

Form a seven-person team. Each team member should assume the role of supervisor for one of the following seven units of Wilson Publishing:

Maintenance  
 Food Services  
 Information Technology  
 Design  
 Printing  
 Binding  
 Warehousing

Wilson Printing's four productive units are supported by three service departments: Maintenance, Food Services, and Information Technology. Maintenance costs are allocated to other units based on square footage, food services costs are allocated to other units based on number of employees, and information technology costs are allocated to other units based on number of PCs in use.

Below is a listing of data for each unit:

	Square Footage	Employees	PCs in Use	Direct Costs
Design	2,400	4	6	\$ 400,000
Printing	6,000	8	9	1,800,000
Binding	3,000	3	2	650,000
Warehousing	9,000	3	3	180,000
Maintenance	1,000	4	1	225,000
Food Services	3,000	2	1	260,000
Information Technology	1,000	3	6	190,000

Each service department supervisor should prepare a cost allocation of their costs to other units, using both a direct and a step allocation approach. It is agreed that the step allocations would occur in the following order: (a) Maintenance, (b) Food Services, and (c) Information Technology. Each production supervisor should calculate their total costs under both approaches.

The team should then discuss the merits of both allocation methods, and see if a consensus can be reached. Discuss whether the amount of cost allocation varies between the two approaches, and if this influences the debate about which method should be used.