Stainmaster's Carpet Cleaning is located in Orlando, Florida. It specializes in cleaning carpets for apartment complexes throughout the Orlando metro area. It usually charges a flat fee of $28.00 per hundred square feet of carpet cleaned. The company's accountant has suggested that the company may actually be losing money on certain jobs and has suggested a switch to an Activity Based Costing System. The following activity cost pools and their activity measures have been suggested:

Activity Cost Pool Activity Measure Activity for the Year

Cleaning Carpets Square Feet Cleaned (00s) 20,000 hundred square feet

Travel to Jobs Miles driven 60,000 miles

Job Support Number of Jobs 2,000 jobs

Other None N/A

The operating costs of the company are:

Wages $150,000

Cleaning Supplies 40,000

Equipment depreciation 20,000

Vehicle expense 80,000

Office expense 60,000

Owner compensation 80,000

Total expense $430,000

Resource consumption is distributed across the activities as follows:

Cleaning Travel to Job Carpets Jobs Support Other Total

Wages 70% 20% 0% 10% 100%

Cleaning Supplies 100% 0% 0% 0% 100%

Equipment depreciation 80% 0% 0% 20% 100%

Vehicle expense 0% 60% 0% 40% 100%

Office expense 0% 0% 45% 55% 100%

Owner compensation 0% 0% 40% 60% 100%

Job Support consists of invoicing, scheduling, customer support, purchasing supplies, etc.

**Required: Hint - (Use Exhibits 7-5, 7-6, and 7-11 as guides)**

1. Prepare the first-stage allocation of costs to activity cost pools.

2. Compute the activity rates for the activity cost pools.

3. The company recently completed an 8 hundred square feet job with a 75-mile roundtrip from the company warehouse. Compute the cost of this job using activity based costing.

4. The revenue from this job was $224 (8 hundred sq ft X $28/ hundred sq ft). Prepare a report showing the margin from this job.

5. What do you conclude concerning the profitability of this job?

6. What advice would you give the owner concerning pricing jobs in the future?