



Horngren Accounting, 8th edition

Chapter 17: Activity-Based Costing and Other Cost Management Tool...

Contents

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■ Decision Cases

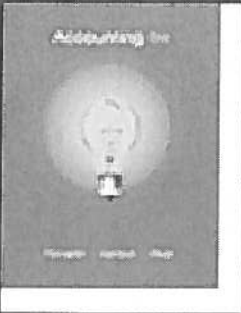
Case 1. Harris Systems specializes in servers for workgroup, e-commerce, and ERP applications. The company's original job costing system has two direct cost categories: direct materials and direct labor. Overhead is allocated to jobs at the single rate of \$22 per direct labor hour.

A task force headed by Harris's CFO recently designed an ABC system with four activities. The ABC system retains the current system's two direct cost categories. Thus, it budgets only overhead costs for each activity. Pertinent data follow:

Activity	Allocation Base	Cost Allocation Rate
Materials handling	Number of parts	\$ 0.85
Machine setup	Number of setups	500.00
Assembling	Assembling hours	80.00
Shipping	Number of shipments	1,500.00

Harris Systems has been awarded two new contracts, which will be produced as Job A and Job B. Budget data relating to the contracts follow:

	Job A	Job B
Number of parts.....	15,000	2,000
Number of setups.....	6	4
Number of assembling hours.....	1,500	200
Number of shipments.....	1	1
Total direct labor hours	8,000	600
Number of output units	100	10
Direct materials cost.....	\$220,000	\$30,000
Direct labor cost.....	\$160,000	\$12,000



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Requirements

1. Compute the product cost per unit for each job, using the original costing system (with two direct cost categories and a single overhead allocation rate).
2. Suppose Harris Systems adopts the ABC system. Compute the product cost per unit for each job using ABC.
3. Which costing system more accurately assigns to jobs the costs of the resources consumed to produce them? Explain.
4. A dependable company has offered to produce both jobs for Harris for \$5,400 per output unit. Harris may outsource (buy from the outside company) either Job A only, Job B only, or both jobs. Which course of action will Harris's managers take if they base their decision on (a) the original system? (b) ABC system costs? Which course of action will yield more income? Explain.

Case 2. To remain competitive, Harris Systems' management believes the company must produce Job B-type servers (from Decision Case 1) at a target cost of \$5,400. Harris Systems has just joined a B2B e-market site that management believes will enable the firm to cut direct materials costs by 10%. Harris's management also believes that a value-engineering team can reduce assembly time.

Requirement

1. Compute the assembling cost savings per Job B-type server required to meet the \$5,400 target cost. (*Hint:* Begin by calculating the direct materials, direct labor, and allocated activity costs per server.)

■ Ethical Issue

Cassidy Manning is assistant controller at LeMar Packaging, Inc., a manufacturer of cardboard boxes and other packaging materials. Manning has just returned from a packaging industry conference on activity-based costing. She realizes that ABC may help LeMar meet its goal of reducing costs by 5% over each of the next three years.

LeMar Packaging's Order Department is a likely candidate for ABC. While orders are entered into a computer that updates the accounting records, clerks manually check customers' credit history and hand-deliver orders to shipping. This process occurs whether the sales order