

EXPENSE ALLOCATION POLICY

Allocation Definition:

The process of assigning a cost, or a group of costs, to one or more parties, in reasonable proportion to the benefit provided to each party. An expense is allocable to a particular party if the goods or services involved are chargeable or assignable to that party in accordance with relative benefits received.

Multi-Party Cost Allocation:

If an expenditure solely benefits one party, it should be charged entirely to that party ie. Origin of the service required. However, sometimes an expenditure can benefit more than one party or other activity. When this occurs, the expenditure must be charged in the same proportion as it benefits each of the parties or activities and where all parties have agreed to share the costs and have agreed to the established apportioning of those costs prior to the engagement of services.

There are two methods for allocating a cost to multiple parties:

- The Proportional Benefit Rule: when it is not possible to determine the origin the service required or the exact benefit of the cost to each party. The cost is allocated in accordance to the determined proportion of benefit(s) provided.
- The Interrelationship Rule: when it is not possible to determine the proportional benefit to each party because of the interrelationship of the work involved; the cost is distributed on any reasonable and rational basis predetermined by the parties and/or within the terms of the engagement.