



EXERCISES

EXERCISE 3-6 Cost Flows in Activity-Based Costing (LO2, LO5)

Sultan Company uses activity-based costing to determine product costs for external financial reports. The company's partially completed Manufacturing Overhead T-account for the current year is shown below:

Manufacturing Overhead	(a) 530,000
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Required:

1. What does the entry (a) above represent?
2. At the beginning of the year, the company made the following estimates of cost and activity for its five activity cost pools:

Activity Cost Pool	Activity Measure	Expected Overhead Cost	Expected Activity
Labor related	Direct labor-hours	\$156,000	26,000 DLHs
Purchase orders	Number of orders	\$11,000	220 orders
Parts management	Number of part types	\$80,000	100 part types
Board etching	Number of boards	\$90,000	2,000 boards
General factory	Machine-hours	\$180,000	20,000 MHs

3. Compute the activity rate (i.e., predetermined overhead rate) for each of the activity cost pools. During the year, actual activity was recorded as follows:

Activity Cost Pool	Actual Activity
Labor related	25,000 DLHs
Purchase orders	200 orders
Parts management	110 part types
Board etching	1,800 boards
General factory	22,000 MHs

4. Determine the amount of manufacturing overhead cost applied to production for the year. Determine the amount of underapplied or overapplied overhead cost for the year.

EXERCISE 3-7 Assigning Overhead to Products in ABC (LO3)

Refer to the data in Exercise 3-6 for Sultan Company. Activities during the year were distributed across the company's four products as follows:

Activity Cost Pool	Product A	Product B	Product C	Product D
Labor related (DLHs)	6,000	10,000	4,000	5,000
Purchase orders (orders)	60	30	20	90
Parts management (part types)	30	25	40	15
Board etching (boards)	500	900	400	0
General factory (MHs)	3,000	8,000	5,000	6,000

Required:

Compute the amount of overhead cost applied to each product during the year.