

# Executive the product cost of lamington. the

Business



Executive Summary Estimation and forecast over profit and loss of a company is a major focus for an organisation because that determines the extent to which further investments are possible. To calculate the net worth of profit and loss incurred to a company there are certain aspects to be considered such as, cost per unit, other associated costs, cash receivables and final product cost.

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

In the question (a) of this part, we explained whether the change in fee structure and membership plan of the Hawthorne leisure work will 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 revenue for the next financial year. As the change in cost planning will impact the next financial year, a thorough detail has been provided here with calculation's support on the profitability of the steps. In last question, the factors considered by HLW while evaluating the new plans were elaborated.

It showed the way in which new membership plan would improve the cash receipt of the organisation. Task A: a.

Calculate the cost per unit of activities for the 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  $6900/1000 = 6.9$

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  $80000/800000 = 0.1$

1 Inspect practices No. of pastries 2500 50,000  $2500/50000 = 0.05$  Table 1: Listed cost per unit on activity drivers for US Bright From the above-mentioned scenario, we have found that total cost per unit would be higher than the expected needs to be the profit making one. The invoice numbers are large in some cases; it would show increasing profitability and larger amount of payment receivables in such cases. On the other hand, average cost per unit will be slightly minimized because there is even distribution of invoice and orders. However, a higher number of invoices mean more numbers of payment receivables and if they are not collected within time, the cash flow will be negative. The total activity costing of Cravings for Cakes is compiled in a structural format with respect to each activity associated with it. Along with this, determination of cost per unit to evaluate total annual quantity that is allocated on the basis of each cost driver.

For example, the overall activity cost was \$619,800 which is derived from adding all the activities for cake listing. Formula for ascertaining cost per unit = Activity cost / Annual quantity of activity driver. b.

Preparation of bill of activities and its determinant cost per unit for Lamington Lamington (Batch Size 1000, Annual Volume 100,000) Activity Cost Driver Activity Cost (\$) 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  $16000/100000 = 0.16$

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

determining factor for Lamington The planning for feerenovation will be

supported in this case because total cost per unit is higher than expected

margin and payment receivables will not disdain the cash flow circulation.

Yet, we can show here an even distribution of invoices which will surely

favourable in doing business for each of the segment in business.

For Lamington the total annual volume was 100, 000 during the start of the

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fiscal year and the total cost of this activity rounded off to approximately \$82,998 therefore the cost per unit was around 0.83 per activity.

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