

# [Activity-based-costing](https://assignbuster.com/activity-based-costing-essay-samples/)

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Activity-Based-Costing Question (a) Market analysis Annual cost 050, 000 Estimated drivers; 15, 000 hrs.   
Activity-based rate   
1, 050, 000/15, 000 = $ 70 per hour   
Product design   
Annual cost for product design; $ 2, 350, 000   
Number of designs done annually; 2, 500 designs   
Activity-based rate   
2, 350, 000/2, 500= $ 940 per product design   
Product development   
Annual cost for product development= $ 3, 600, 000   
Number of products developed annually; 90 products   
Activity-based rate   
3, 600, 000/90 =$ 40, 000 per product development   
Prototype design   
Annual cost for prototype test = $ 1, 400, 000   
Annual number of tests= 500 tests   
Activity-based rate   
1, 400, 000/50 = $ 28, 000 per test   
Question (b)   
Costing for 1, 800hrs market analysis   
1, 800 X 70 = $ 126, 000   
Costing for 280 product designs   
280 x 940 = $ 263, 200   
Costing for 10 product development   
10 x 40, 000 = $ 400, 000   
Costing for 92 engineering tests   
92 x 28, 000 = $ 2, 576, 000   
Total cost; 2, 576, 000 + 400, 000 + 263, 200 + 126, 000   
$ 3, 265, 200   
  
Question (c)   
Costing for 800hrs marketing analysis   
800 x 70 = $ 560, 000   
Costing for 178 product designs   
178 x 940 = $ 167, 320   
Costing for 3 product development   
3 x 40, 000 = $ 120, 000   
Costing for 70 engineering tests   
70 x 28, 000 = $1, 960, 000   
Total cost; 560, 000 + 167, 320 + 120, 000 + 1, 960, 000   
$ 2, 807, 320   
Question (d)   
`Benefits of activity based costing   
Charging clients on a service or product should be based on calculative figures or else the price of the end product will either low or high. Costing on the in-house basis will give the management the pricing of the final products. Competitors are always there and pricing of a product has been identified as one element that can be exploited to win certain market segment (Plowman, 2001). In addition, to that activities that consume much cost than others will be identified and process of cost-reduction initiated. With regards to outside companies, using activity-based-cost (ABC) Ideal Manufacturer can decide on the markup for cost incurred in the research and development.   
References   
Plowman, B. (2001). Activity based management improving processes and profitability. Aldershot, Hants, England: Gower.