

# Super bakery, inc essay sample



**ASSIGN  
BUSTER**

Super Bakery, Inc is a nationwide supplier of mineral, vitamin, and protein-enriched doughnuts and other baked goods to the institutional food market, specifically school systems. Super Bakery has been doing well, with sales growing at an average annual rate of twenty percent (Kimmel, 2009).

Although sales are doing great, the company has had issues with controlling the cost of outsourced activities. Super Bakery was using a traditional costing method and decided to switch over to the activity based costing method which would help with the issues the company was facing. In this paper we will discuss Super Bakery's decision to switch to the ABC method.

Management of Super Bakery, Inc used strategies consistent with the traditional costing system. This type of system applies indirect costs to products based on a predetermined overhead rate and treats overhead costs as a single pool of indirect costs. In a traditional costing system indirect costs are first identified, then indirect costs are estimated for the appropriate period. Next a cost driver is chosen with a link to the cost. An estimated amount for the cost driver is selected for the appropriate period. The predetermined overhead rate is computed and overhead is applied to products using the predetermined overhead rate. Although this system calculates overhead cost, it was not accurately defining costs and profit margins.

Management decided to switch to an ABC system because the traditional costing methods were spreading costs over the entire customer base. Each order appeared to cost the same amount to complete. Orders with high profit margins were subsidizing orders with low profit margins (Kimmel, 2009).

With the activity based costing method costs are assigned more accurately.

The ABC system was the best choice for Super Bakery. This method allocates overhead to multiple activity cost pools, and assigns the activity cost pools to products and services by means of cost drivers. This is what separates the traditional method with the ABC method. In the traditional costing system costs are allocated to departments or to jobs. Because Super Bakery is a virtual corporation and most activities such as selling, manufacturing, warehousing, and shipping are outsourced, the ABC system will allow the company to track the performance of outsourced activities.

Another type of costing system is the job order costing system. This system determines the exact expenses for materials, labor and overhead incurred in operations. As well as records the actual materials and labor expenses for specific jobs and assigns overhead to jobs at a predetermined rate. A benefit to this type of system is it allows managers to calculate the profit earned on individual jobs. However, this would not be a system suited for the Super Bakery because employees are required to track all materials and labor used during the job. Most operating activities are done outside of the company.

The other system is process costing which applies costs to departments based on the average number of units produced per day. A benefit of this method is it allows managers to get detailed information on the production statistics of individual departments. This type of system is best for manufacturing settings, such as factories. Super Bakery outsources its manufacturing so this would not be an ideal system for them. Conclusion

Super Bakery chose the right costing method. The activity based costing system will provide the company with accurate costing information, that will

assign cost to each order and also allow the company to monitor performance of outsourced activities.

#### Reference

Kimmel, P. D., Weygandt, J. J., & Kieso, D. E. (2009). Accounting: Tools for business decision making (3rd ed.). Hoboken, NJ: John Wiley & Sons