

Joint Ownership — Assessment

Work these on your own, then we'll go through them together on the screen.

NameDateSection

FIVE QUESTIONS

1 Which allocation base fits the cost?

Brightline Manufacturing performs maintenance on its production equipment after every 200 hours of machine use. Which allocation base best links maintenance cost to what causes it? Circle one.

- ☐ A Square footage of the factory.
- ☐ B Machine hours.
- ☐ C Number of employees.
- ☐ D Sales revenue of each product line.

2 Match each shared cost to its best allocation base.

Hargrove Furniture allocates four shared costs to its two production departments. For each cost, write the most defensible allocation base.

Choose from: Square footage occupied · Number of employees · Machine hours run · Number of invoices processed · Sales revenue · Split equally among departments. (Two of these are not the best fit for any cost.)

SHARED COST	BEST ALLOCATION BASE
Building rent	
Cafeteria services	
Equipment maintenance	
Customer billing office	

3 Allocate the rent by square footage.

Kestrel Studios pays **\$96,000 a year** to rent its building. Two departments share it: **Design occupies 7,500 sq ft** and **Production occupies 4,500 sq ft**. Allocate the rent.

Total square footage sq ft

Allocation rate per square foot per sq ft

Design's share of the rent

Production's share of the rent

SHOW YOUR WORK

4 Now allocate the same rent by headcount.

Design's director proposes a change: allocate the **\$96,000** rent by **number of employees** instead. Design has **10 employees**; Production has **30**. This time, allocate using each department's **percentage** of total employees.

Total employees people

Design's percentage of total employees

Production's percentage of total employees

Design's share of the rent

Production's share of the rent

SHOW YOUR WORK

5 Judge the proposal.

Should Kestrel adopt the Design director's employee-based proposal? Pick the strongest evaluation. Circle one.

- ☐ A Yes — headcount is simpler to track than square footage, and simpler is cheaper to administer.
- ☐ B Yes — departments with more people should carry more of the rent cost.
- ☐ C No — space occupied is what causes rent, not headcount — and the change happens to cut the proposer's own charge.
- ☐ D No — \$2,400 per employee is a much higher rate than \$8 per square foot, so the new method costs the company more overall.