

Lesson 32: Activity-Based Costing — Smarter Overhead Allocation

Part A: Activity Rate Calculation

Calculate the activity rate for each cost pool:

Activity	Total Cost	Cost Driver	Total Driver Units	Activity Rate
Machine Setup	\$120,000	# of setups	400	
Quality Inspection	\$80,000	# of inspections	1,600	
Order Processing	\$60,000	# of orders	1,200	

Part B: Assign Costs to Product

Product A used: 50 setups | 200 inspections | 150 orders

Activity	Driver Units Used	Activity Rate	Cost Assigned
Machine Setup	50		
Quality Inspection	200		
Order Processing	150		
Total ABC Overhead			

Part C: ABC vs Traditional Costing

Under traditional costing, if Product A represents 20% of machine hours and total overhead is \$260,000, its allocation is \$52,000. Compare this to your ABC result. Which is more accurate, and why?
