

Forrest hill paper company essay sample

[Economics](#)



**ASSIGN
BUSTER**

What is competitive environment facing FHPC? What is and/or should be FHPC's competitive strategy? Forest Hill Paper Company competes in a very cyclical economic environment, with upswings every three to four years. As of lately, FHPC market share is down to 25% from about 35% through the most of 1980s, the most significant contributors to the loss of market share is the recent trend toward plastic and more environmentally friendly grades of recycled paper paperboard. As for what is or should be Forest Hill Paper Company competitive strategy, the article clearly shows that FHPC uses differentiation strategy. FHPC has been offering a broad range of products and prompt customer service, trying to create a niche based on service and rapid response to customer needs. According to the article, FHPC produces 19 different grades of paperboard with different grades available; this strategy has helped to keep them competitive in the market.

Describe FHPC's current costing system, and explain the type of costing system you would recommend for FHPC and why. For products A, B, C, D shown in the case, what are products costs using the current and your recommended costs system? FHPC's current cost system uses an estimate that manufacturing overhead are approximately 105% of material cost. Hence, product costs at FHPC are calculated by multiplying the overhead rate of 105% by direct material cost. However, according to the article, brand managers have begun suspecting that some grades were subsidizing others with respect to cost, and therefore, because of this, I think an Activity Based Costing system will be appropriate for FHPC since we have different grades pulling up different cost, and require more activities in terms of production. Products Cost of A, B, C, D using current system are as follows:

FHPC calculates product costs by multiplying the overhead rate (105%) by direct cost.

A. $\$4,800 \times 105\% = 5,040 + 4,800 = \$9,840$

B. $\$5,200 \times 105\% = 5,460 + 5,200 = \$10,660$

C. $\$5,600 \times 105\% = 5,880 + 5,600 = \$11,200$

D. $\$7,400 \times 105\% = 7,770 + 7,400 = \$15,170$

In order to find product cost using the recommended ABC cost system, we will need the values of two significant activities noticed by brand managers. Grade change per Reel and slitting cost per reel to arrive and the new ABC cost. Cost for Forest hill to conduct a grade change is given by Total grade cost given/ number of changes. $=\$47,000/4= \$11,750$ Total slitting costs/ Total number of reels which required slitting costs $= \$195,000/85 =\$2,294.12$ per reel

Now let's calculate the new volume based overhead rate after removing grade change and slitting costs. $= \text{Net cost provided } \$1,586,470 / \text{material costs } \$1,741,400 = 91.1\%$ Then The Activity Based Costs for grades A-D can be found by Product | Material Cost | Overhead | #Reels | Grade Change per reel | Slitting per reel | Total | A 4800 4372.8 50 235.00 2294.12 11,701.92 B 5200 4737.2 2 5875.00 0 15,812.20 C 5600 5101.6 35 335.71 2294.12 13,331.43 D 7400 6741.4 175 67.14 0 14,208.54 Conclusion: When you compare the two costing systems above, it's clear that the Activity Based System is more representative of the real cost per reel. Further look at the result shows that some product lines are less profitable compare to what has been shown by volume based costing system. For example slitting costs are

been allocated to all products costs under volume based system as oppose to only two items that require slitting. Therefore switching to ABC costing system will help the company to accurately allocate the product cost, and help management to consider eliminating products that are not profitable.