

# [A accounting calculations](https://assignbuster.com/a-accounting-calculations/)

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ACCOUNTING CALCULATIONS Accounting Calculations inserts his/her ASB 2507 Assignment (A). A presentation of conventional/Traditional absorption costing (TAC) profit/loss statement
Alpha Beta Gamma
£ £. £.
Selling volume 50000 40000 30000
Sale pricing per unit45000 95000 73000
Variable cost32000 84000 65000
Contributions/Unit13000 11000 8000
Sales vol. X contribution per unit650000 440000 240000
Machine dept 91636 \_\_ 229091 183273
Assembly dept 254917 109000 72833
Profit/loss303447 101659 (16106)
388, 750

(B). A presentation of Activity-based costing (ABC) profit/loss statement
Calculation of overhead rates
Cost Pools
Assembly Services
Machine Service
Purchasing
Set Up Cost
Order Processing
318000
357000
84000
26000
156000
Cost Drivers
530000
420000
11200
520
32000
Cost Driver Rate
(318/530) = 0. 6
(357/420) = 0. 85
(84/11. 2) = 7. 5
(26000/520)= 50
(156000/32000) = 4. 875
Per direct labour hours
Per machine hours
per supplier’s order
per set up
per customer order
ABC profit/loss statement
Alpha
beta
gamma
total contribution
650000
440000
240000
Less overhead (expenses):
assembly @ £ 0. 60 per
210000
72000
36000
machine @ £ 0. 85 per
85000
170000
102000
purchase @ £ 7. 50 per
22500
30000
31500
set up @ £ 50 per
6000
10000
10000
order processing @ £ 4. 875 per
39000
39000
78000
profit (loss)
287500
119000
-17500
Total profit
389000
(c) Comment on these results. 15%
When considering the product labeled ‘ Alpha’ one can see the over costing in the conventional method, however, beta and gamma products are under costed in the traditional way. The accuracy in activity based costing method measured the resources consumed by each product thereby eradicating errors. ABC system ensures that cost-plus pricing gives an accurate reflection on products with different prices. Therefore, using ABC for stock valuation provides various reports on profits and stock valuation. The use of ABC will help the company identify methods of reducing losses in Gamma product. According to Caplan (2006) suitable methods like value engineering and value analysis could contribute to reducing the cost of the three products.
2. Discuss the advantages and disadvantages that may arise for Plinkco from introducing activity-based costing.
Advantages of ABC
It is an efficient tool for tracking and monitoring activity costs. It helps identify activities that tend to deviate from the set standards in the industry (Caplan, 2006).
The approach is useful in measuring the ongoing costs that management may try to focus on reducing costs. ABC is a valuable tool for assessing customer profitability.
It helps in sorting additional overhead components like cooperative marketing, high levels of customer service, and product return handling to identify profitable customers. The approach enables the organization to put more emphasis on clients who earn large profits for the company while turning away unprofitable customers (Caplan, 2006).
Distribution of product is a major undertaking for all enterprises. Most companies employ different channels of product distribution like email, distributors, the Internet, retails shops, and order catalogue. Reducing distribution cost is the primary function of ABC. Structural components that maintain the distribution falls under overhead. Therefore, ABC helps in deciding efficient delivery systems with lower costs or dropping unprofitable channels (Caplan, 2006).
ABC helps the management decide on whether to buy or make a product. It does this by highlighting costs associated with product manufacturing. Such is the basis that guides one to either outsource or carry out in-house manufacture.
Using ABC makes it easier to allocate overhead costs appropriately. Such allocation assists in determining margins of product lines, products, and their subsidiaries. The information guides the personnel to identify areas that would give maximum return margins (Caplan, 2006).
The model assists marketing managers decide on the minimum price for the product. ABC model guides the marketing personnel to select particular overhead costs for inclusion in the minimum cost. The approach eradicates the possibility of selling a product at a loss or overpricing (Caplan, 2006).
Besides, the ABC model helps determine the production facility cost. Segregation of overhead costs at the facility assists in comparing production cost between different plants (Caplan, 2006).
Disadvantages of ABC
Using ABC model increases the cost pool volume, which increases the cost incurred to manage the system. A reduction in cost pool involves running a system that analyses and maintains the cost pools that compares with their resulting information.
ABC system requires laborers installation time that can be difficult especially when done across different facilities and products lines. Installation will drain the management and budgetary support; therefore, targeted approach will help reduce the cost and time (Caplan, 2006).
In situations of multiple departments that generate various data, the system is likely to fail because of the massive data. The best solution is to design ABC system for the needy agencies.
Sustainability of ABC models may become a challenge, especially with a change in management. ABC is a project basis model; its relevance tends to reduce with time and changing management systems. Perhaps, the best way is to anchor ABC model in the accounting systems to enhance data collection.
Employees may not report appropriate time spent on their workstation. The ABC model will not capture or report the unused time hence it misallocate costs from such data (Caplan, 2006).
ABC system is appropriate for companies with diverse and complex production processes. Firms lacking multiple products and machine setups may incur costs if they install ABC system.
Bibliography
Caplan, D. (2006). Management Accounting Concepts and Techniques. New York: University of Albany.