

# [Executive the product cost of lamington. the](https://assignbuster.com/executive-the-product-cost-of-lamington-the/)

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Executive Summary Estimation and forecastover profit and loss of a company is a major focus for an organisation becausethat determines the extent to which further investments are possible. Tocalculate the net worth of profit and loss incurred to a company there arecertain aspects to be considered such as, cost per unit, other associatedcosts, cash receivables and final product cost.

There are two sections of theassignment, Part A and B, each consists 3 questions. This assignment deals witha US Bright business that provided us with a list of activities undertaken forcravings for cakes and they provided annual cost, annual quantity and activitydriver for each activity. In question (a) of part A which is related to theActivity Based Costing, we identified the cost drivers of all activities aswell as calculated the cost per unit of each activity driver. In the nextquestion (b), we shed light on bill of activities and determined the cost perunit for the items. In the question (c) of the same part, we identified the othercosts which can be added to get the product cost of lamington. The further part B, isrelated to budgeting.

In the question (a) of this part, we explained whetherthe change in fee structure and membership plan of the Hawthorne leisure workswill upgrade its potential to plan its cash receipts. In the following question(b) we highlighted the effects of change in fee structure on the sales revenuefor the next financial year. As the change in cost planning will impact thenext financial year, a thorough detail has been provided here withcalculation’s support on the profitability of the steps. In last question, thefactors considered by HLW while evaluating the new plans were elaborated. Itshowed the way in which new membership plan would improve the cash receipt ofthe organisation.      Task A:  a.

Calculate the cost per unit of activities forthe listed activities:  Cravings for Cakes list of Activities Activity Activity driver Activity cost Annual quantity of driver Cost per unit activity of driver Prepare Annual Accounts None Available 5000 Process receivables No. of Invoices 15000 5000 15000/5000 = 3 Process payables No. of purchase orders 25000 2500 25000/2500 = 10 Program production No.

of production schedules 28000 1000 28000/1000 = 28 Process Sales order No. of sales orders 40000 4000 40000/4000 = 10 Dispatch sales order No. of dispatches 30000 2500 30000/2500 = 12 Develop and test products Assigned directly to products 60000 Load mixers No. of batches 14050 1000 14050/1000 = 14. 05 Operate mixers No.

of kilograms 45900 200000 45900/200000 = 0. 2295 Clean mixers No. of trays 6900 1000 6900/1000 = 6.

9 Move mixture to filling No. of cakes/pastries 3450 200000 3450/200000 = 0. 01725 Clean trays No. of trays 20000 16000 20000/16000 = 1. 25 Fill trays No. of cakes/pastries 16000 800, 000 16000/ 800000 = 0. 02 Move to baking No.

of trays 8000 16, 000 8000/16000 = 0. 5 Set up ovens No. of batches 50000 1000 50000/1000 = 50 Bake Cakes/Pastries No. of batches 130000 1000 130000/1000 = 130 Move to packing No. of trays 40000 16, 000 40000/16000 = 2. 5 Pack cakes/pastries No. of cakes/pastries 80000 800, 000 80000/800000 = 0.

1 Inspect practices No. of pastries 2500 50, 000 2500/50000 = 0. 05  Table 1: Listed cost per unit on activity driversfor US Bright From the above-mentionedscenario, we have found that total cost per unit would be higher that theexpected needs to be the profit making one. The invoice numbers are large insome cases; it would show increasing profitability and larger amount of paymentreceivables in such cases. On the other hand, average cost per unit will beslightly minimised because there is even distribution of invoice and orders. However, a higher number of invoices mean more numbers of payment receivablesand if they are not collected within time, the cash flow will be negative. The total activitycosting of Cravings for Cakes is compiled in a structural format with respectto each activity associated with it. Along with this, determination of cost perunit to evaluate total annual quantity that is allocated on the basis of eachcost driver.

For example, the overall activity cost was $619, 800 which isderived from adding all the activities for cake listing. Formula forascertaining cost per unit = Activity cost / Annual quantity of activitydriver. b.

Preparation of bill of activities and itsdeterminant cost per unit for Lamington  Lamington (Batch Size 1000, Annual Volume 100, 000) Activity Cost Driver Activity Cost (S) Annual Quantity of Activity Driver Cost Per Unit ($) Process Receivables No. of invoices 15000 500 Invoices 15000/500 = 30 Process Payables No. of purchase orders 25000 200 Purchase Orders 25000/200 = 125 Program Production No. of production schedules 28000 100 Production Schedules 28000/100 = 280 Process Sales Order No.

of sales orders 40000 400 Sales Orders 40000/400 = 100 Load Mixers No. of Batches 14050 100 Batches 14050/100 = 140. 5 Operate Mixers No. of Kilograms 45900 30 000 Kilograms 45900/30000 = 1. 53 Clean Mixers No. of Trays 6900 100 Batches 6900/100 = 69 Move mixture to filling No.

of cakes/pastries 3450 30 000 Kilograms 3450/30000 = 0. 115 Clean trays No. of Trays 20000 2000 trays 20000/2000 = 10 Fill trays No. of cakes/pastries 16000 100 000 cakes 16000/100000 = 0.

16 Move to baking No. of trays 8000 2000 trays 8000/2000 = 4 Set up ovens No. of batches 50000 100 Batches 50000/100 = 500 Bake cakes/pastries No. of batches 130000 100 Batches 130000/100 = 1300 Move to packing No. of trays 40000 2000 trays 40000/2000 = 20 Pack Cakes/Pastries No.

of cakes/pastries 80000 100000 cakes 80000/100000 = 0. 8 Dispatch Sales Order No. of dispatches 30000 500 Sales orders 30000/500 = 60 Develop and Test product Assigned directly to products 60000 $600 assigned directly to this product 60000/600 = 100  Table 2: Bill of Activity and its determiningfactor for Lamington The planning for feerenovation will be supported in this case because total cost per unit is higherthan expected margin and payment receivables will not disdain the cash flowcirculation.

Yet, we can show here an even distribution of invoices which willsurely favourable in doing business for each of the segment in business. ForLamington the total annual volume was 100, 000 during the start of the fiscal yearand the total cost of this activity rounded off to approximately $82, 998therefore the cost per unit was around 0. 83 per activity.

c.    Other necessary costs for calculating productcost for Lamington Costs like direct material cost along withpostage and handling cost are to be taken into consideration for evaluating thetotal cost allocated to produce Lamingtons. As ascertained by Richards (2017)after allocating, this will eventually help to calculate the overall productunit cost per head for that period. This sequential list of activities is to beperforming in terms of producing a unit of services along with its associatedcost for resources consumed.