

Formula for Setting Recharge Center Rates

FIN-ACC-I-400



About This Policy

Effective Date:

07-01-1996

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10-01-2000

Responsible University Office:

Financial Management Services

Responsible University Administrator:

Vice President and Chief Financial Officer

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Related Information

- * [I-70, Payments for Memberships in Social Organizations](#)
- * [I-80 ,Donations and Contributions to Other Entities](#)
- * [I-280, Use of Object Codes for Unallowable Expenses for Indirect Cost Recovery Purposes](#)
- * [I-370, Fund Balance in Recharge Centers](#)
- * [I-410, Recharge Center Transfers](#)

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Policy Statement

Recharge center rates should be set to recover no more than actual costs. The formula below should be used to determine the proper amount to charge a university account for service or product. This formula will provide documentation of the rate calculation and identify the costs used in computing the rate. The costs used to compute the rate should include only actual costs.

The University-wide rate formula should include the following components, where each component is distinctly identified:

- A. All direct costs to the service center for supplying that product or service.
- B. All indirect costs to the service center for supplying that product or service.
- C. A variable or projected increment for the anticipated increase in costs for the year in which the rate will be applied.
- D. A carry forward component equal to the profit or loss from the previous year.
- E. The amount of any subsidy provided and the source of funds.
- F. Any unallowable A-21 should be identified as not recoverable in the rate.
- G. Volume discount used and the basis for the reduction.
- H. The components should be summed and then divided by the budgeted units (whether service or product) for the year the rate is being determined.

The formulas should be reviewed on an annual basis by the office of the campus Fiscal Officer and the Chief Accountant of Indiana University.

If the prior year component is greater than 5% of total allowable costs, then an analysis should be completed explaining the reasons and sent to the office of the campus Fiscal Officer with a copy sent to the Chief Accountant of Indiana University.

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Reason For Policy

Cost Accounting Standards require the University to disclose the process of establishing rates and to establish university-wide guidelines for establishing rate formulas for the recharge centers.

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Procedure

The costs of the recharge center should be analyzed each year. This analysis should compare actual costs to the estimates that were created the prior year. Costs to recover should be adjusted for prior year profit or loss in order to break-even over the long-term.

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Definitions

Recharge Center: An entity whose primary goal is to provide a good or service for the convenience of Indiana University.

Recharge Center Rate Setting: The process of analyzing all of the accounts costs to determine the price to be charged for a product or service.

Overhead Costs: The costs that cannot be specifically identified with the product or service, such as production administration, building depreciation and utilities.

Rate: It determines what price will be charged for a product or service.

Carried Forward Component: The amount of profit or loss that is greater than the amount of dollars set aside for depreciation and replacement cost of fixed assets.

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History

The source to this policy is:

Cost Accounting Standards (CAS) 9905.501, Consistency in estimating, accumulating and reporting costs by educational institution, CAS 9905.502, Consistency in allocating costs incurred for the same purpose by educational institutions, CAS 9905.506 Cost accounting period --Educational institutions, and Chief Accountant