

South dakota microbrewery

Business



The advantage of determining cost using a plant-wide allocation based on direct-labor hours is that it is simple which means that it can be calculated with little time, and by extension, at low-cost. A more accurate method to determine cost is the activity-based cost system. Though more labor-intensive, and consequentially, more expensive, this system is more accurate, calculating the cost of individual activities using the most relevant cost driver.

In the case of SAD there is value in looking at the more complex costing system, the activity-based system, because their overhead costs cover a varied list of cost types which have no single cost driver that can be used to accurately allocate their overhead expenses to their different product lines.

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One of the primary problems that South Dakota Microbrewery (SAD) faces is that local competition in the ale market is driving the cost of ale down.

Buffalo Ale is both Sad's most profitable and biggest yielding product.

Decreases in the price of ale would adversely affect Sad's bottom line. The company has some protection from this decrease in market price for ale because they have multiple product lines. However one of their two other product lines, Bismarck Bock, is not profitable and the company has a loss of \$38.94 for each batch of bock that they sell.

These losses were originally masked when SAD calculated their costs using a plant-wide allocation based on direct-labor hours.

If they cannot make a profit from bock, either by reducing the cost to produce it, or by increasing the price at which it is sold, this product line may need to be eliminated. However, without knowing more about the market that they operate in this may cause further losses and might need to be avoided. The most straight forward way to make bock profitable would be to increase its cost, but it is unclear in this case study if SAD will be able to adjust their pricing for bock without losing buyers, so this may not be a viable option.

One way that they might decrease their costs would be to seek alternate sources of ingredients.

This one change might dramatically decrease their costs and drive their profits up. Another method to potentially cut costs would be to try to make fewer deliveries, especially for Bismarck Bock. I calculate that SAD spends \$150.48 to ship ACH batch of bock. Provided that delivery fees are not affected by weight or volume, but are instead driven by the number of trips, this would reduce the cost of delivering bock to \$75.

4 which would mean that bock would turn a profit of \$36.30 per batch. If they could drop the number of shipments to half, 9 deliveries. Finally they might also consider automating additional steps in their brewing process. Currently only one step of the process utilizes direct labor and doesn't require a different process for the different product lines, the chilling process. This process may be potentially easier to automate due to its relative simplicity. If this step were automated this change would save SAD \$3.

0 per batch In direct labor costs, provided that the cost of the new, automated step is less than \$3.00 per batch South Dakota Microbrewery Case Study By Matt-Taxis and by extension, at low-cost. A more accurate method to determine cost is the using the most relevant cost driver. In the case of SAD there is value in looking at the 4. One of the primary problems that South Dakota Microbrewery (SAD) faces is that local competition in the ale market is driving the cost of ale down. Buffalo Ale is both Sad's most profitable and biggest yielding product.

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