**10-23. Activity-Based Costing of Customers**

Marvin’s Kitchen Supply delivers restaurant supplies throughout the city. The firm adds 10 percent

to the cost of the supplies to cover the delivery cost. The delivery fee is meant to cover the cost of

delivery. A consultant has analyzed the delivery service using activity-based costing methods and

identified four activities. Data on these activities follow:

 **Cost Driver Volume**

Activity Cost Driver Cost Driver Volume

Processing order. . . . . . . . . . Number of orders $ 50,000 5,000 orders

Loading truck . . . . . . . . . . . . Number of items 100,000 100,000 items

Delivering merchandise . . . . Number of orders 60,000 5,000 orders

Processing invoice . . . . . . . . Number of invoices 48,000 4,000 invoices

 Total overhead. . . . . . . . . . …………………………………………..$258,000

Two of Marvin’s customers are City Diner and Le Chien Chaud. Data for orders and deliveries to

these two customers follow:

 City Diner Le Chien Chaud

Order value . . . . . . . . . . . . . $50,000 $60,000

Number of orders . . . . . . . . 52 110

Number of items . . . . . . . . . 600 1,500

Number of invoices . . . . . . . 12 150

***Required***

*a.* What would the delivery charge for each customer be under the current policy of 10 percent

 of order value?

*b.* What would the activity-based costing system estimate as the cost of delivering to each customer?

*c.* How could Marvin’s use the information identified by the new costing method to manage costs?