Participation exercise #7:

Finance

Participation Exercise #7 In development of business profits basing on the selling prices and the costs incurred, some products may affect the company’s profitability dragging it further due to their failure to surpass their costs and provide profits. The consideration of these unproductive parts of the business leads to determination of segment effects that the company suffers hence warranting a deep analysis to eliminate the challenge and improve on the performance of the company. The failure of the segments to provide the necessary profits originates from the untraceable costs existing also known as common fixed costs (Rawes). These costs drive the segments into a negative and leading to the decision to rid the company of the segments. Based on these, it’s viable to define “ common” fixed costs as those costs that prove untraceable to specific segments and their allocation portrays the segment as unprofitable. It is viable to eliminate the common costs from their allocation to the segments to provide it with the necessary profitability.

Considering a company as Mazda, one discovers that the company eliminated the economy trucks from their product line. The economy trucks seem to have provided a negative segment margin that the company found no need to maintain. The major challenge with many companies is the challenge of identifying the major cause of the negative segment margin. Many make decisions deciding on the elimination of the segment based on the identification of the common fixed costs. A critical consideration of the possible reasons and approaches that the company may employ to improve the segment before its elimination proves vital.

Work cited:

Rawes, E. M. The Definition of “ Traceable Costs” Demand Media. Chron.

Viewed on May 08, 2015 from http://smallbusiness. chron. com/definition-traceable-costs-24131. html