

Comparison and Application of Activity-Based Costing and Traditional Costing

Sun Guangyi

Jiangyin Xingcheng Special Steel Works Co, Jiangyin, Jiangsu, 214400, China

email: sunguangyi@citicsteel.com

Keywords: Activity-based Costing, Traditional Costing, Comparison, Application

Abstract: With the improvement of the level of social economic development, the cost accounting method of social production process has also been greatly improved. Based on the traditional cost method, the activity-based cost method can improve the overall control ability of enterprise products. Through the comparison and application of activity-based costing and traditional costing, this paper aims to fully grasp the relationship between activity-based costing and traditional costing, improve the efficiency of cost accounting from the perspective of cost accounting comparison, and ensure the orderly production of enterprises.

1. Introduction

An important part of enterprise management is the effective control of operating cost. With the continuous improvement of socialized production capacity, traditional cost method cannot fully meet the needs of enterprise development in cost accounting. Activity-based cost method is a new type of cost accounting method based on traditional cost method. Activity-based costing takes production-based activities as the objective of cost analysis, dynamically tracks the production process, adjusts the cost allocation ratio in time, and effectively improves the efficiency of the enterprise by allocating resources to the production benefit and the cost ratio.

2. Comparison of Activity-based Costing and Traditional Costing

2.1. Comparison between Activity-based Costing and Traditional Costing

Activity-based costing and traditional costing have some differences in the calculation procedure. In the process of traditional cost method, we should first take the original cost bill amount as the standard, make clear the labor, material, equipment and other resources consumed in the production process, and carry on the tabular management according to the different production resource types. Secondly, the costs arising from the manufacturing process are split into the product. Because it is difficult to refine the production link into each product, there must be a situation that many kinds of products consume a certain resource together, so the standard fuzzy problem will arise when using the traditional cost method to allocate the cost [1]. Activity-based costing can better solve the above situation. The accounting procedure of Activity-based costing is determined according to the production stage of the product, and the cost is divided according to the proportion of the activity-based cost consumed by the product by recording the manufacturing cost into the cost bank. The activity-based costing program is characterized by the first collection and then distribution, which ensures the stability of cost accounting.

There are also obvious differences between activity-based costing and traditional costing in the calculation object. The traditional costing object is the product, and the cost accounting focuses on the human, material and financial resources of each product. Under the activity-based costing mode, the resources consumed by the operation will follow the process of operation to make the process of cost consumption easy to calculate and manage. The cost activity method extends the cost accounting to the whole production process of the product, pays more attention to the influence of the production technology on the cost of the product, and can improve the comprehensiveness and rationality of the cost accounting.

2.2. Comparison of Activity-based Costing and Traditional Costing

The traditional cost method first produced with the industrial revolution period, the production efficiency of this stage is more affected by the manpower and material resources, and the accounting of the product cost also reflects the labor consumption more. Under the mode of mechanization, scale and assembly line of industrial production, the cost accounting of products is mainly based on the resources of input, and the consumption of resources increases with the increase of product output. Under the condition of productivity at that time, the traditional cost method can meet the needs of enterprises for cost accounting. With the progress of science and technology, the production mode of products has undergone great changes, especially today, in order to better meet the needs of consumers, the products of enterprises often show diversified production characteristics, and the product is quite different, which makes the original traditional cost method no longer suitable for comprehensive and accurate cost accounting. Activity-based costing is better adapted to small-scale, diversified production needs in cost accounting and management [2]. Activity-based costing tracks the relevance of the product, optimizes the production structure based on the production process, controls the cost consumption, and enables the cost of the product to be scientifically distributed among different products. The cost allocation range of activity-based costing method is smaller than that of traditional cost method, and the cost allocation standard is determined in the association of production activity and cost, and the cost accounting method based on man-hour is improved. Activity-based costing can better adapt to the production process with more indirect costs, and use information technology to better serve the high-tech industry with complex technology and high accuracy of cost allocation.

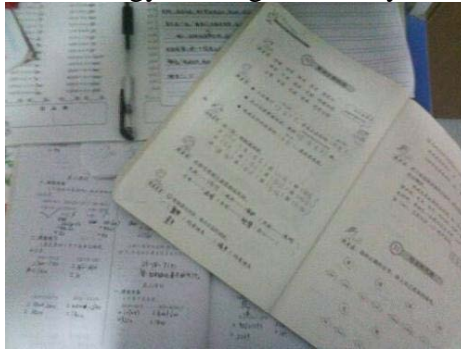


Figure 1 Operations

2.3. Comparison of Cost Allocation between Activity-based Costing and Traditional Costing

The cost of product matching in the traditional cost method mainly refers to the manufacturing cost consumed by the production process, while the sales cost and the management cost are not included. The cost allocation of the traditional cost method is closely related to the quantity of the product, and the product is divided into different categories in the cost distribution, and then the production resources consumed by this kind of product are allocated according to the proportion, which will affect the accuracy of the cost allocation in the comprehensive production process where the product category cannot be subdivided. Activity-based costing extends intermediate costs, including sales and management costs into cost allocation. First of all, the production process of the product is clear, and the work and the product are corresponding, so that the product can better grasp the consumption of resources [3]. Activity-based costing (ABC) uses the activity-based process to establish the link between the product and the cost. Firstly, it carries on the overall cost accounting of the production process, then according to the cost ratio of the product, the activity-based costing method considers the cost difference of different products synthetically, refines the product's different cost collection and distribution, and can more accurately reflect the actual cost situation of the product.



Figure 2 Homework

3. Activity-based Costing and the Application of Traditional Costing

3.1. Applied to Enterprise Material Cost Control

Enterprise production is bound to consume a large number of production materials, this part of the material in the activity-based costing method can be more accurate calculation, and resource optimization as the goal of product production process control and management. The enterprise needs to design the financial accounting subject according to the material type in the material cost control, at the same time, the intermediate cost used in the production of the product should be matched with the cost. When the enterprise controls the material cost, it distributes the material cost among the different products according to the actual production, and calculates the profit level of the different products according to the material cost, which helps the enterprise to better evaluate which products are profitable and which products are low. Using activity-based costing method to help enterprises to better carry out production planning, reduce or eliminate low profit products with excessive cost consumption, and ensure that the total income of enterprises is greater than the total cost.

3.2. Applied to Enterprise Labor Cost Control

In the rapid development of technology and capital-intensive industries, the consumption of labor by enterprises also presents a small and refined pattern. The labor cost of modern enterprises mainly includes salary, performance, welfare and so on. If enterprises want to make a scientific and reasonable ratio of labor benefit and cost expenditure, they should improve the analysis and management ability of labor cost. Under the way of activity-based costing, enterprises can accurately measure the labor benefit and cost according to the labor consumption, work experience and so on, so that the labor cost accounting in the modern production process can be more effective.

3.3. Applied to other Enterprise Cost Control

In addition to the cost of materials and labor, the production and operation cost of the enterprise has more other cost expenses. Other costs include management costs, sales costs, R & D costs, etc. This part of the cost should also be paid attention to in the management of enterprises. When evaluating the feasibility of a business project, the enterprise can calculate the special cost separately, such as the R & D cost of the high-tech enterprise, and make a unified collection of some small and infrequent cost, merge into other costs, and improve the accuracy of the enterprise cost accounting through scientific and reasonable way. The enterprise should pay attention to the unity and appropriateness when choosing the cost accounting method, and allocate the enterprise resources according to the enterprise management policy and the actual situation, so that the cost accounting can conform to the development of the enterprise.

3.4. Applied to Enterprise Production Process Control

Enterprise production operations often involve multiple processes, such as product parts design cost, production cost, storage cost, transportation cost and so on. At this time, we can use activity-based costing to maximize the full cost of product production, and can improve the constraints of

cost control according to cost accounting to realize the optimization of production process. If other uncontrollable costs are included in the enterprise production process, the traditional cost method can be used for simple cost accounting, which can save cost accounting efficiency. Generally speaking, the cost of labor-intensive industries is mostly fixed single-type cost type, which can be used in labor-intensive production by traditional cost method, while for complex cost matching in technology-intensive enterprises, activity-based cost method can be used [4]. It can be seen that the use of traditional cost method and activity-based cost method should be determined according to the actual production of enterprises, not simply applying activity-based cost method to replace traditional cost method. Enterprises can also use activity-based costing and traditional costing to improve their ability to account and control costs.



Figure 3 Operating costs

4. Conclusion

Under the background of continuous transformation and transformation of enterprise production mode, it is an inevitable requirement for the development of enterprise cost accounting to deeply study and explore the inherent differences between activity-based costing and traditional costing. There is a close connection between activity-based costing and traditional costing. Enterprises should adopt different cost accounting methods according to the actual situation, improve the effective cost control ability, and make the cost information provide strong support for enterprise decision-making.

References

- [1] Liang Yuqing. A study on the comparison and application of traditional cost method and activity-based cost method: taking a manufacturing enterprise as an example. *Modern Trade Industry*, vol. 40, no. 04, pp. 108-110, 2019.
- [2] Fan Chunjie. Discussion on the Distribution of Manufacturing Costs from the Perspective of Management Accounting -- A Comparative Analysis Based on Traditional Costing and Activity-Based Costing. *Time Economy*, no. 25, pp. 18-19, 2018.
- [3] Fan Yu, Yan Xin. Empirical comparison of activity-based costing and traditional cost accounting -- Taking Inner Mongolia Grand Gold Cargo Transportation Co., Ltd as an example. *Inner Mongolia Science, Technology and Economy*, no. 10, pp. 50-51, 2017.
- [4] He Chun Zhao, Mina Wu. A comparative study of activity-based costing and traditional costing: taking a large machining enterprise as an example. *Friends of Accounting*, no. 09, pp. 20-23, 2017.