Activity based costing – case study essay

BOC (Fiji) is a member of the Linde Group, a leading global gases and engineering company, which serves customers in more than 50 countries. Many people come in contact with BOC Fiji every day, because our products and services touch almost every area of business and domestic life. BOC services the industrial market with gases, safety and welding equipment. Our diverse range also supplies medical and beverage gases and equipment.

BOC Fiji was established in 1965 and employs over 45 staff with retail outlets in Suva, Lautoka and Labasa. BOC Fiji also has a net work of Gas Agents ensuring product availability around the country.

Central to our success is our commitment to the values of Safety, integrity, sustainability and respect. We have a passion to excel, innovate for customers, empower people, and to thrive through diversity.

BOC in the South Pacific provides welding, safety equipment and gas products to the manufacturing, scientific, hospitality, medical, agriculture and refrigeration industries.

As safety is the culture reinforced by BOC employees, this area of expertise is especially valued by our customers. The local BOC Fiji sales team is backed up by dedicated product managers in Australia.

As a leading manufacturer, we understand the importance of maintaining a safe working environment for our employees. Safety is part of our culture.

Activity analysis and Management (ABC)

Activity – Based Costing (ABC) is a costing model that identifies activities in an organization and assigns the cost of each activity resource to all products and services according to the actual consumption by each, i. e it assigns more indirect costs (overhead) into direct costs.

In this way, an organization can precisely estimate the cost of individual products and services so they can identify and eliminate those that are unprofitable and lower the prices of those that are overpriced.

In a business organization, the ABC methodology assigns an organization resources costs through activities to the products and services provided to its customers. It is generally used as a tool for understanding product and customer cost and profitability. As such, ABC has predominantly been used to support strategic decisions such as pricing, outsourcing, identification and measurement of process improvement initiatives.

BOC is a manufacturing, wholesale and retail company. Its operation deals with manufacturing, whole sales distribution and retailing to individual customers. The three different levels of business give more complexity to be appreciated rather than just choosing a single process lines firm. It is an international company and maintains its high standard and as I am employed by BOC I am able to apply my theoretical knowledge to this company than any other as I know a fair bit of background information about operation, distribution and service which will make me more efficient in building this project.

Method of costing is used

BOC uses the average costing.

Under the average-cost method, it is assumed that the cost of inventory is based on the average cost of the goods available for sale during the period. Average cost is computed by dividing the total cost of goods available for sale by the total units available for sale.

Advantages of average Costing The primary advantage of average costing is the ease and simplicity of accounting. Average Costing is a simple and direct method of cost ascertainment that collects the overall costs from each department and ignores costs related to specific jobs within a department. This reduces the volume of data, and makes data collection easy and quick. The analysis is likewise simple and straightforward, and does not require any specialized skills other than normal accounting skills.

Disadvantages of Process Costing

Average costing fails to provide an accurate estimate of product costs when a single process produces many items or different versions of a same item. It also remains suitable only for bulk process works and not for customized orders. Apportionment of joint costs to diverse products may lead to irrational pricing decisions in such cases.

What drive them to use that method?

First we look at the Average costing. The production quantity is so high and continuous production with high volume does not give material difference in different slots of production or different sets of production and fillings gives the same result. The occasional hiccups does give material difference due to loss of gases due to air pressure difference in different tanks giving transfer stalled and engineers have to vent pressure in the recipient tank to facilitate the transfer. The cost is loss of finished product and this is added back to cost of production, though as a separate line for analysis if loss goes beyond tolerable range. If we use each sets of production cost to set the selling price the price variation will not only upset our customers but also fluctuate the sales, gross profit, costs and net profit. This will be questionable production and costing practice by higher authority as the standard costing has to be followed from the BOC group costing standard given the similar settings, any variations in setting is of course adjusted for the variation.

The variation in selling price will attract market attention and consumer perception on fluctuating price will attract regulatory authority so standard average costing will keep cost quite stable and selling price static for a period of time which is generally acceptable to the contemporary commercial environment.

The Activity Base costing is used in projects. The volume of projects is low with high costs involved and lot of procedures to be followed like

Short term Strategy

The short term strategy has been affected by the devaluation, the GFC, the political climate and the current business practice by local competitors. The global thought to invest in high technology and in sustainable business and be a good corporate citizen.

Since BOC is a subsidiary of BOC Australia most of the goods are imported from either Australia or New Zealand, the strong dollar value for these two counterpart makes our product costly and difficult to compete given the customer not so conscious of the quality when they doing projects for others. For instance, the OHS has set standard on personal protective equipment (PPE) i. e. safety gears but the quality standard for the gears is not set, one would wear a PPE imported from china and one would wear PPE from Australia both employees wearing PPE but of different quality, now BOC does not want to spend on inferior quality products thus the other companies that are selling inferior quality stuff will definitely compete with BOC so in short term BOC will lose sales. BOC wants to differentiate from others suppliers and wants to maintain its reputation.

The return on investment is affected in short term due to GFC , the drizzle down of GFC to Fiji is prevailing and has affected our performance which has hold on some investments temporarily. The political climate noting the unfavorable comments by Australia and NZ have not helped either some hesitation has diluted the interest.

Investment in logistics and high technology equipment to fight the current climate change issues. The return currently does not look so flash for current management because of the cost involve to forward looking for sustainable investments. The current sacrifice will surface the result in future and let us look at the future – the long term strategy impact.

Long term Strategy

The current commercial climate for Fiji is in volatile situation from the perspective of foreign investors and BOC is one of them. Having said that since BOC is here for more than 40 years it has vast experience in Fiji's political social and commercial environment so it is not as conservative as other foreign investors. However, we also keep in mind that BOC FIJI is not on its own, it is a subsidiary of BOC Australia and the Linde Group so as a subsidiary we also have to follow what the controllers say, the protocol has to be abide by and unfortunately the people sitting in Australia and Germany do know little about Fiji's situations and the contribution on global note Fiji is very small and this will have some effect on making some decision while for future investment to achieve long term targets.

The long term strategy is mostly on safety, high technology and sustainability. The investment in human capital, the low Green House Gas (GHG) emissions technology and safety is prominent. The ways to improve and fine tune our reporting and informing our stakeholders is prime interest and investment in information technology is also prevalent and maintains our reputation to avoid any damages.