

Difference between abc costing and the time driven abc costing (hbr)

[Finance](#)



Difference between ABC Costing and the Time Driven ABC Costing “ Many companies abandoned activity-based costing because it did not capture the complexity of their operations, took too long to implement, and was too expensive to build and maintain”.

(Kaplan & Bruns)

Activity Based Costing (ABC), is a method used to gather an estimation of the cost of a product or service. It was proposed by Robert S. Kaplan and W. Bruns. It helps to assign costs to products and services, of an activity along with the resources, based on the consumption that takes place by each product or service. The model helps companies in deciding that which products are not rightly priced and which products are actually costing more or are not profitable. It also helps in identifying the processes that are over pricing the product and, the replacement or improvement of which could lead to a better yield.

“ The solution to the problems with ABC is not to abandon the concept”

(Kaplan & Bruns)

Time Driven ABC was proposed by Robert S. Kaplan and Steven R. Anderson, in 2004. Although ABC had been a trend setter in guiding companies and organizations, still it was unable to keep pace with the ever expanding production lines of companies. Time driven ABC is actually a simplification of the ABC methodology (Kaplan & Bruns). Time Driven ABC requires only the estimation of the practical capacity of resources and the time required for transactional activities.

Where ABC does not account for the unused capacity in the organization, Time Driven ABC accounts for the unused capacities, thus opening avenues

for the allocation of these capacities to new products or cutting them down. It is easier to maintain and gather the data through this model, as the work force required is far less and also the gathering of the data does not require the employees to be surveyed. The manager can allocate the time for an activity based on his professional observation rather than subjective accounts of the employees. It is easier to calculate and validate as compared to the traditional ABC. The data can also be easily updated.

The Time driven ABC method allows for the incorporation of a wide variety of elements in the time equation. It is able to cope with more than just a local department with limited number of activities. It also reduces chances of budget slack, created by withholding of private information held by managers.

Works Cited

Kaplan, R. S., & Bruns, W. (2004). Time-Driven Activity Based Costing. Harvard Business Review, 82 (11), 131-13.