

# Intermediate Management Accounting Project 1

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## PROJECT 1 (30 MARKS)

Project 1 is due at the end of Week 3. It is out of 30 marks.

### Required:

Assume the role of a partner in Martine's consulting business. Martine has asked you to assist her with completing the analysis and developing a report for Gretel. Prepare a report and supporting exhibits for Gretel, president of Holzmann Cleaning Services (HCS), to analyze HCS's current profitability and provide analysis of the overhead allocations used. It should include the following:

1. Profit analysis: Prepare a brief high-level overview of the 20X6 results in total based on Exhibit 1 in the project details document. Your discussion should highlight significant changes between 20X5 and 20X6 operations, and between 20X6 actual and 20X6 budgeted operations. **(8 marks)**
2. Costing analysis: Prepare overall comments on the current method HCS uses to allocate its overhead and provide further analysis on ways in which the company can improve its costing methods in order to assess and manage its costs. Your analysis should include the following:
  - a) Calculate overhead applied rate per direct labour hour (rounded to the nearest dollar), the overhead applied amount and the resulting over- or underapplied overhead for 20X6 using the traditional costing approach. Base this on the existing method of allocating service overhead using direct labour hours as the allocation base. The 20X6 actual wages and benefit rate were the same as budgeted at \$13.20 per hour. **(2 marks)**
  - b) Use the regression analyses in Exhibit 3 in Project Details to determine the viability of each cost driver to predict costs for cleaning supplies and transportation. This should include reasons for choosing or not choosing the regression analyses that were provided. **(3 marks)**
  - c) Use the regression analysis equation chosen in part (b) to separate the variable cost(s) from the fixed cost(s). Only the fixed cost(s) would be categorized with the other overhead costs. With the adjusted overhead costs, follow the traditional costing approach to recalculate the overhead application rate using direct labour hours as the allocation base. Calculate the over- or underapplied overhead by applying the new overhead rate. Compare your result to part (a) and provide an analysis of the differences between the two application rates. **(4 marks)**

- d) Using activity-based costing and the information in Exhibit 2 in Project Details, prepare a partial profit analysis for commercial and residential operations. Use wages and benefits costs (allocated on the same basis as revenue) and all costs from the activity-based data to prepare a partial operating statement that includes all direct/traceable costs. Compare the segment margins between the commercial and residential operations. **(4 marks)** Provide three points that highlight the reasons for the difference between cost allocations using activity-based costing and traditional costing. **(3 marks)**
- e) Provide overall comments on the results of these analyses in your report. **(3 marks)**

In addition to the above, award **3 marks** for report format and professionalism. Your report should clearly communicate the important details of the case and effectively persuade the reader to act on your advice.

**NOTE ON ROUNDING:** Use unrounded numbers for all calculations and round the final answer to the nearest dollar.