

Leigh steel

Finance



**ASSIGN
BUSTER**

Question 2 Method Condition Round Roller Wire Chipper Knife Round Bar

Machine Col Standard Costing \$0. 60 Rank 0. 00 Rank 2 0. 25) Rank 4 0. 26)

Ranks 5

(\$0. 15)

Rank 3

ABC

\$ 0. 72

Rank 2

\$ (0. 07)

Rank

\$ (0. 12)

Rank

\$ (0. 79)

Rank

\$ 1. 22

Rank 1

ToC

\$ 0. 84

Rank 1

\$ 0. 00

Rank 5

\$ 0. 2

Rank 3

\$ 0. 1

Rank 4

\$ 0. 3

Rank 2

ABC Profitability calculations

Activity Based Costing

Condition Round

Roller Wire

Chipper Knife

Round Bar

Machine Col

Price

\$ 2.31

\$ 0.77

\$ 1.02

\$ 0.93

\$ 2.33

Unit Cost

\$ 1.59

\$ 0.84

\$ 1.14

\$ 1.72

\$ 1.11

Operating Profit

\$ 0.72

\$ (0.07)

\$ (0.12)

\$ (0.79)

\$ 1. 22

Operating Profit %

31%

-8%

-11%

-85%

52%

Total Operating Profit

\$ 344, 917. 08

\$(135, 510. 88)

\$ (278, 820. 83)

\$ (5, 278, 114. 20)

\$ 3, 077, 075. 56

Calculation of profitability assumes that all the three activities at each process (Depreciation, Maintenance and Utilities) are considered as independent activities. The total production cost of all is calculated by taking into account the administrative costs and other cost such as Order Processing, Technical support and production planning. This cost is calculated based on the pound weight of production.

Differences in Assumptions between Standard Costing, ABC and ToC
Every costing method takes into consideration several assumptions. Key assumptions that are taken into consideration for the three methods of costing include the Lehigh versus industry performances. Standard costing assumes that profitability is linear and increase in production volumes should increase profitability. This costing method only gets the difference of the selling price and the total expenses.

<https://assignbuster.com/leigh-steel/>

Where are costs Generated?

There is an assumption that the overheads are attributable to products forms the main bases of this model. ABC focuses on the cost of the activities that are involved in production of a product while in ToC costs are associated to the limiting factors that affect the optimization of profits. ToC takes into consideration that all limiting factors can be redefined further. ToC is concerned with the time-value for money. It restricts costs to limitations of value of each constraint. These constraints identification is the most crucial part of this theory. The fact is emphasized by the fact the fifth stage of is a continuation of refinement of the constraints. It is important that in further refinement the existing constraints do not become new constraints. If the previous constraints is considered then the cost may attract double cost. Edward states " Throughput was defined as quantity of money" as profit are maximized by " maximizing throughput per unit".

Decision Making as a Cost Driver

Assignment of cost in ABC is made by assigning cost to the various activities, this model assumes that only the activities of production contributes to the cost of the product. This assumptions does not take into consideration the cost of decision making in the company. Decision making on when to produce a product and the product mix based on the volume or expected demand is a key part of ToC. Lehigh's decision-making is put into consideration when using ToC in evaluating the cost of inventory valuation. Standard Costing takes into consideration only the pounds weight of the product to calculate its cost. There is no consideration on the cost of decision-making.

Demand

<https://assignbuster.com/leigh-steel/>

Is there a cost incurred due to demand. Standard Costing at Lehigh, as stated before, only takes into consideration the weight of the product to calculate the unit cost. ABC takes a keen look at various cost drivers at various stages of production. The volume of demand is a key component of ABC. The question posed may be is the cost of a product directly affected by the demand of that product? The product costing in ToC considers demand only as a fact of the unfulfilled or over-fulfilled capacity within the time being considered. The value for money based on time taken to produce at various constraints is a key factor in the consideration of product cost. ABC's Consideration of the customers, production and products takes into consideration all cost drivers of production. Standard costing was based on bill of materials.

In conclusion, three costing methods produce different values at different costing. While there is a difference in the value of final profit reported in the three methods, businesses decision on which method to use should be based on its ability to identify the cost variables. The cost generation in Standard Costing, ABC and ToC is a keep management decision which various factors must be considered.