

**Exercise 12-10** (20 minutes)

1.

	<i>Long-Run Average Number of Employees</i>	<i>Percentage</i>
Cutting Department .....	600	30%
Milling Department.....	400	20%
Assembly Department ...	<u>1,000</u>	<u>50%</u>
Total.....	<u>2,000</u>	<u>100%</u>

	<i>Cutting</i>	<i>Milling</i>	<i>Assembly</i>
Variable cost charges:			
\$60 per employee × 500 employees..	\$ 30,000		
\$60 per employee × 400 employees..		\$ 24,000	
\$60 per employee × 800 employees..			\$ 48,000
Fixed cost charges:			
30% × \$600,000.....	180,000		
20% × \$600,000.....		120,000	
50% × \$600,000.....			<u>300,000</u>
Total charges.....	<u>\$210,000</u>	<u>\$144,000</u>	<u>\$348,000</u>

2. Part of the total actual cost is not charged to the operating departments as shown below:

	<i>Variable Cost</i>	<i>Fixed Cost</i>	<i>Total</i>
Total actual costs incurred .....	\$105,400	\$605,000	\$710,400
Total charges.....	<u>102,000</u>	<u>600,000</u>	<u>702,000</u>
Spending variance .....	<u>\$ 3,400</u>	<u>\$ 5,000</u>	<u>\$ 8,400</u>

The overall spending variance of \$8,400 represents costs incurred in excess of the budgeted variable cost of \$60 per employee and the budgeted fixed cost of \$600,000. This \$8,400 in uncharged costs is the responsibility of the Medical Services Department.