

Costing methods



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COSTING METHODSClifford BrownACC/561November 9, 2011Wanda Rivers

Costing MethodsSuper Bakery Inc. was a virtual corporation in favor of subcontracting its major business applications. This was with a view of reducing the cost of operation comparative to its levels of income. By Super Bakery Inc outsourcing, they are able to manage control of the flow of the actions that produced its revenue.

This was without essentially attaining to take the responsibility of accepting the risks involved with every phase of production and operation. This explains the accomplishment of its goal to decrease expenses. Otherwise, the company encounters the expenses through the acquisition of pertinent assets for the numerous processes included. These processes consist of machinery for production of the various products, maintenance of the machines as well as their replacement when required, and the expense of production. Examples of outlays of production include the raw materials cost and other contributions as well as overhead expenses, to include the cost of water, electricity, wages and salaries for the larger number of employees who would have to be directly and indirectly involved in the process (Staubus, 1971).

The costs for transportation, as well as finished goods to the countless distribution points is also purged, as is the costs of raw materials storage and finished products before transportation to the target market (Horngren & Foster, 2003). Super Bakery Inc. utilize the traditional costing methods that depends on recording of the costs for the different businesses it had required to perform the assortment of responsibilities on its behalf. This involved the recording of the company??™s individual schedule for all businesses in a

way their individual expenses and profits were not independent of Super Bakery's costs schedule. What this means is the closing cost per product was evenly spread out in its units of merchandise. Consequently, the company was not able to maximize on the very profitable units caused to their reasonably low costs because the small profit margin units whose production costs were high had a counterbalance effect on them. In perspective, the variation in the cost per unit structure is superficially hidden by the unification.

It therefore makes it impossible to tell the costs per unit for individual lines of product. This explains the difficulty in controlling individual line of production's costs. This kind of problem is what the need for developing and adoption of activity based costing (Gomez-Mejia et al. 2008).

Activity Based Costing, ABC This method is more efficient than the traditional methods because it puts emphasis on costs in relation to the actions that go with the real production of the individual products. Indirect costs for a particular product are reflected in its direct cost, thus giving Super Bakery a more accurate picture of the profitability of its various products. Additionally, the company can trace the flow of costs more effectively and competently besides enabling it prepare more incisive profit-related projections for its wide variety of products, thus receiving control of the costs for the departments involved. However, this method is not a good idea for Super Bakery Inc. as the firm is inclined toward costs reduction as its ultimate avenue in pursuits of higher profit margins.

This is because it assumes all the costs incurred in the production of its units can be directly attributed to that product. This is not entirely the case as there are costs that cannot be attributed to the product. Therefore, an aspect of false reflection is in terms of cost to the company. This aspect is further exploited by the different firms contracted by Super Bakery, increasing the company's burden in terms of costs because all firms can experience this falsification. Should there be reduction in costs for the company, it would not be as effective as would be the case had other methods more expressive been employed (Drucker, 1999). It is also crucial to note that this ABC method is relatively costly due to its complex nature. This complexity is especially an issue due to the company's involvement in detailing cost per activity for its various sub-contractors.

In the end, instead of limiting its costs as it intends, the firm is likely to incur more costs due use of the method despite having control on the activity costs for the various aspects of production. Super Bakery therefore requires a method that strikes a balance between its intended goals is cost controlling without additional costs that would in that case make its efforts ineffective if it is expensive. For these reasons, there is need for the adoption of a combination of the job order and process costing systems (Bradford, 2008). Job Order and Process Costing System As the company is involved with different products, job order system is ideal method. Application of this system in its costing with each stage of transaction by an independent company serving as a job in its listing it is possible to trace the cost of production per unit without necessarily involving unrelated costs. In its description, the firms which are involved with production, warehousing and

shipping as well as selling are different jobs with a combination of costing for those jobs being a summary of the process costing of the individual companies.

Process Costing becomes vital for those activities in sub contracted companies that deal with the production of identical units for Super Bakery. This implies that process costing for the individual companies would serve as ratification tools for Super bakery Inc., and in that process enabling it achieve its cost controlling objective (Cohen, 2002).

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