**Step-down, direct, and reciprocal methods, accuracy of allocation (Appendix 8A)** Software Plus Corporation produces flight and driving simulations and games for personal computers. The president has a complaint about the accounting for support department costs. He points to the following table describing the use of various support departments in the company and says, “According to this table, every department receives services from all the support departments. But I understand that only some of the support departments are bearing costs from the other support departments. Why is that?”

|  |  |  |  | Percent Use of Services | |  |
| --- | --- | --- | --- | --- | --- | --- |
| Support Department | Cost | Administration | Maintenance | Information Systems | Games Manufacturing | Simulation Manufacturing |
| Administration | $40,000 | 0% | 10% | 50% | 10% | 30% |
| Maintenance | 20,000 | 20 | 0 | 10 | 40 | 30 |
| Information systems | 50,000 | 35 | 5 | 0 | 40 | 20 |

**REQUIRED:**

|  |  |  |
| --- | --- | --- |
|  | **A.** | What method has Software Plus Corporation been using to allocate support costs? Explain how you know. |
|  | **B.** | Which method would ignore all interactions among support departments? Explain. |
|  | **C.** | Which method would consider all interactions among support departments? Explain. |
|  | **D.** | Allocate the support department costs to Games and Simulations using the step-down method. Explain how you decided which department’s costs to allocate first. |
|  | **E.** | Allocate the support department costs using the direct method. |
|  | **F.** | Allocate the support department costs using the reciprocal method. |
|  | **G.** | In your own words, explain how the step-down method improves upon the direct method. |
|  | **H.** | In your own words, explain how the reciprocal method improves upon the step-down method. |