Problem 7-3 **Departmental Cost Allocation; Outsourcing** Tanner Company produces two software products (NetA and NetB) in two separate departments (A and B). These products are highly regarded network maintenance programs. NetA is used for small networks and NetB is used for large networks. Williams is known for the quality of its products and its ability to meet dates promised for software upgrades.

Department A produces NetA, and department B produces NetB. The production departments are supported by two support departments, systems design and programming services. The source and use of the support department time are summarized as follows:

		To			Total
From	Design	Programming	Department A	Department B	Labor-Hours
Design	—	4,000	2,000	10,000	16,000
Programming	400	—	400	800	1,600

The costs in the two service departments are as follows:

	Design	Programming
Labor and materials (all variable)	$30,000	$25,000
Depreciation and other fixed costs	38,000	29,000
Total	$68,000	$54,000

Required
1. What are the costs allocated to the two production departments from the two service departments using (a) the direct method, (b) the step method (design department goes first), and (c) the reciprocal method?
2. The company is considering outsourcing programming services to DDB Services, Inc., for $25 per hour. Should Tanner do this?