

University of Pittsburgh

Cost Accounting

Cost Center Models

Financial Guidelines

OMB Circular A-21 and related Cost Accounting Standards require the University to identify and separately account for cost centers. A cost center is a self supporting ancillary business enterprise that generally charges other University departments and sponsored awards. Information on how to identify and account for cost centers is included in the financial guideline on Cost Centers.

Basic Steps of a Cost Model

A cost model is required to support the cost center's billing rates and should initially include all costs necessary to provide the applicable good or services including depreciation expense in lieu of capital purchases and applicable overhead. Unallowable costs are to be eliminated to yield a net allowable cost of goods or services. An estimated sales volume in units is divided into net costs to yield a cost per unit of goods or services. Please review Basic Steps of a Cost Model for more detail.

Sample Cost Model

Sample Cost Model can be downloaded for general use in developing unit costs for ancillary business service operations. Please contact Cost Accounting for any additional guidance in completing your cost model prior to establishing an ancillary business services entity 03 account.

Entity 03 MTDC Subcode Exclusions Listing

Modified Total Direct Costs are the direct costs of an operation that will be used as the basis for calculating overhead costs. In other words, the indirect cost rate multiplied by MTDC will yield the amount of overhead (indirect cost) charges. MTDC exclusions are subcodes that are excluded from drawing overhead charges. There are four (4) basic reasons for excluding subcodes from drawing overhead:

1. Costs included in the calculation of the overhead cost rate and for which the rate is intended to recover, such as the recovery of depreciation on equipment expense, should be excluded.
2. Charges from specialized service facilities for the purchase of products or services that include overhead costs in their pricing should be excluded from drawing additional overhead.
3. Various charges are excluded to avoid a serious inequity in the distribution of F&A costs. For example, the F&A costs associated with a \$100,000 subcontract would not amount to the \$20,000 overhead recovered assuming a 20% rate.
4. The Office of Management and Budget (OMB) Circular A-21 section G.2. explicitly excludes certain other costs from drawing overhead such as scholarships and fellowships.

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Overhead

The Office of Management and Budget (OMB) Circular A-21 section E.2.e requires overhead costs to be identified to the major University functions of Instruction, Research and Public Service. The University's budget process includes the estimating, accumulating, and reporting of facilities and administrative expenditures (F&A) necessary in carrying out its three-fold mission of Research, Instruction, and Public Service.

Budgeting Process Flowchart shows that tuition and fee revenues, associated with the instruction function, directly support the University's budget. In contrast, the Research and Public Service functions indirectly support the University's F&A budget via the recovery of indirect costs from their sponsor or customer respectively.

Summary of Overhead Rates

Please reference the Summary of Overhead Rates to determine the rate applicable to your ancillary business service.