

ACCT 331: Case #1L, Fall 2019

Carter Furniture Co. manufactures different types of furniture for commercial use. The company produces three major types of furniture: benches, tables, and desks. Carter uses a job-order cost accounting system with manufacturing overhead applied on the basis of direct labor hours. The company has been in business for 20 years and has used the same cost system for the entire time. Relevant data are as follows:

	Bench	Table	Desk
Annual sales (units)	4,000	40,000	80,000
Direct materials cost per unit	\$45.00	\$85.00	\$25.00
Direct labor cost per unit	\$40.00	\$20.00	\$20.00
Direct labor hours (DLH) per unit	2 DLH	2 DLH	1 DLH

The company has budgeted its annual indirect costs to be \$7,056,000.

For the past 5 years, the company's pricing formula has been to set each piece of furniture's target price at 125% of its unit product cost. Recently, however, the desk has come under increasing price pressure from competitors. The result was that the price on the desk has been lowered to \$104.

The company CEO, Donald Morgan, recently asked the controller, Julia Khlar, "Why are we having trouble competing with these other companies? They're selling furniture just like our desk for \$89. That's only a couple of dollars more than our production cost. Are we really that inefficient, or are they losing money on all those sales? What's going on here?"

Julia responded by saying, "I think it's because of our outdated product-costing system. You might recall that I raised this as a potential issue last year, but the company decided to keep the current system in place. In my opinion, the costing system we're using is distorting our product costs. Let me put some data together and show you what I mean."

Donald gave Julia the approval to run some numbers, and she compiled the basic data needed to implement an activity-based costing system. These data are displayed in the following table, which shows the activity cost pools, indirect costs in each activity cost pool, cost drivers, and amounts of each cost driver used by each product:

Activity Cost Pool	Indirect costs in cost pool	Cost Driver	Products		
			Bench	Table	Desk
Machine maintenance and depreciation	\$3,185,000	Machine hours (MH)	31,584 MH	60,536 MH	39,480 MH
Engineering and product repair	\$1,440,000	Engineering hours (EH)	9,464 EH	31,096 EH	27,040 EH
Material purchasing, receiving, and handling	\$1,285,000	Number of material orders (orders)	2,812 orders	6,660 orders	5,328 orders
Miscellaneous manufacturing overhead	\$1,146,000	Square feet of factory space (Sq. ft.)	24,444 sq. ft.	43,650 sq. ft.	19,206 sq. ft.

Assume you are a staff accountant who works for Julia Khlar and she has assigned this project to you. The requirements are:

1. Prepare a Microsoft Excel file that does the following (round all calculations to two decimal places):
 - a. Calculate the per unit product cost for each type of furniture, based on the current job-order costing system.
 - b. Calculate the new per unit product cost for each type of furniture, based on the new data collected by Julia, using an activity-based costing system.
 - c. Compare the new per unit product cost (from the activity-based costing system) with the current per unit product cost (from the job-order costing system) for each type of furniture.
 - d. Calculate the target selling price per unit for each type of furniture, based on the current job-order costing system.
 - e. Calculate the new target selling price per unit for each type of furniture, based on the activity-based costing system.
 - f. Compare the new target selling price per unit with the current actual selling price per unit for each type of furniture.
2. Write a memo to Julia Khlar that summarizes your analysis and explains what has been happening because of the company's traditional product costing system. What strategic options does management have? What do you recommend, and why? Your recommendation(s) and reason(s) should be clearly indicated in your memo. The memo should be typed and follow the proper format (refer to Writing Resources content area on Blackboard for the Memo Pointers PDF file).

=====

Due Date: Wednesday, October 23, 2019

Submit: electronically on Blackboard through SafeAssign before class starts on the due date. For the required calculations in Part 1, please upload a Microsoft Excel file (see Excel Guidelines below). For the required memo in Part 2, please upload a Microsoft Word document.

Note:

- Your Case 1 grade will be split evenly between Part 1 (50 points) and Part 2 (50 points).
- If you do not submit your work using the required file formats, you will receive a 10-point reduction in your Case 1 grade.
- Late assignments will be reduced by 10 points for each day late. Assignments more than two days late will not be accepted.
- Refer to the "Writing resources" content area on Blackboard for additional guidance on memo writing.
- This is an individual assignment. When preparing your work, please pay attention to the university's policy on plagiarism, which is also referenced in the course syllabus.

Excel Guidelines:

- I expect you to use formulas where appropriate and not to type in any amounts that are being calculated. Only the given information should be manually entered into Excel.
 - o All the math required for Part 1 (e.g., addition, subtraction, multiplication, and division) should be expressed using formulas that contain cell references, not amounts or numbers you have typed into the formula bar.
- I will be considering the presentation of your Excel file as a component of the Part 1 grade. Please ensure your file is organized, the data is clearly labeled, and the numbers are properly formatted. Remember that this file is being prepared for the controller of your company!