

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

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Abstract : The shortcoming of traditional costing system in terms of validity, accuracy, consistency, and Relevance increased the need for modern management accounting system. Activity -Based Costing (ABC) can be used as a modern tool for planning, Control and decision making for management. Past studies on 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 technique in service oriented business organizations by employing a qualitative research method which relied heavily on literature review of past and current relevant articles focusing on 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 organization. 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 the most profitable customers: more accurate product and service pricing: increase product profitability: Well organized process costs.

Keywords : business, costing, organizations, planning, techniques

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