

AUBURN UNIVERSITY
Rate Development Illustration

CONSUMPTION APPROACH:

MACHINE SHOP

FORECASTED MACHINIST HOURS:

40 HOURS/WEEK * 52 WEEKS = 2,080 HOURS/YEAR

OF MACHINISTS: 2 * 2080 = 4,160 TOTAL BILLABLE HOURS

CONSUMPTION RATE = $\frac{\$228,000 \text{ TOTAL COST}}{4,160 \text{ Total Machinist Hours}}$ = \$54.80/HOUR

OUTPUT APPROACH:

PRINT SHOP

ESTIMATED OUTPUT:

TOTAL PAGES PRINTED 1,000,000

UNIT COST RATE= $\frac{\$228,000 \text{ TOTAL COST}}{1,000,000 \text{ PAGES PRINTED}}$ = \$.23 PAGE

NOTE:It is important for the activity base chosen to relate directly with what drives costs. For example, establishing a printing rate based on hourly use would not accurately distribute the costs of paper, ink and other supplies. These costs directly relate to the amount of printing output. In addition, measuring the usage hours of printing activity would be difficult and printing achieved each hour could vary greatly.