

# Managerial Accounting

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## **INTRODUCTION**

Management accounting is used by the managers of a company or the accountant to maintain their books of accounts, daily transactions and ledgers by applying the most appropriate accounting method. The accounting methods can be broadly categorized into three accounting methods which have been mostly used. These methods are ABC model, The Time-based ABC model (Van Dyk, Zubizarreta and Lievens, 2017) and the Traditional costing method. For this report, we have focused on the application of ABC model in a company and how it is used to provide effective information to the management. The ABC model makes an effective evaluation with the existing goals of the company. This method also helps in analyzing and how best the ABC model can be fitted into the company and there by suggesting recommendations based on that. The report also includes the recommendations and insight on other important methods to manage the accountancy books in efficient way.

## **ABC MODEL AND FEATURES**

The ABC Model of account is the method of accounting which is based on costing methodology. The costing methodology is used for the analysis of the cost requirements of a company by making an analysis which gives out the cost per unit dimension. This method helps to give the precise measures of the materials used in the company and the analysis of the variable costs which a company incurs during the production or while providing the services to add value to their product. This method is helpful in collecting all the indirect costs in the entire chain that can range from placing an order, installations etc. and are related to the effective operational working of the company and consequently related to the production costs. When it comes to the analysis of the features of a cost based model in their efficiency to manage the accounts and the information, it can be very well said that the ABC Model is the one which can relate the entire company costs which can be divided into two types of costs. These are fixed cost and the variable costs. Both the fixed cost and variable cost helps the company to provide quality data which can be further used to make important decisions or design an appropriate cost model in the production companies. The ABC model is able to make an effective differentiation between the behavior patterns of the various costs. The cost and volume patterns can relate to the time, events, volumes and diversity. The drivers of the operation are also selected by the ABC Model and these cost volume drivers are selected on the criteria of overhead costs of the product. With the ABC model, we can

state that it's an activity based cost model which assist to identify the events in an organization and then it further assists to allocate the cost element to them by ensuring that the resources used in the production of the product or delivering as service is as per cost unit basis (Schutzer, Arthur and Anscher, 2016). After understanding the ABC Model and knowing its features we have decided to use this model for ARB Corporation as this fit best to their need and requirements. The ABR Corporation will be then able to assign the cost of each service and material as per their cost drivers after considering their fixed and variable cost.

### **ALIGNMENT OF ABC MODEL IN CURRENT GOALS OF ARB CORPORATION**

In order to see the alignment of the ABC model in the existing goals of the ARB Corporation, we will have to refer to the vision, mission and targets set for the company. While understanding the vision, mission and targets of the ARB Corporation it can be derived that the main goal or agenda of the organization is to provide the world class goods and services in most affordable prices to its customers. So that management will be able to expand their customer base (Malkin, International Business Machines Corp, 2017). The company vision statement also states that they want to be best in class with becoming the largest enterprise in their field. The ABC model assist ARB Corporation in order to assign their resources and operations basis the overall cost that has been allocated by the company for achieving the mission of providing world class goods and services to their customers. The allocation of funds in the right direction is required in order to attain the objectives set by the company that too within the timeframe which has been agreed by the management.

There are various stages in a corporate structure which plays a vital role to align the company's goals and missions to that of their procedures in order to achieve the agreed targets and objectives in the best possible way. ARB Corporation had adopted the strategy of operating long lasting and a low cost diverse consumer base which is spread in different geographies in a manner which is efficient and also delivering good experience for their customers. As per ARB corporation management these goals can only be achieved when the company is able to focus on cost and become a cost leader in their industry. They also want to focus on constant profits in the future and ensuring that the company is able to generate good returns for their shareholders with limited risk. The company has been focusing on the managing the major projects to be completed within the timeframe given by the client and generating returns on them as part of the strategies which they were working on to till now.

Further the cited company also had adopted a very low-cost strategy to allow the cost of their operations under control and there by using the per unit cost method for their entire products and services (Laviana, Tan, Hu, Weizer, Chang and Barocas, 2018). In other to tackle the issue faced with seasonality of their sales they have also adopted a strategy to allocate the costs with regards to different times when the sales go up and down. Hence it can be said that ARB Corporation is focusing mainly on the costs and their by maximizing their profits in an efficient manner.

To make the analysis of various goals, vision, targets and the corporate stages which are involved it is derived that the ARB corporation is doing their best to minimize the input costs to give out the most optimize output in terms of low costs. For this they are using very effective corporate approaches in efficient manner. ABC model is the best suited for the companies which are working on minimizing their costs and also trying to maximize the benefits from profits in an organized and sustainable manner. The top management needs to implement an activity or transaction based costing method in order to ensure the ABC model gives the best results. The ABC model also helps to ascertain the top management to see which department is able to generate the highest profit while minimizing the costs for their department. The ABC model has more chances to succeed in an organization than its failure which is good to make an attempt in the organization. The company should also run a pilot in the organization to analyze the costs and their saving in pastime based method and see if they were carried out correctly or not

## RECOMMENDATIONS

The activity based costing is helpful for ARB corporation to achieve long term goals of the company as it reduces the cost and time for extracting the information(Kaplan, Agarwal, Setlur, Tan, Niedzwiecki, McLaughlin, Burke, Steinberg, Chamie and Saigal, 2015). The main objective of ARB Corporation is to provide good quality of product at the least price possible. In order to be cost efficient the company uses this activity based costing to reduce the cost and increase the productivity of the company. It is also helpful for the resource allocation of ARB Corporation. As it tells company about the time utilized for work and the important activities of the company. It has the detail of the day today operation of the company and therefore it helps in allocating the resources on the basis of their importance. It was reported by the managers that there is wastage of the reseorces in the organization with respect to time, cost and the raw material (Eberhart, Koch, Kranke, Rüsck, Torossian and Stefan Nardi-Hiebl, 2014). Because of the wastage of resources the cost factor of the company was increasing and the profitability was decreasing. So there was an urgent requirement to deal with the problem. As a result the activity based costing came into the organization which helps in resource allocation and less cost for the company. As a result task which were very important were provided with more raw material in comparison to one which were less important. These helped to make the organization more regulated and produce the products according to the set standards.

## OTHER ACCOUNTING METHOD

The company uses activity based costing because of the time saving, less effort required and accurate results which results in higher profitability of the ARB Corporation. It has a good understanding about the overheads of the company as a result provide accurate results about the costing of ARB Corporation. It is easy to use and understand since it utilize only single cost method (de Almeida, de Assis Figueredo, Soares, Vater, Alves, da Silva Carvalho, Kritski and de Miranda, 2017).Therefore, less expenditure is done on the use of software and training of the manpower to use the software.This leads to less cost incurring and is beneficial to the company. Today the time has changed.The company need to regularly change,so activity based costing adopts six sigma method and brings regular iprovement in the ARB Corporation and provide set standards. The time plays a very important factor. Therefore

accurate results hold importance only when we get them on time. Therefore ARB Corporation uses activity based costing because it provides accurate results on accurate time. In order to get results in time activity based costing plays important role in two parameters. The first part is of overheads. The activity based costing treats it as a time spent by the employee in doing a particular task. The second part is the estimated time the process needs to be completed by the workers (Chipko, Schutzer, Serrano and Anscher, 2017). These two parameters help in the time estimation with respect to the cost. Therefore ARB Corporation can check the effectiveness of the employees. They are provided with the standard time and they can compare with the actual one. As a result the deviated time can be calculated. This is a wasteful time which leads to increase in cost and less profitability. So strategies are built to reduce this time.

## **CONCLUSION**

From the report it may be concluded that if the costing technique adopted by the companies is good then the company can be cost effective and as a result overall profitability of the business will increase. The report considers the ARB Corporation with respect to activity based model adoption within the organization. This report describes the policies, vision, and mission of the company in accordance to activity based costing. Other costing techniques don't give the benefits provided but the activity based costing. Today the time has changed. We not only pay attention towards the accurate results but also the time taken to calculate those accurate results (Andreasen, Holm, Jørgensen, Gromov, Kjærsgaard-Andersen and Husted, 2017). Therefore time is the key factor. If we waste time and then get accurate result, the results will be of no importance. Learning to operate the software is simple. Extracting of information can be done at any time and any day. Therefore information can be utilized for strategies formulation any time. So in order to get accurate result in time and to be more profitable organization, company should use activity based costing.

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