

Activity Based Costing and Lean Accounting

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Outline

- What is Activity Based Costing?
- Cost Accounting Systems
- Traditional Cost Systems
- Activity Based Costing
- Implementing ABC
- Benefits & Limitations of ABC
- Lean Accounting

What is Cost Accounting?

- Cost Accounting involves the measuring, recording, and reporting of product costs
- Both the total cost and the unit cost of products are determined

Objective of Cost Systems

- To provide product unit cost information for product pricing, cost control, inventory valuation, and financial statement presentation

What Does A Cost System Do?

- ***Object of product costing is to:***
 - provide inventory costs for external reporting
 - show consumption of resources (costs) caused by things the firm makes for decision making

What Does A Cost System Do?

- Object of product costing is to do what?
 - To provide inventory costs for external reporting
 - To show consumption of resources (costs) by things the firm does (actions, choices)
- ***Which method does that "best"?***
 - One that does not result in material errors in external reporting
 - One that tracks ***significant*** costs accurately to products or services ***as needed for decision making.***

Is Better Cost Allocation the Answer to Process Improvement?

- One way to improve allocation is to use ABC (*activity based costing*)
- This increases the number of cost pools used and allows the use of *non unit based cost drivers* as well as unit based ones

Is Better Cost Allocation the Answer to Process Improvement?

- An alternative approach to improved allocation through ABC is to do away with the problem (ABM or **activity based management**).
 - Conduct an ABC analysis.
 - Eliminate non value added activities.
 - Convert significant indirect costs into direct costs.
 - Simplify the product design and manufacturing processes.
 - Conduct another ABC analysis....

Cost Accounting Systems

- Job Order Cost System
- Process Cost System