

Exercise 8-5 (30 minutes)

The first step is to compute the overhead cost for each of the products ordered by the customer:

Standard Model

<i>Activity Cost Pool</i>		<i>Activity Rate</i>		<i>Activity</i>	<i>ABC Cost</i>
Manufacturing volume.....	\$26	per direct labor-hour	527	direct labor-hours	\$13,702
Order processing	\$284	per order	1	order	\$284
Custom design processing	\$186	per custom design	0	custom designs	\$0
Customer service	\$379	per customer		Not applicable	

Custom Design

<i>Activity Cost Pool</i>		<i>Activity Rate</i>		<i>Activity</i>	<i>ABC Cost</i>
Manufacturing volume.....	\$26	per direct labor-hour	84	direct labor-hours	\$2,184
Order processing	\$284	per order	3	order	\$852
Custom design processing	\$186	per custom design	3	custom designs	\$558
Customer service	\$379	per customer		Not applicable	

Exercise 8-5 (continued)

The second step is to compute the product margins for the two products:

Product Profitability Analysis

	<i>Standard Model</i>	<i>Custom Design</i>
Sales	\$37,000	\$7,200
Costs:		
Direct materials.....	\$11,280	\$1,902
Direct labor.....	10,277	1,638
Manufacturing volume	13,702	2,184
Order processing	284	852
Custom design processing.	<u>0</u>	<u>558</u>
Product margin.....	<u>\$ 1,457</u>	<u>\$ 66</u>

The final step is to compute the profitability of the customer:

Customer Profitability Analysis

Product margin of orders placed by customer:

Standard model.....	\$1,457
Custom design	<u>66</u>
Total product margins	1,523
Customer service overhead.....	<u>379</u>
Customer margin	<u>\$1,144</u>