

ABC Costing

ABC - (1)

- all OH costs are absorbed directly on products using a cost driver rate whereas as per traditional it is based on one factor.

Types of activities

Unit	Batch	Product	Facility
volume related (labour, material)	vary with batch (set up, mat, inspection)	design adv	support func (security, general OH maintenance)

Steps for ABC

- Identify all major activities. (group homogenous act)
- Find the total cost of each activity
- Identify the cost driver. (driver: which causes the cost to be incurred)
- Absorb cost on basis of cost driver rate.

$$CDR = \frac{\sum \text{cost}}{\sum \text{driver (factor)}}$$

- Find total product cost.
Product cost = DM + DL + OH.

Formats

(i) Profit statement as per traditional

Per	A	B	C
DM			
DL			
OH = either on unit / labour hour.			
T.C. x units			
T.C.			

(ii) Profit statement as per ABC.

Per	A	B	C
DM			
DL			
OH = based on CDR (WNI)			
T.C. x units			
T.C.			

ABC cost > traditional: undercost.
also find by how much ↑

WNI: CDR - OH

(a) CDR:

activity cost driver CDR

(b) OH

Per	A	B	C
1) act @ CDR			
2)			
3)			
T.OH ÷ units			
cost p.u.			

set up: prodⁿ run

Packing: delivery

engineering: order.

machine intensive = machines
labour intensive = labour
traditional (**)

- Be careful for finding cost of each activity.

[maint - A & B] - technician cost - 30% maint 70% to C]



- Be careful cost = time (design cost - full year)
if cost stmt per quarter - cost also per quarter.

- Production runs:

Gross prod ⁿ run	2520
- defective run	(20)
good runs	2500
Sales/good runs	25000/2500
* = units per run	10

$$T. \text{ prime cost} = \text{cost} \times \text{gross prodⁿ run} \times \frac{\text{units per run}}{\text{units per run}}$$

if inspection based on prodⁿ run.

$$\sum \text{driver} = \sum \text{insp hrs per run} \times \text{units per run}$$

- List price ≠ actual price (diff is discount)