

The use of cost accounting systems for aunt connies cookies



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RUNNING HEAD: The Use of Cost Accounting Systems for Aunt Connie??™s

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CookiesACC/561University of PhoenixJanuary 28, 2010? Aunt Connie??™s

Cookies is a family owned company that prides itself in the production of quality cookies. As with many other production companies, there is a correlation between the price paid for the cookies and the demand of the cookies. There is an inverse relationship between these two factors. The higher the price charged for the cookies the lower the demand is and vice-versa. Also, there has recently been an opportunity to purchase a manufacturing plant and expand their operations.

The executives at Aunt Connie??™s Cookies are in desperate need of assistance. The goal in this situation is to find the cost to be charged per cookie that is most profitable for the company and to determine if expanding their operations would be a beneficial choice. One common accounting method that is used to help make these types of decisions is called a cost accounting system. Cost accounting systems are used to help establish the cost of a product, service, customer, or other cost object.

The cost accounting system typically includes two processes: cost accumulation and cost assignment. Cost accumulation is the act of ??? collecting costs by some ??? natural??? classification, such as materials or labor, or by activities performed such as order processing or machine processing??? (Burgstahler, Horngren, Stratton, Sundem, & Schatzberg, 2008, p. 138).

Cost assignment is the act of ??? Attaching costs to one or more cost objects, such as activities, processes, departments, customers, or products???

(Burgstahler, Horngren, Stratton, Sundem, & Schatzberg, 2008, p. 138). In previous years, many companies used traditional cost accounting systems.

This method of accounting does not account for or include the costs of activities or processes. Often times, for all indirect manufacturing costs they utilize a single cost pool with a labor-based cost-allocation base. This system has shown to be a successful method for smaller companies with simple production and operating systems. ??? Consider a company that makes only a few products for which direct-material and direct-labor costs are a high percentage of total costs. Indirect manufacturing costs are a small percentage of total costs so the system combines them into one cost pool and allocates them to products using only one cost allocation base, for example direct-labor hours. Such a company can achieve a high level of accuracy of product costs with a traditional costing system???

(Burgstahler, Horngren, Stratton, Sundem, & Schatzberg, 2008, p.

150). As most companies have begun to expand their production and progress, the traditional cost accounting system has proven to be insufficient. Therefore, a more complex cost accounting system has developed: the activity-based costing (ABC) system. The activity-based costing system is ??? a system that first accumulates indirect resource costs for each of the activities of the area being costed, and then assigns the costs of each activity to the products, services, or other cost objects that require that activity???

(Burgstahler, Horngren, Stratton, Sundem, & Schatzberg,

2008, p. 150). ABC systems bring attention to the costs that are shown to be significant in many decision making processes.

This system spreads the allotment of costs beyond production. They are then factored into many functional processes of the company. These processes include: design, marketing, order processing, and customer service. The ABC system forces managers to analyze their unit's production processes and the relationships among the resources, activities, and cost objects of their company. Based on the two accounting systems above, it is evident that the executives of Aunt Connie's Cookies may benefit more from using the ABC system. Under the traditional cost accounting method, they would be able to determine the cost to be charged for their cookies that would be most profitable for the company. However, what this method would not aid with is the decision as to whether or not they should expand their production.

In order for an expansion to be profitable, they would most likely need to increase their sales in order to justify the increase in production volumes. Therefore, the budgets allocated towards tasks such as marketing and distributing may need to be increased. Under the ABC system, these functional processes are included in the analysis. As a result, the executives of Aunt Connie's Cookies would be able to create a more in-depth picture of what the company's profit margins would be if an expansion was to occur and make the most appropriate decision based off of the results. ?

References Burgstahler, David, Horngren, C. T.

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