# Assessment 2

# Step 2

## Chapter 6 KCQ’s

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Chapter 6 began with bated breath, was I about to continue on the crazy ride from chapter 4, Chapter 4 was much like an adrenaline filled ride and now in chapter 6 I have my feet firmly planted on the ground and breathing that sigh of relief and getting my heart rate back under control! After reading the first section of chapter 6, I was relieved that I can relate these concepts to my prior experience as a store manager in Domino’s.

The first concept that hit home for me was ‘firms are full of people spending other people’s money’. As store manager at Domino’s I was responsible for ordering stock, this involved three different orders, one was for flour to make the pizza bases, another was for vegetables and the third was the largest one which included all packaging, sides, drinks and non-vegetable pizza toppings. While this is so simple, yet surprising, it completely makes sense. I had never considered that I was spending my franchisee’s money, looking back I can understand now why she would get upset when I ordered too much! It makes me consider the question, if people are careful with their own personal finances why do they change their habits when dealing with their workplace finances?

Cost objects on initial reading sounded confusing, but Danielle to the rescue! A cost object is anything in the firm that you want to know the cost of and the costs are measured separately. I really liked the analogy of the fridge magnets on the fridge but, during PASS discussions I realised a pizza is the perfect cost object, each topping on the pizza base is adding additional costs to that pizza. Keeping food costs under control was quite a challenge, now I can understand why. For example, if we added more cheese than the recipe for the pizza called for, the costs we incurred would be greater than the projected cost of the same pizza when made to specification. Considering cost objects while writing this KCQ, makes me consider, what could I identify as a cost object in my firm?

Direct costs are the costs that can be directly apportioned to a product or service, these are the most obvious costs. In Domino’s at store level the three main costs I needed to focus on were food, labour and mileage (FLM), in the pizza business these would be considered the direct costs of operations. I was quite lucky that I could monitor these costs and make changes in real time which is not possible in all firms, especially not in my firm Coca-Cola Amatil. An indirect cost is a cost that is not directly traceable to a product or service. I never really considered the indirect costs involved in running the store. Obviously I knew we paid rent on our shop, had to pay for electricity and royalties to Domino’s but I never considered anything past that. Considering the extra expenses now I think of the rubbish collection, phone and internet expenses, fuel and upkeep of the company vehicles, equipment maintenance and I am sure there are many more. Are all these indirect expenses somehow worked out in the cost of a pizza? Or are they just a blanket expense applied at the end of the period?

Continuing on with my pizza analogy, product costs are those costs, both direct and indirect, associated with making a pizza. For an object to be classified as a product cost it must directly contribute to creating revenue for the firm. Costs related to product costs include raw materials, direct labour and general overheads. In the case of Domino’s, these would be the food and labour costs, in addition to electricity and rent. One thing that surprised me about product costs was that product costs are only recognised as an expense once the product has been sold and prior to this it is an asset. Can expenses be categorised as both a product and period cost? A period cost is any cost that is not directly related to producing a product or providing a service but occur in a particular period. Unlike product costs, period costs are not assigned to a particular product and are recorded as an expense in the period in which they occurred. This concept is a bit confusing because a product is not an expense until it is sold but an period expense is an expense when it occurs. Why is that? I think of the stock orders that I would complete at Domino’s and even though we had food inventory in the store that we had already paid for, it isn’t included as an expense because it is a product cost, I am not sure if I am on the right train of thought on this one!

Reading through the study guide and I saw job-costing and process-costing. My initial thought was pizza is job-costing, but the more I considered it, the more unsure I became. Job-costing is the allocation of costs to a particular product when it is easy to identify the final product during manufacture. My reasoning behind thinking of pizza as adopting a job-costing approach was you can identify the product during the time it is being made, while it is made fairly quickly (skilled makers could make a supreme in 20 seconds or less), you could attach the costs associated with the toppings as the process was being completed. Then I continued reading about the process-costing approach and then the doubt crept in. The process-costing approach is used when products are not easily identifiable during manufacture and the costs are calculated as an average across all products and prcoesses. Considering a meatlovers pizza, you can determine at the early stage of production that it is not a cheese pizza, however, there were two different types of meatlovers pizza so you could not determine which one until the pizza was almost complete. Deliberating over the two approaches, neither completely fits the operations of Domino’s. A plain cheese pizza would cost less in both food and labour costs than a supreme, so I feel like a process-costing approach would not prove to be profitable on the value range of pizzas. I wonder which approach they use in their accounts?

Fixed and variable costs are concepts that seem to be pretty straightforward. A fixed cost is an expense that remains constant regardless of the number of products produced. Considering fixed costs of a Coca-Cola Amatil (CCA) factory, regardless of how many bottles of Coca-Cola are produced in one day, CCA would still be required to pay their employees and pay rent on the factory. A variable cost is an expense that varies depending on product production, the more Coca-Cola that is manufactured the greater the expense of raw materials and electricity required to make those products. Do firms aim to have greater fixed or variable costs?

All the pieces of the puzzle are coming together, I am beginning to see the relationship between a lot of these concepts. Accounting really is more than just numbers, it is a way of business. I feel like we are getting closer to answering the question of what is accounting that we asked ourselves in the opening weeks of this unit.