

ACCOUNTING in the headlines

What costs are included for a bottle of water at the JFK International airport if activity-based costing (ABC) is used for product costing?

In a recent Wall Street Journal article (“The Price You Pay for Water at the Airport,” Scott McCartney, April 22, 2015), the cost of a bottle at various airports was compared to the cost of that same bottle of water at a convenience store.

A 20-ounce bottle of Dasani water typically costs about \$0.99 at a convenience store. At the JFK International airport in New York City, that bottle of Dasani water is \$2.89.

An airport store operator interviewed for the WSJ story stated that the costs of operating airport shops are more expensive than other retail stores because:

- Off-airport warehouses are needed due to limited inventory space
- Deliveries to stores are usually made during off-peak hours
- Deliveries are made in small batches so that everything can go through airport security screening

Questions

1. Is the cost of **an off-airport warehouse** considered to be a unit-level, batch-level, product-level, or facility-level cost as it relates to:
 - a. The airport store
 - b. An individual bottle of water
2. Describe the costs that could be incurred in a small batch delivery of two cases of Dasani water to the store inside the airport from the off-airport warehouse?
3. How does the constraint that the deliveries must be made during off-peak hours impact the cost of the deliveries?
4. Are the costs of **a delivery of two cases of Dasani water to the store inside the airport from the off-airport warehouse** considered to be unit-level, batch-level, product-level, or facility-level costs as they relates to (consider each cost you listed in #2 above separately):
 - a. The airport store
 - b. An individual bottle of water
5. In an activity-based costing system, what costs would be considered to be part of the cost of an individual bottle of Dasani water at the airport?
6. Would the airport store be likely to use the ABC cost for water pricing? Why or why not?
7. Would activity-based costing or activity-based management be useful for the airport store? Why or why not?