

Costing methods



Costing Methods Costing Methods Super Bakery, Inc., was established in 1983 by a former Pittsburgh SteelerTM's running back Franco Harris. Super Bakery specializes in donuts and other baked goods into the food market.

The strategies used by the management of Super Bakery will be discussed within this paper, along with why the management of Super Bakery made the decision to install an ABC system. The discussion will also talk about which system would have been better for Super Bakery a job order cost system or a process order cost system. The beginning of Super Bakery the management at that time decided to use a strategy that would only handle the core functions of the business, while outsourcing all other functions of the business to brokers, which would handle the sales of the bakery goods. Super Bakery also contracted out manufacturing, warehousing, and shipping to keep cost down to a minimum. Super bakery was able to pull together a number of companies together and organize the work flow, which was a strategy of Super Bakery to add maximum value but at the same time reduce the amount of investment Super Bakery would have to make in permanent staff, fixed assets, and working capital.

Super Bakery using this type of strategy allowed the company to leverage the maximum core competencies of the business, while adding maximum value to the company. As time passed and the bakery industry grew more competitive Super Bakery management felt they needed to add an ABC system because of a wide variation in cost of serving customers in different parts of the country. Super Bakery was faced with the traditional method of cost, which was spread across its entire customer base. The objective of Super Bakery was to control the cost of outsourced activities.

Super Bakery wanted to identify orders with high profit margins at the same time it wanted to accurately assign the cost of each order. The main purpose Super Bakery management wanted to install the new ABC system was to improve its pricing while identifying cost associated with the different activities involved in each order placed by customers. Super Bakery before the new ABC system was using activity based costing to track its profitability of each customer's account and the performance of the outsourced activities. The decision of Super Bakery making these changes, I would have to agree because the activity based costing can be understood by everyone involved in the company. The activity based costing uses unit cost instead of total cost, which makes the costing system more meaningful. The activity based costing is a more accurate system of cost of products, distributors, and suppliers of Super Bakery. The activity based costing will help Super Bakery identify the profitability of each customer and help concentrate on those customers that are more profitable than others. The activity based costing will be useful to Super Bakery to integrate the six sigma and other improvement type systems.

Super Bakery will be able to reduce these items which will lead to greater value for Super Bakery and its business alliances. The main objective of Super Bakery is to increase its value and the activity based costing will help the company achieve these goals by enabling benchmarks. The activity based costing will give Super Bakery an insight into the fastest-growing and least visible element of cost. One of the most important things that the activity based costing system will do for Super Bakery is to monitor total life-cycle cost, improve effectiveness of budgeting and link strategy to

operational decision making. The reason why a job order cost system will not work for Super Bakery is that it focuses on products rather than on departments, activities, or partners. In case of process order cost system, it has been observed that inaccuracies are very common and so it is not suitable for Super Bakery.

The reason for this is that production processes often include indirect costs or items that are not related to producing products. . In addition, process order cost system requires the tracing of unfinished goods through the entire process and this is difficult as well as unsuitable for Super Bakery.

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