

# Activity-based costing



The Activity-Based Costing indicates that all indirect costs shall be apportioned to direct costs for the organization. The ABC takes the indirect expense that relate to each activity for the specified product or service. The use of ABC can be identified where the several costs that cannot be apportioned for the particular cost. The ABC system is high-cost accounting technology which requires the efficient personnel, considerable amount and money. Traditional costing relates to costs of products/services whereas the Activity based costing relates costs and activities and products/services.

It means the Activity Based Costing can also be implemented in production section and service sector too. The main base of the ABC is to distribute the indirect costs to the respective departments i. e. production department, service department, miscellaneous services etc. there will be no confusion about direct costs and they can directly be allocated to the respective departments. But some costs cannot be apportioned to the particular head and at that ABC will be identified. La Villa Roma Pizza With respect to La Villa Roma Pizza wants to introduce a small fee for deliveries.

The company also wants to determine the cost of delivering pizzas to clients. Cost object In this regard, the company wants to charge a small fee with respect to deliveries. The main base of the company is to deliver the pizzas for particular charge. Again the company wants to impose some small fee which attracts negative approach to the customers. Hence the company has to charge the small fee for those who are out of specified area, specified condition etc. Cost drivers The charge of the particular activity is to be based on the distance and time of delivery.

Hence it may vary for every activity. The fixed charge cannot be levied. The ABC provides more accurate cost information with cost driver associates with the activities. Cost of pizza. In addition to normal charge of the pizza, the additional charge may be levied who were supposed to be received beyond the specified area and specified time. REFERENCE: 1. <http://greenbusinesscentre.com/Documents/TCM%20bulletin-ABC.pdf> 2. [www.bauer.uh.edu/mnewman/HS/Chapter04.doc](http://www.bauer.uh.edu/mnewman/HS/Chapter04.doc) 3. <http://www.answers.com/topic/activity-based-costing>