UNX Industries is a detergent manufacturer with a production facility and development laboratory located in Greenville, NC. The company is working to maintain its profitability in the highly competitive market. UNX has aggressively increased its product line, entering into multiple markets. The company has developed several new products, and the demand for these products has increased rapidly. This has resulted in a significant increase in the company’s profits. However, the company is facing challenges in managing its costs effectively.

The company is currently using traditional costing methods to allocate overhead costs to products and services. These methods are based on direct labor hours and machine hours, which are traditional drivers of costs. However, these methods do not always accurately reflect the true cost of products and services. For example, labor costs are assigned based on the number of hours worked, which may not reflect the true cost of labor. Similarly, machine hours are used to allocate costs to products, but this method does not take into account the complexity of the production process.

Activity Based Costing (ABC) is an alternative costing method that assigns costs to activities rather than traditional drivers. This method is based on the premise that costs are incurred to perform activities, and these activities can be identified and measured. By using ABC, UNX can more accurately allocate costs to products and services, which will help the company make better decisions about pricing and production.

METHOD

Data Collection Method

ABC Steps in Laboratory Setting

Collecting and Recording Data: To accurately record ABC data on quality assurance, data from previous records were analyzed in conjunction with recording and collecting firsthand information from the laboratory. Data was recorded on labor, equipment, and disposable costs.

RESULTS

ABC Breakdown

Analysis: After collecting and analyzing data, it was determined that QA testing costs are primarily costed based on labor and frequency of testing. Alkali soda gets tested 17 times per year compared to its counterparts which may get tested less than 5 times. Equipment costs will be gathered as more specific costing is conducted and were not calculated while gathering this data set. Applying this information allows UNX Industries to accurately determine costs on a per period basis while knowing exactly where costs are going. This is a helpful indicator in applying new procedures and policies that use this data to make better decisions. Management can now review applying a reduced methodology in testing while increasing confidence in supplier relationships.

SUMMARY AND CONCLUSIONS

• ABC systems help management decisions in a QA laboratory identify products that are expensive, this allows reduced costing while maintaining high level of quality using tightened and reduced methodology.

• ABC systems offer more benefits than traditional costing systems because all costs associated with a product are included in costing that are not included in traditional systems.

• UNX Industries can reduce costing by testing Alkali Soda and Chlorine less frequently under the circumstance that audits are taking place to ensure supplier has relevant data.

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