

# [Installation of the activity-based costing system](https://assignbuster.com/installation-of-the-activity-based-costing-system/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Super Bakery was formed in the 1980’s during a time when the barrier to entry into the baked goods industry was limited. They started the company using the industry’s standards and following them very strictly. The first four years of Super Bakery were not profitable and management knew they had to make changes so the company could succeed. They first changed their customer base and focused on school cafeterias. They had to make a unique product that would be approved by the USDA (Davis and Darling, 1996).

The master chef created a donut recipe that surpassed USDA standards and the company was able to break into the institutionalizedfoodmarket. Super Bakery also refrigerated and shipped their products nationally. This provided them a competitive advantage over their competitors. As a virtual corporation the decision to contract major parts of the company to other business reduced their fixed overhead and gained very high return on equity and net assets.

With all of these changes Super Bakery management still found inefficiencies with the amount of control they had over the costing of the outsourced parts of the company. They chose to implement an activity based costing system to figure out where the improvements could be made. As opposed to a normal ABC system, they used their database to assign costs to specific customers and to their outsourced contractors provided service to the customers. The cons for the ABC were the matrix design of figuring out specific cost drivers, it also was an expensive system to implement.

The pros to ABC seemed to outweigh the cons. ABC allowed Super Bakery to track profitability of each individual customer and track the performance of the outsourced contractors. Management was able to identify that the key cost driver was not the dollar amount of each order but the amount of orders placed by each client. This cost driver helped management determine which customer cost more because of time spent processing multiple small orders as opposed to one large order (Davis and Darling, 1996).

It is very interesting and insightful the way this company’s management use the ABC system. We completely agree with Super Bakery’s implementation of the ABC system. The company has benefitted greatly from the information gathered by their databases. First, they were able to narrow down the shipping companies from 12 to 3 companies who provided the best price and arrived at the correct times to their customers. Secondly, the ABC database provides them with information to decide whether or not to give brokers extra incentivemoneyto a particular client or not.

The ABC system also helps their customers who make their payments on time by reducing their price because Super Bakery does not need to absorb the interest cost of late payees (Davis and Darling, 1996). These are just a few of the ways Super Bakery created a much more efficient and leading company. The ABC system they implemented has helped create a high level of customer satisfaction and also has provides them with anaccountabilitysystem for their outside contractors.