

# Cooperative bussiness student report (accounting) assignment



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As a result the bank became profitable in 1995 and it steadily increased the return of investment since then. Moving into the Shari'ah-compliant banking was a preliminary point for BAJ and it led to the outstanding growths in the past five years. BAJ has achieved progressive growth, which was mainly due to its continuing efforts to improve. BAJ is becoming a premier bank in Saudi Arabia that provides high-net-worth individuals and large institutions with innovative banking solutions that are compliant with the Islamic Shari'ah in an exclusive ambience. . 1Location of the Bank The head office is located in Jeddah, Saudi Arabia. Originally part of the overseas branch network of the

National Bank of Pakistan (NBP), BAJ Was founded in 1976 by Saudi investors (65%) and NBP (35%). It was the first joint venture Bank in the kingdom, formed to comply with the requirement all banks have at least a 60% Saudi shareholding. Subsequent increase in capital in 1992 and 1994 came entirely from the Saudi shareholders, with the result that the NBP shareholding has been significantly diluted.

BAJ is one of the 12 banks in the kingdom and has recently completed the conversion of business model from conventional to Shari'ah Compliant banking. It comprises three principal business lines –Personal Banking, Corporate Banking and investment – and operates through a network of over 28 branches (2005-21) and 12 ladies section located in the major cities in the kingdom. The ATM network now stands at 307 (2005-67). Headcount currently totals 1, 974 up from 1, 088 at the end of 2005. 2 Types of services/products given

The BAJ provides many services to companies and people This list will include all and the most popular services that BAJ provides: 1 Personal Banking 1-AL-jazira Maysara Visa Card BAJ has launched its visa card in response to increased demands for Islamic solutions in the banking sector. The card conforms to the principles of Islamic law, and offers a number of benefits to our clientele, thus making it very simple and user-friendly. The card is accepted worldwide by over 32 million companies in the retail, manufacturing and service industry, as well as by other banks.

The visa card allows you to easily withdraw Cash from over 1, 000, 000 cash machines all over the world. Applying for a visa card has never been this

easy. All that is required is for you to go through few straightforward procedures, all at very affordable and competitive price.

2-Telephone Banking BAJ provides clients with the opportunity to gain access to their account 24 hours a day. It doesn't matter where they are – they don't have to leave their office or their home! Through the bank telephone services you can find out about your financial activities while retaining their privacy. –

Cash Transfer BAJ branches in the Kingdom offer fast cash transfers to all countries of the world, and for all main currencies. Transferring money outside of the Kingdom is done through our Swift services, which are considered the fastest in the world. Transferring money to the Kingdom however, is done through our Sariy services, which are also renowned for their speed and reliability. BAJ customers can therefore transfer money to any other bank in the kingdom and have the amount deducted from their account. Our customers can also use our credit cards to make whatever payments necessary. –

Safety Deposits Many of their branches have safety deposits for clients to keep their precious belongings, such As your gold, jewelry, and important contracts. Our safety deposits come in three sizes, depending on their needs, and are available to their while maintaining their privacy.

5- Current Account Having a current account with BAJ is the best way of conducting their financial activities with ease, allowing clients to make their payments without carrying large sums of money with clients Here are some of the advantages of opening a current account with us: They can either open their account using Saudi Riyals, or using any other of the main currencies.

- They can carry out their activities from any of our branches in the Kingdom.
- They will receive a Bank Al-Jazira debit card.
- They will receive a check book.
- They will be able to benefit from our information

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services to pay for their utility bills. • They will regularly receive by mail a detailed invoice informing you of their account activities. 6- 24 hour Banking BAJ has set up a number of cash machines in all of its branches, enabling clients to take advantage of Their financial services in complete privacy.

Because they comfort is their prime concern, they will always find air conditioning by all their cash points. BAJ cash machines allow clients to benefit from a number of their services. their clients can take out Both Saudi Riyals and American dollars, pay for their utility bills, check their account balance, get an invoice of their account activities, find out about transfers from one account to another, order check books and also find out the price of foreign currencies. BAJ debit card is thus their key to benefit from their banking services 24 hours a day, seven days a week. heir cash machines and point of sale machines are part of the Saudi Banking Network (SBAN) and are located all over the Kingdom and the GCC (Gulf Co-operation Council). You can also customize certain aspects of your debit card to make it more suitable to clients needs. 2 Business Banking At BAJ an environment is maintained where the needs of the customer come first Based on this concept of relationship management a dedicated team of relationship. Managers and officers are assigned to serve the customer and introduce them to the banks range of products and services.

The relationship manger or officer is the primary contact with the client for all of these BAJ products and services The relationship manager or officer is the primary contact with the client for all of these BAJ products and services.

The responsibility of the managers and officers is to target and serve our clients in accordance with the business segment of our marketing strategy.  
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The primary business segments are large corporations with annual sales of SAR 200 million and mid market business groups with annual sales SAR 50 million to SAR 200 million.

Corporate banking group has been responding to the different needs of all our customers by offering specialized lending and financial solution services. Aware of the changing financial environment, both in product diversification and the increasing sophistication of the customer, the group offers a range of services including Islamic Instruments, Conventional Lending, Trade Financing and other financial services such : 1-Corporate and Commercial Financing : BAJ has demonstrated its ability to offer unique services and appropriate financial solutions through its understanding of both business operations and banking services.

The bank has provided excellent services though its corporate and commercial banking division to both corporate and financial institutions. This has been achieved in the past few years through the following products and services: • Accounts Services • Financing Specific Projects • Trade Finance • Financing Exports • Foreign Exchange Services • Asset Finance Management 2-Financial Institutions & Syndicated Loans In today's world, financial institutions are moving at a fast pace. Commercial transactions and financial transfers have to be completed with ease, efficiency and speed.

BAJ has kept pace with the constant changes in the international markets in order to provide up-to-date professional and efficient services to its customers through the following policies: Proficiency: Advanced automation ensures continuation of services without interruption. Rapid Response: The

Central Processing Unit ensures timely execution of payments as well as prompt responses to all inquiries. Personal Services: The volume of our business transactions helps us to tailor quality services that are suitable to our customers' needs and their business requirements.

Available Resources: Focused utilization of the bank's resources enables us to offer services to our clients at highly competitive prices. Centralization and Efficiency: All financial transactions sent by correspondence such as letters of credit, letters of guarantee, credit notes, transfers, payment orders, and foreign accounts, are centralized at the bank's head office to improve efficiency and avoid duplication BAJ: is your dependable partner for all your commercial transactions in the Kingdom of Saudi Arabia. Products and Services offered by their Financial Institutions: External Account Services • Account Support Services • Account Inquiries • Payment Services • Payment Hold Notification • Transfer Notification • Commercial Services • Miscellaneous Services 3-Trade finance BAJ offers a wide range of trade finance services that can be tailored to meet the different needs of both buyers and sellers, and importers and exporters. They range of resources and level of expertise in the various trading sectors enables us to offer unrivaled services to all their customers, whether they are manufacturers, traders, suppliers, importers or exporters.

BAJ also offers traditional financing services such as documentary credits, bills for collection, bills of lading and letters of guarantee. The bank has expanded its role in financial transactions, and supports exports by offering insurance services . To continually meet the needs of their valued

customers, their services are offered with the bank acting as the agent for <https://assignbuster.com/cooperative-bussiness-student-report-accounting-assignment/>

the Inter-Arab Investment Guarantee Corporation, the Islamic. Corporation for the Insurance of Financial Transfers, and the Arab Trade Financing Program.

Furthermore their products and services comply with Islamic Law in all areas, such as Murabaha, Mishawaka, Moradabad and Ijara , Iqtina; these are just a few examples of the different financial services available that strictly adhere to Islamic regulations. All of the above enable us to play a key role in trade finance. Products and Services used for Trade Finance: • Export Letters of Credit • Import Letters of Credit • Letters of Guarantee • Bills for Collection • Other Services for Letters of Credit • Methods of Finance • Trade Finance Services • Contact us 4-Treasury

The products and services offered by the treasury within the bank are fully compliant with Islamic law The treasury division management team has adopted the policies and overall direction of the bank in offering products and services that meet personal and corporate requirements, while at the same time agreeing with Islamic law. The treasury division applies world class standards in improving its products and services by following key principles: • Customer requirements. • Limiting the risk level or selecting a level of risk that is accepted by the client. • Product realization or return on a service with a given surplus. Meeting the requirements of other departments within the bank. Products and Services: • Naqaa – integrity and transparency. • Savings programs. • Foreign exchange and fund transfers. • Combined Products. • Long term naqaa. Islamic – Mudaraba: The Bank acts as agent on behalf of the client to invest funds. Islamic Funding Services :

Financing principles Their fundamental belief is that Islamic law is suitable  
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for all times – and they understand that Their customers are looking for modern and up-to-date financing that is agreeable with Islamic law The bank therefore offers a number of Islamic products and services for your finances.

The bank is proud to be a leader in providing funding for the local stock exchange using murabaha. We at BAJ believe that our customers are key for continually improving our services for their benefit, and to enrich our vast experience in Islamic banking. We offer a full range of products and services which satisfy our customers' financing needs and requirements. These include: Murabaha for Purchasing This is the most commonly used service for funding the purchase of both local and overseas products in addition to the purchase of shares.

It is based on the delayed purchase of goods, as allowed by Islamic law. This is done upon the intermediation of the bank as it purchases a commodity through deferred payments at the request of the client. Murabaha is based on a price equivalent to the total cost of the purchase, plus a fixed profit (markup) agreed upon by both the bank and the client. Murabaha can be used in the following ways: 1. Funding regional and international banking activities. 2. Funding local purchases. 3. Personal investments aimed at satisfying individual needs such as the purchase of goods and property. 4.

Funding the Tamam Program. The latter is designed for the purchase of shares through murabaha, whereby the bank purchases the shares then sells them to the customer through delayed payments. All of this happens in a relatively short period of time. Ijara The bank owns high cost assets and assets that deal with rapidly changing technology. After purchasing these

assets, the bank then rents them to the customer, giving him an option to either purchase them during the rent period, or after its completion. It is the most efficient and flexible way to utilize high cost assets and technology related products.

**Musharaka** The bank owns high cost assets and assets that deal with rapidly changing technology. After purchasing these assets, the bank then rents them to the customer, giving him an option to either purchase them during the rent period, or after its completion. It is the most efficient and flexible way to utilize high cost assets and technology related products. **Mudaraba** A profit partnership agreement between the bank and the customer, whereby the bank provides complete funding, and the customer manages the business in return for a percentage of the profits provided there are no losses. The basis of this is good management and a solid business plan. **Iqtinaa** An agreement suited for construction projects, whereby the bank signs an agreement with the client for the construction of a site, building, or bridge, and then signs another agreement with the construction company responsible for the development plan. The bank has a total and direct responsibility to the client. **Contract-based Funding:** BAJ developed a modern program called “ Dinar”, which is an alternative to lending and is compliant with Islamic law.

The bank sells a product to the client through delayed payments. Afterwards, the client instructs the bank to sell the product in either the local or international markets at a fair price. The funds generated from the sale are then deposited in the client’s account. All of the above are executed in a short period of time and at low costs.

2. 2. 3 Investment Banking BAJ  
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investment and asset management committees allow clients to save through particular investment funds and consultations, and this is done in a manner that is in agreement with the principles of Islamic law.

If the clients wish to receive professional, specialized and comprehensive assistance regarding their investments, taking into consideration their personal needs and what you own of assets and resources, then the bank's investment committee can help the clients. They have the expertise, the right contacts, and access to specialized world resources that enable us to provide you, at all times, with the proper and thorough support for the clients to take the right investment decision. Trust security and performance are the cornerstones of successful investments.

By signing the asset management's agreement with BAJ, they will provide clients with a simple, practical and unique way to manage their investments with very few risks. The bank's well rooted investment policies aim to increase the value of their investment assets over a medium and long-term time frame. This initially takes place with the bank studying their financial situation and personal needs, and then determining their capabilities in succumbing losses. We then consult and work with you to determine your investment goals, and we focus these into a sound and distinctive financial assets and investment strategy.

Their staff will at all times follow up and look after their investments by using the latest means of communication and most up-to-date research facilities – the latter only being available worldwide to professional financial analysts. Once the clients decide how they want to invest their money in BAJ

investment funds, all of which comply with Islamic law, they can then make their choice by selecting from a number of different investment funds. 1-

#### Financial Asset Management

BAJ team of professional investors, working in stock and financial management, provide clients with the right advice to determine a specific strategy for all their investments. This is done after an intensive and detailed study which takes into consideration many factors, and subsequently becomes the basis of a special dossier that suits the investor's goals and aspirations. 2-Investment Funds The investment funds – all of which comply with the decrees of Islamic law – provide individual investors and organizations with the opportunity to benefit and gain from the experience and expertise of the finest professional investors in the world.

Such exposure therefore means excelling in the field of investment, as well as taking advantage of the right opportunities that may come along. 3-Islamic Investments Investment Funds BAJ offers a number of investment funds that comply with the decrees of Islamic law, While at the same time answering our customers' needs. The investment funds listed below provide you with the opportunity to invest in both regional and international markets, as well as providing clients with a number of options in assessing risk levels, profit margins and swift liquidation (cash on-hand).

BAJ also has set up a program called naqaa which offers an Islamic alternative to delayed payments. The client buys commodities from the international markets which are then bought by the bank, and these are eventually purchased by the client through murabaha. This is done at set

periods which are appropriate to the client. 4-The Local Stock Exchange BAJ has set up a complete network of stock trading facilities throughout the Kingdom that also include sections for women. In addition to giving traders the opportunity to buy and sell, the network provides information on local stocks through automated means that have now been well established.

Our clients in all our branches go about their business in the local stock exchange in a swift and direct manner using our automated 'TADAWUL' system. In all their branches and offices clients will find trained and qualified personnel with wide Ranging experience. 4 Electronic Service 1-AL jazira Online Now with Aljazira Online clients will not wait for their statement to arrive in the mail. View and track their accounts anytime. Transfer money fast to other accounts, internally or worldwide. When they are on the move, receive account alerts on your mobile device.

View their credit card account activity, the clients pay bill online and more. Save time and postage when clients pay bills online. It is fast, easy, and secure. 2-Al jazira SMS With Aljazira SMS Banking you could pleasantly enjoy your banking transaction such as Account Summery, fund transfer, bill payments, and any other banking transactions, just as easy as you type Your daily SMS and send it to 77770. Benefits of the service: • Easy and Flexible • More Efficient • Available to all mobile phones • Secure 3-Al jazira Mobile

Mobile Banking from BAJ offers clients the flexibility to stay on top of their banking needs while their on the move. Mobile Banking is a site that is easily accessible from their mobile phone, so access to their financial accounts is always just a few clicks away. With Mobile Banking, clients can : • Checking

their balances. • Account Summary. • Bills List • Paying Bills • Al Jazira Credit Card Summary. • Review their Transaction History 4-Al Jazira Phone Banking BAJ provides clients with the opportunity to gain access to their accounts 24 hours a day.

It doesn't matter where they are – they don't have to leave their office or their home. Through our telephone services the clients can find out about their financial activities while retaining their privacy. 3 Mission statement and aim of the BAJ To implement and ensure that adequate cost effective security controls are enforced to comply with the bank policy and procedures while acting in the interest holder of business, shareholders, employees and customer. The Bank Organizational Chart appears in Exhibit (1) Exhibit-1

ALM : Assist Liabilities Management PBG : Personal Banking Group CBG : Corporate Banking Group F. C : Financial Control 6 Personnel of the company At year-end 2007, the Bank employees had reached a total manpower of 5412, of which 86. 07% are Saudis. The Accounting department had a lot of employers and there is about 40% employer as outsourcing employees. There are many employers who had a different qualification according to the job specification. Nowadays, most of the employers' has at least a bachlories qualification. 7 Week Descriptions

First of all I worked with finance and accounting group included the administration of selected qualified accountants as financial management is one of the viability of the company including financial analysis tools and scientific methods which qualifies them to be effectively managed in the service of the banks goals and future of the financial system and regulatory

ruling in addition to the great tasks of financial planning of the bank and the work of financial reporting that contribute to the assistance of senior management to take appropriate decisions in a timely manner .

In the following section a summary of the work that has been done through week are presented : First week : The first week in bank was very interesting as information about the Accounting department in the bank was presented to me . They identified all the departments their mission to me and how they related to each other . Second and third weeks : A balance score card manger introduced to me how to prepare a daily report for the current new accounts greater than or equal to 50000 S. R.

Also, I practiced on the daily report for a whole week . Fourth and Fifth weeks : During this week I was trained by the assistant retail group to make a monthly report for the branch Including how many clients that they open account during one month . Six and Eight weeks : I start this week my project which was comparison of the income statement among 3 years which is 2006, 2007, 2008 my task is define where is the problem to solve and make the income statement of the bank increase by choosing the best way .

Seventh week : By the end of the seventh week I finalized everything and submit the report to my supervisor to get A feed back from him . Ninth week : In this week I got back the main report from my supervisor The supervisor gave me a good feed back based on his experience then as a final report step, I submitted the report to the financial department manger.

Afterwards : Mainly, I have to do many small tasks to the department I worked in .

Also, I went to many different departments and branches to take a deep look about the work in each one of them (ex: Tahlya branch , Accounting division in IT ) I learned a lot of things related to my major . Tenth week : I started another project about cost control which is comparing between actual cost and budget cost and change this one to another way which is activity based costing and Activity based budgeting . Eleventh week : I started with the audit group

The audit group assist management and board of directors in accomplishing their objectives by evaluating the process of risk management, internal control and governance with analysis, recommendation and information focused on advancing the goals and objectives of the bank. Moreover, to safe guard the bank assets and protect the interest of shareholders, customer, directors and employees. IAG Objectives (Internal Audit Group) ? Examine and evaluate the adequacy and effectiveness of the internal control system to ensure compliance with policies, plans, procedures, and business objectives. Review the application and effectiveness of risk management procedures and risk assessment methodologies. ? Review the management and financial information system including the electronic banking service. ? Review the accuracy and reliability of the accounting records and financial reports. Review the management and financial system including the electronic information system and the electronic banking services.

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2008 AND 2007 || |  
 || || 2008 | 2007 || | Notes | SR'000 | SR'000 | | ASSETS | || || Cash and  
 balances with SAMA | 3 | 2, 258, 459 | 1, 490, 783 | | Due from banks and  
 other financial institutions | 4 | 3, 903, 582 | 3, 662, 768 | | Investments | 5 |



4, 909, 368 | 4, 963, 619 | | Loans and advances, net | 6 | 15, 133, 153 | 9, 879, 236 | | Other real estate, net | | 75, 797 | 75, 797 | | Property and equipment, net | 7 | 493, 503 | 459, 303 | | Other assets | 8 | 745, 843 | 1, 032, 482 | | |——— |——— | | Total assets | | 27, 519, 705 | 21, 563, 988 | | | |

===== |===== | | LIABILITIES AND EQUITY | | | | | | | | LIABILITIES | |

| | | Due to banks and other financial institutions | 10 | 1, 366, 645 | 716, 690 | |

| | Customers' deposits | 11 | 20, 900, 368 | 15, 647, 087 | | Other liabilities | 12 | 514, 869 | 411, 122 | | |——— |——— | | Total liabilities | | 22, 781, 882 | 16, 774, 899 | | |——— |——— | | | | | | EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE | | | | PARENT | | | | Share capital | 13 | 3, 000, 000 | 2, 250, 000 | | Statutory reserve | 14 | 1, 383, 000 | 1, 327, 000 | | General reserve | 14 | 68, 000 | 68, 000 | | Other eserve | 15 | (3, 141) | 142, 493 | | Retained earnings | | 188, 943 | 775, 104 | | Proposed dividend | 25 | - | 135, 000 | | | |——— |——— | | Total equity attributable to equity holders of the parent | | 4, 636, 802 | 4, 697, 597 | | | | | | Minority interests | | 101, 021 | 91, 492 | | | |——— |——— | | Total shareholders' equity and minority interests | | 4, 737, 823 | 4, 789, 089 | | | |——— |——— | | Total liabilities and equity | | 27, 519, 705 | 21, 563, 988 | | | |===== |===== |

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 | | | | | | | | 2008 | 2007 | | | Notes | SR'000 | SR'000 | | Special commission income | 17 | 1, 114, 431 | 908, 968 | | Special commission expense | 17 | (483, 010) | (313, 847) | | | |——— |——— | | Net special commission income | | 631, 421 | 595, 121 | | | | | | Fees from banking services, net | 18 | 537, 515 | 698, 479 | | Foreign exchange income, net | | 21, 708 | 17, 232 | | Trading (loss) / income, net | 19 | (33, 940) | 15, 399 | | Dividend income | 20 | 11, 532 | 12, 385 | | (Loss) / gain on non-trading

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investments, net | 21 | (34, 498) | 102, 503 | | Other operating income | 22 | 2, 806 | 5, 673 | | | — | — | | Total operating income | | 1, 136, 544 | 1, 446, 792 | | | — | — | | | | | Salaries and employee-related expenses | | 436, 340 | 364, 839 | | Rent and premises-related expenses | | 64, 048 | 53, 292 | | Depreciation | 7 | 74, 940 | 58, 244 | | Other general and administrative expenses | | 215, 185 | 191, 461 | | Charge for / (reversal of) provision for credit losses, net | 6 | 61, 158 | (25, 908) | | Impairment of other financial assets | 5 & 15 | 62, 238 | - | | Other operating expenses | 23 | 830 | 2, 698 | | | — | — | | Total operating expenses | | 914, 739 | 644, 626 | | | — | — | | Net income | | 221, 805 | 802, 166 | | | | | Loss attributable to minority interests | | 534 | 3, 037 | | | — | — | | Net income for the year attributable to equity holders of the parent | | 222, 339 | | | | | 805, 203 | | | | ===== | ===== | | | | | Basic and diluted earnings per share (in SR) | 24 | 0. 74 | 2. 68 | | | ===== | ===== |

3 Project Descriptions : Problem definition: There are many types of costing systems available for businesses to use; most of these costing systems are designed to assign costs to products. Activity-based costing (ABC) on the other hand is designed to assign costs to activities. ABC has become popular due to the fact that as businesses grow in complexity, so does their need to assign increasingly large indirect costs to the appropriate area or activity.

Computers have contributed both to the complexity of businesses and to their ability to track costs more closely through systems like activity-based costing. What Is Activity-Based Costing? Simply put, activity-based costing is a process where costs are assigned due to the cause and effect relationship between costs and the activities that drive costs. Traditional costing systems

have a tendency to assign indirect costs based on something easy to identify (such as direct labor hours). This method to assigning costs can be very inaccurate, as there is not necessarily a relationship between the costs that are being assigned, and the activity they are being assigned to.

This can make evaluating costs tricky and inaccurate. Activity-Based Costing Procedures Activity-based costing can be more complicated to set up and operate than other costing systems. Generally, the process will look something like this: All activities that use resources are identified Cost pools are set up for each of the activities identified Overhead costs are assigned to the cost pools based on a cost driver A cost driver is an activity that has a proven cause and effect relationship with the costs associated with the cost pool Cost drivers can be based off of resources or activities Only if a cost driver cannot be recognized will a cost be assigned on an a ocative basis Related cost pools are assigned an overhead rate based on cost drivers Cost pools are used to assign costs; the basis depends on the company and industry Costs can then be assigned to units, batches, or products These pools can be combined to look at facility, division, or other levels of cost categories Costs can then be evaluated to see where and how costs are occurring, from that point management can discern what costs are controllable and how they arise. When Is Activity-Based Costing Appropriate? Activity-based costing can theoretically be used in almost any industry, because it can be adapted to determine costs at so many different levels. However, ABC is used most effectively in complex companies that are not entirely service-based.

Complex companies may see the most benefit from this type of costing because it is most helpful when the costing information is difficult to understand or evaluate. Service industries may not benefit as much from activity-based costing as other industries because their costs can be difficult to assign as they may not have an identifiable cause and effect relationship. Companies considering using ABC should also keep in mind that while it can be a very powerful management tool, it can be very expensive to start and it does not always conform to generally accepted accounting principles (GAAP) so if using an ABC system a company may have to keep a separate system to track costs in a manner that does conform to GAAP. The question of course is whether ABC has overcome these deficiencies or not? It has.

In fact, ABC has been called one of the most important management innovations the last hundred years. So what is really the difference between ABC and traditional cost accounting methods? Despite the enormous difference in performance, there are three major differences: In traditional cost accounting it is assumed that cost objects consume resources whereas in ABC it is assumed that cost objects consume activities. Traditional cost accounting mostly utilizes volume related allocation bases while ABC uses drivers at various levels. Traditional cost accounting is structure-oriented whereas ABC is process-oriented. This is discussed in more detail in the subsequent sections and illustrated below. But first, the direction of the arrows are different because ABC brings detailed information from the processes up to assess costs and manage capacity on many levels whereas traditional cost accounting methods simply allocate costs, or capacity to be correct, down onto the cost objects without considering any 'cause at this method,

however, illustrative of the bank, because it shows only the actual costs and budget concise manner. For example Branch manger to achieve the necessary amount of the bank had asked him if the amount in excess of the amount required by the new way to bank so as I'm working here in the bank as a training I suggest to choose the Activity Based Costing method , Activity based management and Activity based budgeting method to make it clear and more efficient for the bank .

#### Consumption of resources versus consumption of activities ABC

acknowledges that you cannot manage costs, you can only managed what is being done and then costs will change as a consequence. In traditional cost accounting, however, the underlying assumption is that costs can be managed, but as most managers have found out the hard way – managing costs is almost impossible. The benefit of the ABC mindset is that it opens up for a much wider array of measures when it comes to improving productivity. By investigating systematically what is being done, i. e. the activities, one will not only be able to identify surplus capacity if it occurs, but also lack of capacity and misallocation of capacity.

A result of this might be that costs are cut the traditional way, but it might as well lead to a reallocation of capacity to where it is most needed which will yield high productivity more effectively than the traditional way. Volume related allocation bases versus drivers at many levels Due to the historic background of traditional cost accounting methods, they tend to use direct labor – or other volume related allocation bases – for cost assignment purposes. But as overhead has grown and new technologies have come, it goes without saying that assigning costs based on only 5 – 15% (in most <https://assignbuster.com/cooperative-bussiness-student-report-accounting-assignment/>

Banking) of total costs is highly risky. In fact, the incurred errors are up to several hundred percent! In ABC, however, costs are assigned according to the 'cause and effect' relationship between activities (the actual process) and cost objects, which is captured using drivers. The drivers are therefore not allocation bases in the traditional sense, although they work the same way mathematically – drivers are estimates of actual cost behavior and can therefore also be used to identify, or they are themselves, the critical cost factors. Because the drivers are related to the actual processes, they occur on several levels. The four most common levels are; 1. Unit level. Unit level drivers are triggered for every unit that is being produced.

For example, for a man and a machine that produces one unit at a time, the associated direct labor will be a unit level cost driver. This is therefore a volume related driver similar to the traditional allocation bases. 2. Batch level. Batch level drivers are triggered for every batch produced. A good example of that is production planning, because the planning is done for each and every batch regardless of the size of the batch. Here, number of batches can be a good driver. 3. Product level. Product level drivers are triggered for every product regardless of the number of units and batches produced. These drivers occur by the sole existence of a product.

A good example of a driver is the number of product development hours per product so that the more product development hours a product triggers the more product development costs should be assigned to that product. 4.

Facility level. Facility level driver are drivers that are not related to the products at all. Costs that are traced by such drivers will therefore be

allocated to products and not traced. The difference between allocation and  
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tracing is that allocation is quite arbitrary whereas tracing is based on 'cause and effect' relations. Hence, we see that the traditional usage of fixed and variable costs is totally meaningless. In ABC, all costs are included.

However, ABC employs a different usage and definition of fixed and variable costs. A fixed activity cost is a cost that exists due to the very existence of the activity whereas a variable activity cost changes as the output of the activity changes. This distinction is very helpful in various improvement efforts. While we discuss drivers it is important to mention that in ABC there are two types of drivers w. r. t. cost assignment; 1. Activity drivers that keep track of how cost object behavior influences activity levels, i. e. , the level of activity for each activity. 2. Resource drivers that keep track of how the subsequent activity level affects the resource consumption.

Before we continue it is important to mention that in early terminology activity drivers were referred to as 'second stage cost drivers' whereas resource drivers were denoted 'first stage cost drivers'. But it is evident that the word 'cost driver' is misleading in this context because activity- and resource drivers do not tell what drives costs in the general case. Therefore, in Activity-Based Management (ABM) a third type of drivers is employed in addition to the two aforementioned drivers. This type of drivers is called cost drivers and they are the underlying causes of costs of activities and measured by non-financial performance measures.

Today, the most important of these measures can be presented in a Balanced Scorecard and they represent the process view in ABM. These are possibly the most difficult drivers to identify. Structure-orientation versus

process-orientation Traditional costing systems are more concerned about the organizational charts than the actual process. Traditional cost accounting systems are therefore structurally oriented and the process view is completely missing. The result is that one cannot ask ' what needs to be done? ', because the process is unknown. The only questions such costing systems can give answers to, although often off the mark, is ' what do we have at our disposal to do the job? The latter question is a question of capacity, that is, how capacity is managed. Capacity is measured as an expense and found easily in the accounting system. The first question is a question of resource management, because resources is what you need in order to do a job and measured as a cost, but the resource measures can only be found by investigating the processes. Thus, because ABC is process-oriented and gathers information from the processes it can be used to identify both ' what needs to be done? ' and how to allocate resources most productively. ABC can therefore give managers the ability to match the resource needs with the available capacity as closely as possible and hence improving productivity.

From this we understand that the structure oriented approach of traditional costing systems gives no decision support in allocating capacity to match resource needs. Over time this leads to cost inefficient organizations and poor profitability. [pic] 1 Project Conclusion I conclude my work by giving the project success factors. By delivering the project, I learned a lot of things related to my major, which for me is very beneficial. The other thing that I gained was about the meetings and how to get involved, to gain information



and to raise issues in the meeting. This is a very good work to gain the work experience and see how everything goes on.

After all this work, I think that I gained what I need to developing an expertise documents in accounting issues, and this will help me in the future a lot because I know now what the keys factors needed by the business. The only problem that I faced in the project was about getting information and policies. I used to get information from business team and the person that I needed to meet him was in the vacation. Finally, I think I liked to work in this project because it is something related to my major, and it is very interesting to gain an experience related to my major. Also, there are very small changes in the report. So, I worked to develop the modified version of my project. I gained a lot of experience in the feedback. 4 Conclusion and Recommendations 1 Summary

At the end of this opportunity, I liked to work in BAJ, because, I realized that BAJ is considered as a good place for accounting and financial fields because I will find a good place for me to practice about what I studied. I liked the work environment in BAJ because all the people work as a one hand and all of them helped each other. I met a lot of people in this opportunity and all of them helped me in all fields. As a summary of my work, I worked with retail department team. I set a period of 3 days in every team to see the daily work and how everything goes on. 2 What subjects and courses did I heavily use In my opportunity, I think that I used the advanced accounting subject an how to make a budget in the managerial accounting subject.

The only subject that I used a lot was financial statement analysis and how can I read financial statement analysis, because my project was about finding problems in the accounting department of the bank. After this opportunity, I think that we must read a lot about those subjects, and we must update ourselves. The only thing that I missed and I need the university to add it is the meetings and how to deal with business teams. I think the project will differ a high percentage when there are meetings with the business or customer to gather the information. We need to introduce those things to make us very professional in this field. ————— 2009 College Of Business Administration CBA Cooperative Education Student Report