

Analysis

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Finance and Accounting September, Case Analysis How do we apply the case to real life practice? Activity Based Costing (ABC) has been the subject of scholarly researches and articles since it was introduced twenty years ago. One particular example is the case study done by Ittner, Lannen & Lackner (2001), wherein findings and results could be applied in business in real life. In real life, research results could be applied because of situational similarities. Since ABC's introduction, several accounting literatures have been devoted to it. So many companies have adopted its use because it is a flexible system that could provide special reports to management and accordingly make decisions on selling, delivering a product or service. ABC focuses on accumulating cost thru activities while traditional costing focuses on accumulating costs within functional areas. ABC system is used as an internal system for management decision while traditional accounting is for external purposes used by stakeholders and government's review. The rich information provided by the review of literature in the study further confirmed the advantages that managers acquire in terms of costs association by implementing ABC. Managers are able to reduce costs in designing products and improve coordination with suppliers and customers. However certain limitations of ABC use are observed in the case study. Particularly, the case findings said that thru statistical computations, it was proven that ABC has no dependent relationship with the Return on Assets. Further, it was gathered from the study that there was a weak evidence associating ABC and accounting profitability is dependent on plant's operational characteristics.

The above findings suggest cognizance of both methods. Profitability is a measure that is very much relevant for stakeholders. They are very much

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interested in ROA and profitability which are their primary concern in investing. These factors are measured by traditional method of accounting, while internal factors that will add to profitability are best measured by ABC system.

In winding up, findings in the case are adaptable in real business operations as ABC is only an internal system that enhances profitability.

Reference

Ittner, Christopher, William, Lanen, and Larcker, David. “ The Association between Activity Based Costing and Manufacturing Performance.” Journal of Accounting Research, Vol. 40, June 3, 2002, pdf. Web. 11 Sept. 2013.