

BE17-12 Spin Cycle Company uses three activity pools to apply overhead to its products. Each activity has a cost driver used to allocate the overhead costs to the product. The activities and related overhead costs are as follows: product design \$40,000; machining \$300,000; and material handling \$100,000. The cost drivers and expected use are as follows.

<u>Activities</u>	<u>Cost Drivers</u>	<u>Expected Use of Cost Drivers per Activity</u>
Product design	Number of product changes	10
Machining	Machine hours	150,000
Material handling	Number of setups	100

(a) Compute the predetermined overhead rate for each activity. (b) Classify each of these activities as unit-level, batch-level, product-level, or facility-level.

BRIEF EXERCISE 17-12

(a) Product design $\frac{\$40,000}{10} = \$4,000$ per product change

Machining $\frac{\$300,000}{150,000} = \2 per machine hour

Material handling $\frac{\$100,000}{100} = \$1,000$ per set up

- (b) Product design—product-level
Machining—unit-level
Material handling—batch-level