

B-23.08

Downhill Manufacturing produces snow skis in a two-step production process - cutting and laminating. The manufacturing center is supported by two service centers - a health clinic and a janitorial service. The following table reveals certain facts about each activity:

	<u>Health Clinic</u>	<u>Janitorial Service</u>	<u>Cutting Department</u>	<u>Laminating Department</u>
Employees	2	4	10	15
Square footage	1,200	600	12,000	8,000
Cost incurred	\$ 180,000	\$ 125,000	\$ 700,000	\$ 800,000

- (a) Using the direct method, allocate the service department costs to production. The clinic costs are to be allocated based on employees, and the janitorial costs are to be allocated based on the square footage.
- (b) Using the step method, allocate the service department costs to production. The clinic costs are to be allocated based on employees, and the janitorial costs are to be allocated based on the square footage. The first step will be to allocate clinic costs. The clinic employees maintain their space and do not rely upon the janitorial service. However, janitorial employees occasionally sustain an injury and utilize the clinic.