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## Topic 2: Allocation of Support Department Costs

### 1) Single vs. Dual Rate Method (pg. 354)

#### Single:

- Makes no distinction between fixed and variable costs
- Rate adjusted to per unit by dividing total fixed cost by total budgeted units (26/unit budgeted, 24/unit actual)
- Fixed cost may be under allocated or over allocated as total fixed cost is constant regardless of level of activity.

#### Dual:

- Distinction between fixed cost and variable cost are made.

### 2) Uncertainty due to differences in Budgeted and Actual Cost Allocation Rates (pg. 358)

#### Allocation Based on Budgeted Usage

Known in the beginning of the period

Likely inaccurate

#### Allocation Based on Actual Usage

Likely accurate but only known at the end of the period

#### Allocation Based on Practical Capacity

Cost allocated based on equipment and facilities used.

- I) Charged only for facilities services actually used
- II) Variations of actual usage
- III) Costs of unused capacity not allocated to user divisions

Fixed costs allocations are the same regardless.

### 3) Direct, Step Down & Reciprocal Method (pg. 360)

Allocation to operating departments is done because the fixed costs they incur are a result of their services to the operating departments.

Reasons:

- I) Provide information for support decision-making
- II) Help department managers to understand the economic consequences of their decisions regarding support services
- III) To motivate department managers to manage support costs more effectively.
- IV) Evaluation performance of responsibility centre and/or manager.

Direct:

- Allocates support department costs to operating departments alone (services to other support departments are paid by operating departments).

- Relationship between support departments not acknowledged.

	Cleaning	Mainten.	Catalogue	Magazine	Book
Initial Costs	\$200,000	\$180,000	\$300,000	\$350,000	\$480,000
Cleaning Ratios			24% (1200/5000)	32% (1600/5000)	44% (2200/5000)
Cleaning Alloc'n	(\$200,000)	No Allocation	\$48,000	\$64,000	\$88,000
Mainten. Ratios			35.7% (150/420)	30.95% (130/420)	33.34% (140/420)
Mainten. Alloc'n	No Allocation	(\$180,000)	\$64,260	\$55,710	\$60,030
Totals	\$0	\$0	\$412,260	\$469,710	\$628,030

Step Down

- Relationship between support dprt.s partially acknowledged