Exercise 8-15 (15 minutes)

The order requires 250 direct labor-hours (1,000 units @ 0.25 DLH per unit) and is run in two batches. Therefore, the overhead cost of the order according to the activity-based costing system would be computed as follows:

Activity Cost Pool	(a) Activity Rate	(b) Activity	(a) × (b) ABC Cost
Volume..............	$5.55 per direct labor-hour	250 direct labor-hours	$1,387.50
Batch processing .	$107.00 per batch	2 batches	$214.00
Order processing .	$275.00 per order	1 order	$275.00
Total			$1,876.50

The product margin on the order can be computed as follows:

Sales (1,000 units × $20 per unit).......................		$20,000.00
Costs:		
Direct materials (1,000 units × $8.50 per unit) ..	$8,500.00	
Direct labor (1,000 units × $6.00 per unit)	6,000.00	
Volume	1,387.50	
Batch processing...	214.00	
Order processing..	275.00	
Customer service overhead		
(1 customer × $2,463 per customer)	2,463.00	$18,839.50
Customer margin...		$ 1,160.50

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