

Wilkerson case essay



Wilkerson Case Study The Wilkerson Company supplies products to manufacturers of water purification equipment.

The company has established a major presence in the high volume pump product line, customized flow controller line, and the valve industry. The production processes for all three products begin with the purchasing of semi-finished components from several suppliers. Furthermore, the production facility uses the same equipment and labor for all three product lines. The manufacturing process are practically identical for both the pumps and valves. The flow controllers require more components and labor during production. Currently, the Wilkerson Company utilizes volume-based costing.

This method assumes that there is a direct relationship between the volume of production and the amount of overhead. Wilkerson is currently utilizing the assumption that overhead costs are 300% of each product's direct labor cost per unit. Activity based costing allows Wilkerson Company to trace each overhead costs' relationship with production. For example, Wilkerson's current costing system was not taking into account workers operating a number of machines simultaneously.

Under an activity based costing system, Wilkerson's new product costs would be as illustrated in Exhibit 1. Wilkerson's new product costs would be the following: 1. Valves – \$46. 172.

Pumps – \$58. 203. Flow Controllers – \$115. 38 Consequently using the current selling price, the gross margins under the activity based costing system would be 46%, 33% and -10% respectively (Exhibit 2). The gross

margins for both valves and pumps increased substantially, while the gross margin for Flow Controller's drastically decreased.

Utilizing volume based-costing versus activity based costing produces significantly different product cost results. The differences in product costs stem from how product costs are allocated to each product line. As previously stated, Wilkerson's Overhead..

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