Fort Dearborn make 3 types of “peel and stick” labels for companies like Heinz, Kraft, and Ranch.  Fort Dearborn applies overhead using a predetermined rate based on direct labor hours.  While reviewing the financial information for Fort Dearborn you wonder if the company should switch to an activity based costing system.  Before making a recommendation to management you decide to evaluate the impact activity based costing will have product costing.

You identified the following activities, cost drivers and estimated costs for the year 3:

|  |  |  |  |
| --- | --- | --- | --- |
| Activity | Cost Driver | Estimated Annual Costs | Estimated Annual Cost Driver Units |
| Equipment Depreciation and Maintenance | Machine Hours | 150,000 | 20,000 |
| Materials Handling | Production of Materials used | 40,000 | 16,000 |
| Order Processing | Number of Orders | 110,000 | 400 |
| Packing and Shipping | Number of Units Shipped | 90,000 | 75,000 |
| Production Setup | Number of Production Runs | 70,000 | 250 |
| Quality Management | Number of Inspections | 110,000 | 800 |

You also estimated 10,000 labor hours would be needed to fill the orders in the upcoming year.  Assume the following activities occurred in February of year 3:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Heinz | Kraft | Ranch |
| # of units produced | 4,000 | 2,000 | 2,000 |
| Direct Materials Costs | $9,000 | $5,000 | $5,000 |
| Direct Labor Hours | 320 | 240 | 200 |
| # of production runs | 4 | 6 | 12 |
| Number of orders | 20 | 16 | 10 |
| Pounds of Material used | 800 | 600 | 600 |
| Machine Hours | 800 | 600 | 600 |
| # of inspections | 20 | 20 | 20 |
| Units Shipped | 4,000 | 2,000 | 2,000 |
| Direct labor costs are $25 per hour | $8,000 | $6,000 | $5,000 |

**Required:**

Compute the overhead allocation rate for each of the cost drivers.  Compute the production costs for each product for February using the cost drivers disclosed.  Once you have completed all of your review, prepare a 2 page report for management explaining your findings and recommendations.