Destin brass case essay sample

Abstract

In the analysis we focus on the company Destin Brass, their competitors have been reducing the price and Destin Brass has not been able follow. We address this issue and by comparing activity based costing with the cost systems they already using, looking for a way in which they can be more competitive on the market.

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1. Use the Overhead Cost Activity Analysis in Exhibit 5 and other data on manufacturing costs to estimate product costs for valves, pumps, and flow controllers Q. 1

When Activity Based Costing (Weetman, 2010, p. 85) is used to calculate the monthly cost per unit, two types of costs are distinguished. Firstly the direct costs, consisting of the direct manufacturing costs and the run labor costs, and secondly the indirect costs, consisting of the machine usage costs or depreciation and the overhead costs. These costs allow us to calculate the monthly cost per unit, see Appendix 1 for the Excel file of the calculations.

Some minor deviations from the correct cost per unit are possible since the overhead percentages of the packing and shipping given in Exhibit 5 are rounded off and sum up to 99% instead of 100%.

2. Compare the estimated costs you calculate to existing standard unit costs (Exhibit 3) and the revisted unit costs (Exhibit 4). What causes the different product costing methods to produce such different results?

The differences in cost can fundamentally be attributed to the difference in accounting methods. In Exhibit 3 Standard Unit Cost is the applied accounting method. In which all overhead is solely allocated as a percentage of the direct labor cost the (overhead rate), In this case 439%. This overhead rate is determined by dividing the total overhead cost by the total cost of labor hours. In which the total overhead cost is determined by summing the costs of machine depreciation, labor, the receiving, materials handling, engineering, packaging/shipping, and the cost of maintenance. This percentage is then directly applied to the direct labor cost of each product.

Thus albeit not evenly applied to every product, the overhead cost is proportionately applied to each product in regard to direct labor. Ultimately material cost, direct labor cost, and overhead cost are summed up to determine the standard unit cost of each product.(Bruns, 1997, exhibit 3) This causes the pumps to appear rellativly expensive in comparison to the other products because this product is rellatively labor intense.(Bruns, 1997, exhibit 2) Exhibit 4 uses Revised Unit Costs as accounting method. In which the overhead is allocated to a material overhead and another overhead base, based on the machine hours, as well as accounting for the set up labor costs for every run.