

REVIEWING ABC FOR EFFECTIVE MANAGERIAL AND FINANCIAL ACCOUNTING DECISION MAKING IN CORPORATE ENTITIES

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ABSTRACT

The traditional product-costing system failed to show that the low-volume products were driving more than their share of overhead costs. As a result of these misleading costs, the company's management was mispricing its products. An activity-based costing system is a two-stage process of assigning costs to products. In stage one, activity-cost pools are established. In stage two a cost driver is identified for each activity-cost pool. Then the costs in each pool are assigned to each product line in proportion to the amount of the cost driver consumed by each product line. Henceforth, To examine ABC validity we have studied literature for effective decision making in international context.

Key words : Activity Based Costing, Implementation, Managerial Accounting, Financial Accounting, Decision Making.

METHODOLOGY AND OBJECTIVES OF RESEARCH ANALYSIS

To examine ABC for Managerial and Financial decision making ,we have studied and Reviewed the available Literature and research paper in specific region in relation with 'Activity-Based Costing'. Particularly, on innovation or passing fad, behavioral cost initiatives and Managerial and Financial decision making.

As an objective of research we predetermined following objectives:

- " To examine activity costing in present context of corporate entity.
- " To Critically analyzing behavioral cost initiatives with reference to industry.
- " To observe Issues to address before for Managerial and Financial Accounting decision making in entities.

INTRODUCTION AND IMPLEMENTATION OF ABC A CRITICAL ANALYSIS

Khalid, (2005), says the three reasons for undertaking the study include assessing the seriousness of Saudi Arabian companies in adopting management tools such as activity based costing (ABC), finding out if Saudi companies also suffer from the low diffusion process of ABC in developing countries, and countering the scarcity of studies on management innovations adopted by Saudi companies.

The thrust is not uncommon. Indeed recent research evaluates the German cost accounting to see how it has evolved (Sharman & Vikas 2004) and the trend of ABC adoption in Ireland (Clarke & Mullins 2001).

The theme agrees with the title of the article although apart from creating awareness, the educational significance seems low.

This is important for management accounting as it has also been recognized that ABC is not being widely adopted (Sharman 2003, Clarke & Mullins 2001).

The author's strategy for the study is simple and within his capabilities and resources in the environment he chose to work in.

ABC AND MANAGERIAL ACCOUNTING DECISION MAKING

Obviously, the need for ABC to be clearly communicated to employees. To run successfully, the system needs to be understood and accepted by its users, the employees. Given the literature, it is important for management to clarify on the potential impact of ABC on product cost; hence the information has to be communicated to all personnel impacted by ABC. Further, a benefit of developing incentives for employees to encourage the use of ABC information to improve product design and processes. The management holds the responsibility to have long-term focus, clearly defined and justified objectives, committed and having clear plans of how to use the ABC data. The system needs a champion, steering committee and adequate resources with sufficient knowledge to ensure its usefulness. Pierce (2004) highlights the importance of a well-informed champion who is capable of making preliminary judgments on the likely benefit of ABC implementation before significant funds are committed.

People resist changes that question their current practices and suspect changes that directly impact their performance (Tatikonda, 2005).

The management owes their (crucial) deep understanding of what is a profitable business and what drives cost, to their employees (Barrett, 2004). The managerial issue exists because it is management's responsibility to direct and link performance management and the costing system towards strategic direction, for instance economic value creation (Stenzels, 2004). Performance management plays a variety of roles including strategic planning, budgeting, and forecasting, reporting and analyzing data to further support business needs (Stenzels, 2004).. ABC will only move if people are willing and ready to work with the new system (Tatikonda, 2005) besides understanding how the cost system relates and benefits the entire organization.

Cokins (2005) finds that driver selection is of utmost importance because it significantly impact data integrity, and decisions made thereafter. This indicates that the system does not fit to all industry. Pierce (2004) highlights that ABC would not be beneficial for companies having high proportion of costs, which are considered, fix. Also, producers of a single product or a small group of relatively homogenous products would not benefit the ABC as well (Pierce, 2004). Each company has its own unique requirement of the ABC system; therefore developing in-house Cokins (2005) introduces the SAS, a computing system capable of handling large amount of data faster. The software is equipped with extraction, transform and loading application, also sophisticated reporting and visualization viewing techniques. Barrett (2004) proposes the work management tool, which

allows administrator to design, schedule, and monitor repetitive, processes and e-mail alerts to users as reminders. ABC and Financial Accounting Decision Making:

Towards financial issues with regard to implementing ABC, obviously, the implementation of ABC could contribute both tangible and intangible costs to the company. Tangible costs would be on designing, training and implementing the system. Intangible costs could include employees' morale and political fallout. A survey conducted by Pierce (2004) reveals that financial issue remains an important indicator for users who are in the stage of considering implementing ABC. This is because the companies are unconvinced that the likely benefits would outweigh the cost of implementation. Even though the pre-implementation stage requires an amount of investment, Kren et. al (2004) mentions that the objective ABC is meant to control the cost of activities and this draws management's attention towards the work itself, unlike traditional cost systems which directs towards workers. The data analysis contributed by the system is capable of supporting a company's financial stand in the long run. For instance, by eliminating non-value added activities from core activities, certain cost is certainly reduced besides having tasks re-engineered to better suit the company's operating condition. This includes having more related tasks to be done by a worker instead of a few. The primary objective of having an ABC in place - to provide accurate product cost information. Users of ABC have to be aware of the potentials and benefits of the system. ABC has the ability to support better planning and to support profitability analysis (Barrett, 2004), however future users have to consider the amount of responsibility and both tangible and intangible investment with regards to implementing it. Significant impact of implementation towards the organization is also important because ABC does not work in all conditions.

CONCLUDING REMARKS

It shows that companies are considering adopting the ABC as their costing system because it could improve their understanding on how costs behave. Therefore, ABC has the potential of assisting towards better performance reporting which encompass profitability analysis, enhanced contribution to decision-making, value added analysis besides supporting towards the company's strategic issues.

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