

Costing Analysis Could Help Maximize Your Company's Profits

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There is one question in business that is both critically important and, at times, maddeningly difficult to answer:

"What is the true cost of a unit of my product or service?"

It sounds simple enough. Start with the cost of your raw materials, throw in your labor costs, divide by the number of units produced, and there you have it. Right?

In some rare instances... maybe. But most businesses have nuances that make the costing process challenging. Consider:

- **Overhead** - Overhead can significantly distort product costs if it is not allocated appropriately. How do you allocate overhead to the cost of your product? Should you be allocating overhead based on labor hours, labor dollars, or total units? Should some product lines be absorbing more overhead than others?
- **Property & Equipment** - How should depreciation and interest expenses related to fixed assets be incorporated into product costs?
- **Fixed vs. Variable Costs** - Understanding the nature of the costs, whether they are fixed, variable, or a combination of both, in your cost structure is critical to understanding how a change in volume will impact your bottom line. Volume changes can significantly impact unit costs in businesses that have more fixed costs. And in tough economic times, knowing your variable costs can give you a sense of "how low you can go" with your pricing without incurring negative gross margins.
- **Incentive Compensation** - If you offer incentive compensation to your employees, how is your costing data impacting employee behavior? Are any adjustments needed to prevent them from making suboptimal profit decisions to take advantage of products with understated costs?

These are just a few of the elements that make product costing such a complex exercise. The best answer is one that fits the business's circumstances. At Stambaugh Ness, we recognize that each business is unique and offer customized costing services that create value for our customers.

A testimonial from a recent costing project demonstrates our success in delivering this value:

"Stambaugh Ness performed a thorough cost analysis for our facility, focusing on cost at different levels of volume. This allowed me to negotiate a new contract with our largest customer. I could not have been more satisfied with their service." -- Robert Erlemeier, President, Keystone Bean

Need help with your costing system? Contact a [Manufacturing Specialist](#) at Stambaugh Ness today for assistance.

For more information about our costing services, please contact Neil at 717-757-6999/800-745-8233 or email him at ncrowell@stambaughness.com. For more information about our Manufacturing and Distribution Industry Group services, please contact [Shareholder Darren Welker, CPA, CIA](#) at the same phone numbers or email Darren at dwelker@stambaughness.com.

Stambaugh Ness's Manufacturing and Distribution Services Group is a team of highly experienced professionals who are committed to understanding the unique challenges of the manufacturing industry. In addition to our traditional accounting and auditing services, we offer value-added services in business planning, operational analysis, strategic management, M&A assistance, and IT / systems consulting. Our resources are complemented through active involvement in local industry associations.

Stambaugh Ness is a regional accounting and business consulting firm based in South Central Pennsylvania.