

A Study on Activity Based Costing on KTM Motor Cycles

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Abstract- Activity-based Costing (ABC) is a powerful tool for the an organization to have an accurate and effective cost for its product avoiding cost distortion that may lead sustainable development and growth which is mandatory to be competitive in the era of globalization and complex business environment. The article contains some brief description of international journals on ABC. Author has tried to bring up the main essence of these journals. The mentioned journals cover a wide range of topics from theoretical aspects of ABC to its application. Author has discussed some specific cases in different countries. Some of our journals highlight the impact of ABC on the European firms where as some other has tried to discuss the American context of ABC. Analysis contains some data on the ktm motor cycles Ltd. which maintains the ABC. We have tried to analyze how successful the company is in implementing ABC. In the analysis of journals, author focused on different era of business like service sector, technology business, manufacturing sector and many more. Implementing ABC in these different sectors is a little bit different. ABC has to be implemented considering the characteristics of that sector. In total ABC has been proved to be successful for almost all the sectors. There have been some modifications in ABC also. Some other concepts have also been discussed here like theory of constraints, time driven ABC and many more.

Keywords- ABC, management accounting, manufacturing sector, time driven ABC.

I. INTRODUCTION

Management accounting is well recognized as a tool to assist managers to make decisions, formulate plans and operate controls. Dynamic changes in business environment and vigorous global competition rectified some shortcomings of traditional management accounting system (MAS) in terms of validity, completeness, consistency, relevance and understanding creating a demand for modern management accounting tools such as Activity based Management, Activity based Costing, Activity based Budgeting, Benchmarking, Balance scorecard, Total Quality Management etc. Activity-based costing (ABC) was developed and has been advocated as a means of overcoming the systematic distortions of

traditional cost accounting and for bringing relevance back to managerial accounting. A traditional system reports what money is spent on and by whom, but fails to report the cost of activities and processes (Miller 1996). Many organizations in the manufacturing industry have adopted the new costing method. Aranoff et al (1998) said that there are two purposes of activity-based costing. The first purpose is to prevent cost distortion. Cost distortion occurs because traditional costing combines all indirect costs into a single cost pool. Cost distortion is prevented in ABC by adopting multiple cost pools (activities) and cost drivers. The second purpose is to minimize waste or non-value-adding activities by providing a process view. Activity Based Costing is motivated by a belief that traditional (general ledger) accounting information is all but useless to managers who are interested in evaluating the effectiveness of resource allocation decisions in their companies. This traditional information is geared instead toward satisfying auditors or other outsiders who are interested in some evidence of financial accountability.

II. ADVANTAGES OF ABC SYSTEM:

The growing industrial complexity and product diversity have made the emergence of ABC system for growing firms. As a powerful tool for decision making purpose, the major advantages of ABC systems are discussed bellow:

1. ABC increased operational performance by allocating overhead costs based on the actual consumption of the resources by each activity.
2. ABC recognizes the interdependencies of cost drivers to activities.
3. It enables the management to see where the most important costs occur as well as what provides them.
4. Decisions about improving pricing, marketing, product designing and product mix can be made more efficiently by implementing an ABC system.
5. ABC system is the suitable method for correct and accurate information.
6. Redeploying a resource from a non value-added to a value-added activity.

7. By identifying the weak product lines and accurate costs, ABC helps to increase organizational efficiency and profitability.
8. Completely eliminating a non value-adding activity ABC can takeout costs.
9. Identifying and correcting an error that was not budgeted for correcting an error that was not budgeted for correction but would have caused an expense had it not been corrected.

III. DISADVANTAGES OF ABC:

1. ABC system is more costly to maintain than a traditional costing system.
2. The implementation process of ABC system is very complex for managers to understand and it produces numerous data, activity measures and requires collecting, checking process etc.
3. Because of complexity of the process the decision making process becomes lengthy.
4. Resistances from the management as managers are accustomed to using traditional costing systems to run their operations.
5. ABC data can easily be misinterpreted as there are huge amount of irrelevant data.

IV. METHODS OF COSTING

1. Specific order costing

It defines specific order costing as “the basic costing method applicable where the work consists of separate contracts, job or batches, each of which is authorised by a special order or contract”.

a) Job costing :

Job costing is taken to be a job or work for which costs are separately collected and computed. A job is prepared for the purpose of cost accumulation, furniture made, repairs undertaken, printing etc., are examples where job costing is used

b) Contract costing:

Contract costing is very identical to job costing that is applied to a job which is relatively to a long duration and required to executed on the sites contract costing normally has higher proportion of direct costs.

c) Batch costing :-

This method is applicable where quantity of identical articles is manufactured as batch, the procedure batch costing is very similar to that of job costing. The batch itself would be treated as job and the job become the cost unit

2. Continuous Process:-

The ICMA defines continuous processing as “the basic costing method applicable where goods or services results from a sequence of continuous or repetitive operations or processes to which costs are charged before being averaged over the units produced during the period”. The goods or services produced are standardized. It includes process costing including for joint products and by products, operating in services costing and unit or output costing

a) Process costing:-

this is used in mass production industries manufacturing standardized products in continuous processes of manufacturing. Costs are accumulated for each process or department. For spinning mills process costing is employed. Accurate records are maintained for number of finished goods and unfinished goods (work in progress) normal and abnormal loss at each process etc. As the processes are in a sequence, the output of one process is charged as input for the next process.

b) Unit or Output Costing

It is a costing method where organization produces only single product. Consequently, the whole production process is geared to the one product and is frequently highly mechanized. The object of this method is to ascertain the total cost and the cost per unit of output. Cement, mines, quarries, dairies, bricks etc are example of industries using this method. It is also called Single Costing.

V. CONCLUSION

Activity-based costing has already come up as a new generation concept in trade and commerce. It has changed the traditional view of cost and management accounting. It measures cost more accurately than other volume based cost system. As more accurate overhead cost allocations lead to fewer distortions, it acts as a performance evaluation tool. The system introduced some burning issues like ABM, balance score card, bench marking, TQM as performance evaluation tool. By using segment reporting and relevant costing in conjunction with ABC system unprofitable product line or department can be dropped.

REFERENCES

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