

The Application and Relevance of Costing Techniques in Service Oriented Business Organisations: A Review of the Activity-Based Costing (ABC) Technique

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Abstract : The shortcomings of traditional costing system, in terms of validity, accuracy, consistency and relevance increased the need for modern management accounting system. ABC (Activity-Based Costing) can be used as a modern tool for planning, control and decision making for management. Past studies on activity-based costing (ABC) system have focused on manufacturing firms thereby making the studies on service firms scanty to some extent. This paper reviewed the application and relevance of activity-based costing techniques in service oriented business organisations by employing a qualitative research method which relied heavily on literature review of past and current relevant articles focusing on activity-based costing (ABC). Findings suggest that ABC is not only appropriate for use in a manufacturing environment; it is also most appropriate for service organizations such as financial institutions, the healthcare industry, and government organizations. In fact, some banking and financial institutions have been applying the concept for years under other names. One of them is unit costing, which is used to calculate the cost of banking services by determining the cost and consumption of each unit of output of functions required to deliver the service. ABC in very basic terms may provide very good payback for businesses. Some of the benefits that relate directly to the financial services industry are: Identification of the most profitable customers; more accurate product and service pricing; increase product profitability; well-organized process costs.

Keywords : profitability, activity-based costing (ABC), management accounting, manufacture

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