

ACCTG 2200: Q&A Ch. 4

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Do we always prefer products with higher profit margin?

- ▶ Yes
- ▶ ... but it's never that simple:
- ▶ Food & Beverage pricing
 - ▶ Coffee vs Pastries
 - ▶ Alcohol vs Food
- ▶ Promotions
- ▶ The market may not support more of the high margin product
 - ▶ Scarcity may be part of the appeal
- ▶ Limits on production
 - ▶ i.e. Rolex

Activity rate and activity proportion are equivalent

- ▶ Use the one that's easier/more useful in your situation

When to use ABC vs. VBC

- ▶ When overheads are high relative to total costs
- ▶ When there are:
 - ▶ multiple products
 - ▶ multiple processes consumed differentially by the products
 - ▶ AND/OR various departments participate in more than one process
- ▶ Test!

How do we pick cost drivers

1. Pick activity pools
2. Use those to motivate the driver
3. Driver should cause the cost

PB4-1 Assigning Costs Using Traditional System, ABC System

Homerun Corp., which manufactures baseball bats, currently has two product lines, the Traditional and the Acrylic, and \$47,125 in total overhead.

The company has identified the following information about its activity cost pools and the two product lines:

Activity Cost Pools	Cost Driver	Cost Assigned to Pool	Quantity/Amount Consumed by Traditional Line	Quantity/Amount Consumed by Acrylic Line
Materials handling	Number of moves	\$17,500	100 moves	75 moves
Quality control	Number of inspections	\$ 5,625	1,000 inspections	875 inspections
Machine maintenance	Number of machine hours	\$24,000	8,000 machine hours	12,000 machine hours

Adjustment of under/over-applied overhead in ABC?

Exactly the same as other systems:

1. Apply overhead
 2. If there is a balance in MOH:
 3. Adjust COGS at the end of the period
- ▶ Drivers don't matter for the adjustment.
 - ▶ We are basically treating under/over applied overhead as a period costs

Activity rate and activity proportion

- ▶ Same thing different form.
- ▶ Use whichever is most handy

Batch-, product-, unit-level activities

- ▶ **Product-level** activities vary with the number of **products**
 - ▶ Example: Design
 - ▶ You do it once for each product. (loosely)
 - ▶ A company sells several t-shirt designs
- ▶ **Batch-level** activities vary with the number of **batches**
 - ▶ What is a batch?
 - ▶ A group of units that are produced together
 - ▶ Batch size varies with complexity, order size, production process, factory size
 - ▶ Usually some set up is required for a group of units
 - ▶ Each time the t-shirt company makes a set of t-shirts they have to set up the screen printing equipment with the design.
- ▶ **Unit-level** activities vary with the number of **units**
 - ▶ This is the cost of *actually making* each t-shirt

Difference between JIT and Job Order Costing

- ▶ Just-in-time inventory is not a 'costing' method
- ▶ Just-in-time inventory is an inventory management method which requires precise coordination between activities
- ▶ The link to ABC is that both require well developed information systems, and compliment each other.
- ▶ JIT is most common with *process* costing and is not common with job order costing.
 - ▶ It is difficult to optimize a production process that changes for each job.

What is the difference between Volume-based and non-Volume-based cost drivers?

- ▶ Volume based have a **direct** relationship to the number of customers served or units produced
 - ▶ Product- and batch-level drivers *do not* vary *directly* with the number of units produced.