

Cutting operating cost

Business



Cutting Operating Cost

Cutting operating cost is likely to affect the assets and liabilities of a company. The basic accounting equation states that assets of a business = liabilities + owners' equity if the business (Agtarap-San Juan 19). Operating cost is the cost that is incurred when running the day-to-day activities of a business. Examples of operating costs include advertising costs, wages, and salaries. While operating costs can be cut, they remain unavoidable.

Liabilities are the expenses and debts that arise in the day to day running a business. Assets are the valuable items that a company has in its possession that can be used to offset any liabilities. Therefore, by cutting operating costs, Method will be able to reduce its liabilities and increase its assets. This means that if the company had been spending \$200 million on expenses, and then it manages to cut this to \$150, the company will be able to decrease liabilities by \$50 million. This on the other hand, will increase the assets of the company by \$50 million in the form of hard cash or money in the bank.

Question2

Method may decide to invest in green business activities, which may prove to be expensive initially or in the short run. In order to undertake such activities the company might be forced to purchase new equipment or upgrade its equipment to make sure that it is able to embrace green business activities. This may prove costly in the short run. However, in the long run, this may help the company save costs and improve efficiency. For instance, when method decided to improve the efficiency of their shipping, they decided to purchase biodiesel trucks. These were additional costs to the company. However, they helped the company to save on fuel used for

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shipping. This is due to the fact that the trucks that use biodiesel fuel are able to get 13% more miles for each diesel gallon.

Question 3

Yes, I think that over the years household companies have realized that green products can help them be efficient and save costs. Research conducted in the year 2008 showed that the use of eco-friendly household products was expected to rise from 3% in year 2008 to about 30% by the year 2013. This is a huge increase and in order to tap into this market, many households companies have decided to go green. In addition to tap into this ever-growing market for eco-friendly household products, the companies may also have realized the benefits that they may enjoy by growing green. By going green, the companies might be able to save on cost and improve their efficiency. This is possible with the use of recycled materials, reduced energy costs and reduced packaging may help a company have a competitive advantage over other companies (Daft 70). This may prove expensive initially, but the benefits will outweigh the initial costs in the end. Managers are investing heavily to make their facilities energy efficient. They are also looking for other ways to cut shipping costs, and this can be achieved by going green.

Works Cited

Agtarap-San Juan, Donatila. *Fundamentals Of Accounting*. Bloomington, IN: AuthorHouse, 2007. Print.

Daft, Richard L. *Understanding Management*. Mason, OH: South-Western Cengage Learning, 2011. Print.