

Editorial

Dear Readers,



Time has over took man's competency in almost all the fields. As time waits for none, many miss out opportunities closer to them. Men and women could give better competency to time but rarely they could win. Hope they will win in future!!!

**L. Muralidharan
& Editorial Team of e-senze**

Designed by: Mr. G. Natarajan



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**Chennai
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refer
Pages: 3 & 4**

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Activity Based Costing

Weaknesses of traditional absorption costing and marginal costing

As methods for measuring product costs and profitability, both traditional absorption costing and marginal costing can have severe weaknesses in a modern business environment.

Problems with absorption costing

Traditional absorption costing charges overhead costs to products (or services) in an arbitrary way. In product costing, overheads are absorbed on the basis of the volume of production in each production department or centre. The basis for setting an absorption rate is volume-related, such as an overhead absorption rate per unit produced, a rate per direct labour hour or a rate per machine hour.

- The assumption underlying this method of costing is that overhead expenditure is connected to the volume of production activity.
- This assumption was probably valid many years ago, when production systems were based on labour-intensive or machine-intensive mass production of fairly standard items. Overhead costs were also fairly small relative to direct materials and direct labour costs; therefore any inaccuracy in the charging of overheads to products costs was not significant.
- The assumption is not valid in a complex manufacturing environment, where production is based on smaller customised batches of products, indirect costs are high in relation to direct costs, and a high proportion of overhead activities - such as production scheduling, order handling quality control- are not related to production volume.
- For similar reasons, traditional absorption costing is not well-suited to the costing of many services.

The criticism of absorption costing is that it cannot calculate a 'true' product cost that has any valid meaning. Overheads are charged to departments and products in an arbitrary way, and the assumption that overhead expenditure is related to direct labour hours or machine hours in the production departments is no longer realistic.

POINTS TO REMEMBER

The criticism of absorption costing is that it cannot calculate a 'true' product cost that has any valid meaning.

Problems with marginal costing

There are also major problems with marginal costing, but for different reasons. In marginal costing, products or services are valued at their marginal cost, and profitability is assessed by calculating the contribution earned from each product or service. Fixed costs are assumed to be time-related and are charged against profits as a cost for the period. This can be a useful costing method when variable costs are a large proportion of total costs.

The main criticisms of marginal costing as a method of measuring product costs and profitability are that:

- variable costs might be small in relation to fixed costs
- 'fixed' costs might be fixed in relation to production volume, but they might vary with other activities that are not production-related.

In many manufacturing and service environments, it is therefore inappropriate to treat overhead costs as fixed period costs, and indirect costs should be charged to products or services in a more meaningful way.

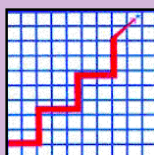
POINTS TO REMEMBER

In many manufacturing and service environments, it is inappropriate to treat overhead costs as fixed period costs, and indirect costs should be charged to products or services in a more meaningful way.

- Concepts and assumptions in activity-based costing

Activity-based costing (ABC) is an alternative approach to product costing. It is a form of absorption costing, but its approach is to link overhead costs to the products or services that cause them by absorbing overhead costs on the basis of activities that 'drive' costs (cost drivers) rather than on the basis of production volume.

To be continued in next edition in Issue



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MAFA/Strategic Financial
Management

Mr. L. Muralidharan

From 5-8-2009: Mon. Wed. Fri. : 6.00 am to 8.30 am
Sun. : 6.00 am to 9.30 am

Cost Management/
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From 27-7-2009: Mon. Wed. Fri. Sun.: 5.30 pm to 8.30 pm

FEES STRUCTURE

CA - FINAL

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CLASS VENUE

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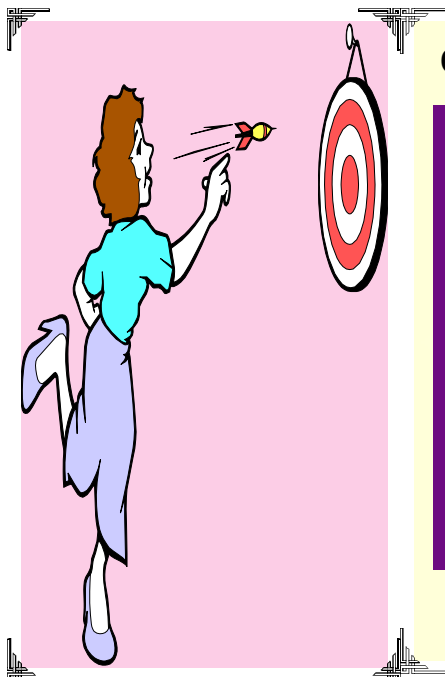
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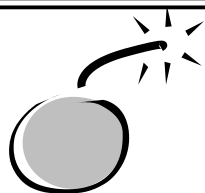
Question: Describe briefly: Touch Screen

Answer:

It is used in information providing systems. It consists of a screen which is lined with light emitting devices on its vertical sides and photo-detectors are placed on the horizontal sides. When the user's finger approaches the screen, the light beam is broken and is detected by the photo detectors. It is more effect than the mouse.

This weeks Question: Describe briefly: Boot record

Send your queries and suggestions to : joinsreeram@gmail.com



J o k e s

In bio practical:

Examiner: Tell me the name of this bird by seeing its legs only?

Vardan: I don't know.

Examiner: You r failed, what's your name?

Vardan: See my legs & tell my name

==oo00oo==

2 sardars were fixing a bomb in a car.

Nard 1: What would you do if the bomb explodes while fixing.

Nard 2: Dont worry, I have one more.

==oo00oo==

GUNDA: What is the name of your car?

Lady: I forgot the name, but is starts with 'T'.

GUNDA: Oh, what a strange car, starts with Tea.

All cars that I know start with petrol

==oo00oo==

At the scene of an accident a man was crying: O God! I have lost my hand, oh!

pedda gunda: Control yourself. Don't cry. See that man. He has lost his head.

Is he crying?

==oo00oo==

In an interview, Interviewer: How does an electric motor run?

Das: Dhhuuuurrrrrrrrrr.

Inteviwewr shouts: Stop it.

Das: Dhhuurrrr dhup dhup dhup...

==oo00oo==

PIG: U cheated me.

Shopkeeper: No, I sold a good radio to u.

PIG: Radio label shows Made in Japan but radio says this is 'All India Radio!

==oo00oo==

Naidu was busy removing a

wheel from his auto. A man asks sardar why are you removing a wheel from your auto.

Naidu : Cant you read the board. Parking is only for 2 wheeler.

==oo00oo==

Bandi got into a bus on 1st April when conductor asked for ticket. He gave Rs.10/- and took the ticket and said April fool. I have pass.

==oo00oo==

On a romantic day Goda's girlfriend asks him. Darling on our engagement day will you give me a ring.

Goda : Ya sure, from landline or mobile.

==oo00oo==

Doctor to patient : You will die within 2 hours. Do you want to see any one before you die?

Patient : Yes. A good doctor.