

Difference between direct costing and abc



To solve the above problems the organisation created an Administrative-Financial Department in 1993. It allowed the organisation to take responsibility for management control function, calculations of costs and production and control of budgets. The introduction of ABC on production cost basis showed that product lines required major amendments. However, this was objectionable on marketing terms, as it may have left an unbalanced portfolio of products. Hence, the ABC product costs signifying a substantial shift in the profitability in product lines was unsuccessful to account for the company's marketing strategy.

Below is a diagram, which demonstrates the significant amount of analysis provided by the use of ABC within Torres. Difference between Direct Costing and ABC In addition were was inadequate confidence in either the identification of the cost drivers or the analysis of outflows into cost pools to rationalize such radical actions on the basis of the statistics produced from this attempt. The recognition of cost rivers was relatively simple, the analysis of expenditure into cost pools, however, was somewhat time consuming as the original documentation has not been cost coded to suit the customer-based analysis.

There are numerous aspects of interest in this case study, not only does it demonstrate the application of ABC and current-cost stock adjustment but as it was conducted in Spain it contrasts with those in the UK and America. Overly, from the theory above, case studies and extensive research I can confirm that ABC along with ABM is a powerful tool; it has helped numerous organisations globally to become more efficient and effective. ABC highlights information, which was not identifiable with traditional accounting systems.

Although ABC has many of its advantages as displayed by the case studies above, there are in fact disadvantages. Firstly, the implementation of ABC not only requires many resources but it is also very time consuming. The above case studies reveal how ABC/ABM has made improvements in many sectors, however, it is not made aware to the public, the difficulties and complications of implementing ABC within the business. Barclays experienced a great outcome when ABC tackled extreme problems in a short period of time, however, they do in fact confess the complications they experienced whilst applying the system.

It is made aware from John Porteous article that Barclays Service Provision chose to put ABC into effect, but they had discovered that internal clients had difficulties understanding the basis of cost allocations. The same can be confirmed about ABM, Stephanie Gourdie's article points out that ABM is a successful application but it requires careful planning and radical thinking of the company's culture. Secondly, the Wavin case does in fact show a weakness of ABC; although the general outcome was pleasing it did in fact experience some fluctuations.

At the beginning of applying ABC extra overhead costs were incurred, this may demonstrate either o That ABC is a system that takes time to take effect and in fact some organisations may experience many down falls, or o That ABC cannot be recommended purely as a replacing product costing system and in fact other broader systems could be taken into consideration, such as ABM/ABB At first sight the launch of ABC in the company can be a daunting experience, however many PC based software tools have been produced to make the procedure much easier.

One certainty is that the ABC system is rapidly growing in organisations all over the world.

Bibliography

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