

The company is considering using an activity-based costing system to compute unit product costs for external financial reports instead of its traditional system based on direct labor hours. The activity-based costing system would use three activity cost pools.

Data relating to these activities for the current period are given below. Use the data for questions 1 to 4.

	<i>Estimated</i>			
<i>Activity</i>	<i>Overhead</i>	<i>Expected Activity</i>		
<i>Cost Pool</i>	<i>Costs</i>	<i>Product C</i>	<i>Product D</i>	<i>Total</i>
Machine setups	\$ 13,630	130	160	290
Purchase orders	85,750	750	1,000	1,750
General factory	67,760	4,000	2,160	6,160
	\$167,140			

1-Determine the unit product cost of each product for the current period using the activity-based costing approach.

2 - Which cost method would you use to manage this business and why?

3- You are the product manager for product D and are evaluated based on product profitability. Which method would you prefer?

4 - The government wants to buy product C and will pay the business for the cost of the product plus a fixed fee. Should you adopt the ABC system or keep the old plant-wide overhead system and why?

5 - A customer has offered to buy a special order of 100 units of D for \$60 each. This sale will not impact any other part of your business and you have excess capacity to produce this special order and will produce these extra units if you accept the order. How would this impact the business – would you be better off and by how much? Would you need other information to answer this question and, if so, what other information?