Activity-based costing versus traditional overhead allocation methods.

Galvest Industries manufactures and sells custom made windows. Its job costing system was designed using and activity-based costing approach. Direct materials and direct labor costs are accumulated separately, along with information concerning three manufacturing overhead cost drivers (activities). Assume that the direct labor rate is $20per hour and that there were no beginning inventories. The following information was available for 2010, based on an expected production level of 50,000 units for the year, which will require 200,000 direct labor hours.

Activity Budgeted Cost for 2010 Cost Driver Used Cost

(Cost Driver) As Allocation Base Allocation Rate

Materials handling $325,000 Number of parts used $0.25 per part

Cutting and lathe work 2,340,000 Number of parts used 1.80 per part

Assembly & Inspection 5,000,000 Direct labor hours 25.00 per hour

The following production, cost, and activities occurred during the month of March:

Units Produced Direct Materials Cost Number of Parts Used Direct Labor Hours

3,800 $ 142,000 83,600 17,180

Required:

1. Calculate the total manufacturing costs and cost per unit of the windows produced during the month of March (using the activity based costing approach).
2. Assume instead that Galvaset Industries applies manufacturing overhead on a direct labor hours basis (rather than using the activity based costing approach system previously described). Calculate the total manufacturing cost and the cost per unit of the windows produced during the month of March. (Hint: You will need to calculate the predetermined overhead application rate using the total budgeted overhead cost for 2010.
3. Compare the per unit cost figures calculated in parts (A) and (B). Which approach do you think provides better information for manufacturing managers? Explain your answers.