

Principles of accounting

Finance



Accounting Accounting This essay focuses on the principles of accounting in business. Accounting refers to a well-organized recording, coverage, and examination of monetary transactions of a venture (Grossman & Livingstone, 2009). The area of concern in this paper is the use of Activity-Based Costing (ABC). In brief, ABC refers to a costing system used in assigning costs to various goods and services in the business world (Grossman & Livingstone, 2009). In this paper, Super Bakery Inc. acts as a practical demonstration of how the system can determine the costs in a real life situation. Historically, ABC came into use in the 1980s due to lack of reliability of the traditionally used methods of cost accounting (Mansor, Tayles, & Pike, 2012). The need to use ABC was due to dynamics experienced in business due to technological advancement and development. What strategies did the management of Super Bakery, Inc. use? Super Bakery, Inc is a company making and selling doughnuts. In order to maximize the company's profits, the management came up with a strategic plan of managing its resources (Drury, 2008). The core functions of the venture are performed inside the company's premises, while the other activities, such as selling, take place through external sources. To run the outsourced partners smoothly, the company has established a well-drawn workflow to each affiliated company. Outsourcing is a strategy used to reduce the number of employees for the purpose of spending less money on human labor. Super Bakers strategy is successful, since the sales are higher than they were before the implementation of the strategy. The only challenge is controlling costing of the outsourced activities. However, ABC system helps to counter this challenge. The system enables the company management to assign the cost of each order accurately. The system identifies costs related to various actions in different

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lines of production. This helps the bakery to track profitability of its agents (Drury, 2008). Why did Super Bakery's management think it was necessary to install an ABC system? Do you agree with their reasoning? Super Bakery's management decided to install an ABC system as an alternative to traditional costing methods. Due to the idea of outsourcing for various business activities, there was a need to develop a method of tracking all the contracted members. The accurate assigning of costs at this point was critical (Drury, 2008). It is worth noting that all of the customers' orders had initially the same costing, and the company was losing many of its profits due to this. This is because some orders were undervalued. The introduction of ABC system was necessary, since it ensured an optimal and controlled expenditure of the company resources and, consequently, an increase in the company's profits (Drury, 2008). ABC system differs from traditional methods in a number of ways. In traditional accounting, there is an assumption that objects devour resources. Subsequently, there is an assumption that the activities carried out consume activities. Another difference is that the traditional methods make use of allocation based on volume, while ABC focuses on every stage of production (Drury, 2008). The other main difference is that traditional accounting has its orientation based on the structure, while the ABC orientation is based on the processes involved in the production line. The advantages of the ABC system over traditional costing methods necessitated the choice of this system (Drury, 2008). Would a job order cost system or a process order cost system work for Super Bakery. The job order cost system could not work for Super Bakery. This is because the application of job order system is mainly in dealing with products manufactured for specific customers (Grossman & Livingstone, <https://assignbuster.com/principles-of-accounting/>

2009). In job order, each product acts as a job and has its respective cost tracking. The costs accounted for include labor, materials used, and any other cost incurred in the production. In this system, there are a number of documents to use in costing such as job sheets, materials application form, and time tickets (Grossman & Livingstone, 2009). These forms complicate the costing process. Furthermore, Super Bakers products are not only for specific customers but also for the public. In addition, the company mainly outsources for services, for example selling of products. References Drury, C. (2008). Management and cost accounting. London: Cengage Learning EMEA. Grossman, T., & Livingstone, J. L. (2009). The Portable MBA in finance and accounting. Wiley. Mansor, N., Tayles, M., & Pike, R. (2012). Information usefulness and usage in business decision-making: An Activity-Based Costing (ABC) perspective. International Journal of Management, 29(1), 19-32.