

Allocating common costs

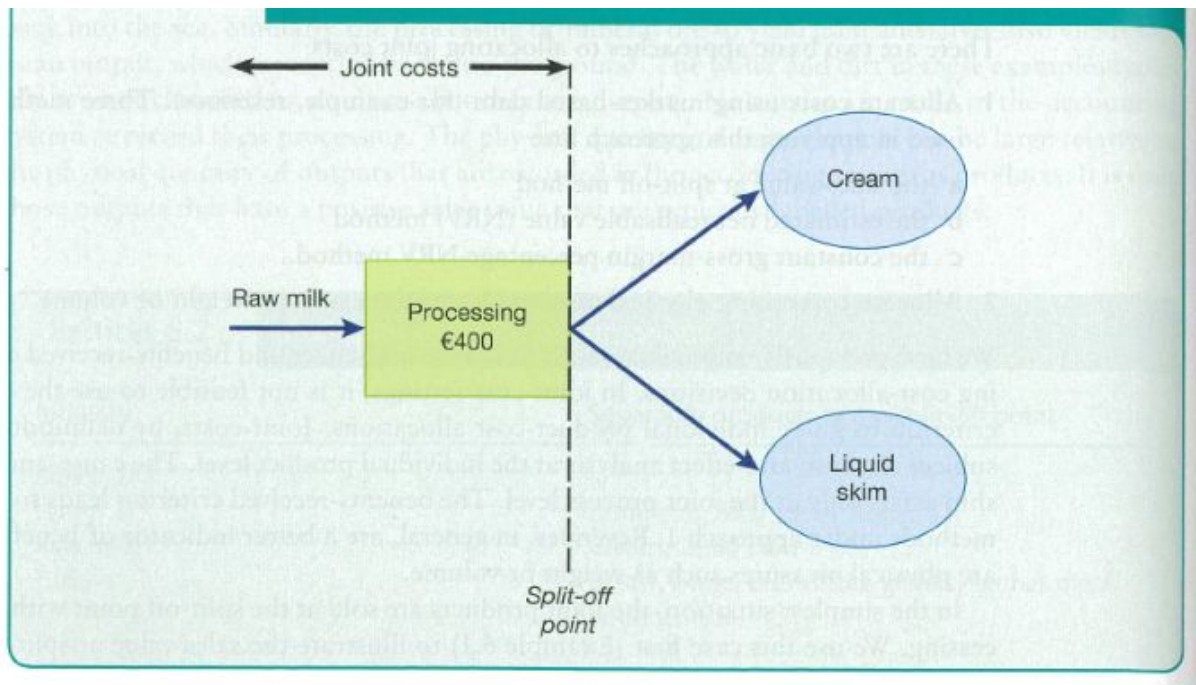
Consider Paul O'Shea, a third-year undergraduate student in Galway who has been invited to an interview with an employer in Moscow. The round-trip Galway–Moscow airfare costs €1200. A week prior to leaving, O'Shea is also invited to an interview with an employer in Prague. The round-trip Galway–Prague airfare costs €800. O'Shea decides to combine the two recruiting steps into a Galway–Moscow–Prague trip that will cost €1500 in airfare. The €1500 is a common cost that benefits both employers. Two methods for allocating this common cost between the two potential employers are now discussed: the stand-alone method and the incremental method.

1. Using Stand-alone cost-allocation method determine allocation weights (cost amounts) for each employer (in Moscow and in Prague).
2. Using Incremental cost-allocation method determine allocation weights (cost amounts) for each employer (in Moscow and in Prague).

Consider Paul O'Shea and his €1500 airfare cost. Assume that the Moscow employer is viewed as the primary party. O'Shea's rationale was that he had already committed to go to Moscow. The cost allocations would then be:

Allocating joint costs

Farmers' Dairy purchases raw milk from individual farms and processes it up to the split-off point, where two products (cream and liquid skim) are obtained. These two products are sold to an independent company, which markets and distributes them to supermarkets and other retail outlets.



- Raw milk processed: 440 litres (440 litres of raw milk yield 400 litres of good product with a 40-litre shrinkage):

	Production	Sales
Cream	100 litres	80 litres at €2 per litre
Liquid skim	300 litres	120 litres at €1 per litre

- Cost of purchasing 440 litres of raw milk and processing it up to the split-off point to yield 100 litres of cream and 300 litres of liquid skim: €400.

3. Calculate closing stock for each type of the product (Raw Milk, Cream, Liquid skim).

4. What is the sales value for each product? Which is the percentage of each product sales value in total sales value?

5. How much joint cost will be allocated to each product based on the Sales value at split-off method? (refer to some given information)

6. What is joint production cost per liter for each product?

7. Calculate gross-margin for each product and fro the total production.