4-31

Service industry, job costing, law firm. Keating & Associates is a law firm specializing in labor

relations and employee-related work. It employs 25 professionals (5 partners and 20 associates) who work

directly with its clients. The average budgeted total compensation per professional for 2005 is $104,000.

Each professional is budgeted to have 1,600 billable hours to clients in 2005. All professionals work for

clients to their maximum 1,600 billable hours available. All professional labor costs are included in a single

direct-cost category and are traced to jobs on a per-hour basis.

All costs of Keating & Associates other than professional labor costs are included in a single indirectcost

pool (legal support) and are allocated to jobs using professional labor-hours as the allocation base. The

budgeted level of indirect costs in 2008 is $2,200,000.

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1. Prepare an overview diagram of Keating’s job-costing system.

2. Compute the 2008 budgeted direct-cost rate per hour of professional labor.

3. Compute the 2005 budgeted indirect-cost rate per hour of professional labor.

4. Keating & Associates is considering bidding on two jobs:

a. Litigation work for Richardson, Inc., which requires 100 budgeted hours of professional labor

b. Labor contract work for Punch, Inc., which requires 150 budgeted hours of professional labor

Prepare a cost estimate for each job.

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4-32

Service industry, job costing, two direct- and two indirect-cost categories, law firm (continuation

of 4-31). Keating has just completed a review of its job-costing system. This review included a detailed

analysis of how past jobs used the firm’s resources and interviews with personnel about what factors drive

the level of indirect costs. Management concluded that a system with two direct-cost categories (professional

partner labor and professional associate labor) and two indirect-cost categories (general support

and secretarial support) would yield more-accurate job costs. Budgeted information for 2008 related to the

two direct-cost categories is as follows

|  |  |  |
| --- | --- | --- |
|  | **Professional Partner Labor** | **Professional Associate Labor** |
| Number of professionals | 5 | 20 |
| Hours of billable time per professional | 1,600 per year | 1,600 per year |
| Total compensation (average per professional) | 200,000 | 80,000 |

Budgeted information for 2005 relating to the two indirect-cost categories is:

**General Secretarial Support Support**

Total costs $1,800,000 $400,000

Cost-allocation base Professional labor-hours Partner labor-hours

**1.** Compute the 2008 budgeted direct-cost rates for (a) professional partners and (b) professional associates.

**2.** Compute the 2008 budgeted indirect-cost rates for (a) general support and (b) secretarial support.

**3.** Compute the budgeted costs for the Richardson and Punch jobs, given the following information:

 **Richardson, Inc. Punch, Inc.**

Professional partners 60 hours 30 hours

Professional associates 40 hours 120 hours

4-Comment on the results in requirement 3. Why are the job costs different from those computed in

Problem 4-31?