

Northflow Solutions, Inc.: Using ABC to create a new pricing model

Steven Johnson, Minnesota State University, Mankato
Paul Brennan, Minnesota State University, Mankato

Abstract

Ben was eager to get started on his new assignment for Northflow Solutions, Inc. His direct supervisor, Monica, had given him all of the details necessary, and he had reviewed the entire file. The company had not increased prices in nearly 15 years, and they were concerned that their current method for allocating overhead using a single rate was inaccurate. Ben's task was to use Activity Based Costing ("ABC") to improve the accuracy of overhead allocation. After doing so, he would be able to help Northflow Solutions, Inc. improve their pricing model and profitability by customer.

Learning Outcomes

In completing this assignment, students should be able to:

1. Apply the methods of single rate and activity based costing to allocate overhead to a service firm's customers.
2. Compare the results of the alternative methods of allocating overhead.
3. Explain the differences between the alternative methods.
4. Apply a simplified cost-plus pricing formula using activity based cost estimates to determine the preferred sales charge for the firm's service engagements.
5. Evaluate and explain the merits of replacing the single overhead application method with the activity based approach to allocate costs to the firm's customers.

Application

The case was designed primarily for use in an introductory or intermediate undergraduate managerial accounting class.

Key Words

cost accounting, activity based costing, cost allocation, cost-plus pricing

Contact

Steven Johnson, Department of Accounting and Business Law, MH 150, Minnesota State University – Mankato, Mankato, MN 56002. E-mail: steven.johnson@mnsu.edu