

A accounting calculations

Finance



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 unit 45000 95000 73000

Variable cost 32000 84000 65000

Contributions/Unit 13000 11000 8000

Sales vol. X contribution per unit 650000 440000 240000

Machine dept 91636 __ 229091 183273

Assembly dept 254917 109000 72833

Profit/loss 303447 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

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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

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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 <https://assignbuster.com/a-accounting-calculations/>

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, retail 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

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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.