of the higher education institution are divided into core activities and support activities and the core activities are divided into distinct operations, which are referred to as cost-bearers
- Expenditure on support activities (joint costs) is apportioned to the different core activity operations (teaching and research)
- All joint expenditure is apportioned among the cost-bearers in the form of shared costs.
- All higher education institutions use expenditure as the basis of their allocation to the cost-bearers, i.e. the main basis is direct salary costs (alternatively direct salary and operational costs)
- All revenues and expenditure are attributed to the cost-bearers, which makes it possible to monitor full coverage of costs
- A new method for project calculations, “full-cost calculation”, that indicates total costs (direct costs and a fair share of indirect costs) and revenues (divided into external funding and grants)
- A common functionally divided structure for shared expenditure at different levels, which is applied in making “full-cost calculations”.

These basic principles are mandatory in the model. Otherwise there is some degree of flexibility to enable a higher education institution to adapt application of the model to specific conditions that may apply to it in certain cases.
2. THE MODEL

2.1 Brief description

One fundamental principle in the new model for allocating costs is that the total expenditure of a higher education institution must be borne by the cost-bearers, which are the lowest level at which all revenues and costs are to be declared and borne. When all expenditure has been declared by the “bearers”, all costs can be apportioned and full coverage of costs can be monitored. In the model costs are classified as direct or indirect costs for the cost-bearers. Direct costs are those that can be attributed directly to the cost-bearer while indirect costs are costs shared by several or all the cost-bearers. Shared costs, which can arise at different organisational levels, are aggregated and apportioned level by level until they are eventually ascribed to the cost-bearers. In a higher education institution with three levels, the central level allocates the costs borne by the institution as a whole to the faculties and each faculty allocates its shared costs to the separate departments. Finally each department distributes its shared costs (including the shared costs of different sections) as well as the joint central costs and faculty costs to its individual cost-bearers. Before the final allocation to the cost-bearers the increment is calculated in relation to direct salary costs (basic model). This increment is then used both when accounting for and calculating the indirect costs of the department’s cost-bearers. Alternatively the final allocation to the cost-bearers can be determined in relation to direct salary and operational costs (alternative model). The apportionment of joint institutional or faculty expenditure at the levels above the cost-bearers can be based on the same and/or other relevant cost-increment allocation systems in the levels below. The step-by-step apportionment of the costs of the level above takes the form of fixed amounts. The allocation can also be expressed as a direct percentage increment for the cost bearers.

This model is based not only on the allocation of costs between different levels but also between the different areas of activity. The costs at every level must be analysed and allocated to either teaching or research. The division between these activities will be retained at subsequent levels.

When calculations are made for projects, the shared costs must be structured in accordance with a classification agreed jointly by the higher education institutions into six main functions. The aim of this division is to create uniformity and transparency.

2.3 Direct and indirect costs

A cost-bearer consists of a distinct activity with justified revenues and costs and cost-bearers are found in the core activities at the departments. As a rule, revenues are project-linked and therefore simple to allocate to the appropriate cost-bearer. Overall costs therefore comprise both the direct costs of the core-activities and costs for support, which for the core activities are indirect. The combination requires classification and allocation so that the costs are ascribed to the correct cost-bearer. The costs are therefore divided into direct or indirect costs from the cost-bearer’s point of view. Classification is needed if a model with full cost coverage is to provide equitable accounts and calculations. The terms direct and indirect costs lie at the core of the
calculation of the increment. Neither concept can be found in the accounts and items listed in the accounting system. On the other hand, in full-cost calculations costs are divided into direct and indirect. Comparison of the final outcome with the preliminary calculations also requires a division into direct and indirect costs in the accounts.

**Direct costs**
Direct costs can be traced directly to a specific cost-bearer. The concept *direct* indicates that the expenditure has a direct relationship and a definite link to a particular cost-bearer. The cost-bearer’s use of resources, mainly in the form of work and materials, gives rise to these costs. Direct costs can consist of both external and internal purchases/invoices, which are sorted into *cost types* and divided into four main groups.

Examples of project expenditure divided into the four main groups:

- Direct salaries: salaries including payroll tax for those directly involved in the project
- Direct operational costs: material, travel, conferences, reference material, consultancy services in the project
- Direct equipment/depreciation: depreciation of project equipment
- Direct premises: offices and laboratory space for the project and share of ancillary floor-space such as departmental corridors.

The direct costs, cost types, can be debited directly to the cost-bearer in the accounts. Characteristically, direct costs are either borne completely by the cost-bearer or can be ascribed to the appropriate cost-bearer as a natural share/proportion. The kinds of costs borne completely comprise, for instance, travel and conference fees, while salaries need to be allocated proportionately on the basis of time-sheets or staff schedules, if they are to be ascribed to the appropriate cost-bearers.

**Indirect costs**
Indirect costs are shared by all or several cost-bearers. The term *indirect* indicates that these costs do not have a direct but an indirect link with the cost-bearer. The term also makes it clear that these costs are not the result of activities decided on by the cost-bearers themselves. The indirect costs for the cost-bearer take the form of shared expenditure at the allocation levels in the higher education institution’s organisation.

Shared costs at the allocation levels:

- Costs shared by the entire higher education institution
- Costs shared by the faculty
- Costs shared by the department.
This model is timeless and neutral and is to be applied to all forms of activity irrespective of whether grant funded or externally financed. The basic principle for the model is that all core activities (education and research) at the higher education institution are to bear their own direct costs as well as their share of indirect costs. This is ensured by ascribing all direct costs to a cost-bearer in the accounts (see below) and apportioning indirect costs to cost-bearers as a percentage increment to salary costs. The cost-bearer declares both the total costs and the total funding.