

Cost accounting proposal



interoffice memorandum XYZ Manufacturing company ABC cost accounting proposal To analyze the performance of any new business we have to consider four perspectives i. e. financial, employee, customer, and innovation perspectives. They concentrate on profitability and market share, the effectiveness of work force function, satisfaction of customer's levels recording of responses and queries unit's ability to innovate and learn along with business objectives necessary to fulfilling company objectives.

The organization's strategic goals contribute towards the corporate structure and that will measure the success of organization.

Considering that this is an online business unit of a merchandising company, the cost classifications need to be delineated. First, researchers note that a merchandising firm has only one inventory account, representing the merchandise that it buys and sells (Lewis, 1993). Such things as raw materials would not be included on the balance sheet because it is non-existent. Some intangibles might be included as well. Another area of consideration is the income statement, which would include such items as expenses, marketing, net income, purchases, and beginning and end inventory.

With regard to cost behaviors, referring to the sensitivity of the costs to changes within production or sales, one has to consider fixed, variable, and mixed costs.

Cost drivers refer to what is causing the costs (Mats and Usry, 2000). This includes the volume of production, overhead costs, purchase orders etc. (Mats and Usry, 2000).

The parent company establishes the goals to be met by the online business unit and depends upon the measurement of the management related to

costs of operations.

Monitoring and measuring capacity utilization and productivity levels on a continuous basis will ensure streamlined operations, resulting in an increase of return of investment for the parent company. Efficient operational activities lessen the total costs that must be allocated to the final product, increasing overall profitability and growth potential for the newly formed online business unit.

There are various cost allocation methods that one could use to allocate cost. Three methods commonly used are the direct method, the step method and the reciprocal method. The direct method focuses on charging cost of support service departments to internal customers. This method does not make allocations among support-service departments. A disadvantage of this method is it does not take into account that the services that one department may provide support to another and cause higher cost allocations to the production department. The step method on the other hand does recognize that support-service departments provide services to each other and of allocates costs in steps. Like support-service department to other support-service or production departments then from other support-service departments. Switching from the direct to step method may be uneconomical if the differences in cost allocations for the methods are small. The reciprocal method makes a reciprocal cost allocation when support-service departments provide reciprocal services, which is providing services to each other. This method recognizes and allocates costs of all services provided by any support-service department, including those provided to other support-service departments. If allocation bases are reasonable, this is the most accurate approach because it reflects the actual process by which

services are exchanged among the departments.

The new system will definitely successful in planning and control of costs associated with the online business unit. Managers can evaluate their performances by analyzing the goals established by the company. Obviously another benefit of the system is to lower the cost of operations.

References

Mats and Usry (2000). Cost accounting. Planning and control. Dallas: South Western publishing