Factors Affecting Implementation of Activity Based Costing in Selected Manufacturing Units in India

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ABSTRACT
The present article is an attempt to analyze the various factors affecting the adoption of an activity-based costing (ABC) system in selected manufacturing units in India. The following seven factors are considered: firm size, diversity of the product, percentage of overhead cost in total cost, listing of the company, cost audit compulsion, separate cost accounting department and the method of accounting. Logistic regression and a Chi Square test are applied to these factors and the use of an ABC system. On the basis of 72 sample units, the study found the size of the firm, percentage of overhead cost in total cost, cost audit compulsion and the method of accounting are statistically significant for the adoption of ABC system. While factors such as diversity of the product, separate cost accounting department and the listing of the company are found to not be statistically significant for the adoption of ABC system. The study has provided additional insights into areas relating to the factors affecting the implementation of ABC systems.

KEYWORDS
Activity Based Costing, Implementation of ABC, Manufacturing Sector, Product Diversification

INTRODUCTION
Today in the cut thought competition management needs to have more accurate and reliable cost information to take appropriate decisions. Managers and accountants have become dissatisfied with conventional costing systems and have expressed concerns about their suitability in the modern manufacturing environment. Conventional cost

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systems have been severely criticized by experts since the late 1980s. One of the major drawbacks of these systems is that they employ inappropriate measures for assigning indirect or overhead costs, leading to imprecise product costs. Critics have therefore argued for better cost systems that reflect cost information more accurately. ABC system was developed to overcome the deficiencies found in conventional cost systems. Activity based costing (ABC) assigns manufacturing overhead costs to products in a more logical manner than the traditional approach of simply allocating costs on the basis of machine hours.

The initial purpose of the ABC system is to provide a fair and accurate cost allocation and therefore product, or in this case services, profitability evaluation also. Accordingly, the ABC system focuses its attention on indirect costs. The aim is to define the most appropriate way for indirect costs allocation to cost objects. Activity-based costing determines every activity associated with producing an item and allocates a cost to the activity. Activity based costing first assigns costs to the activities that are the real cause of the overhead. It then assigns the cost of those activities only to the products that are actually demanding the activities. In ABC system maximum burden of the overhead cost is to be beard by the department who has used most of the services.

The majority of research on ABC was done in developed countries and very minute research has been done in developing country, especially in Asian context. In reference to Activity Based Costing system there are very few studies which are conducted in India. Several studies are conduct in various countries to determine the factors affecting the use of ABC system. Some of the studies found positive association of size of the firm, product diversity and percentage of overhead cost with the use of ABC system. Few studies found no significant relationship among these factors and use of ABC system. While some studies found negative relation among the above factors and use of ABC system. The present study is an attempt to know what kind of relation exists for the Indian companies for the above said factors. The study has used four additional factors which are not used in prior studies i.e., system listing of the company, Cost audit compulsion, Separate cost accounting department and Method of accounting which can affect the adoption of ABC system.

**OBJECTIVES OF THE STUDY**

Previous studies attempted to know the factors affecting the implementation of ABC system. Most of the studies considered the firm size or product diversification as the main factors for the implementation of the ABC system. But in the present study in addition to the firm size and product diversity we have considered are Listing of the company, cost Audit compulsion, Separate Cost Department and Accounting Method. As per the past studies there is a mix result of the Product diversity and the size of organization with the use of ABC system. Some studies show that there is significant positive relation among these. On the other hand some studies measure no significant relation between organization size, Product diversity and use of ABC. But no study is found which determine the relationship between the ABC uses and the factors such
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