

# Activity-Based Costing

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## ABSTRACT

**Activity-based costing is a method that is used to increase productivity and the “lower production cost” because nowadays companies are so competitive. This research will help to measure all the methods, issues, and product services related to cost. This research will help to compute overhead costs for more accurate results and also help to improve more productions and sustainability as well. Further, this research will also help to compute profit margins more accurately.**

**Keywords:** *Indirect Cost, Cost management, Overhead Cost.*

## INTRODUCTION

Activity-based costing is a costing method that helps to identify the cost and activities of any organization and also the cost of products and services by the consumption rate of individual products. It also helps to convert the indirect cost of any firm into direct cost in a conventional way. This research will elaborate on the process where activity-based costing will help measure multiple “cost driver rates”, manufacturing rates, and overhead rates of each product. This research will also discuss the literature review part to get a better picture of “Activity-based costing” and how it is conducted. This research will also discuss the various cost-drive methods related to activity-based costing. This research will also focus on the future scope of activity-based costing.

## REVIEW OF LITERATURES

According to Fei, and Isa, 2010, this research describes the deferred “time-driven activity costing” which can describe the inducer time. This method is describing the time per activity related to the costing model. This research will also define the “capacity cost rate”, “time equation” and forecasting process of Activity-based costing. The main aim of the study is to research time-driven activity based on cost. This method is also used to increase the profits of any organization; another advantage of “time-driven activity costing” is to calculate the accurate ‘cost accounting’ for the providers. Resources can be limited in the future so the providers need to understand all the costs for the specific services (Kumar, and Mahto, 2013). This research is to discuss the problems other organizations are facing by not using the activity-based costing for better results in the future, this activity can be time-consuming but it is the accurate way to perform any costing equations.

According to Baykasoğlu, and Kaplanoğlu, 2008, this research helps to make the costing system efficient for the stakeholders and implementation of the role of the cost management. This research will also help the process of the cost-effective costing system for agile project management. Activity-based costing is also helping the hospital service. It also describes the implementation of the process of the event and the design of the costing system. The most frequently used costing system is “activity-based costing” for its accurate results and in this research, this method is conducted (Wegmann, G., 2008). This research also helps companies to take decisions rationally. This research also helps to define the performance and sustainability of an organization with the help of activity-based costing. Making future decisions more perfect activity-based costing is so important for any organization.

According to Mahal, and Hossain, 2015, an activity-based costing system also helps the research describe the benefits, levels, and efficiency of the costing system. This study will also help to measure the benefits and satisfaction level of the customers who are using “activity-based costing”. This research will also help to compute the overhead cost for industrial products. This study will be conducted for cost activities that involve activity-based costing. This process will also help to increase the profitability and sustainability of any organization. Activity-based costing systems provide cost information for each activity and this process is also good for more profits in future growth.

## MATERIALS AND METHODOLOGY

Activity-based costing is a system that is very important for the computation of any organization’s performance and growth which is described in the research; this system helps to provide many costing methods for any organization’s growth and sustainability. This method is also good for keeping records of the overhead and costs for the company (Fei,

and Isa, 2010). To achieve more profits in the future this method is used frequently and for making the cost of the products less expensive and making more effective decisions.

**Research Approach:**

The research is formed on a deductive approach for the information needed to calculate the activity-based costing and it will show the various methods and cost overheads that are needed for the calculation (Mahal, and Hossain, 2015). This research will help to achieve more profits in the future and the process will allow computing all the overheads for the process.

**Research philosophy:**

This research is based on a method that has positive outcomes and which is good for developing the research. This research also follows a qualitative method that has helped the “activity-based costing” process to develop more to calculate the cost overheads and make more profits for the future. It also helped to calculate more accurate production costs, it also helps to assign overhead costs for more and it also helps production & improvements for better profit margins.

**Data collection method:**

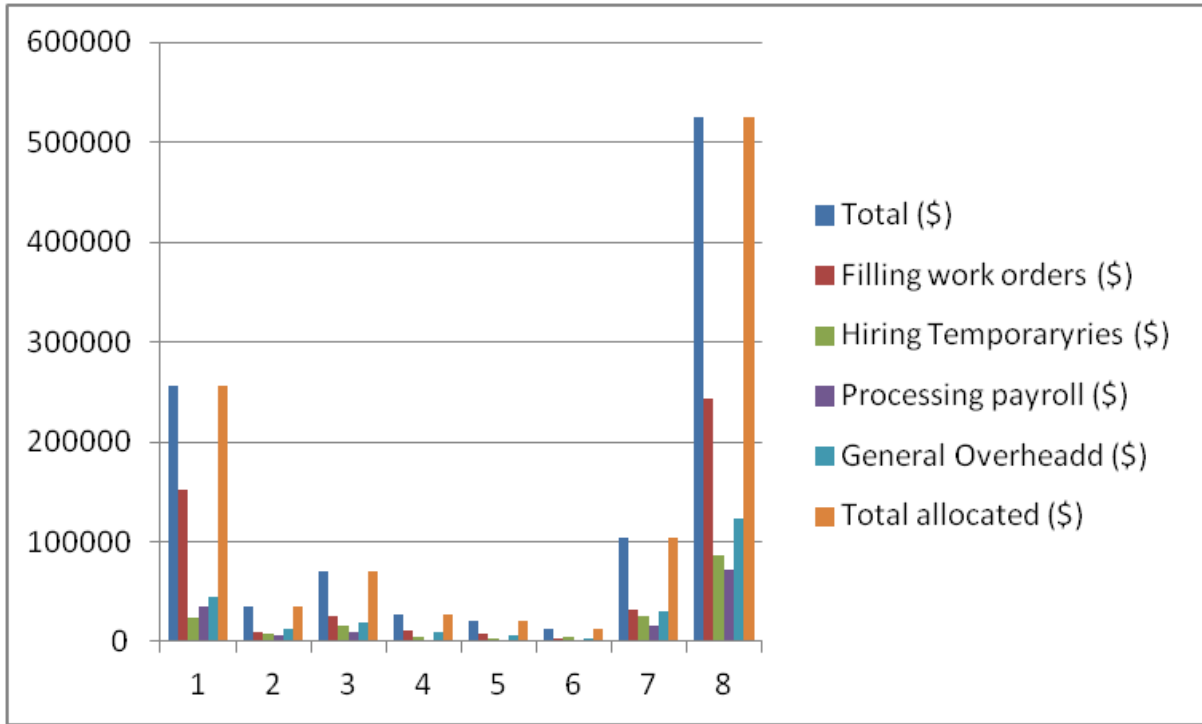
This is one of the vital methods for making this research successful in a proper way. With the help of scholarly articles, and websites this research has been done (Kallunki, and Silvola, 2008). This research is mainly based on secondary data collection for the computation of the activity-based costing for better performance, future growth, and sustainability.

**RESULTS AND DISCUSSION**

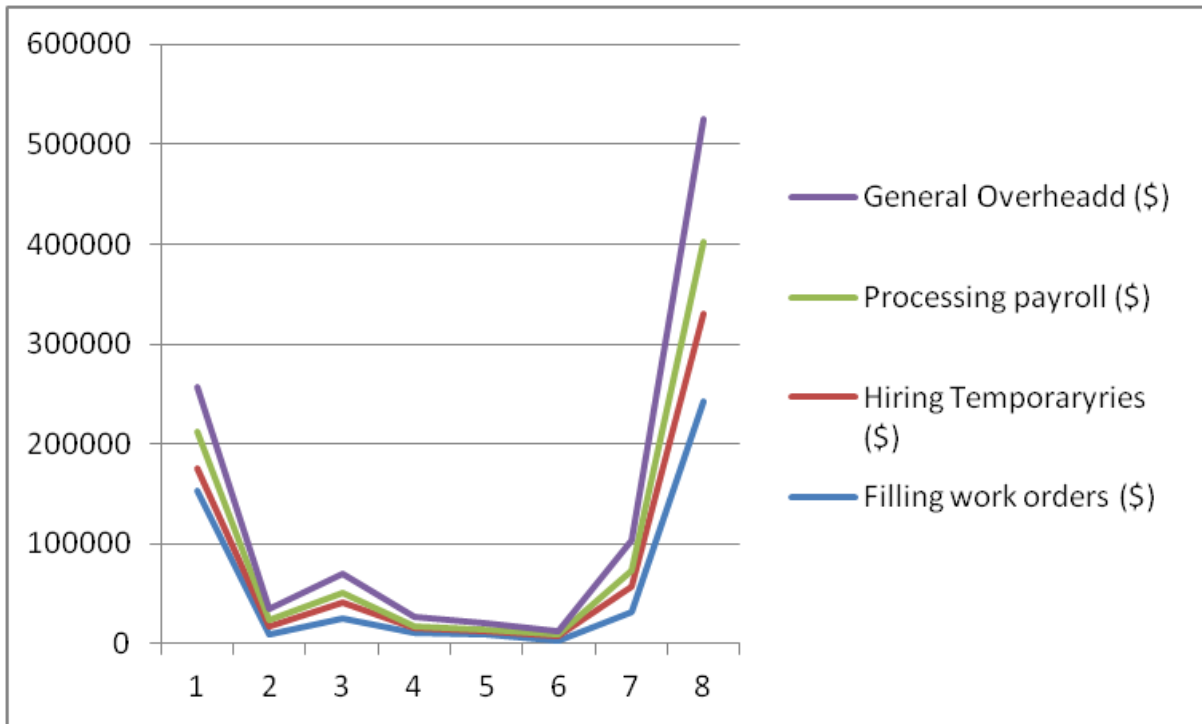
**Table 1: Activity rate calculation**

| <b>Account name (\$)</b>        | <b>Total (\$)</b> | <b>Filling work orders (\$)</b> | <b>Hiring Temporary Rides (\$)</b> | <b>Processing payroll (\$)</b> | <b>General Overhead (\$)</b> | <b>Total allocated (\$)</b> |
|---------------------------------|-------------------|---------------------------------|------------------------------------|--------------------------------|------------------------------|-----------------------------|
| Salaries and wages              | 256341            | 152432                          | 23541                              | 35652                          | 44716                        | 256341                      |
| Payroll taxes                   | 35624             | 10035                           | 8036                               | 5639                           | 11914                        | 35624                       |
| Advertising Expenses            | 69584             | 25236                           | 16364                              | 9365                           | 18619                        | 69584                       |
| Automotive                      | 26985             | 11023                           | 5023                               | 2013                           | 8926                         | 26985                       |
| Telephone Expenses              | 20653             | 8623                            | 3652                               | 2130                           | 6248                         | 20653                       |
| Rent                            | 13032             | 3650                            | 4502                               | 1021                           | 3859                         | 13032                       |
| Other operating Expenses        | 103646            | 32010                           | 25630                              | 16352                          | 29654                        | 103646                      |
| <b>Total operating expenses</b> | <b>525865</b>     | <b>243009</b>                   | <b>86748</b>                       | <b>72172</b>                   | <b>122936</b>                | <b>525865</b>               |

(Source: self-created)



**Figure 1: Activity rate calculation**  
 (Source: Self-made on MS Excel)



**Figure 2: Cost overheads**  
 (Source: Self-made on MS Excel)

Above table shows the activity-based calculation. In the table, there are entries showing many overheads which are important for the calculation process (Vazakidis *et al.* 2010). There are many cost drives in the table which are, filling work orders, hiring temporaries, processing payroll, and general overhead. It shows the general overhead is made more effective in the above figure. This process can be time-consuming but it is the more effective way for any company when they are trying to make more accurate future decisions. This figure can be done for making better productivity of the product costs.

## **CONCLUSION AND FUTURE SCOPE**

This research is conducted with the use of Activity-based costing for making better performance in the future. There are many accounts in the above calculation. Salaries and wages, payroll taxes, advertising expenses, automotive, telephone expenses, and rent. In the research, many articles have been used for the collection of the data and to measure all the cost drives for the research.

Activity-based costing helps to calculate the production cost of the specific entries. It also helps to calculate overhead costs for a more effective production rate. It also allows improving the efficiency of the products and also helps to compute the profits margins accurately. Nowadays traditional costing is not used in difficult calculations and Activity-based costing is the future method to compute all the measurements to achieve accurate results.

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