

CASE ASSIGNMENT 1

DSL Music Video is a music video production company. DSL has five departments, each with its own manager. Two of the departments (rock/pop and country) produce and promote revenue generating products (music videos). The other three departments supply internal services that support video production. Administration's activities include accounting, personnel, finance and contract negotiation. Facility's activities include managing the physical plant, studios and equipment. Finally recording's activities include coordinating the production staff, scheduling artists and arranging sets.

The rock/pop and country production centers make saleable goods and services. The service centers supply products and services that are consumed internally by other responsibility centers. In addition, the service centers may also support other service centers. The company allocates cost to the production centers for two purposes: (1) to determine the cost to produce and market its services and (2) to encourage department managers to monitor each other's costs; that is, cross-departmental monitoring.

The following is the income statement for DSL.

DSL Music Video Income Statement	
Revenue	650,000
Operating Costs:	
Direct labor	220,000
Direct materials	35,000
Purchased services	110,000
Depreciation & amortization	80,000
Other operating costs	55,000
Total operating cost	500,000
Operating Income	150,000

A summary of operating costs are shown below:

<i>Resource</i>	DSL Music Video Operating Costs					Total
	Service Department			Production Center		
	Admin	Facility	Recording	Pop/Rock	Country	
Direct labor	24,000	15,000	37,000	84,000	60,000	220,000
Direct materials				20,000	15,000	35,000
Purchased services	18,000			30,000	62,000	110,000
Depreciation & amortization	3,000	35,000	3,000	16,000	23,000	80,000
Other operating costs	55,000					55,000
Total operating cost	100,000	50,000	40,000	150,000	160,000	500,000

MANAGEMENT

Assume that the allocation bases are as follows:

- Administration service center – number of employees
- Facility service center – square footage occupied
- Recording service center – recording hours

The allocation is shown in the following table:

<i>Allocation Basis</i>	DSL Music Video					Total
	Service Department			Production Center		
	Admin	Facility	Recording	Pop/Rock	Country	
Employees (administration)	2	1	2	3	2	10
Square feet occupied (facility)	4,000		1,000	2,000	3,000	10,000
Recording-hours (recording)			500	3,500	1,500	5,500

Assume the company has three service departments: Administration (S1), Facility Occupancy (S2) and Recording Service (S3). Costs are recorded in these departments and are allocated to two project departments: Pop/Rock (P1) and Country (P2). All five departments share the same building. Each service department is an intermediate cost center whose costs are recorded as incurred and then distributed to other cost centers.

Requirements:

You have been hired as a consultant to the company. Prepare an analysis and letter to the president allocating the overhead costs and determining the total departmental costs and overhead rates based upon:

Direct method

Pop/Rock and Country overhead rates are based upon recording hours.