1. Wyant Enterprises produces computer equipment and programs for heavy equipment manufacturers. One of the most important parts of the company’s new just-in-time production process is quality control. Initially, a traditional cost accounting system was used to assign quality control costs to products. All of the costs of the Quality Control Department were included in the plant’s overhead cost rate and allocated to products based on direct labor dollars. Recently, the firm implemented an activity-based costing system. The activities, cost drivers, and rates for the quality control function are summarized below, along with cost allocation information from the traditional system. Also shown is information related one order of the Ace computer line. Compute the quality control cost that would be assigned to the Ace order under both the traditional approach and the activity-based costing approach to cost assignment. What was the impact on unit cost as a result of shifting to the activity-based costing approach?

Traditional costing approach:

Quality control costs were assigned at a rate of 9 percent of direct labor dollars

. Order Ace 18 was charged with $15,500 of direct labor costs.

Activity-based costing approach:

Quality control function

Cost

Assignment Order Ace l8

Activities Cost Drivers Rates Activity Usage

Incoming material Type of material used $15.75 per type of 10 types o material

Inspection material

In-process inspection Number of products $ .95 per product 600 product

Tool and gauge control Number of processes $7 per process 21 processes

per cell

Product certification Per order $65 per order 1 order

2, McKay Inc., manufactures serving trays and utensils for use by airlines for meal service.

Several airlines order these products in large quantities. McKay had adopted an activity-based management philosophy. Listed below are the principal activities of the company.

Product inspection Product marketing

Production packaging Accounting

Materials storage Moving work in process

Product engineering Inventory control

Product scheduling Production - assembly

Materials purchasing Production area cleanup

Production - machine setup Human resources services

Building maintenance Product rework

New product design Depreciation of building

a. Identify activities that are nonvalue – adding.

b. Analyze each of the nonvalue adding activities and determine which are necessary. Suggest how

each of the activities that you classified as unnecessary could be reduced or eliminated.