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Variable cost is a change in cost in direct proportion to production level. This means that when more units are produced, the total variable cost increases and decreases when fewer units are produced. According to the journal the variable cost of the company production are Purchase of raw materials, direct labor factory and Bad debt expense.

Fixed cost is a price that does not shift within the scope based on the level of operation. Even if there is no production, this cost includes. Fixed cost per unit decrease as production increases. This cost remains constant, total, regardless pf changes in the manufacturing output of the product. According to the journal the fixed cost of the company production are Insurance factory, Factory property tax, Depreciation expense factory, Land and Bonds payable 8%.

Mixed cost contains both fixed cost component and variable cost component. Mixed cost may be present in the absence of all the activities, in which the cost may increases as activity increases. According to the journal the mixed cost of the company production are Utilities Factory.

Activity-Based costing assigns manufacturing overhead cost to products in more logical way than in the traditional method of approach to the products. Basically in traditional method the cost is divided into indirect and direct cost. Many companies avoid traditional method because sometimes they face inaccuracy in the cost and also it does not includes the indirect cost in which the cost includes like transportation cost, advertisement cost, office cost, maintenance cost and miscellaneous expenses. This is used for costing of the product of sales and the inventory. Activity-Based costing analyze the cost at every level of the production such that there would be no inaccuracy in the cost while production.

Activity-Based costing concept using in the EEC journal:

According to EEC journal the manufacturing cost can be analyzed as material cost, administrative cost, purchase of raw materials, direct labor cost, plant and equipment, maintenance cost, advertisements, selling expenses are used to calculate the overhead cost of the production for the company. The ABC cost accounting system is based on operations that are any incidents, work units, or particular purpose-based functions, such as setting up manufacturing equipment, designing products, selling finished goods, or running machinery. Activities consume resources overhead and are considered artifacts of value. An operation can also be viewed as a cost driver under the ABC system as any transaction or occurrence. A cost driver is used to refer to an allocation base, also known as an event driver. Definitions of cost drivers include device upgrades, demands for repairs, power consumption, purchase orders, quality checks, and production orders. Identify all activities required for the item to be made. Divide the operations into value pools that include all of the individual activity-related costs— such as processing. Calculate every cost pool's maximum overhead. Assign cost drivers such as hours or units to each cost pool operation. Calculate the frequency of the cost operator by dividing the total overhead by the total cost pool by the total cost.

The advantages of the activity-based costing are:

Many companies analyze the manufacturing overhead cost for the production such that they can have clear picture on how the cost can be divided to complete the work according to the plans. The manufacture overhead cost no longer correlate to the machine hours or direct labor hours. Due to the overhead costing and using of activity-based costing there is more structure and diversity in the companies and also in the customers for better development of the production. By using the activity-based costing method the company differentiate the small production to larger production in such a way that some products are produced large units and some are produced in small units. Activity-based costing determines more product profit margin accurately. This creates new frameworks for allocating overhead costs for products that assign costs on the basis of activities that generate costs instead of volume rates, such as machine hours or direct labor costs.

The disadvantages of the activity-based costing are:

The date which is collected and analyzed is time consuming part in the process of production. Activity-based costing may not be preferable for the small companies because the overhead cost is small in the proportion to the total production operation cost of the product. Collection and preparation of data is time consuming Costs more to collect and analyze information Data may not always be readily available from normal accounting reports ABC reports may not always meet with generally accepted accounting principles which cannot be used for external reporting Data generated by ABC may conflict with previously established managerial performance standards from traditional costing method.

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