

# [The name of the organization is microcel ltd](https://assignbuster.com/the-name-of-the-organization-is-microcel-ltd/)

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The name of the organization is Microcel Ltd. Previously it had been in the business of selling computer hardware. Currently it has been developing business applications software in the field of human resource management.

There are three areas in the company where cost control has become a concern. One is the shared usage of the printer. Another is the shared usage of the stationary.

The third area of concern is the shared usage of company transportation. In the company income statements, all three cost categories are classified as overhead and deducted from revenue lump sum. However recently the company has been experiencing increasing costs in all three areas and therefore the management has decided to investigate.

The investigation could be simplified if the management were to use activity based costing. In trying to identify which operational processes are responsible for increasing costs, it is useful to look at the different departmental processes.

At Microcel, there are six departments: system design, programming, testing, multimedia development and graphics design, marketing and sales, administration. The company is using two network printers and all six departments are sharing those printers.

Printing costs have been rising in the last 1 year. Therefore the management has to find out if there is any one particular department which is responsible for increasing costs.

Once that department has been identified, necessary cost controls could be initiated. In apportioning costs of the printers to each of the departments, it is necessary to apply activity based costing. In this case the resource is the printer.

The resource driver could be the amount of ink used by the department in a particular time period which could be one month. The activity could be the printing while the activity driver would be the number of pages printed. The cost object in this illustration is each of the six departments.

Therefore, if the printers run out of ink twice a month, then the cartridges have to be changed 24 times in a year. Activity based costing would enable the management the assign total yearly costs of changing cartridges to each of the departments as below.

Assuming that it takes $29 to change one cartridge, the total cost of changing cartridges in a year is $696. The next phase of the calculations is to determine how many pages have been printed in a year and of that total number of pages, how many were printed by each of the departments.

If there were a total of 7200 pages printed in a year and of those 7200 pages, 1200 were printed by the programming department, then this department has incurred the yearly printing cost of $116 (($696/7200)\*1200). In this manner, the remaining portions of the $696 dollars could be assigned to each of the departments and the department which has been experiencing rising costs could be identified.

Costs in shared stationary have also been rising. Under the heading of stationary, many items are included. The principal items are printing paper, pens, pencils and markers. There are six departments which are using these categories of stationary.

Depending on the level of detail required in the investigation, activity based costing could be applied to each category of stationary as applicable to each department or, if that level of detail is not required, activity based costing could be applied to the stationary category as a whole as applicable to each department.

Assuming that activity based costing is applied to the category of stationary as a whole as applicable to each department, Then stationary as a whole would be regarded as the resource.

Resource drivers would be the pens, pencils, markers and printing paper. Activities may be the number of requisitions for stationary submitted by the departments. Activity drivers would be the number of requisitions submitted in the given time period. The cost object is each of the departments.

For illustration purposes, the programming department consumes four pens, four pencils, four markers and hundred pages of printing paper in each month. Assuming prices of pens, pencils, markers and printing paper to be $1, $. 5, $1. 2 and $. 01 respectively, cost of stationary applicable to the programming department is $110. 8 in each month. In a year, the total cost comes to $1329. 6.

If the total cost of all stationary purchased in a year is $10000 then the programming department accounts for 13% of that cost. Therefore if the total cost of processing requisitions from all six departments in a year is $8000, then the amount of costs to be assigned to the programming department is $1040 (8000\*13%).

In the case of transportation expenses, the resource would be the company car. Resource driver would be the amount of gasoline expended on the car.

Activities would be requisitions for refueling and the activity driver the number of requisitions submitted. If the programming department has spent $1000 in a year in gasoline expenses and the total amount expended for all departments is $8000, then the programming department is responsible for 12% of the cost.

If the total cost of processing transportation requisitions is $10000 in a year, the cost to be assigned to the programming department is 12% of $10000 = $1200.

The three illustrations above demonstrate how activity based costing could be applied to Microcel.

References

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