

Editorial

Dear Readers,



The world slipped in to recession, making the impact to be felt even by common man. The signs of recovery have started to come and by the future of 2009 the world would slowly move away from recession, the new cycle of economic progress is expected to bring cheer and hope for all.

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

Designed by: Mr. G. Natarajan



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Class Details
refer
Pages: 3 & 4**

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Activity Based Costing

Continued from Previous Issue

The concepts or assumptions underlying ABC are:

- In the long run, all overhead costs are variable. Some overheads are variable in the short run. However, overhead costs do not necessarily vary with production volume or service level.
- Products, services and other cost objects consume activities.
- Activities consume resources.
- The consumption of resources drives cost.

Products incur overhead costs because of the activities that go into providing the products or services, and these activities are not necessarily related to the volumes of the product that are manufactured. Direct labour hours and machine hours are not the main drivers of cost in many modern business environments.

Understanding the relationship between overhead costs, activities and products (or services) is essential for managing overhead costs and product or service profitability.

Points to Remember

Direct labour hours and machine hours are not the main drivers of cost in many modern business environments.

When is ABC relevant?

Activity-based costing could provide much more meaningful information about product costs and profits when:

- indirect costs are high relative to direct costs
- products or services are complex
- products or services are tailored to customer specifications
- some products or services are sold in large numbers but others are sold in small numbers.

In these situations, ABC will often result in significantly different product or service overhead costs, compared with traditional absorption costing.

The steps in activity-based costing

There are five basic steps in establishing and applying a system of activity-based costing.

Step 1

Identify activities that consume resources and incur overhead costs.

Step 2

Allocate overhead costs to the activities that incur them. In this way, each identified activity becomes a cost pool for overhead costs. It is important that overhead costs should be directly allocated to a cost pool. There should not be any arbitrary apportionment of overhead costs.

Step 3

Determine the cost driver for each activity or cost pool.

Step 4

Collect data about actual activity for the cost driver in each cost pool.

Step 5

Calculate the overhead cost of products or services. This is done by calculating on overhead cost per unit of the cost driver (a cost per unit of activity). Overhead costs are then charged to products or services on the basis of activities used for each product or service.

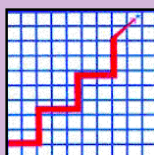
DEFINITIONS

A cost pool is an activity that consumes resources and for which overhead costs are identified and allocated. For each cost pool, there should be a cost driver.

A cost driver is a unit of activity that consumes resources. The CIMA official Terminology defines a cost driver as a: 'factor influencing the level of cost'.

A cost pool is an activity that consumes resources and for which overhead costs are identified and allocated. A cost driver is a factor influencing the level of cost.

To be continued in next edition in next issue



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CA Final - Nov./Dec. 2009 Examination

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Mr. L. Muralidharan

From 13-8-2009: Tue. Thur. Sat. : 6.00 am to 8.30 am
Sat. : 2.30 pm to 5.30 pm

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/
Advanced Management
Accounting

Mr. L. Muralidharan

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

FEES STRUCTURE

CA - FINAL

One Subject	Rs. 5,500
Two Subjects	Rs. 8,000
Three Subjects	Rs. 9,500

CLASS VENUE

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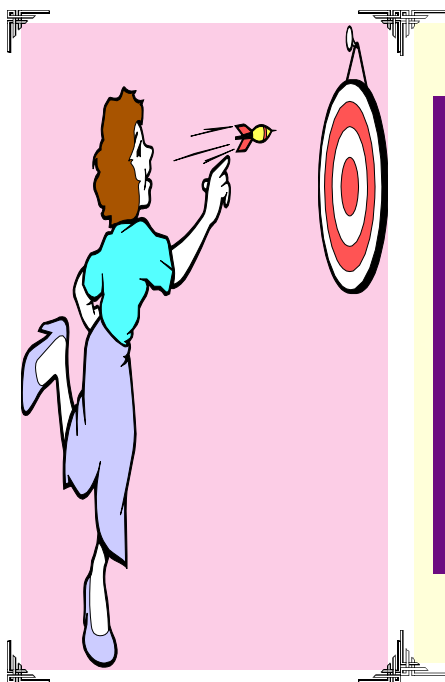
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Dart Board

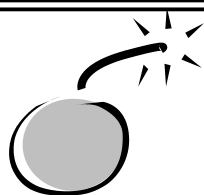


Last weeks Question: Describe briefly: Boot record

Booting is a process that starts operating systems when the user turns on a computer system. Boot record is a small program that runs when the computer is started. The Boot record program checks the basic component and the files of the operating system which is used to run the system successfully.

This Weeks Question: Describe briefly: Spooling Software

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



J o k e s

TEACHER: What is the chemical formula for water?

PAPPU : "HIJKLMNO ! ""

TEACHER : What are you talking about?

PAPPU : Yesterday you said it's H to O !

==oo00oo==

TEACHER : PAPPU, go to the map and find North America.

PAPPU : Here it is!

TEACHER : Correct. Now, class, who discovered America?

CLASS : PAPPU!

==oo00oo==

TEACHER : PAPPU, how do you spell "crocodile"?

PAPPU : "K-R-O-K-O-D- A-I-L"

TEACHER : No, that's wrong

PAPPU : Maybe it's wrong, but you asked me how I spell it!

==oo00oo==

TEACHER : PAPPU, give me a sentence starting with "I".

PAPPU : I is...

TEACHER : No, PAPPU. Always say, "I am."

PAPPU : All right... "I am the ninth letter of the alphabet."

==oo00oo==

TEACHER : "Can anybody give an example of "COINCIDENCE?"

PAPPU : "Sir, my Mother and Father got married on the same day, same time."

==oo00oo==

TEACHER: "George Washington not only chopped

down his father's Cherry tree, but also admitted doing it. Now do you know why his father didn't punish him?"

PAPPU : "Because George still had the axe in his hand?"

==oo00oo==

PAPPU : Daddy, have you ever been to Egypt?

FATHER : No. Why do you ask that?

PAPPU: Well, where did you get THIS mummy then?

==oo00oo==

TEACHER : What a pair of strange socks you are wearing, one is green and one is blue with red spots !

PAPPU: Yes it's really strange. I've got another pair just like that at home.

==oo00oo==