

Standard soap company cost accounting assignment

[Business](#)



1. 0 Introduction Standard Soap Corp. (SSC) is a \$ 30-35 million company producing 5, 000 different varieties of bar soap. SSC has four broad production processes??? transformation of raw materials, drying of bulk soap, production of soap batches and packaging. However, there are underlying complexities involving up to 5000 different paths during these production processes. This poses a potential challenge for the management to efficiently handle the underlying information base. In addition, SSC has faced major changes in its customer base and their product expectations. There is a greater emphasis on inspections and quality control, reinforcing the need for an elaborate information management system. It appears that the full potential of SSC profitability is not being realised due to reliance on an outdated information and cost accounting model. The objective of this report is to elucidate the method of integrating SSC operational processes, information and cost accounting aspects through ABC, thus aligning them with their competitive strategy. We will identify potential issues and recommend viable solutions. 2. 0 Conclusion

SSC has reached a position of business eminence through a process of adaptation and evolution. The transformation of the company's focus from being a broad product player into the niche sector has been well founded. The use of a pilot information project in the eighties and the ACMS in the nineties, though beneficial, is now in an urgent need for refinement. The contemporary business environment calls for more reliable management information tools to serve SSC's planning and decision support systems. By addressing these pressing challenges, SSC can leverage its position for growth and competitive edge.

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Adoption of the ABC system can generate quality information and link improved operational efficiency with efficient strategic planning. It can assist SSC to produce better quality products and effective costing to gain higher profitability. ABC is proposed to be implemented in four phases for SSC. We appreciate that the implementation of ABC will be a complex and expensive project, and there may be other cheaper alternatives. However it must be noted that to retain competitive edge, SSC requires an accurate and powerful costing system.

The initial expensive investment is more than likely to reap strong anticipated gains. 3. 0 Recommendations 1. Implementation of an effective risk management (RM) structure. The existing RM structure needs to be made more effective with representation from the 'right levels'. It should include the business unit management vested with a holistic view of the business, supplemented with effective control and communication structure to stub risk vulnerabilities in time. Roles and responsibilities must be well defined to ensure accountability and control policy breaches. 2.

Knowledge of failure modes with operational monitoring and response system. The risk identification and assessment mechanism must be aligned to Hamilton's strategy and sensitivity to safeguard its reputation. It should be able to detect the failure modes in time, with compensating controls and pre-emptive actions in place to ensure damage control. 3. Mapping legal and regulation compliancy requirements. It is critical for Hamilton to have internal control systems compliant to legal regulations. Validations and reviews in accordance with the Sarbanes Oxley Act must be incorporated. .

IT systems and security risks. Due to its heavy reliance on IT systems, Hamilton must have an elaborate systems RM policy aligned to address relevant security threats and growing list of regulatory requirements.

Safeguards for information access and use, system security, fiduciary and privacy breaches need special attention. 5. Validation and independent review. Besides internal controls, Hamilton must engage in regular and independent external audits to ensure legal compliances and risk management strategy assessment. 6. Accuracy of Information

Accurate information assessment and dissemination remain crucial for Hamilton. Efficient reporting system to ensure 'Fair Value' assessments must be incorporated 7. Safeguards against Insider Trading. Insider trading is an imminent risk for Hamilton. It must be governed by Trade Rules 10b5-1 and enforcement practices at [www. sec. gov](http://www.sec.gov). Trading in Hamilton's funds by its staff can be legitimately conducted during corporate blackout periods as per defined stipulations that ensure defense against insider trading violations. 8. Organisational culture and governance.

Hamilton must create an organisational security and awareness culture with a 'zero tolerance ethical' approach at the heart of its RM policies. The final success of an implemented internal control system depends immensely on an active, motivated and voluntary participation of the employees. 4. 0

Discussion 4. 1Existing Risk Management System Hamilton has two main lines of businesses: mutual funds and brokerage services. Mutual Fund business, value is created through three key processes: investment management, marketing and sales and transaction processing.

Hamilton Brokerage Services had three large brokerage houses executing trades for third parties in equity and financial products. Customer services and trust is a key functional necessity. Extensive use of technology, research, innovation, investment skills and economies of scale are pillars to Hamilton's success. The current risk management structure is headed by Brandon Lamm and assisted by four specialist risk managers. The team works in conjunction with the business units management and advises them to coordinate, monitor and control risk.

They are mandated to timely report and escalate risks to the senior management and draw the appropriate balance between decentralised control and centralised risk monitoring.

4. 2 What are the potential risk areas for Hamilton ?

- ??? Protection of customer trust. Timely execution, billing and accurate information are crucial aspects for Hamilton. The sales reps are allowed to provide fund information only while allowing the investors to make decisions. Ineffective practices can cause erosion of reputation, which takes moments to lose and years/decades to build. Selling of products by intermediaries. A bad recommendation by an intermediary or the financial problems of these distributors could erode Hamilton's reputation.
- ??? Heavy reliance on technology makes IT system failures and security compromises major risk concerns.
- ??? Management involvement, research, innovation, and investment skills are key aspects underpinning Hamilton's success. Lack of a conducive environment, organisational structure and accountability can scuttle these key enablers.
- ??? Hedging to interest and exchange rate fluctuation and OTC share values need accuracy. Effective internal controls, checks against internal and external frauds

??? Hamilton faces the dilemma

of allowing its executives to trade its funds to gain expertise which could lead to insider trading. ??? Decentralized operational functioning is essential for Hamilton. However, it should not be an impediment for the Corporate management remaining constantly alive to potential risks arising in the business units. ??? Security awareness training for staff to handle information assets is essential. ??? Hamilton has evolved performance measurement metrics to measure and manage risks but their efficacy needs improvement.

The tendency to ‘over achieve’ by bending or circumventing policies must be curbed at any cost. ??? Elaborate documented risk assessment, control policies and processes is needed. ??? Hamilton has realised that there needs to be an across-the-board risk consciousness amongst its employees It cannot be effective unless it is embedded as a part of the organisational culture. ??? Availability of a business continuity plan for Hamilton to address disaster recovery, test plans, critical dependencies on external vendors and communication strategies

4. 3 What are the risk management imperatives for Hamilton

Hamilton has introduced an organisational structure for its Risk Management control. They have engaged in deliberations to improve its efficacy. The organisational framework is well founded. However, it is essential to include team members at the ‘right level’ from the business units to ensure that they understand the implications and are held accountable. The roles and responsibilities must be well defined to ensure this. This does not preclude

the need of prevalence of security and risk awareness to be spread across the organisational fibre as a part of the corporate culture.

The executive management must continuously drive this initiative amongst all the employees. As a part of their risk management strategy, Hamilton needs to focus on the following process cycle:-

4. 3. 1 Risk identification and assessment. Hamilton must have an effective mechanism to identify all the potential risks. 'Knowing the enemy is paramount to defeat him'. This process needs in depth knowledge and analysis of all the operational dynamics of Hamilton's business imperatives. This also includes IT systems which are extensively used by Hamilton. An assessment of potential failure modes must be made by experienced personnel.

It must be reviewed and updated regularly to keep abreast with technology changes and business advances.

4. 3. 2 Risk management monitoring. It is important for Hamilton to have an early detection system that prevents and reduces the damage due to potential risk in time. For this, there is a need to identify potential risk profiles and their early warning indicators existing within the system. It should also have an efficient communication structure to report these indicators to the senior management immediately. Constant analysis and updating of the risk monitoring system is crucial.
4. 3. Risk mitigation. The control and mitigation is essential for risk management. Effective policies and control processes must be in place to remove most if not all risks before damage is caused. There also needs to be a damage control policy for risks which could not be controlled in time, to mitigate their impact. Use of staff training, well defined responsibilities, safeguards and

regular audits must be resorted to. 4. 2. 3 Summary Flawed cost information can sabotage the company's strategic and financial position, It can lead to inaccurate prioritisation, improper focus and confusion. (Turney, 2005).

While ABC involves cost and effort, it serves as a powerful tool to enhance the company's profitability and competitive edge. 5. 0Reference Activity-Based-Costing System (ABC): Introduction And When It is beneficial (2004, June 20) Retrieved May 04, 2008 from <http://fmaccounting.com/activity-based-costing-system-abc-introduction-and-when-it-is-beneficial/> Becker, H & Glad, E. , 1995. " Activity based cost and management", Juta & Company , Capetown. Cooper, R. , 1989. " The rise of activity based costing – Part 3" in Journal of Cost Management : 7-9 Integrating Activity Based Costing and Economic Value Added (n. .) in Manufacturing. Retrieved May 05, 2008 from <http://www.logistics.tuc.gr/Contents/Lessons/kostol/EMJ99.PDF> McNair, C. J. , 1990. " Interdependence and Control: Traditional vs Activity Based Costing", in Journal of Cost Management : 15-25 O'Guin, M. C. , 1985. " The Complete Guide to Activity Based Costing", Prentice-Hall, New Jersey. Turney, P. , 2005. " ABM – How to succeed with activity based costing and management". McGraw-Hill, New York. Wiersema, W. H. , 1995. " Activity Based Management Today's Powerful New Tool for Controlling Costs and Creating Profits", Amacon, New York