The costs of the Systems Support (SS) department (and other service department) of Southeast Pulp and Paper have always been charged to the three business divisions (Forest Management, Lumber Products, and Paper Products) based on the number of employees in each division had complained about the charges. The Paper Products division has recently automated many of its operations and has reduced the number of its employees. At the same time, however to monitor its new process, Paper Products has increased its requests for various reports provided by the SS department. The other division have begun to complain that they are being charged more than their fair share of SS department costs. Based on activity analysis of possible cost drivers, cost analysts have suggested using the number of reports prepared as means of charging for SS costs have gathered the following information:

 Forecast Mangement Lumber Products Paper Products

2008 Number of Employees 762 457 502

2008 Number of Reports 410 445 377

2008 SS costs $300,000

2009 Number of Employees 751 413 131

2009 Number of Reports 412 432 712

2009 SS costs: $385,000

1) Discuss the plausibility and probably reliability of each of the cost drivers-Number of employees or number of reports

2) What are the 2008 and 2009 SS cost per unit of cost driver for each division using each cost driver? Do the Forest Management and Lumber Products divisions have legitimate complaints? Explain.

3) What are the incentives that are implied by each cost driver

4) Which cost driver should Southeast Pulp and paper use to charge its divisions for SS Services? For other services? Why?