

Destin brass products co. case study

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Destin Brass Products Co. has been established and grown to bring forth valves (24 % of the company gross) , pumps (55 % of the company gross) , and flow accountants (21 % of the company gross) . This paper will exemplify the recommended solutions for the direction of the company that are seeking to measure the competitory tendencies of the market for the mentioned merchandises, and seeking to get down new schemes to cover with these tendencies. Finance and accounting, as mentioned by Ambler (2008) are the necessities and footing to the short and long being of any type of companies. The high fight of market requires that all types of concerns have a comprehensive apprehension to the costs and net incomes in much item in order to ease determination doing procedure. In Destin Brass instance, the company tried to set up a high trade name name for bring forth the valves, but subsequently as an enlargement to the concern, the company included two new merchandise lines which are the pumps and the flow accountants maintaining in head the similarities of productions and the handiness of the productions capacity. Destin Brass did non hold a distinguished rival in the valves market because of the high quality of the valves produced, but there is a monolithic competition in the pump and flow accountants market. This paper will capture a clip of the company concern where there is a high competition on the pumps ' monetary values and the solution of increasing the monetary values of the flow accountants did non alter the market. The direction is in demand to reconsider its fiscal scheme in order to face competition.

The fiscal analysis

After measuring the current fiscal state of affairs of Destin Brass, The analysis hereby will join forces to reply the direction inquiries, and illustrations of the below solutions had been used by concern and it proved to hold an influence of determination devising procedure sing the company scheme. The solutions are as follows:

Merchandise costs as per the ABC information

From the given information in the instance survey, there is a connexion between the merchandises costs and the costs incurred by the activities related to the productions of each merchandise line. The reply to this issue is to fix cost estimations for the three merchandises by using the necessities of the activity based costing, table 1 shows that the ABC costs of the valves is 37. 8, the pumps is 48. 82, and the flow accountants is \$ 100. 63.

The ABC method attempts to link the indirect costs to the merchandises, and accordingly handle them as direct costs. Based on the instance analyze fiscal information, the computations in table 1 have been prepared by utilizing the followers:

Making a cost pool for the machine depreciation and care cost, and apportion the merchandises based on machine hours.

Making a cost pool for having and material handling costs by ciphering the figure of minutess consumed for every merchandise.

Making a cost pool for technology costs by ciphering how much technology is consumed by each merchandise.

Comparing the ABC with the criterion and the revised unit costs

In this comparing, it will look the cost of each merchandise under the three types of costing computation methods and the ground why they are different.

Table 2 shows the comparing.

The three costing methods identify direct costs which are raw labour and stuff, in the same manner. Furthermore, fiscal experts support the thought that direct costs is not the existent job as this can be tracked to the merchandise, but the issue is that costing computations gets complicated when seeking to apportion the operating expenses (Indirect costs) . The allotment of operating expenses is where the differences in costs come under the three costing methods.

In the criterion cost accounting there is no attempt made to track the operating expense costs to the merchandises. It is believed that indirect costs can not be related with the merchandises that 's why they are summarised and so allocated to the merchandises based on the given allotment factor (cost driver) . In Destin Brass instance, the operating expenses which include the receiving and stuffs managing, packing and transportation, and depreciation and care for \$ 680. 000 per month, are allocated based on the tally labour dollars. Consequently, every merchandise is allocated a per centum of the operating expenses in the same ratio that the merchandise consume of labor (valves 0. 5 tally hours per unit, pumps 0. 5 tally per unit, and flow accountants 0. 4 run per unit) . See table 3 for inside informations.

The revised cost accounting makes portion of the indirect costs as direct. The stuff and handling costs are treated in a separate manner, but non the best cost driver had been chosen (direct stuff dollars) , as it would be seen in the ABC. Furthermore, setup labor is assigned straight based on the apparatus hours for which information is available. The staying operating expenses are allocated on the footing of machine hours. As mentioned by Peggy Alford, this gives an thought why rivals are cutting monetary values on pumps. It is now clear that costs of the pumps is overstated utilizing the criterion bing method while the costs of the valves are unostentatious. But, bing can be improved particularly that the flow accountants ' monetary value is non truly explained that they are cheaper to bring forth than it was calculated by the criterion bing method.

The ABC method paths every bit much as possible of the indirect disbursements of the merchandises and services. So any disbursement incurred of a merchandise is straight charged to that peculiar merchandise instead than distributing the disbursement over all the merchandises. When disbursements incurred of a figure of merchandises, they are gathered and allocated based on a proper cost driver. In this manner, the allotment will be done in proportion to the existent costs ingestion by all the merchandises. Table 1 had shown the ABC costs computations for the three merchandises. Now, we can see that flow accountants have been subsidised by pumps and selling them for \$ 97. 07 is loss devising (be \$ 100. 63) instead than at 42 % gross border. But, subsidizing flow accountants had made pumps less profitable while selling monetary value of \$ 81. 26 corresponds to 43. 37 % gross

border. The costs of the valves are the same under both the criterion and the ABC methods.

Strategic deductions of the fiscal analysis

Harmonizing to Bhimani et La (2008) , extremely competition concern environment requires a comprehensive costs understanding, and a proper costing scheme is indispensable to ease determination doing. In Destin Brass instance, the direction is confronting a determination whether to travel on in the pumps market in malice of the monetary values autumn and decreasing net income borders or to cut this concern line and dressed ore merely on the valves and the flow accountant 's merchandises which are profitable. But, doing a determination following the standard costing method would hold caused black effects for the company as it would cut the profitable merchandise and concentrate on merchandises that are selling at a loss. Destin Brass is an ideal illustration of how critical is to hold an accurate costing method to follow to supply strategic determination devising. But, in malice of the importance of the fiscal and accounting information that the costing method will supply, the direction vision should be supported by the information non merely dictated by the accounting information.

The following month consequences

In the clip where cost accounting does non count for the cost allotment to find the costs of the merchandises, it does non impact the bottom line. Here, presuming that the measures of the productions and the gross revenues, stock list, selling monetary values stay the same, and the monetary values of stuff, labor, managing remains the same. The net net income would be the same as the net net income of the last month. The bottom line will be

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affected in instance the consequences demoing in the ABC method are considered and the merchandising monetary values are adjusted.

Decision

The costing methods used to place the strengths and failing of the concern public presentation helps direction to make up one's mind whether operations require any betterments. This indicates that the inaccurate costing allotment can take to either over or under pricing. Consequently, this will forestall the direction from taking the company to do higher net income, retain clients or take the company to wrong strategic determinations.