

Assignment II

1)

- CVP, nonprofit event planning.** The American-Canadian Chamber of Commerce is planning its July 4 gala ball. There are two possible plans:
- Toronto Country Golf Club, which has a fixed rental cost of \$2,000 plus a charge of \$80 per person for its own catering of meals and serving of drinks and hors d'oeuvres.
 - Toronto Town Hall, which has a fixed rental cost of \$6,600. The Chamber of Commerce can hire a caterer for meals and waiters and waitresses to serve drinks and hors d'oeuvres at \$60 per person.

The Chamber of Commerce budgets \$3,500 in costs for administration and marketing. The band will cost a fixed amount of \$2,500. Tickets to this prestige event will be \$120 per person. All the drinks served and the prizes given away at the ball will be donated by corporate sponsors.

REQUIRED

- Compute the breakeven point for each plan in terms of tickets sold.
- Compute the operating income of the ball (a) if 150 people attend and (b) if 300 people attend. Comment on your results.
- At what level of tickets sold will the two plans have the same operating income?

2)

Computing direct cost rates, consulting firm. Doherty & Company is an international consulting firm. Its 2007 annual budget includes the following for each category of professional labour.

Category	Average Salary	Average Fringe Benefits	Billable Time for Clients (hours)	Vacation and Sick Leave (hours)	Professional Development (hours)	Unbilled Time Due to Lack of Demand
Director	\$140,000	\$60,000	1,600	160	240	0
Partner	105,000	45,000	1,600	160	240	0
Manager	60,000	20,000	1,600	160	240	0
Assistant	38,000	12,000	1,600	160	240	0

REQUIRED

1. Compute the budgeted direct cost rate for professional labour (salary and fringe benefits) per hour for (a) directors, (b) partners, (c) managers, and (d) assistants. Use budgeted billable time for clients as the denominator in these computations.
2. Repeat requirement 1. Use the sum of budgeted billable time, vacation and sick leave time, and professional development time as the denominator in these calculations.
3. Why are the rates different between requirements 1 and 2? How might these differences affect job costing by Doherty & Company?

	Budgeted	Actual
Raisin cake	160,000 kilograms	120,000 kilograms
Layered carrot cake	40,000 kilograms	80,000 kilograms

The budgeted manufacturing overhead for 19_7 was \$210,800.

At the end of 19_7, Jonathan Davis, the controller of BD, decided to investigate how use of an activity-based costing system would affect the product cost numbers. After consultation with operating personnel, the single manufacturing overhead cost pool was subdivided into five activity areas. These activity areas, their driver, their 19_7 budgeted rate, and the driver units used per kilogram of each cake are as follows:

Activity	Driver	Budgeted 19_7 Cost per Driver Unit	Driver Units per Kilogram of Raisin Cake	Driver Units per Kilogram of Layered Carrot Cake
Mixing	Labour time	\$0.04	5	8
Cooking	Oven time	\$0.14	2	3
Cooling	Cool room time	\$0.02	3	5
* Creaming/icing	Machine time	\$0.25	0	3
* Packaging	Machine time	\$0.08	3	7

REQUIRED

1. Compute the 19_7 unit product cost of raisin cake and layered carrot cake with the normal costing system used in the 19_5 to 19_7 period.
2. Compute the 19_7 unit product cost per cake under the activity-based normal costing system.
3. Explain the differences in unit product costs computed in requirements 1 and 2.
4. Describe three uses Baker's Delight might make of the activity-based cost numbers.

4)

Support department cost allocations; single-department cost pools; direct, step-down, and reciprocal methods. The Manes Company has two products. Product 1 is manufactured entirely in Department X. Product 2 is manufactured entirely in Department Y. To produce these two products, the Manes Company has two support departments: A (a materials-handling department) and B (a power-generating department).

An analysis of the work done by Departments A and B in a typical period is as follows:

Supplied By:	Used By:			
	A	B	X	Y
A	—	100	250	150
B	500	—	100	400

The work done in Department A is measured by the direct labour-hours of materials-handling time. The work done in Department B is measured by the kilowatt-hours of power.

The budgeted costs of the support departments for the coming year are:

	Department A	Department B
Variable indirect labour and indirect materials costs	\$ 70,000	\$10,000
Supervision	10,000	10,000
Amortization	20,000	20,000
	<u>\$100,000</u>	<u>\$40,000</u>
	+ Power costs	+ Materials-handling costs

The budgeted costs of the operating departments for the coming year are \$1,500,000 for Department X and \$800,000 for Department Y.

Supervisory costs are salary costs. Amortization in B is the straight-line amortization of power-generation equipment in its nineteenth year of an estimated 25-year useful life; it is old but well-maintained equipment.

REQUIRED

1. What are the allocations of costs of support Departments A and B to operating Departments X and Y using the direct method, two different sequences of the step-down method, and the reciprocal method of reallocation?
2. The power company has offered to supply all the power needed by the Manes Company and to provide all the services of the present Power Department. The cost of this service will be \$40 per kilowatt-hour of power. Should Manes accept? Explain.