

PROBLEM 4-22 Multiple Departments; Overhead Rates; Underapplied or Overapplied Overhead

[LO 4-1, LO 4-2, LO 4-3, LO 4-4]

Winkle, Kotter, and Zale is a small law firm that contains 10 partners and 10 support persons. The firm employs a job-order costing system to accumulate costs chargeable to each client, and it is organized into two departments—the Research and Documents Department and the Litigation

Department. The firm uses predetermined overhead rates to charge the costs of these departments to its clients. At the beginning of the current year, the firm's management made the following estimates for the year:

	Department	
	Research and Documents	Litigation
Research-hours	20,000	—
Direct attorney-hours	9,000	16,000
Materials and supplies	\$18,000	\$5,000
Direct attorney cost	\$430,000	\$800,000
Departmental overhead cost	\$700,000	\$320,000

The predetermined overhead rate in the Research and Documents Department is based on research-hours, and the rate in the Litigation Department is based on direct attorney cost.

The costs charged to each client are made up of three elements: materials and supplies used, direct attorney costs incurred, and an applied amount of overhead from each department in which work is performed on the case.

Case 618-3 was initiated on February 10 and completed on June 30. During this period, the following costs and time were recorded on the case:

	Department	
	Research and Documents	Litigation
Research-hours	18	—
Direct attorney-hours	9	42
Materials and supplies	\$50	\$30
Direct attorney cost	\$410	\$2,100

Required:

1. Compute the predetermined overhead rates used during the year in the Research and Documents Department and the Litigation Department.
2. Using the rates you computed in (1) above, compute the total overhead cost applied to Case 618-3.
3. What would be the total cost charged to Case 618-3? Show computations by department and in total for the case.
4. At the end of the year, the firm's records revealed the following *actual* cost and operating data for all cases handled during the year:

	Department	
	Research and Documents	Litigation
Research-hours	23,000	—
Direct attorney-hours	8,000	15,000
Materials and supplies	\$19,000	\$6,000
Direct attorney cost	\$400,000	\$775,000
Departmental overhead cost	\$770,000	\$300,000

Determine the amount of underapplied or overapplied overhead cost in each department for the year.