

# [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.