5).Starbucks main cost is its price per pound of beans in the coffee making process. The two most famous coffee beans used by the Starbucks are Arabica beans and Robusta blend. Starbucks Corporation is an American company which have many branches all over the world as coffeehouse chain. Starbucks purchase more of the Arabica beans due to weakly flavor mixed and mostly favorite for many coffee consumers. Starbucks have massive market capitalization all around the world with different economic situations so it would be very difficult to calculate the cost for the Starbucks in producing a cup of coffee. The average cost of making a cup of Starbucks coffee would be ranging from $0.20 to $0.75. Cost structure for Starbucks is very straight forward which resembles high-ends and fast growing business. Cash flow depends on the financial activities of the company. Starbucks recently repurchasing all its own shares back to increase the returns to the investors. Starbucks initial looked weak when compared to its rivals Dunkin Donuts. Dunkin Donuts includes it cost of the beans in its financial statements like Starbucks also due their business models. Dunkin Donuts revenue mainly depends on the franchise paying royalties to the company. Dunkin Donuts franchise owners are responsible in managing the cost of goods sold. Dunkin Donuts allow its franchise owner to buy their own coffee beans which the company specifies. Purchasing of coffee beans depends on the franchise owner because he can analyze his business performance which helps him getting better idea of how much he can buy according to his returns. Starbucks operating cost is declining since 2013 due to the cost of goods sold, logistic expenses, store operation expenses and spreading payment over multiple periods are declining over the period.

There are two type of traditional costing system is used by the companies to determine the product cost. They are job order costing and process cost. Starbucks is a coffee shop where every customer wants to have good coffee in the morning before coffee, study time and socialize. Starbucks is one of the largest and oldest coffee retailer company in the United States. Their passion is to create and discover a good taste or flavor for the coffee and give their customers good aroma. Starbucks uses the Job ordering cost because it is very easy for the Starbucks managers to understand about the profits in the business.

Job ordering cost is assigning of cost to a specific product or a unit. So generally job order costing allows the much more effective control over all the prices they have. Starbucks also uses value based costing to increase the profit margin of the company. Starbucks facing problems like lack of labor and also non coffee commodities cost which increase the budget of the company and also cool down of the coffee sales even brings the company more down. Every cost is considered in the process of making a cup of coffee at Starbucks. Both variable cost and fixed cost are associated with the Starbucks. Variable cost consist of raw materials and labor cost. For instance, if Starbucks management wants to change the menu or open a new franchises in different places the cost varies with the original cost previously. Fixed are the cost which Starbucks need to pay whether they make coffee or open their doors or not. Let’s consider if the cup of a coffee is $1 and Starbucks sold 30,000 coffee cups all around it outlets then the total amount Starbucks earned is $30,000. The cost of the rent to be pay by the Starbucks for all its outlet is $30,000. When we divide the amount earned by the Starbucks through selling the coffee to the rent to be pay by the Starbuck for its outlet. We can understand that the rent allocated to one cup of coffee is $1.

6). When considering the cost associated in making of a cup of coffee can be determined by taking all cost into the consideration like full costing, variable cost, target costing, lifecycle costing and activity-based costing.

Full costing determines complete end to end cost of producing the products or services. When using full costing all cost like direct, fixed and variable cost are assigned to the product or service at the end. Advantages of the full costing are compliant with reporting rules (if the company wants to change present costing they need to go according to the rules only), All the production cost are accounted (Company wants to keep track of every cost associated with the product or service) and it is easier to track the profits of the company.

Variable cost is the allocation of cost to the product being produced. At each level of costing the cost is defined and also structured in a proper way. All the cost associated with the production includes product cost which are directly involved. The direct cost includes direct labor, product cost, fixed and variable overhead expenses.

Target costing is a cost allocating approach in which the companies set targets for the cost based on the price prevalent in the market and the profit margin they want to earn. Target cost can be calculated by subtracting Selling Price with the Profit Margin.

Lifecycle costing is compelling of all the cost that the owner or the producer invested as assert for the production of the company over the lifespan. Lifecycle costing is more heavily used by the companies whose main goal is to be in the market for long time with have a long range planning.

Activity-Based costing is the costing method that assigns overhead and indirect cost which related product and services. Activity-Based costing recognizes the relationship between the cost and overhead cost because overhead cost is used to determine the indirect cost that would include while production of the product. These indirect cost can be organizational changes, economic crisis, and downfall of the production of the raw materials in the market and also labor union problems which leads to more budgeting in the production of the company. Before starting any production the company have an overhead cost because it helps the managers to analyze the cost at each level and also helps in finding the difficulties that the company may face in the future in the production.

Starbucks uses full costing and Activity-Based costing based on their business process. Full costing includes all the cost are direct, indirect and variable cost so Starbucks can access all these cost available in the production. Starbucks also uses Activity-Based costing to know the overhead cost of the production in the company.