ACCTG 2200: Q&A Ch. 4

Dr. Morris

HKUST

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  - i.e. Rolex

Activity rate and activity proportion are equivalent

- ▶ Use the one that's easier/more useful in your situation

When to use ABC vs. VBC

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- Test!

How do we pick cost drivers

1. Pick activity pools

PB4–1 Assigning Costs Using Traditional System, ABC System

Homerun Corp., which manufactures baseball bats, currently has two product lines, the Traditional and the Acrylic, and $47,125 in total overhead.

The company has identified the following information about its activity cost pools and the two product lines:

Activity Cost Pools	Cost Driver	Cost Assigned to Pool	Quantity/Amount Consumed by Traditional Line	Quantity/Amount Consumed by Acrylic Line
Materials handling	Number of moves	$17,500	100 moves	75 moves
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3. Driver should cause the cost

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▶ Drivers don't matter for the adjustment.
▶ We are basically treating under/over applied overhead as a period costs

Activity rate and activity proportion

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- Same thing different form.
- Use whichever is most handy

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- **Unit-level** activities vary with the number of **units**
  - This is the cost of *actually making* each t-shirt

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- The link to ABC is that both require well developed information systems, and compliment each other.
- JIT is most common with *process* costing and is not common with job order costing.
  - It is difficult to optimize a production process that changes for each job.

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What is the difference between Volume-based and non-Volume-based cost drivers?

- Volume based have a **direct** relationship to the number of customers served or units produced
  - Product- and batch-level drivers *do not* vary *directly* with the number of units produced.