

Job costing

Finance



Costing Affiliation Explanation to Excel Findings First scenario Contribution per unit under the existing plan is \$ 8 while under the proposed plan is \$14. Also, profit per unit under the current plan is \$4 while under the proposed plan is \$1. The finding implies that the proposal should be adopted. The view is based on the fact that since the contribution per unit in the proposed design is higher than the existing design, the firm can maximize profit by increasing sales. As such, the firm profit will increase since the contribution margin is higher. Although in the current scenario profitability under the existing plan is higher than the proposed plan, it is factual to claim that this finding can be altered positively by increasing sales. This is because the increase in production will result to a reduction of production costs by \$ 6 per unit produced. Therefore, the accumulation of variable costs will be at a slower rate when compared to the existing one.

Second scenario

Chain one and Chain two are losses making while Chain four and Chain three are profit making. Through application of the activity based costing, it has been established which Chain is profitable. The breakthrough has been realized since each cost activity is apportioned to the correct chain which incurs it. Therefore, this method is beneficial since, under traditional costing approach, the enterprise would still be running profitably while, in the real sense, only two chains are making profits. The business should conduct an analysis to evaluate whether a decision to drop Chain one and Chain two is appropriate.

References

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