

Activity-based-costing

Business



**ASSIGN
BUSTER**

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

$1, 800 \times 70 = \$ 126, 000$

Costing for 280 product designs

$280 \times 940 = \$ 263, 200$

Costing for 10 product development

$10 \times 40, 000 = \$ 400, 000$

<https://assignbuster.com/activity-based-costing-essay-samples/>

Costing for 92 engineering tests

$$92 \times 28,000 = \$ 2,576,000$$

Total cost; $2,576,000 + 400,000 + 263,200 + 126,000$

$\$ 3,265,200$

Question (c)

Costing for 800hrs marketing analysis

$$800 \times 70 = \$ 560,000$$

Costing for 178 product designs

$$178 \times 940 = \$ 167,320$$

Costing for 3 product development

$$3 \times 40,000 = \$ 120,000$$

Costing for 70 engineering tests

$$70 \times 28,000 = \$1,960,000$$

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 <https://assignbuster.com/activity-based-costing-essay-samples/>

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.