12-59 Allocating Costs Using Direct and Step-Down Methods

Goal: Create an Excel spreadsheet to allocate costs using the direct method and the stepdown

method. Use the results to answer questions about your findings.

Scenario: Antonio Cleaning has asked you to help them determine the best method for

allocating costs from their service departments to their producing departments.

Additional background information for your spreadsheet appears in Fundamental Assignment Material

12-B2.

12-B2 Allocation of Service Department Costs

Antonio Cleaning provides cleaning services for a variety of clients. The company has two producing

departments, Residential and Commercial, and two service departments, Personnel and

Administrative. The company has decided to allocate all service department costs to the producing

departments—Personnel on the basis of number of employees and Administrative on the basis of

direct department costs. The budget for 20X7 shows



**When you have completed your spreadsheet, answer the following questions**:

1. What are the total costs for the Residential department using the direct method?

What are the total costs for the Commercial department using the direct method?

2. What are the total costs for the Residential department using the step-down method?

3. What are the total costs for the Commercial department using the step-down method?

4. Which method would you recommend that Antonio Cleaning use to allocate their

service departments’ costs to their producing departments? Why?

Step-by-Step:

1. Open a new Excel spreadsheet.

2. In column A, create a bold-faced heading that contains the following:

Row 1: Chapter 12 Decision Guideline

Row 2: Dallas Cleaning

Row 3: Cost Allocations from Service Departments to Producing Departments

Row 4: Today’s Date

3. Merge and center the four heading rows across columns A through H.

4. In row 7, create the following bold-faced, center-justified column headings:

Column B: Personnel

Column C: Administrative

Column D: Residential

Column E: Commercial

Column F: Total Res/Comm

Column G: Total Admin/Res/Comm

Column H: Grand Total

5. Change the format of the column headings in row 7 to permit the titles to be displayed

on multiple lines within a single cell.

Alignment tab: Wrap Text: Checked

Note: Adjust column widths so that headings use only two lines.

Adjust row height to ensure that row is same height as adjusted headings.

6. In column A, create the following row headings:

Row 8: Direct Department Costs

Row 9: Number of Employees

Skip 2 rows

Note: Adjust the width of column A to 27.14.

7. In column A, create the following bold-faced, underlined row heading:

Row 12: Direct Method:

8. In column A, create the following row headings:

Row 13: Direct Department Costs

Row 14: Personnel Allocation

Row 15: Administrative Allocation

Row 16: Total Costs

Skip 2 rows

9. In column A, create the following bold-faced, underlined row heading:

Row 19: Step-down Method:

10. In column A, create the following row headings:

Row 20: Direct Department Costs

Row 21: Step 1—Personnel Allocation

Row 22: Step 2—Administrative Allocation

Row 23: Total Costs

11. Use data from Fundamental Assignment 12-B2 to enter the amounts in columns B

through E for rows 8, 9, 13, and 20.

12. Use the appropriate calculations to do the totals in row 8 for columns F and H.

Use the appropriate calculations to do the totals in row 9 for columns F and G.

13. Use the appropriate formulas to allocate the costs from the service departments to the

producing departments using each of the methods.

14. Use the appropriate calculations to do the totals in columns B through E and in column H,

rows 16 and 23.

15. Format amounts in columns B through H, rows 8, 13, 16, 20, and 23 as

Number tab: Category: Accounting

Decimal: 0

Symbol: $

16. Format the amount in columns B through E, rows 14, 15, 21, and 22 as

Number tab: Category: Accounting

Decimal: 0

Symbol: None

17. Change the format of the total costs amounts in columns B through E, rows 16 and 23,

to display a top border, using the default line style.

Border tab: Icon: Top Border

18. Change the format of the amounts in row 9, columns B through G to center justified.







