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| --- | --- | --- | --- | --- | --- |
|  |  | Question Type | Difficulty | LO6: Action Analysis (Appendix 7A) | Professional exam adapted |
|  | 1 | T/F | M | x |  |
|  | 2 | Conceptual M/C | M | x |  |
|  | 3 | Conceptual M/C | M | x |  |
|  | 4 | Conceptual M/C | M | x |  |
|  | 5 | Conceptual M/C | M | x |  |
| APP07A-Ref1 | 6-8 | Multipart M/C | M-H | x |  |
| APP07A-Ref2 | 9-11 | Multipart M/C | M-H | x |  |
|  | 12 | Problem | M | x |  |
|  | 13 | Problem | M | x |  |
|  | 14 | Problem | M | x |  |
|  | 15 | Problem | H | x |  |
|  | 16 | Problem | H | x |  |

Appendix 07A

ABC Action Analysis

**True / False Questions**

|  |  |
| --- | --- |
| 1. | An action analysis report reconciles activity-based costing product costs with traditional product costs based on direct labor.    True    False |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | If a cost object such as a product or customer has a negative green margin, then:      |  |  | | --- | --- | | A. | its yellow margin will be positive. |  |  |  | | --- | --- | | B. | its yellow margin may be either positive or negative. |  |  |  | | --- | --- | | C. | its yellow margin will be negative. |  |  |  | | --- | --- | | D. | its yellow margin will be zero. | |

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| 3. | If a cost object such as a product or customer has a positive red margin, then:      |  |  | | --- | --- | | A. | its green margin will be positive. |  |  |  | | --- | --- | | B. | its green margin may be positive, negative, or zero. |  |  |  | | --- | --- | | C. | its green margin will be negative. |  |  |  | | --- | --- | | D. | its green margin will be zero. | |

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| 4. | If a cost object such as a product or customer has a negative red margin, then:      |  |  | | --- | --- | | A. | its green margin will be positive. |  |  |  | | --- | --- | | B. | its green margin may be positive, negative, or zero. |  |  |  | | --- | --- | | C. | its green margin will be negative. |  |  |  | | --- | --- | | D. | its green margin will be zero. | |

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| 5. | If a cost object such as a product or customer has a negative yellow margin, then:      |  |  | | --- | --- | | A. | its red margin will be positive. |  |  |  | | --- | --- | | B. | its red margin may be either positive or negative. |  |  |  | | --- | --- | | C. | its red margin will be negative. |  |  |  | | --- | --- | | D. | its red margin will be zero. | |

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|  | Grogam Catering uses activity-based costing for its overhead costs. The company has provided the following data concerning the activity rates in its activity-based costing system:      The number of meals served is the measure of activity for the Preparing Meals activity cost pool. The number of functions catered is used as the activity measure for the Arranging Functions activity cost pool.  Management would like to know whether the company made any money on a recent function at which 100 meals were served. The company catered the function for a fixed price of $21 per meal. The cost of the raw ingredients for the meals was $8.25 per meal. This cost is in addition to the costs of wages, supplies, and other expenses detailed above.  For the purposes of preparing action analyses, management has assigned ease of adjustment codes to the costs as follows: wages are classified as a Yellow cost; supplies and raw ingredients as a Green cost; and other expenses as a Red cost. |

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| 6. | According to the activity-based costing system, what was the total cost (including the costs of raw ingredients) of the function mentioned above? (Round to the nearest whole dollar.)      |  |  | | --- | --- | | A. | $1,560 |  |  |  | | --- | --- | | B. | $1,760 |  |  |  | | --- | --- | | C. | $1,060 |  |  |  | | --- | --- | | D. | $910 | |

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| 7. | Suppose an action analysis report is prepared for the function mentioned above. What would be the "red margin" in the action analysis report? (Round to the nearest whole dollar.)      |  |  | | --- | --- | | A. | $690 |  |  |  | | --- | --- | | B. | $440 |  |  |  | | --- | --- | | C. | $390 |  |  |  | | --- | --- | | D. | $540 | |

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| 8. | Suppose an action analysis report is prepared for the function mentioned above. What would be the "yellow margin" in the action analysis report? (Round to the nearest whole dollar.)      |  |  | | --- | --- | | A. | $635 |  |  |  | | --- | --- | | B. | $815 |  |  |  | | --- | --- | | C. | $710 |  |  |  | | --- | --- | | D. | $760 | |

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|  | Escau Corporation is a wholesale distributor that uses activity-based costing for all of its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity based costing system:          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The activity measures for the activity cost pools for the year are as follows: |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | What would be the total overhead cost per order according to the activity based costing system? In other words, what would be the overall activity rate for the filling orders activity cost pool? (Round to the nearest whole cent.)      |  |  | | --- | --- | | A. | $56.00 |  |  |  | | --- | --- | | B. | $48.00 |  |  |  | | --- | --- | | C. | $49.67 |  |  |  | | --- | --- | | D. | $52.00 | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | What would be the total overhead cost per customer according to the activity based costing system? In other words, what would be the overall activity rate for the customer support activity cost pool? (Round to the nearest whole dollar.)      |  |  | | --- | --- | | A. | $13,650 |  |  |  | | --- | --- | | B. | $12,600 |  |  |  | | --- | --- | | C. | $14,400 |  |  |  | | --- | --- | | D. | $10,800 | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. | To the nearest whole dollar, how much wages and salaries cost would be allocated to a customer who made 8 orders in a year?      |  |  | | --- | --- | | A. | $14,784 |  |  |  | | --- | --- | | B. | $11,704 |  |  |  | | --- | --- | | C. | $7,392 |  |  |  | | --- | --- | | D. | $9,548 | |

**Essay Questions**

|  |  |
| --- | --- |
| 12. | Jackson Painting paints the interiors and exteriors of homes and commercial buildings. The company uses an activity-based costing system for its overhead costs. The company has provided the following data concerning its activity-based costing system.      The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The company has already finished the first stage of the allocation process in which costs were allocated to the activity cost centers. The results are listed below:      **Required:**  a. Compute the activity rates (i.e., cost per unit of activity) for the Painting and Job Support activity cost pools. Round off all calculations to the nearest whole cent. b. Prepare an action analysis report in good form of a job that involves painting 63 square meters and has direct materials and direct labor cost of $2,070. The sales revenue from this job is $2,500. For purposes of this action analysis report, direct materials and direct labor should be classified as a Green cost; production overhead as a Red cost; and office expense as a Yellow cost. |

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| 13. | Goel Company, a wholesale distributor, uses activity-based costing for its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity based costing system:          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The amount of activity for the year is as follows:      **Required:**  Compute the activity rates (i.e., cost per unit of activity) for the Filling Orders and Product Support activity cost pools: |

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| --- | --- |
| 14. | Hasty Hardwood Floors installs oak and other hardwood floors in homes and businesses. The company uses an activity-based costing system for its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity based costing system:          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The amount of activity for the year is as follows:      A "square" is a measure of area that is roughly equivalent to 1,000 square feet.  **Required:**  a. Prepare the first-stage allocation of overhead costs to the activity cost pools by filling in the table below:      b. Compute the activity rates (i.e., cost per unit of activity) for the Installing Floors and Job Support activity cost pools by filling in the table below:      c. Compute the overhead cost, according to the activity-based costing system, of a job that involves installing 3.4 squares. |

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| --- | --- |
| 15. | Phoenix Company makes custom covers for air conditioning units for homes and businesses. The company uses an activity-based costing system for its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity cost pools:          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The amount of activity for the year is as follows:      **Required:**  a. Prepare the first-stage allocation of overhead costs to the activity cost pools by filling in the table below:      b. Compute the activity rates (i.e., cost per unit of activity) for the Making Awnings and Job Support activity cost pools by filling in the table below:      c. Prepare an action analysis report in good form of a job that involves making 50 yards of covers and has direct materials and direct labor cost of $1,500. The sales revenue from this job is $2,500. For purposes of this action analysis report, direct materials and direct labor should be classified as a Green cost; production overhead as a Red cost; and office expense as a Yellow cost. |

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| 16. | Ingersol Draperies makes custom draperies for homes and businesses. The company uses an activity-based costing system for its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity cost pools.          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The amount of activity for the year is as follows:      **Required:**  a. Prepare the first-stage allocation of overhead costs to the activity cost pools by filling in the table below:      b. Compute the activity rates (i.e., cost per unit of activity) for the Making Drapes and Job Support activity cost pools by filling in the table below:      c. Prepare an action analysis report in good form of a job that involves making 71 yards of drapes and has direct materials and direct labor cost of $2,510. The sales revenue from this job is $4,400. For purposes of this action analysis report, direct materials and direct labor should be classified as a Green cost; production overhead as a Red cost; and office expense as a Yellow cost. |

Appendix 07A ABC Action Analysis Answer Key

**True / False Questions**

|  |  |
| --- | --- |
| 1. | An action analysis report reconciles activity-based costing product costs with traditional product costs based on direct labor.    **FALSE** |

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| *AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | If a cost object such as a product or customer has a negative green margin, then:      |  |  | | --- | --- | | A. | its yellow margin will be positive. |  |  |  | | --- | --- | | B. | its yellow margin may be either positive or negative. |  |  |  | | --- | --- | | **C.** | its yellow margin will be negative. |  |  |  | | --- | --- | | D. | its yellow margin will be zero. | |

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| *AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| 3. | If a cost object such as a product or customer has a positive red margin, then:      |  |  | | --- | --- | | **A.** | its green margin will be positive. |  |  |  | | --- | --- | | B. | its green margin may be positive, negative, or zero. |  |  |  | | --- | --- | | C. | its green margin will be negative. |  |  |  | | --- | --- | | D. | its green margin will be zero. | |

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| *AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| 4. | If a cost object such as a product or customer has a negative red margin, then:      |  |  | | --- | --- | | A. | its green margin will be positive. |  |  |  | | --- | --- | | **B.** | its green margin may be positive, negative, or zero. |  |  |  | | --- | --- | | C. | its green margin will be negative. |  |  |  | | --- | --- | | D. | its green margin will be zero. | |

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| *AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | If a cost object such as a product or customer has a negative yellow margin, then:      |  |  | | --- | --- | | A. | its red margin will be positive. |  |  |  | | --- | --- | | B. | its red margin may be either positive or negative. |  |  |  | | --- | --- | | **C.** | its red margin will be negative. |  |  |  | | --- | --- | | D. | its red margin will be zero. | |

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| *AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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|  | Grogam Catering uses activity-based costing for its overhead costs. The company has provided the following data concerning the activity rates in its activity-based costing system:      The number of meals served is the measure of activity for the Preparing Meals activity cost pool. The number of functions catered is used as the activity measure for the Arranging Functions activity cost pool.  Management would like to know whether the company made any money on a recent function at which 100 meals were served. The company catered the function for a fixed price of $21 per meal. The cost of the raw ingredients for the meals was $8.25 per meal. This cost is in addition to the costs of wages, supplies, and other expenses detailed above.  For the purposes of preparing action analyses, management has assigned ease of adjustment codes to the costs as follows: wages are classified as a Yellow cost; supplies and raw ingredients as a Green cost; and other expenses as a Red cost. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | According to the activity-based costing system, what was the total cost (including the costs of raw ingredients) of the function mentioned above? (Round to the nearest whole dollar.)      |  |  | | --- | --- | | **A.** | $1,560 |  |  |  | | --- | --- | | B. | $1,760 |  |  |  | | --- | --- | | C. | $1,060 |  |  |  | | --- | --- | | D. | $910 | |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | Suppose an action analysis report is prepared for the function mentioned above. What would be the "red margin" in the action analysis report? (Round to the nearest whole dollar.)      |  |  | | --- | --- | | A. | $690 |  |  |  | | --- | --- | | B. | $440 |  |  |  | | --- | --- | | C. | $390 |  |  |  | | --- | --- | | **D.** | $540 | |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 3 Hard Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | Suppose an action analysis report is prepared for the function mentioned above. What would be the "yellow margin" in the action analysis report? (Round to the nearest whole dollar.)      |  |  | | --- | --- | | **A.** | $635 |  |  |  | | --- | --- | | B. | $815 |  |  |  | | --- | --- | | C. | $710 |  |  |  | | --- | --- | | D. | $760 | |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 3 Hard Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| --- | --- |
|  | Escau Corporation is a wholesale distributor that uses activity-based costing for all of its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity based costing system:          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The activity measures for the activity cost pools for the year are as follows: |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | What would be the total overhead cost per order according to the activity based costing system? In other words, what would be the overall activity rate for the filling orders activity cost pool? (Round to the nearest whole cent.)      |  |  | | --- | --- | | A. | $56.00 |  |  |  | | --- | --- | | B. | $48.00 |  |  |  | | --- | --- | | **C.** | $49.67 |  |  |  | | --- | --- | | D. | $52.00 |   Cost per order = Total cost of filling orders ÷ Number of orders = $149,000 ÷ 3,000 orders = $49.67 per order |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| 10. | What would be the total overhead cost per customer according to the activity based costing system? In other words, what would be the overall activity rate for the customer support activity cost pool? (Round to the nearest whole dollar.)      |  |  | | --- | --- | | **A.** | $13,650 |  |  |  | | --- | --- | | B. | $12,600 |  |  |  | | --- | --- | | C. | $14,400 |  |  |  | | --- | --- | | D. | $10,800 |   Customer cost per order = Total customer cost ÷ Number of customers = $273,000 ÷ 20 customers = $13,650 per customer |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. | To the nearest whole dollar, how much wages and salaries cost would be allocated to a customer who made 8 orders in a year?      |  |  | | --- | --- | | A. | $14,784 |  |  |  | | --- | --- | | **B.** | $11,704 |  |  |  | | --- | --- | | C. | $7,392 |  |  |  | | --- | --- | | D. | $9,548 | |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 3 Hard Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

**Essay Questions**

|  |  |
| --- | --- |
| 12. | Jackson Painting paints the interiors and exteriors of homes and commercial buildings. The company uses an activity-based costing system for its overhead costs. The company has provided the following data concerning its activity-based costing system.      The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The company has already finished the first stage of the allocation process in which costs were allocated to the activity cost centers. The results are listed below:      **Required:**  a. Compute the activity rates (i.e., cost per unit of activity) for the Painting and Job Support activity cost pools. Round off all calculations to the nearest whole cent. b. Prepare an action analysis report in good form of a job that involves painting 63 square meters and has direct materials and direct labor cost of $2,070. The sales revenue from this job is $2,500. For purposes of this action analysis report, direct materials and direct labor should be classified as a Green cost; production overhead as a Red cost; and office expense as a Yellow cost. |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| 13. | Goel Company, a wholesale distributor, uses activity-based costing for its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity based costing system:          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The amount of activity for the year is as follows:      **Required:**  Compute the activity rates (i.e., cost per unit of activity) for the Filling Orders and Product Support activity cost pools: |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| 14. | Hasty Hardwood Floors installs oak and other hardwood floors in homes and businesses. The company uses an activity-based costing system for its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity based costing system:          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The amount of activity for the year is as follows:      A "square" is a measure of area that is roughly equivalent to 1,000 square feet.  **Required:**  a. Prepare the first-stage allocation of overhead costs to the activity cost pools by filling in the table below:      b. Compute the activity rates (i.e., cost per unit of activity) for the Installing Floors and Job Support activity cost pools by filling in the table below:      c. Compute the overhead cost, according to the activity-based costing system, of a job that involves installing 3.4 squares. |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 2 Medium Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| 15. | Phoenix Company makes custom covers for air conditioning units for homes and businesses. The company uses an activity-based costing system for its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity cost pools:          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The amount of activity for the year is as follows:      **Required:**  a. Prepare the first-stage allocation of overhead costs to the activity cost pools by filling in the table below:      b. Compute the activity rates (i.e., cost per unit of activity) for the Making Awnings and Job Support activity cost pools by filling in the table below:      c. Prepare an action analysis report in good form of a job that involves making 50 yards of covers and has direct materials and direct labor cost of $1,500. The sales revenue from this job is $2,500. For purposes of this action analysis report, direct materials and direct labor should be classified as a Green cost; production overhead as a Red cost; and office expense as a Yellow cost. |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 3 Hard Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |

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| 16. | Ingersol Draperies makes custom draperies for homes and businesses. The company uses an activity-based costing system for its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity cost pools.          The "Other" activity cost pool consists of the costs of idle capacity and organization-sustaining costs. The amount of activity for the year is as follows:      **Required:**  a. Prepare the first-stage allocation of overhead costs to the activity cost pools by filling in the table below:      b. Compute the activity rates (i.e., cost per unit of activity) for the Making Drapes and Job Support activity cost pools by filling in the table below:      c. Prepare an action analysis report in good form of a job that involves making 71 yards of drapes and has direct materials and direct labor cost of $2,510. The sales revenue from this job is $4,400. For purposes of this action analysis report, direct materials and direct labor should be classified as a Green cost; production overhead as a Red cost; and office expense as a Yellow cost. |

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| *AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement Blooms: Apply Difficulty: 3 Hard Learning Objective: 07A-06 Prepare an action analysis report using activity-based costing data and interpret the report.* |