

Sand Castle Manufacturing produces concrete yard art. Recently, 2,500 concrete seahorses were produced in a production run. The run required 1,250 machine hours, and also required five "set-ups" of mixing equipment. Final inspection required 50 hours of inspection activity. Overhead is estimated at \$30 per machine hour, plus \$2,750 per "set-up," and \$25 per inspection hour. Direct materials and direct labor total \$75 per seahorse.

- (a) Apply activity-based costing and determine the amount assigned to a concrete seahorse.
- (b) For GAAP purposes, Sand Castle applies traditional costing methods, and allocates overhead at \$50 per machine hour. How much cost would be assigned to the 2,500 seahorses? What is the per unit cost of a seahorse under the traditional approach? What might explain the higher cost assignment, and how could this influence business decision making?