(#156) Dear Management:

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So, you're asking me what I think is the best method of allocating corporate overhead (OH)?

Well, it's what I call the capacity method...

The capacity method groups ALL corp OH into buckets, based on the way by which the OH is consumed. Be that Unit, FTE, Time allotted, whatever...

Now with a normal allocation, you'd just divide the lump sum by the % and way of consumption... then allocate to the various profit centers.

Why is this method different?

It's that you first ask yourself, what is the "total capacity" of the consumption... in each bucket.

For example, if one of the buckets is consumed by units... how many units would that support?  500?  and if you take ALL of your profit centers combined, they only consumed 350 units?

That means your OH has "excess" capacity of 150 units, and would be recorded separately.

So why is this method better?

Because it BEST matches income generated to the true-est consumption expense...

It also allows you to evaluate... Do you have too much OH? Too little?

It helps you plan forward peeps!

And as GI Joe "accountant" would tell you, "Planning is half the battle!  And now you know!"

(if you got that reference, thank you)

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