Marketing and overhead allocation rate

Business, Marketing

Bridgeton Assignment

1. The overhead allocation rate used in the 1987 model year strategy study at the Automotive Component & Fabrication Plant (ACF) was 435% of direct labor dollar cost. Calculate the overhead allocation rate using the 1987 model year budget. Why do you get different numbers?

2. Calculate the overhead allocation rate for each of the model years 1988 through 1990. Are the changes since 1987 in overhead allocation rates significant? Why have these changes occurred?

3. Consider two products in the same product line: Product 1, Product 2. Expected Selling Price $62 $54 Standard Material Cost 16 27 Standard Labor Cost 6 3 Calculate the expected gross margins as a percentage of selling price on each product based on the 1988 and 1990 model year budgets, assuming selling price and material and labor cost do not change from standard.

4. Are the product costs reported by the cost system appropriate for use in the strategic analysis?

5. Assume that the selling prices, volumes, and material costs for the 1991 model year will not change for fuel tanks and doors produced by the ACF of Bridgeton Industries. Assume also that if manifolds are produced, their selling prices, volume, and material costs will not change either.

- a. Prepare an estimated model year budget for the ACF in 1991 (1) if no additional products are dropped. (2) if the manifold product line is dropped. Explain any additional assumptions you make in preparing your estimated mode year budgets.

- b. What will be the overhead allocation rate under the two scenarios?

6. Would you outsource manifolds from the ACF in 1991? Why, or why not? What more information would you want before reaching a final decision?