Twelve Characteristics of a Company Whose Costing Methods Put it "At Risk"

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- The company has only a single, company-wide overhead rate, or multiple rates applied on only one type of base (direct labor, machine hours, etc.) for assigning indirect costs to products.
- The company has been incorporating new, technologically advanced equipment into its operations without making corresponding changes in the methods it uses to cost its products, customers, services, and processes.
- The company has been adopting new "lean" manufacturing techniques, such as creating lines or cells, without making corresponding changes in the way it costs those processes and assigns those costs to products.
- The company includes the cost of set-ups or changeovers as part of its manufacturing overhead.
- The company has manufacturing operations that do not always require the same number of operators, but still has only one way (direct labor, machine time, etc.) to assign those operations' costs to products.
- The company does not segregate the cost of purchasing, receiving, testing, handling, and storing raw materials and purchased components and attach them to the materials and components but simply buries those costs in manufacturing overhead or general and administrative expenses.
- The company outsources certain manufacturing processes without segregating the cost of supporting those processes (multiple handling, transportation, scheduling, material control, purchasing, inventory carrying cost, etc.), nor does it attach those costs to the outsourced processes.
- The company has significant in-process material handling and storage costs, yet does not segregate these costs and assign them to products as they are moved and stored.
- The company has significant post-manufacturing activities (finished goods storage, order picking, packaging, order fulfillment, delivery) that are not the same for all products, yet it does not segregate these costs and assign them as customer-driven costs.
- The primary influences over the company's costing methods are outside reporting requirements – including Generally Accepted Accounting Principles (GAAP).
- The company has certain customers, markets, or product lines that require a disproportionate amount of support, yet it does not segregate those costs nor does it assign them to the customers, markets, or product lines that demand those higher levels of support.
- In measuring product or customer profitability, the company either ignores general and administrative costs or adds them as a percentage of total cost.