

Single-rate and Dual-rate method

Consider the Central Computer Department (CCD) at the Five star Hotel. Assume, that only Accounting department (AD) and Front-Desc Department (FDD) use the facilities of CCD. Following budgeted data provided for 2018 year:

Fixed costs of CCD 300 000 euro per year

Budgeted usage in hours

AD 800 hours

FFD 400 hours

Total 1200 hours

Budgeted variable costs 200 euro per hour used

1. Under single-rate method:
 - a. Calculate total cost pool.
 - b. Budgeted total rate per hour.
 - c. Which allocation rate will be applied for each department (AD and FDD)?
2. Under dual-rate method (using hours as allocation base for fixed costs)
 - a. Calculate total fixed cost per year for each department (AD and FDD).
 - b. How much will be variable cost per hour for each department ?

Assume now, that in coming 2018 year actual data is following:

Actual usage in hours

AD 900 hours

FFD 300 hours

3. How much cost will be allocated to each department using single-rate and dual-rate method?

Direct allocation method.

Consider Honnigsvåg, AS, which manufactures engines used in electric power generating plants. Honnigsvåg has two support departments (Plant Maintenance and Information Systems) and two operating departments (Machining and Assembly) in its manufacturing facility. Costs are accumulated in each department for planning and control purposes. For stock costing, however, the support department costs of Honnigsvåg must be allocated to the operating departments. The data for our example are listed in Exhibit 5.5. The percentages in this table can be illustrated by reference to the Plant Maintenance Department. This support department provides a total of 8000 hours of support work: 20% ($1600 \div 8000$) goes to the Information Systems support department; 30% ($2400 \div 8000$) to the Machining Department; and 50% ($4000 \div 8000$) to the Assembly Department.

	Support departments		Operating departments		Total
	Plant Maintenance	Information Systems	Machining	Assembly	
Budgeted manufacturing overhead costs before any interdepartment cost allocations	€600 000	€116 000	€400 000	€200 000	€1 316 000
Support work furnished					
By Plant Maintenance					
Budgeted labour-hours	-	1 600	2 400	4 000	8 000
Percentage	-	20%	30%	50%	100%
By Information Systems					
Budgeted computer time	200	-	1 600	200	2 000
Percentage	10%	-	80%	10%	100%

4. How much of the each support department (maintenance and Information) should be allocated to each Operating department (Machine and Assembly)?