

CASE 5A -- GLASER HEALTH PRODUCTS

Glaser Health Products of Ranier Falls, Georgia, is organized functionally into three divisions: Operations, Sales, and Administrative. Purchasing, receiving, materials and production control, manufacturing, factory personnel, inventory stores, and shipping activities are under the control of the vice-president for operations, George Gottlieb. Advertising, market research, and sales are the responsibility of the vice-president for sales, Jake Bogan. Accounting, budgeting, the firm's computer center, and general office management are delegated to the corporate controller (Administrative), Charlie Kaplan. The following cost categories are found in the company as a whole:

- (a) Depreciation on factory equipment.
- (b) Depreciation on office equipment.
- (c) Depreciation on factory building.
- (d) Advertising manager's salary.
- (e) Assembly foreman's salary.
- (f) Salespersons' salaries.
- (g) Salespersons' travel expenses.
- (h) Supplies for the Machining Department.
- (i) Advertising supplies used.
- (j) Electricity for the Assembly Department.
- (k) Lost materials (scrap) in a Machining Department.
- (l) Direct labor in the Assembly Department.
- (m) Supplies for the sales office.
- (n) Sales commissions.
- (o) Packing supplies.
- (p) Cost of hiring new employees.
- (q) Payroll fringe benefits for workers in the Shipping Department.
- (r) Supplies for Production Scheduling.
- (s) Cost of repairing parts improperly manufactured in the Machining Department.
- (t) Paint for the Assembly Department.
- (u) Heat, light, and power for the factory.
- (v) Leasing of computer equipment for the Accounting Department.

Required:

1. Identify each of the costs with the appropriate division: Operations, Sales, Administrative.
2. Identify each of the costs with one of the following:
 - (a) Unit-level activities.
 - (b) Batch-level activities.
 - (c) Product-level activities.
 - (d) Facility-level activities.Organize these classifications by division: Operations, Sales, Administrative.
3. Specify an appropriate cost driver for tracing costs associated with the various levels of activities to the next cost objective or products, whichever is appropriate.
4. Glaser Health Products is interested in using activity-based costing to identify as many costs as possible with the products. These costs will be used for planning and control decisions rather than for inventory valuation. The controller decided that all operation costs will be related to products but only those sales and administrative costs that are classified as unit-level, batch-level, or product-level costs

should be related to products. Using preliminary stage cost drivers, explain how individual items of costs will be traced to activity groupings.

5. Using primary stage cost drivers, show how the costs should be related to products.
6. Explain why it is necessary to use preliminary stage and primary stage cost drivers.