FULL COST COSTING/ABSORPTION COSTS

AND ACTIVITY BASE COST

INTRODUCTION:

Welcome to the Sparkling Automotive Company

You have joined one of the finest teams of professionals at one of the world’s leading globally integrated logistics manufacturer and service providers. We offer valuable production and service for our customers by supplying spark plugs to automotive (OEM, original equipment market and the aftermarket automotive.

Sparkling Automotive Company (SAC) has announce a new spark plug manufacturing process in the U.S.A. that produces a better quality spark plug that is for last 100,000 miles. The spark plugs introduction has been outstanding in the USA.

For SAC the number one success is due to the most important valuable assets, our people and customers.

To operate in a great competition market SAC currently practice a very simple standard cost system. SAC teams members try to find out a better cost system that benefit the company in obtain different methods.

FULL COSTING/ABSORPTION COSTING

All finished goods costs that are captivated or absorbed by the unit produced are known as full costing. Full costing method is known as absorption method because, absorbed all the costs.

Full cost accountings mean the practice of collecting and presenting all of the costs that are connected with the production of service or a product.

Full costing costs in the unit produced included several costs. These costs are:

a) Direct materials

b) Direct labor

c) Fixed and variable costs

According to the type of business costs can change. For full costing the term has been used as true cost accounting. Direct costs and indirect cost will be allocated in full costing.

SAC can apply the term full cost accounting when they account spark plug for automotives.

The direct costs included in the spark plugs will make the cost in full cost accounting.

In accordance to the product lifecycle of each spark plug the costs will include other useable costs, overheads, indirect costs, past costs and future outlay.

If some circumstances, the cost that has gone into the production of the spark plug and also can be add in the cost of the spark plug. Any future cost can be added. In other words the

machinery that is used for the creation of spark plugs is depreciated and that cost is also included. All hidden costs are included too.

SAC receives some equipment from an environmental agency because, the spark plug is guaranteed to last 100, 000 mile. For full costing the cost of this equipment will be show in full in the cost of the spark plugs.

Different costs incurred by SAC will be included in the full cost method. These costs are fixed overhead and fixed administration expense.

Full cost accounting advantages

A) Managers can obtain more information

B) Make better decisions

C) Product price will show more exact according with the production of them

Full costing is method used in financial and income tax reporting accordance with the law. The method is very effectively and will help management to monitor internal control in different departments associated with production and sales. This system contributes to provide a better visualization and knowledge of the product actual cost or service within the organization.

The full cost accounting disvantages

A) Take away valuable time from necessary duties

B) More accountants to handle the larger work load

C) Managers can debate about important cost decisions

These costs are difficult to use for monitoring, planning, and controlling.

I will like to mention that fixed manufacturing overheads are not absorbed in the variable costing.

Fixed manufacturing costs are known as direct costing. The variable costs are expenses that vary in proportion of the business operation. This is the total of the marginal costs over all units that have been produced.

Variable is a piece of total cost and fixed costs. All variable costs are not direct costs; even direct costs are associated with the item that has been creating. For example: variable proportion of overheads. These are not direct costs but, continue to be variable costs. Variable costs change with the amount of units that has been creating.

ACTIVITY BASED COSTING (ABC)

Activity Based Costing (ABC) is refer to internal operating issue and is an addition to the traditional cost management system. The method is not a substitute for the traditional accounting, makes use for the fundamental source documents provided from the standard job costing systems.

Some business use the activity based costing when overhead or cost for mistake is high, and competition is frozen. The ABC is the most exact cost management system.

For example some businesses that use the ABC method are:

* Manufacturing
* Engineering

The cost drivers in the ABC cost method costing will create business units that permit the company to collect their resources costs against that episode sequence time. All revenue follow up provides to the managers different options on the profitability of products and services.

The ABC system allow the middle management and the entire technical department to be part of the line item reporting that, assist them to accomplish more responsibility to obtain information with more details and report to the organization.

The activity base costing method is connected to all relevant revenues and costs to the value adding to the activities performed in the supply chain. These methods that are apply to distribute the indirect costs between products and services.

Sparkling Automotive Company in their case they will assist in assigns its costs to different class of spark plugs.

ABC is being seeing by the accounting business like a great powerful system of the future and is taking a positive acceptance in larger company.

ACTIVITY BASED COSTING ADVATANGES

More accurate

Easier to understand

Uses unit Costs and can be integrated with six sigma

Helps costing of process, supply chain and shows waste

ACTIVITY BASED COSTING DISVANTAGES

Costly

Time wasting to collect important data

Revealed leakages and waste that is not require by the managers

Sparkling Automotive Company should take in consideration to apply the activity based costing in correct cost for each spark plug. These procedures will help SAC place costs where they should be going.

CONCLUSION:

Monetary expense and resources used for specific project is known as cost. All addition of the cost object, direct costs, costs that are directly monitor to it and a fair share of the indirect costs, those costs incurred jointly for several cost project.

The activities and costs recognize in any organization, will be able to use the ABC costing. They will be assigns to products and services called cost drivers. That is based on the number of transactions involved in the process of providing the product or service.

In the manufacturing and engineering industries help to facilitate the process and business through the activity based management. The method report and control information on a regular routine basis in a very short time of period.

In the health, government and public sector an assist the organizations to lead the drive for creating visible value. For example in the hospitals taking equal pride with the best service provide in the medical business.

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