



Mastering Indirect Costs: Tracking, Managing, and Maximizing Recovery

Laura Davis

Finance Webinar Series

- 8/12/25 - [DCAA Audits](#)
- 8/19/25 - [Finance for the Small Government Contractor](#)
- 8/26/25 - [Pricing for Government Contractors](#)

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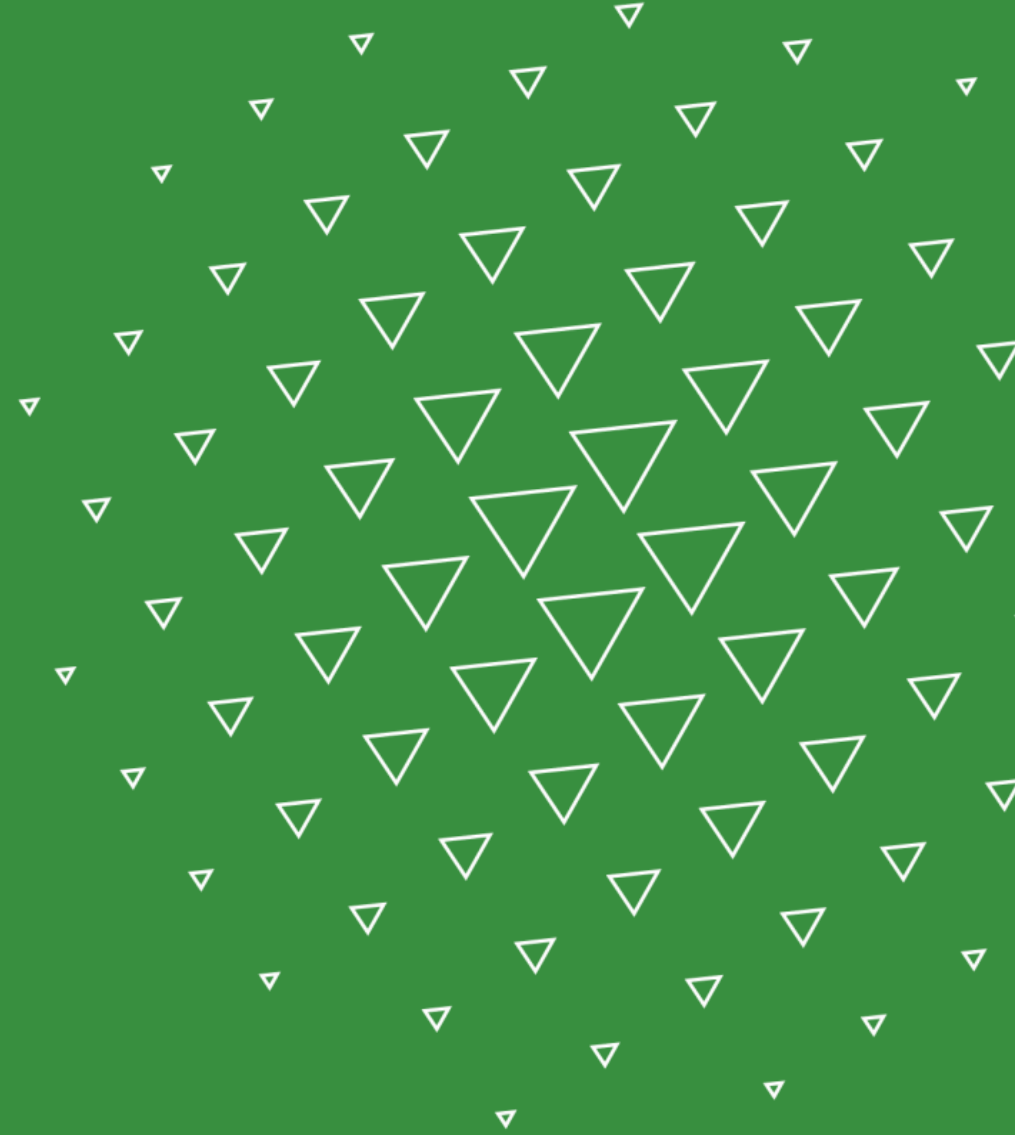
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Agenda

01. Definition of Types of Costs
02. Overview of Indirect Rates
03. Discussion of Cost Pools
04. Classification of Specific Costs
05. Benefits / Uses of Provisional Rates

Types of Costs



TYPES OF COSTS



DIRECT COSTS

- Billable
- Non billable



INDIRECT COSTS



UNALLOWABLE COSTS

Direct Costs

Direct costs are costs that can be identified specifically with a particular final cost objective. (FAR 2.101)

Costs can be direct, but not always billable to the contract.

Types of direct expenses are labor, materials, subcontractor expenses, travel, other direct costs.

Indirect Costs

FAR 2.101 – Indirect cost means any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or with a least one intermediate cost objective.

Examples of indirect costs are rent, general and administrative salaries, insurances, etc.

Unallowable Costs

FAR 2.101 – Unallowable cost means any cost that, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost-reimbursements, or settlements under a Government contract to which it is allocable.

UNALLOWABLE COSTS

Some costs are unallowable:

- Interest
- Bad Debt
- Donations/Contributions
- Entertainment costs
- Fines/Penalties/Mischarging
- Federal Corporate Income Taxes
- Losses on other contracts

Some costs are unallowable due to being excessive or not reasonable:

- Travel exceeding the Federal Travel Regulations
- Executive salaries exceeding a reasonable limit
- Bonuses paid outside of a written policy

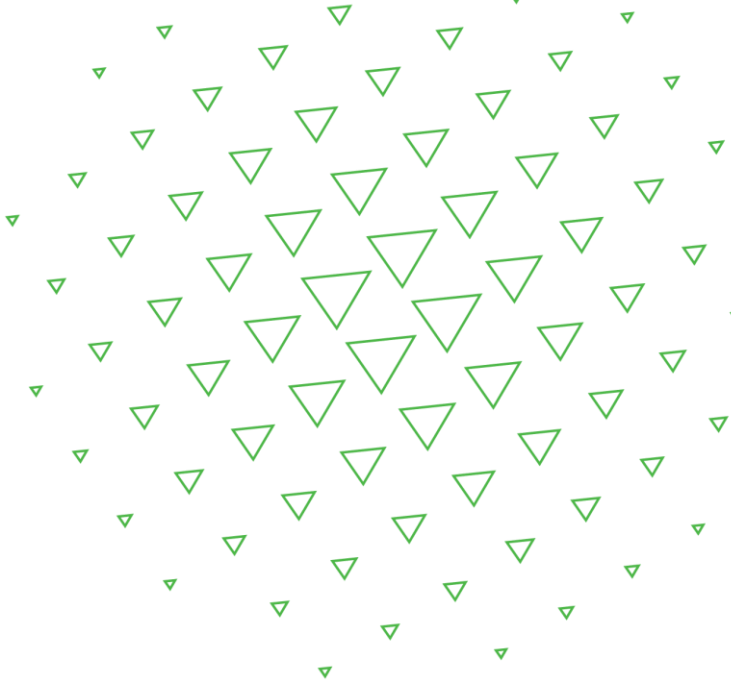
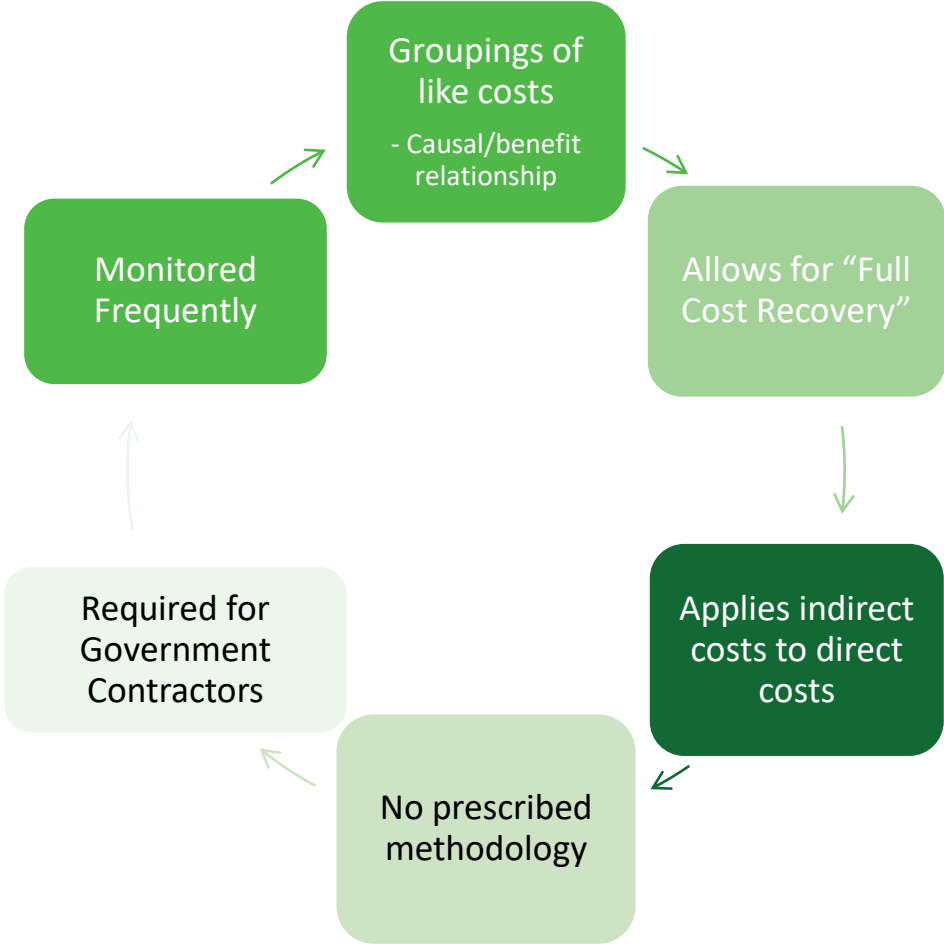


ALLOWABLE VS. UNALLOWABLE COSTS

- Allowable costs are costs that can be charged to government contracts either directly or through application of indirect rates.
- Allowable costs must also be 'reasonable'. FAR 31.201-3 provides that a cost is reasonable in nature and amount 'if...it does not exceed that which would be incurred by a prudent person in the conduct of competitive business'.



Indirect Cost Pools



Type of Indirect Costs



Fringe Benefits



Overhead



General & Administrative

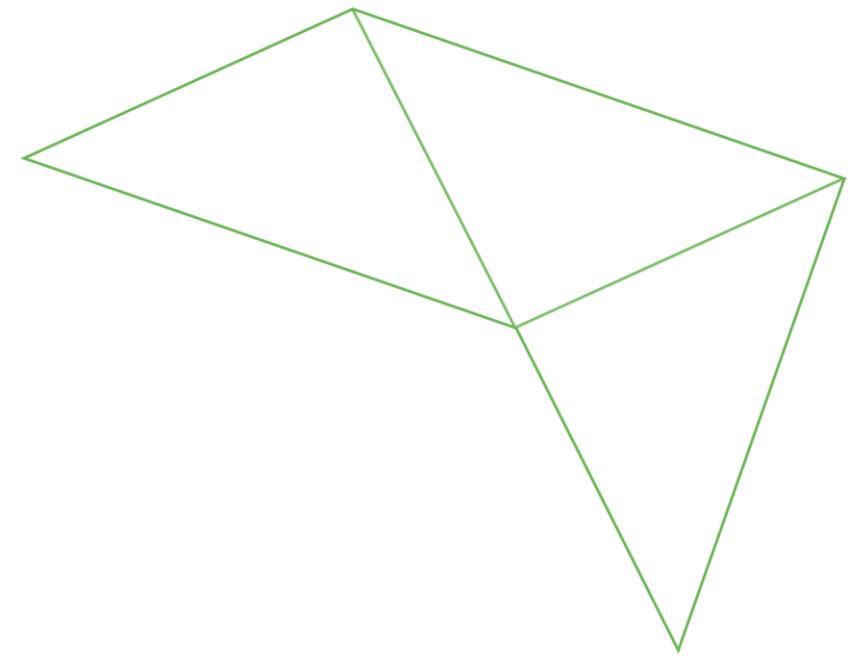


Material Handling



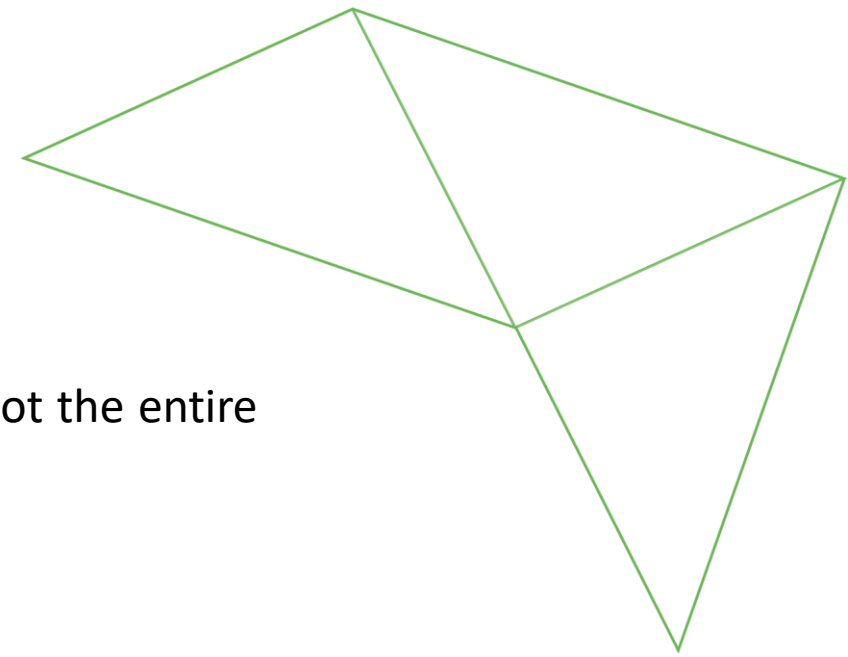
Subcontractor Handling

FRINGE BENEFITS



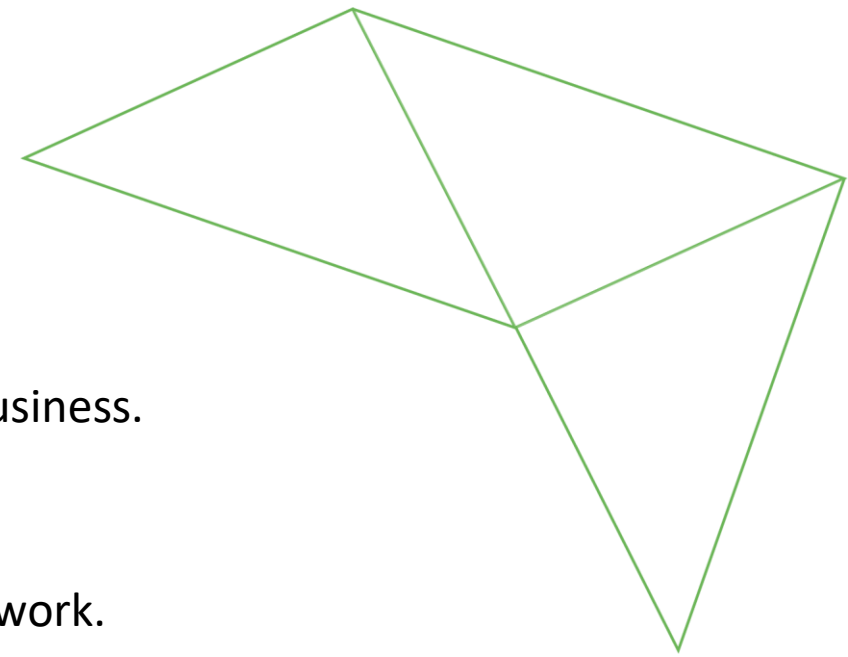
- Fringe Benefits are costs paid for the benefit of the employee.
- Examples are payroll taxes, employee insurance, paid leave (holiday, vacation), etc.
- Fringe benefit pools can be segregated on benefits offered to groups of employees. Examples include Full-time employees, Part-time employees, Union employees, etc.

OVERHEAD



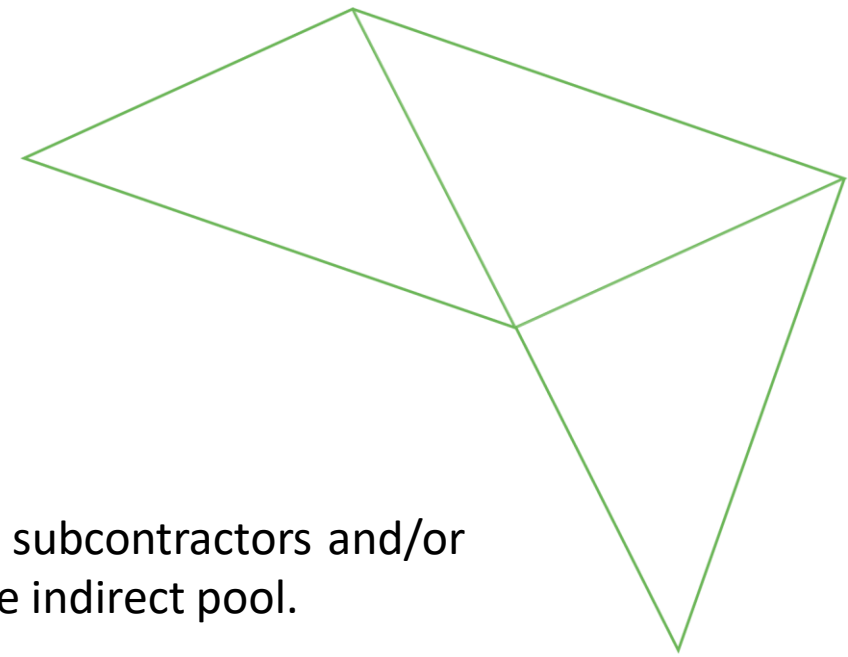
- Overhead costs support a specific part or function of a company, but not the entire company.
- Generally, related to a group of projects.
- Basic definition...there would be no overhead expenses if there were no projects.
- Can be segregated by division, on-site, and offsite, etc.

GENERAL & ADMINISTRATIVE (G&A)



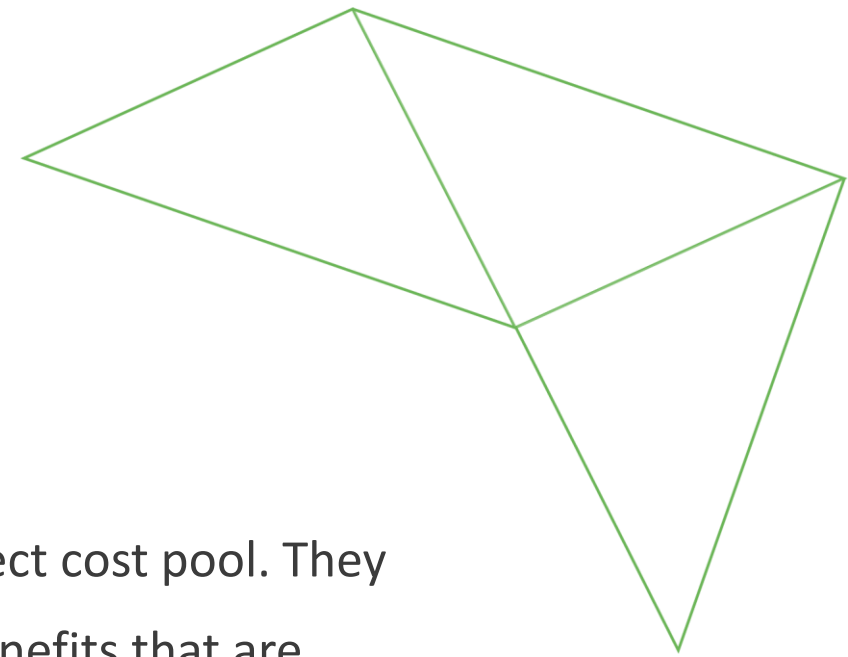
- G&A expenses support the overall management and operation of the business.
- A company would still have G&A expenses even if they have no billable work.
- Examples include executive costs, accounting, and other corporate type expenses.
- Bid and Proposal (B&P) costs are included in G&A after the allocation of fringe/overhead.

MATERIAL / SUBCONTRACTOR HANDLING



- Some contractors group the administrative costs incurred in managing subcontractors and/or purchasing and disseminating large quantities of material into a separate indirect pool.
- When these costs are significant, it provides a better allocation to the benefiting cost objective.
- Analyze the impact on G&A rate to exclude these costs from the base.

INTERMEDIATE POOLS / SERVICE CENTERS



- Intermediate pools are costs that are allocated to another indirect cost pool. They are not applied directly to a project. Examples include Fringe Benefits that are included in the Overhead rate or Facility service centers.
- Service Centers are sometimes intermediate pools. Facility costs can be part of a service center to be allocated between overhead and G&A. Machinery costs can be a service center allocated to projects or types of overhead.

DISTINGUISHING OH FROM G&A

1

In small companies, it's hard to distinguish overhead from G&A.

2

Generally, if an employee normally charges their labor direct, their indirect expenses would be overhead.

3

A person that charges their labor to G&A, their indirect expenses would be G&A.

4

Travel and labor should always be charged to the same cost pool (per employee).

DETERMINING POOLS



BASED ON COMPANY
STRUCTURE & NEEDS



BASED ON INDUSTRY



REVIEW OPTIONS TO
DETERMINE BEST STRUCTURE

- Allocable
- Competitive Environment
- Change in Business Direction

FRINGE COST

- Payroll Taxes
 - FICA
 - Federal/State Unemployment
- Leave
 - PTO/Vacation/Holiday
 - Bereavement Leave
 - Jury Duty
- 401k Contributions
- Group Insurances
 - Medical
 - Dental
 - Vision
 - Life/Disability
- Workers Comp Insurance
- Wellness Expenses
- Bonus*



DIRECT/OVERHEAD/G&A/UNALLOWABLE

Expense	Direct	Overhead	G&A	Unallowable
Labor	X	X	X	X
Travel	X	X	X	X
Consulting/Contractor	X	X	X	
Computer Expense		X	X	
Recruiting		X	X	
Legal Fees			X	X
Seminars & Conferences		X	X	
Accounting Services			X	
Shipping/Postage		X	X	
Depreciation		X	X	X
Rent/Utilities		X	X	

DIRECT/OVERHEAD/G&A/UNALLOWABLE

Expense	Direct	Overhead	G&A	Unallowable
Seminars/Conferences		X	X	X
Safety Supplies	X	X		
Bank Service Charges			X	
General Liability Insurance			X	
Interest Expense				X
Entertainment				X
Employee Morale				X
Equipment Rental	X	X	X	
Auto Expenses		X	X	
Telephone		X	X	
Holiday Parties				X

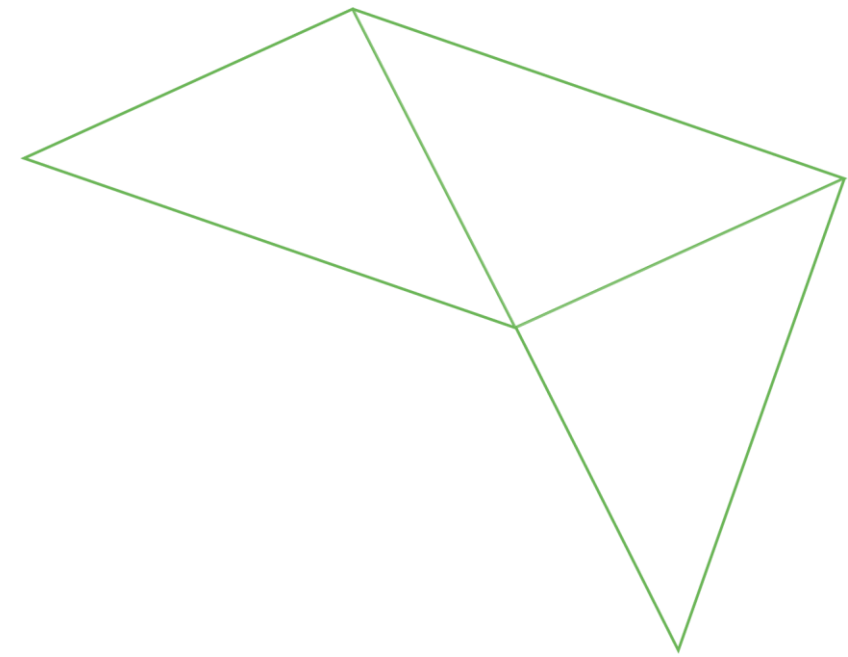
SAMPLE PROJECT - PAINTING A BUILDING

- Direct Costs
 - W2 Labor
 - Contractors
 - Paint
- Indirect Costs
 - Employee Benefits
 - Drop Cloths/Tape
 - Paint Brushes*
 - Paint Thinner
 - Ladders
 - Company Vehicle
 - Depreciation
 - Maintenance
 - Fuel
- Project Manager*
- Accounting
 - Processing Payroll & AP
 - Billing Customer
- Business Owner
 - Salary & Benefits



BASIC RULES

- Segregate within Chart of Accounts
 - 5000 - Direct
 - 6000 - Fringe
 - 7000 - Overhead
 - 8000 - G&A
 - 9000 - Unallowable
- Understand the purpose of the cost
- How was it proposed
- Be consistent
- Remember indirect costs are spread across the company/division



BENEFITS/USES OF COST POOLS



DCAA Requirements



Pricing



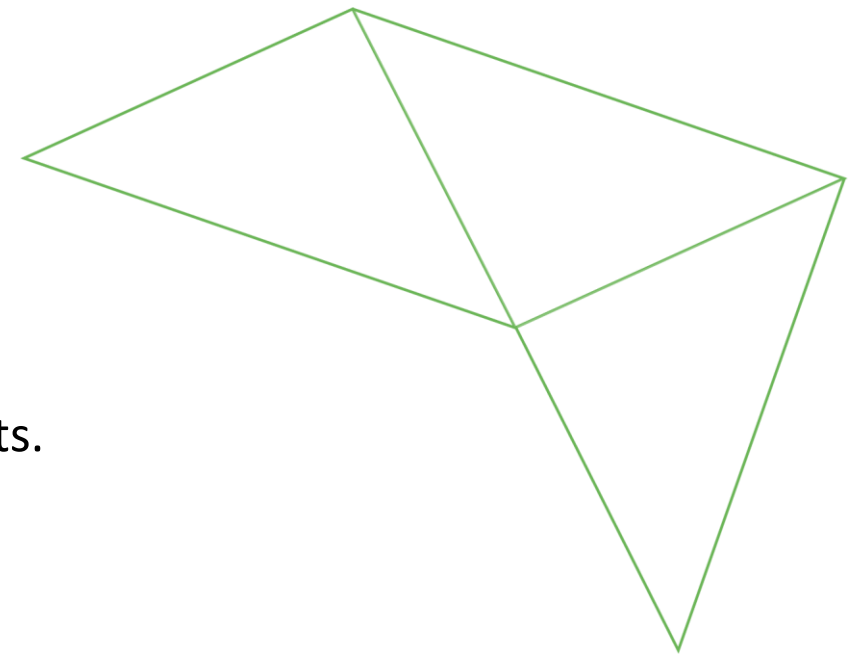
Monitoring Financial
Performance



Job Costing

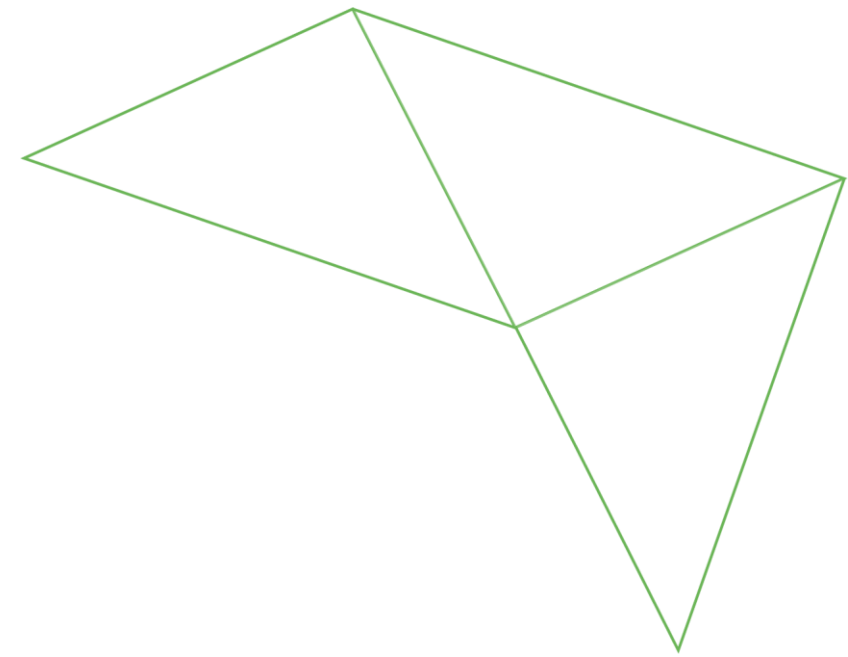
POOL CALCULATIONS

- The main objective is to apply all indirect costs to the direct costs. (Full cost absorption).
- Unallowable costs (G&A type) are not allocated and therefore directly affect net income.
- There are many methods to allocating indirect costs.
- Once a method of allocation is used, stay consistent with the application method.



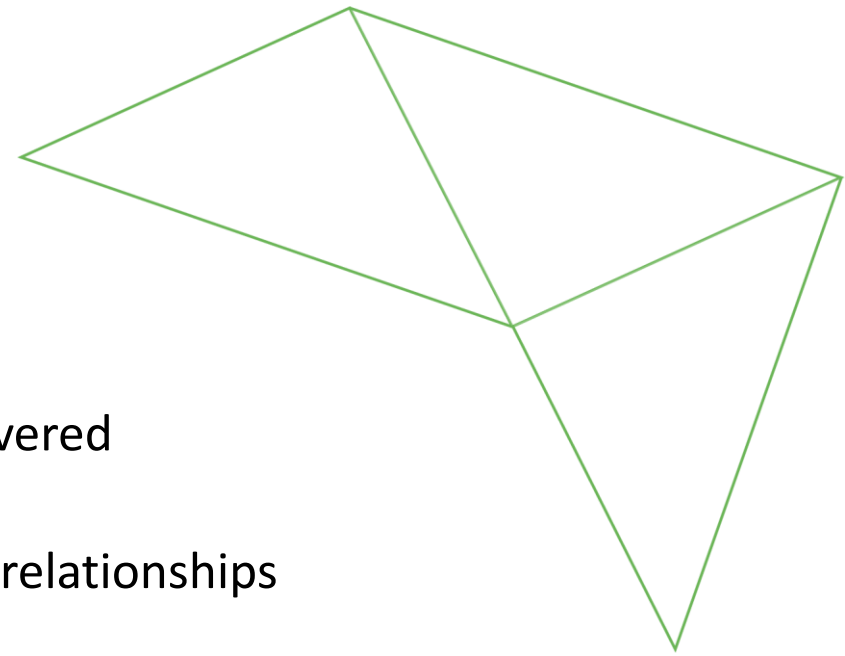
PROVISIONAL RATES / FORWARD PRICING

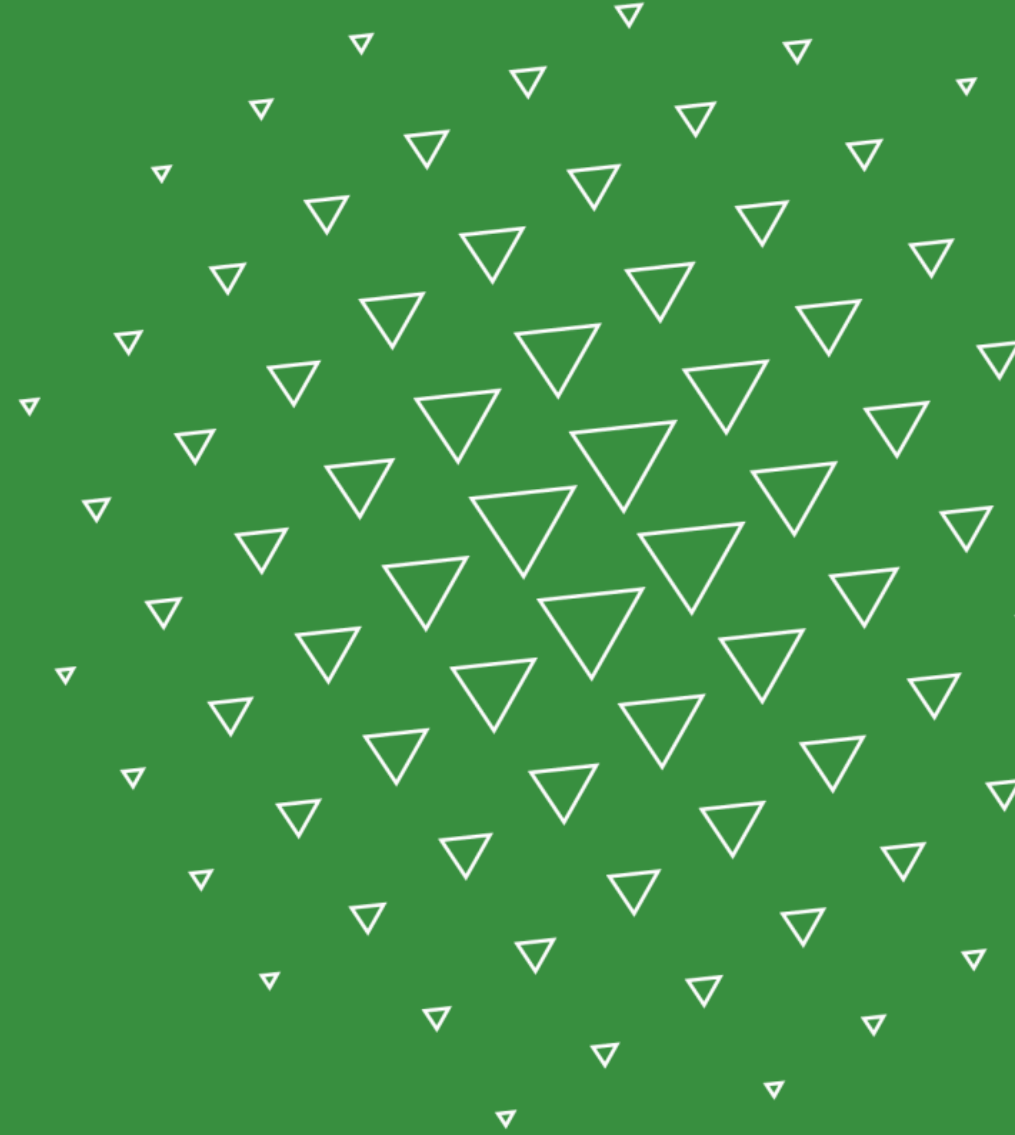
- Integral Part of the Annual Budgeting Process
- Keeps Pricing Consistent
- Useful for Monitoring Financial Performance
- Develop a Model and a Process
- Send to DCAA/DCMA before the 1st Billing of the new Fiscal Year



CONCLUSION

- Indirect costs are a cost of running a company and must be recovered
- Indirect costs are grouped into pools based on causal/beneficial relationships
- Understanding the purpose/benefit of the cost
- Consistency in treatment of costs
- Monitor Rates on a consistent basis – at least quarterly.





Q&A

Contact us at info@pci.us for more information!