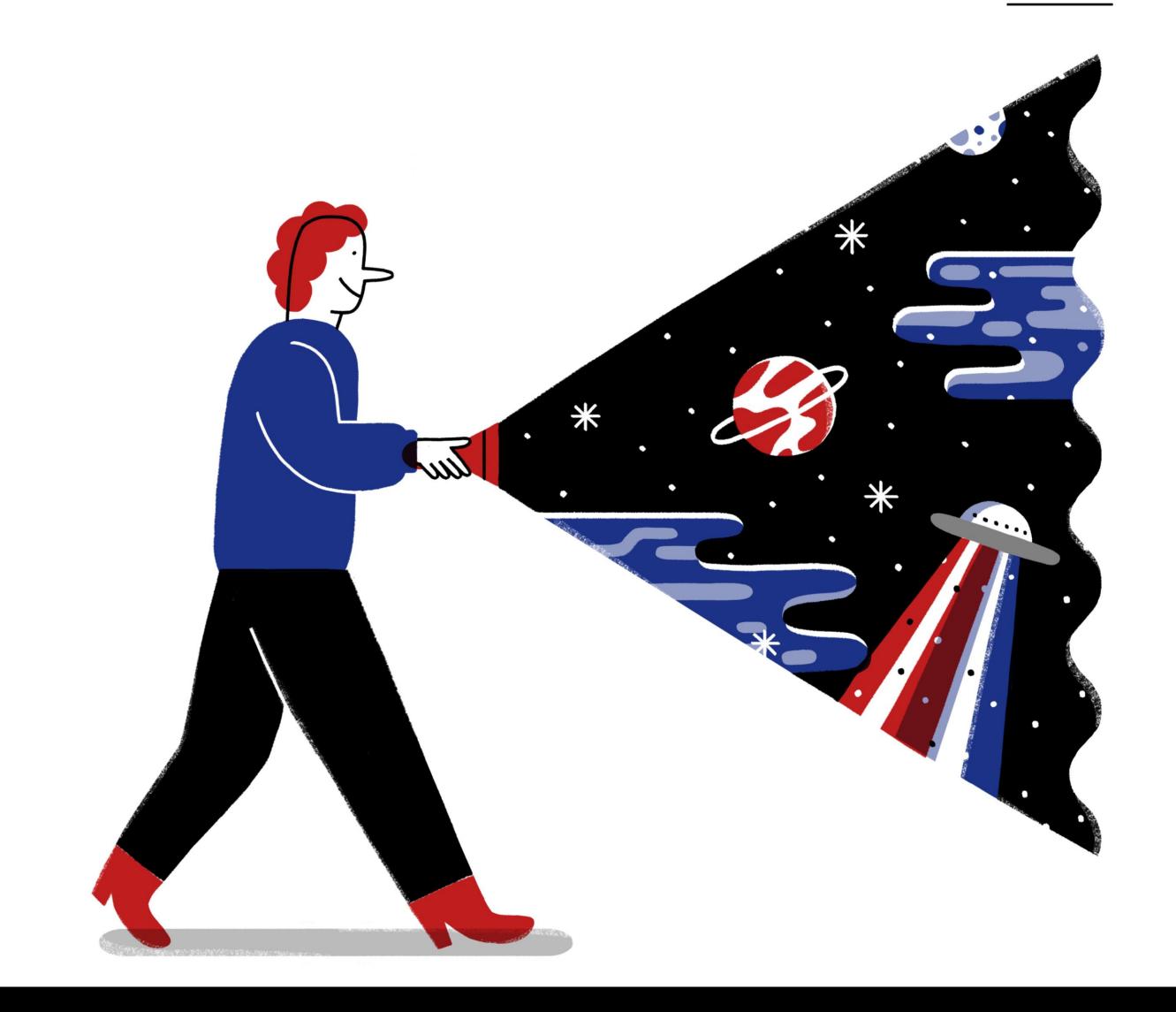
### Management Accounting

PRACTICAL CLASS 9





MANAGEMENT ACCOUNTING SPRING 2025

### Activity Based Costing

THE MOST PRECISE METHOD

Instead of assigning MOH to **Departments** we will allocate them to the activities themselves.

ABC recognizes that **activities cause costs** (not departments): the more activity that is undertaken, the more costs are incurred.

Note: ABC can be used to NMOH's

It looks like MOR, quite straight forward, right?

Yes, but here its all about activities, not <del>departments</del>. ABC is relatively simple in the exercises.

In practice is very costly to be this precise in tracking the costs.

Think about paying someone to count staples!

Step by Step ABC	Example
1) Identify different activities	Stapling
2) Identify Activity Cost Drivers	Nr Staples Stapled
3) Calculate Cost Driver Rate (CDR)	Total Costs of Stapling Total Staples Stapled
4) Attribute Cost Driver Rate	Nr Staples * CDR



MANAGEMENT ACCOUNTING SPRING 2025

#### ABC Method

IN PRACTICE

4. Assigning 1. Identifying the 2. Assigning 3. Determining the cost of major activities (resources) the cost activities to taking place in an costs to driver for each products (or organization activity cost other cost objects major activity centres such as services, clients, etc) Stage 1: Stage 2: Overheads assignment to activity cost centres Attribution of activity costs to cost objects

Overhead cost accounts (for each individual category of expenses e.g. property taxes, depreciation, etc.) First stage allocations (resource cost drivers) Activity Activity Activity cost cost cost centres centre centre N Second stage allocations (activity cost drivers) Direct Cost objects (products, services and customers)

Mateus Rodrigues, 2022 Mateus Rodrigues, 2022



## Exercise

22 – SANTA ISABEL CLINIC



# Exercise

24 – LUSITANO BANK

