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 is for a dozen specialty boxes worth $80, or 10,000 basic boxes worth $8,000.

Manning believes that identifying the cost of processing a sales order would justify (1) further computerization of the order process and (2) changing the way the company processes small orders. However, the significant cost savings would arise from elimination of two positions in the Order Department. The company's sales order clerks have been with the company many years. Manning is uncomfortable with the prospect of proposing a change that will likely result in terminating these employees.

Requirement

1. Use the IMA's ethical standards to consider Manning's responsibility when cost savings come at the expense of employees' jobs.