Week 4 Assignment: Sweet Bites Cakes Proposal

You are a consultant for Sweet Bites Cakes. Prepare and provide a proposal recommending which type of costing approach will help the company determine more accurate cost information for pricing and product decisions. Read the attached PDF below about Sweet Bites Cakes.

[Sweet Bites Cakes](https://canvas.westcoastuniversity.edu/courses/11386/files/3781512?wrap=1)[Download Sweet Bites Cakes](https://canvas.westcoastuniversity.edu/courses/11386/files/3781512/download?download_frd=1)

In three to four pages, addressing the following:

* What information does Sweet Bites Cakes need? Based on the case information, discuss the types of cost information the company’s product costing system should be able to provide.
* From the table, determine which costs should be treated as product costs and which should be treated as period costs for management decision-making.
* For each product cost you identify, how would you track the cost?
* For each specific cost item, you listed in Question 3, how would you assign that cost to products to attain reasonably accurate product costs?

Your proposal should be written in the current APA Style for formatting and references. Include both a title page and reference list that includes at least two scholarly sources (your text can be one of the sources).

Sweet Bites   
Cakes   
   
Sweet Bites Cakes (a fictional company) began operations in 2015 and uses natural and organic ingredients and unique   
flavor combinations in its product line. Bacon Bourbon Spice Cake, Chai Tea Cake, and Key Lime Avocado Cake are just   
a few of the cake flavors that the company sells.   
Sweet Bites offers three main product lines:   
• Singles, which are single-serving slices of cake that are ready to eat on a plate   
• Six-inch cakes, which are pre-sliced and sold to distributors for food service applications or in grocery store   
bakeries   
• Ten-inch cakes, which must be sold in refrigerated cases with custom labels. The cakes are available in a variety   
pack, in a duo-pack (two different flavors), or as a full cake.   
By 2017, the demand for Sweet Bites Cakes grew to a national market thanks to the company’s Instagram and Facebook   
accounts. This year, the company landed a large grocery chain contract. In 2017, the company had $6.1 million in sales   
revenue and is on track to do $9.3 million in sales this year.   
The plant currently has the capacity to do $1 million in sales per month, but with an additional investment of $500,000 in   
ovens, mixers, and workstations, Sweet Bites Cakes could increase capacity to $1.5 million. The months of October   
through December tend to yield higher sales volume as a result of the holidays. Sweet Bites realizes roughly 60% of its   
business during this period.   
Sweet Bites employs eight salaried workers and 50 hourly employees. The employee pay rate is from $12.50 to $16.50   
per hour for 8 hours per day. Sweet Bites determines its labor costs based on 8 hours per day, the expected number of   
workdays per month, and the total projected hours for the month. The hours are multiplied by the total projected hours for   
the month to determine the expected monthly gross pay amount for each hourly employee based on a 40-hour workweek.   
The sum of the expected hourly employee gross monthly pay is added to the salaried production worker’s gross monthly   
pay, and the projected total payroll-added costs such as Social Security, employer taxes, etc., comprise the total labor   
dollars for the month. Sweet Bites likes to keep this number as close to 20% of sales as possible and adjusts labor hours   
accordingly.   
The company bases pricing decisions on cost, consumers, and competition. It wants to achieve a target 17% gross profit   
margin (or higher) on cost with pricing being the most important factor. The following table provides selected actual cost   
and revenue data for May 2019.   
Cost Category Behavior May 2019   
Sales $766,667   
Expenses:   
 Raw Materials Variable $327,934   
 Bakery Labor Mixed $158,767   
 Administration Salaries Fixed $ 41,367   
 Supplies Variable $ 3,833   
 Freight & Shipping – In Variable $ 4,907   
 Freight & Shipping – Out Variable $ 64,707   
 Utilities – Electricity Variable $ 9,813   
 Utilities – Gas (Ovens) Variable $ 3,067   
 Utilities – Water Variable $ 920   
 Repairs & Maintenance Fixed $ 4,293

Rent Expense Fixed $ 19,167   
 Telephone & Internet Fixed $ 2,300   
 Co-Owners’ Salary Fixed $ 25,300   
 Brokers’ Commissions Variable $ 30,667   
 Total Expenses $697,042   
Operating Profit $ 69,625   
Income Tax $ 22,280   
Net Operating Income $ 47,345   
   
Unit Volume 64,500   
Average Operating Assets $5,500,000   
Minimum Rate of Return 8.00%   
Raw Materials: Includes main ingredients and flavor additives. Main ingredients are relatively higher-cost items such as   
flour, sugar, eggs, nuts, and fruit that appear on the package label. Flavor additives are relatively low-dollar cost items and   
a small part of the weight of the cake such as spices, dyes, salt, and certain oils that don’t always appear on the package   
label.   
Bakery Labor: The cost amount consists of 22% supervisory salaries and taxes, and the rest are hourly workers. Bakery   
labor workers are organized into four categories: production line (mixing, filling, and baking), packaging, sanitation, and   
warehouse (all included as part of cost of goods sold).   
Administration Salaries: Include taxes and benefits for the Vice President of Operations, Controller, Human Resource   
Manager, and two administrative support people.   
Supplies: Includes supplies relating to production, packaging and decorating, sanitation, and warehouse.   
Freight & Shipping – In: The cost of shipping raw ingredients and other materials to the factory from suppliers.   
Freight & Shipping – Out: The costs of shipping finished products to customer locations and distribution centers.   
Utilities – Electricity: Approximately 10% for administrative office and the remainder for the factory. The factory portion   
varies somewhat with production volume.   
Utilities – Gas: Approximately 5% for administrative office and the remainder for the factory. The factory portion varies   
somewhat with production volume.   
Utilities – Water: All for the factory and varies proportionately with production volume.   
Repairs & Maintenance: All for the factory.   
Rent expense: The factory uses about 85% of the total square footage of the building, and the remainder is for the   
administrative office.   
Telephone & Internet: All for the administrative office.   
Co-Owners’ Salary: Two owners.   
Broker’s Commissions: Generally 4% of sales.   
Income Tax: Average total tax rate is 32%.