

**Allocations using simplified costing versus activity-based costing****Similar to Self-Study Problem**

Devine and O'Clock, architects, have been using a simplified costing system in which all professional labor costs are included in a single direct cost category (professional labor) and all overhead costs are included in a single indirect cost pool (professional support) and allocated to jobs using professional labor hours as the allocation base. Consider two clients: Shank Products, which required 50 hours of design work for a new addition; and Sayers Markets, which required plans for a new store that took 20 hours to draw. The firm has two partners who each earn a salary of \$150,000 a year and four associates who each earn \$60,000 per year. Each professional has 1,500 billable hours per year. The professional support is \$590,000, which consists of \$350,000 of design support and \$240,000 of staff support. Shank's job required 30 hours of partner time and 20 hours of associate time. Sayers' job required 5 hours of partner time and 15 hours of associate time.

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**Required:**

1. Prepare job cost sheets for Shank Products and Sayers Markets, using a simplified costing system with one direct and one indirect cost pool.
2. Prepare job cost sheets for the two clients, using an activity-based costing system with two direct cost categories (partner labor and associate labor) and two indirect cost categories (design support and staff support). Use professional labor dollars as the cost allocation base for design support and use professional labor hours for staff support.