

Sygate technologies inc.

Technology



Sygate2. Headquarters overhead cost allocation at Korea auto insurance

Tasks: a) What would be the net income of the Taejon branch as of 2007 and 2008 if the headquarters' overhead costs were allocated by the current method? Calculate the amounts of revenue, and direct and indirect costs of the Taejon branch for these two years. b) The current overhead cost driver, branch revenues, is criticized because it lacks any logical relationship to the overhead costs allocated by headquarters. Choose more appropriate cost drivers for the 17 overhead costs listed in the case Exhibit 3.

You may refer to descriptions of the 17 overhead costs incurred by the five teams at the headquarters. c) Using your cost drivers from (2) above, compute the net income of the Taejon branch as of 2007 and 2008. Compare your answer to the amount from (1). Do you agree that Kim's performance in 2008 would now be evaluated more properly? Why or why not? d) Which cost drivers make the biggest differences between the net incomes of? Do these cost drivers have anything to do with Kim's effort in 2008? e) The ABC method matches specific reasonable cost drivers with corresponding overhead costs.

Discuss why the ABC method would reward a manager with higher motivation in a competitive market. Also, discuss the shortcomings of the ABC method at the level of the entire organization. 3. Dakota Office products Tasks: a) Why was Dakota's existing pricing system inadequate for its current operating environment? b) Develop an activity-based cost system for Dakota based on year 2000 data. Calculate the activity cost-driver rate for each activity in 2000. c) Using your answers in b), calculate the profitability of Customer A and Customer B. d) What explains any difference

in profitability between the two customers?) What are the limitations, if any, to the estimates of the profitability of the two customers? f) Is there any additional information you would like to explain the relative profitability of the two customers? g) Assume that Dakota applies the analysis done in question c) to its entire customer base. How could such information help the Dakota managers increase company profits? h) Suppose that a major customer switched from placing all its orders manually to placing all its orders over the internet site. How should this affect the activity cost driver rates calculated in question b)? How would the switch affect Dakota's profitability?