Note: Exercise 17-16 must be completed before attempting Exercise 17-18.

E17-18 *(L.OBJ. 2)* **Using activity-based costing to make decisions [15–20 min]**
Refer to Exercise 17-16. For 2011, Erickson's managers have decided to use the same indirect manufacturing costs per wheel rim that they computed in 2010. In addition to the unit indirect manufacturing costs, the following data are budgeted for the company's standard and deluxe models for 2011:

	Standard	Deluxe
Sales price	900.00	1,040.00
Direct materials	34.00	51.00
Direct labor	48.00	54.00

Because of limited machine-hour capacity, Erickson can produce *either* 2,000 standard rims *or* 2,000 deluxe rims.

Requirements

1. If Erickson's managers rely on the ABC unit cost data computed in 17-16, which model will they produce? Carry each cost to the nearest cent. (All nonmanufacturing costs are the same for both models.)
2. If the managers rely on the single-allocation-base cost data, which model will they produce?
3. Which course of action will yield more income for Erickson?

Note: Exercises 17-16 and 17-18 must be completed before attempting Exercise 17-19.

E17-19 *(L.OBJ. 2)* **Activity-based management and target cost [10 min]**
Refer to Exercises 17-16 and 17-18. Controller Michael Bender is surprised by the increase in cost of the deluxe model under ABC. Market research shows that for the deluxe rim to provide a reasonable profit, Erickson will have to meet a target manufacturing cost of $454 per rim. A value engineering study by Erickson's employees suggests that modifications to the finishing process could cut finishing cost from $30 to $20 per hour and reduce the finishing direct labor hours per deluxe rim from 4.5 hours to 4 hours. Direct materials would remain unchanged at $51 per rim, as would direct labor at $54 per rim. The materials handling, machine setup, and insertion of parts activity costs also would remain the same.

Requirement

1. Would implementing the value engineering recommendation enable Erickson to achieve its target cost for the deluxe rim?

E17-20 *(L.OBJ. 3)* **Recording manufacturing costs in a JIT costing system [15–20 min]**
Lally, Inc., produces universal remote controls. Lally uses a JIT costing system. One of the company's products has a standard direct materials cost of $7 per unit and a standard conversion cost of $26 per unit.
During January 2011, Lally produced 575 units and sold 570. It purchased $6,800 of direct materials and incurred actual conversion costs totaling $14,000.

Requirements

1. Prepare summary journal entries for January.
2. The January 1, 2011, balance of the Raw and in-process inventory account was $40. Use a T-account to find the January 31 balance.
3. Use a T-account to determine whether Conversion costs are over- or underallocated for the month. By how much? Give the journal entry to close the Conversion costs account.