

ACCOUNTING, FINANCE AND CONTROL 2018-2019

QUICK EXERCISES – CORPORATE COST ALLOCATION

For each question, select the correct answer (only 1 answer is correct)

1. Allocating Corporate Costs to Business Units:
 - ☐ Does not impact the EBIT of those Business Units;
 - ☐ Grants always to respect the specific responsibility principle;
 - ☒ Can be based on a proportional approach;
 - ☐ None of the above.

2. Which one of the followings CANNOT be considered an example of Corporate Cost?
 - ☐ Legal Offices costs;
 - ☐ Research & Development costs;
 - ☒ Direct Raw Material costs;
 - ☐ Administrative Expenses.

3. Which one of the following sentences about “Complete Allocation” of Corporate Costs is TRUE?
 - ☐ Complete Allocation is based on a proportional division: therefore, it grants to respect the specific responsibility principle;
 - ☐ Complete allocation is usually cheaper and easier to be performed than Partial or No allocation;
 - ☒ It can make explicit that corporate resources impact on Business Units performances;
 - ☐ None of the above.

4. The issue of Corporate Cost Allocation:
 - ☐ Arises when there are resources used at Corporate Level, but managed by Business Units;
 - ☒ Arises when there are resources used by Business Units, but managed at Corporate Level;
 - ☐ Is not related to Business Unit performances;
 - ☐ Can be faced by understanding prices of intra-company exchanges.

5. For allocating actual costs proportionally to an allocation basis, you should know:
- ☐ Just the overall usage of the resource and the overall cost;
 - ☐ Just the overall capacity of the resource and the overall cost;
 - ☒ Just the usage of the resource by each unit and the overall cost of the resource;
 - ☐ Just the overall usage and the estimated cost for each resource.
6. Resource A costs 50,000 € and has a capacity of 1,920 h/year and it is shared among 5 Business Units. Knowing the following actual data, calculate the allocation rate (hourly fee):

<i>Usage per Business Unit (BU)</i>	<i>h/year</i>
<i>BU A</i>	720
<i>BU B</i>	240
<i>BU C</i>	120
<i>BU D</i>	120
<i>BU E</i>	60

- ☒ about 26 €/h
- ☐ about 476,2 €/h
- ☐ about 1,52 €/h
- ☐ BU B=69,4 €/h; BU B = 208,33; BU C=416,7 €/h; BU D = 416,7 €/h; BU E=833,3 €/h

Solution

$$\text{Allocation Fee} = \frac{\text{Cost of the Resource}}{\text{Capacity}} = \frac{50,000 \text{ €}}{1,920 \text{ h/year}} = 26,04 \text{ €/h}$$

7. Considering the above-calculated rate, allocate the cost to the 5 Business Units. It results that:
- ☒ You have more than 17 k€ unallocated costs;
 - ☐ The resource is highly unsaturated: you allocate overall 2,734 €
 - ☐ You allocate 159,60 € monthly;
 - ☐ You allocate to BU A = 4,164 €/year; and to BU B, C, D and E = 4,167 €/year each.

Solution

$$\text{Allocation Fee as above} = \frac{\text{Cost of the Resource}}{\text{Capacity}} = \frac{50,000\text{€}}{1920 \text{ h/year}} = 26,04\text{€/h}$$

Usage per Business Unit	h / year	allocated cost to BU (€/year = h/year * fee)
BU A	720	18,750 €
BU B	240	6,250 €
BU C	120	3,125 €
BU D	120	3,125 €
BU E	60	1,562 €
total	1,260	32,812 €

Overall Costs	Total Allocated Costs	not allocated costs
50,000 €	32,812 €	17,187.5 €

8. Considering the same data in question 6, calculate allocation drivers. It results:
- ☐ 26 €/h each;
 - ☒ BU A = 0.57; BU B = 0.19; BU C = 0.10; BU D = 0.10; BU E = 0.05;
 - ☐ BU A = 69.4 €/h; BU B = 208.33; BU C=416.7 €/h; BU D = 416.7 €/h; BU E = 833.3 €/h;
 - ☐ They cannot be calculated with the available data.

Solution

For each BU_i, calculate the drivers as: $\frac{\frac{h}{year} BU_i}{\sum_{i=A}^E \frac{h}{year} BU_i}$

Usage per Business Unit	h / year	DRIVERS
BU A	720	0.57
BU B	240	0.19
BU C	120	0.10
BU D	120	0.10
BU E	60	0.05

9. Considering the above-calculated drivers, allocate the costs to the 5 Business Units (Bus). It results:

- ☐ You have 34% of unallocated costs over the total costs;
- ☒ More than 28 k€ are allocated to BU A;
- ☐ That you allocate an overall amount of 20,831 € to the 5 BUs;
- ☐ It cannot be calculated with the available data.

Solution

Usage per Business Unit	h / year	DRIVERS	allocated costs yearly 50,000 * DRIVER
BU A	720	0.57	28,571.43 €
BU B	240	0.19	9,523.81 €
BU C	120	0.10	4,761.90 €
BU D	120	0.10	4,761.90 €
BU E	60	0.05	2,380.95 €
total	1,260	1.00	50,000.00 €

10. Considering always the same data as in question 6, what can be said about the resource saturation?

- ☐ It is equal to 5%;
- ☒ It is equal to 66%;
- ☐ It is equal to 34%;
- ☐ It cannot be calculated with the available data.

Solution

Saturation is calculated as: $\frac{\sum_{i=A}^E \text{hours used by } BU_i}{\text{total capacity}} = \frac{1,260}{1,920} = 66\%$

Further Questions & Exercises

11. If resources shared among different Business Units are not much used (low saturation and high availability)

- ☐ It is better not to perform cost allocation;
- ☒ Allocating proportionally to a driver risks discouraging their usage;
- ☐ Allocating proportionally to the fee risks discouraging their usage;
- ☐ None of the above.

12. To determine the hourly fee to allocate corporate costs, one should know:

- ☐ Just the overall usage of the resource and the overall cost;
- ☒ Just the overall capacity of the resource and the overall cost;
- ☐ Just the usage of the resource by each unit and the overall cost of the resource;
- ☐ Just the overall usage and the estimated cost for each resource.