

# Allocating fixed costs case studies example

[Business](#), [Company](#)



## **PART-1**

Activity Based Costing:

Activity Based Costing is one of the most widely used inventory classification models otherwise known as “ Always Better Control”. As per ABC categorization, things are categorized on the basis of their consumption value in a year. It recognizes the activities and distributes the cost associated with each resources and activity on the basis of the actual consumption by the products and services. Thus, ABC is a technique to quantitatively measure the performance and cost related to the activities, resources and cost objects. ABC incarcerates organizational cost for the different factors of production and other administrative expenses, and relates them to a defined activity structure (Chary, 2012).

Activity Based Management is the regulation that controls the management of the various activities, in order to continuously improve the value received by the customers. Activity Based costing is the major source of information for Activity Based Management (Chary, 2012).

In traditional cost method the resources are allocated to the products in two heads direct material cost and direct labor cost, while the other resources are capriciously allocated to the products, typically through the method of machine hours and labour hours. But, the main disadvantage of these traditional methods is that they do not include indirect costs, such as the administrative cost, marketing & advertising cost and other such costs ((Chartered Global Management Accountant (CGMA), 2013).

## **Characteristics of ABC:**

- It helps in utilizing unit cost in spite of the total cost.
- It helps to alter the expenses associated with the controlling the materials, according to their usage value.

The Chinese electricity company Xu Ji, a Chinese electricity company used this approach to detaining direct and variable overheads, which were absent in the state-owned enterprises (SOE), in the traditional system of costing.

The use of ABC method has successfully stimulated standardization in they're running practices and processes (Chary, 2012). ABC also acts as a mechanism to Xu Ji in IT developments through accounting and office computerization, and then finally through ERP implementation

## **Part- II**

Just-in-time (JIT)

The concept of JIT states: “ nothing is produced until it is required”. The practice of JIT aims at assembling finished products just before they are sold, and in the same way the sub-assemblies are made just before products are assembled, and components are fabricated just before the sub-assemblies are made. Thus, the system always keeps work in process inventory as low as possible; thereby reducing production lead time (Chartered Global Management Accountant (CGMA), 2013).

## **TOTAL QUALITY CONTROL**

The quality of the product is its ability to serve and satisfy the needs of its customers. To produce high quality products, firms conduct surveys, deploying their marketing workforce to understand their customers' needs

and requirements. This information is useful for designing the features of the product in such a way that they fulfill customer needs. It is not just the quality control department of the firm that is responsible for ensuring product quality (Chartered Global Management Accountant (CGMA), 2013). High quality can be attained only through the collective and coordinated efforts of all the departments of the firm. For instance, the purchasing department works in coordination with the quality control department and purchases only those supplies that meet the quality requirement. The personnel department train and motivated its workers to produce products of the required specification and quality.

## **LEAN MANUFACTURING**

In a layman language, Lean Manufacturing is “ doing more with less” with the use of lean thinking. It involves never ending hard work or efforts in order to reduce wastage or to eliminate those activities in designing, manufacturing, customer services or distribution process that not add value to the product, but consume resources. In this very case, value is defined as any process or action through which the firm receives money from the customers.

### **References:**

Chartered Global Management Accountant (CGMA) (2013). Retrieved March, 19, 2014 from, [http://www. cgma.org/Resources/Tools/essential-tools/Pages/activity-based-costing. aspx](http://www.cgma.org/Resources/Tools/essential-tools/Pages/activity-based-costing.aspx)  
Chary (2012). Production and Operations Management: Mc Graw hill.