

Costs and manufacturing overhead

[Business](#), [Industries](#)



1. How much overhead cost would be saved by outsourcing the production of muffler-exhaust systems and oil pans if

a. Overhead costs were entirely fixed costs?

\$0 would be saved because fixed costs are not affected by the reduced number of labor caused by outsourcing.

b. Overhead costs were entirely variable costs? (How is the volume of activity measured at Bridgeton? Why is volume not measured by simply counting units produced?)

All of them would be saved. If using numbers in 1988 for estimate,

$(5,766,000 + 6,532,000) * 434\% = \$53,373,320$ would be saved.

Bridgeton accumulates all manufacturing overhead costs into one cost pool, and use direct labor dollar cost as the allocation measure to apportion the overhead costs in the cost pool.

Unlike direct labor and direct material costs that can be traced to specific products, overhead costs could be administrative and manufacturing-related so that not all of them are involved in ACF's production. Therefore, there isn't a high degree of correlation between the units produced and the amount of manufacturing overhead used.

2. How much overhead cost do you think Bridgeton and the consultants implicitly assumed would be saved by outsourcing muffler-exhaust systems and oil pans?

They expect all overhead specific to the product line of Muffler – Exhaust systems and oil pans would be saved, which is

$(\$5,766,000 + 6,532,000) \times 434\% = \$533,733,20$ (using 1988 data for estimate).

3. 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? a) divide total overhead (\$) by total direct labor (\$) showed in Exh. 2 to get the overhead rate.

	1987	1988	1989	1990
Overhead Rate	437% = 107,954/24,682	434% = 109,890/25,294	577% = 78,157/13,537	563% = 79,393/14,100