

# Business analysis for daktronics, inc.

Business



## Introduction

This paper is divided into 4 parts, each will apply different management accounting concepts to a real company --DAKTRONICS, INC. Each part will consist of computation and some explanations as required.

PART 1: Identify any activity in DAKTRONICS, INC where you can apply breakeven analysis. You must be able to define:

- A unit of measurement for the activity
- Revenue per unit for the activity;
- Variable costs for the activity,
- Fixed costs for the period in the activity,

If you cannot identify specific actual amounts, make a reasonable estimate and apply the tool as if the data were factual.

The name of the organization is DAKTRONICS, INC and its nature of business is the manufacture and provision of electronic scoreboards and programmable display systems for various applications. The activity used is on manufacturing of its electronic product pertaining to the month of January, 2007. The inputs used in include the different accounting information on cost like direct materials, direct labor and overhead costs and revenues per unit (Daktronics, Inc., 2007). The results of the analysis are as follows:

The implication of result is that the company has no profit when it sells 13.33 units for the coming month based on January 2007 data. This is the same as the breakeven point in units if sells using its old price. If the input data are changed, the result would also changed hence a break even analysis may change from time to time. It also possible that they could be higher demand

for the coming months in which case the company will clearly know that if sells more the breakeven point, that is will have more profits.

The implications of the result include also a decision that could be made by DAKTRONICS, INC in order to protect or promote is profitability which is part of its financial corporate objectives. The company could not therefore ideally produce the below the break point in units as computed. It should aim to operate above break even point to maximize profit. But since sales in units are also a function of market demand the company should realistically forecast its sales in units before it could apply this analysis better.

PART 2: Identify a decision that has recently been made or will be made in the near future in same organization. Identify two relevant and two non-relevant costs in this decision. If you cannot identify specific actual amounts, make a reasonable estimate and apply the tool as if the data were factual.

The decision that will be made in the near future in Daktronics, Inc. is whether the company will accept a special order to manufacture 1, 000 units of electronic scoreboard for the month of February 2008.

The two relevant and non-relevant costs in the decision that will be made include the variable cost and fixed that will be involve in the decision in whether the company will just make or buy the goods in needs. The other relevant costs involve the incremental cost. The inputs used are historical data for the month of January 2007 based on the company's annual report. The inputs used are therefore variable unit costs of material, labor and amount product and design cost included its fixed part incurred by the company (Daktronics, Inc., 2007). The inputs were generated because of the

offer of a foreign country for the company to manufacture a special order of 1, 000 units of score board.

The company produces electronic scoreboards for various markets in the US and other countries. Each scoreboard sells at about a given amount of profit and the company sells about 15, 000 electronic scoreboard products each year. The special order will increase distribution cost for importation cost and insurance but will not affect US sales. Unit cost data (as expressed in thousand USD) for January 2007 are given and are made part of the results of the computation as shown below:

The implications of the result of computations made include the fact that it is favorable for the company to accept the special order to manufacture electronic scoreboards since the company stands to gain more from the offer. Incremental revenue of \$1, 000 thousand of \$1 million is already the big amount.

PART 3: Review your organization and its treatment of allocated costs.

Retrieve any report in the organization that allocates common costs to a division, product, or service. Recast that report with unallocated costs and comment on the usefulness of that revised report.

The issue that will be discussed here is whether the company will use allocated cost or will just the traditional way of estimating its factory overhead on direct labors.

The activity that is used is still in the production of electronic scoreboards where the company presently charges all depreciation expense for product and design equipment against its Type A electronic scoreboards since its is

standard product and its seldom accept made-to-order products or special orders. As a result Type B electronic scoreboards do not share in cost. Data for the month of January, 2007 (Daktronics, Inc., 2007) were therefore extracted for purpose of re-computing the correct cost per unit of the company by allocating Type B for its share in the production cost.

The resulting analysis showed the following:

It could be observed that without the allocation of depreciation of product and design equipment on the basis of the number of units products sold for Type A and Type B, the unit cost for Type A would have the same unit cost while Type B would have a lower unit cost \$0. 89 thousand. By applying the allocation principles the product units cost are reduced for Type B. Since Type B products have fewer features than the standard products it does not mean that it should not share in the allocated cost for depreciation for product design.

By doing this allocation, the company would be properly guided on whether it should still accept special orders. Under the given analysis, it would appear that company has higher cost for product if allocation is made to Type B and lower for Type, hence it is possible that its decisions in the past, were most likely distorted.

PART 5: Review your organization and its applicability for Activity Based Costing (ABC). Identify a product or service in your organization that could use ABC. Then identify at least two activities for ABC and the appropriate cost drivers for those activities. Estimate the application rates for each cost driver.

The product that the company could use activity based costing is electronic scoreboard. The activities and their respective drivers for ABC include setting-up the machine as driven by the number of set-ups, inspection activities as driven by the number of inspection hours and the actual running of the machines as driven by the number of hours in use. The application rates for each cost driver are also shown below.

The period covered for the activity is the month of month of January, 2007. The inputs used include variable unit costs of material and labor and total overhead estimated for the setting up the machines, conducting the inspections and running the machines, the actual number of electronic product produced as well as the estimated number of cost driver units for each activity.

The following a summary of given data and results of the calculations made after manipulating the inputs.

The implication of results is that the unit cost of product under Machine A is lower is activity costing is used as compared with traditional approach of merely providing for factory overhead as 150% of the overhead cost. It would mean the company could actually be earning more it would recompute its income based on activity based costing (Mowen and Hansen, 2006). It also means that company could still afford to produce more if there is higher demand for its product and it could expect a higher profit based on lower unit cost computed under ABC.

Conclusion:

It could be concluded that management would benefit much by looking into the structure and composition of its unit cost. By so doing, it could properly plan its pricing policies as well know its correct amount of profits in making operational and financial decisions for the company.

References:

Daktronics, Inc. (2007) Annual Report for 2007, {www document} URL,  
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Mowen and Hansen (2006) Management accounting: the cornerstone for  
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