Case 1 Harris Systems specialize 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. The 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

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