

Management Accounting

PRACTICAL CLASS 9



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.

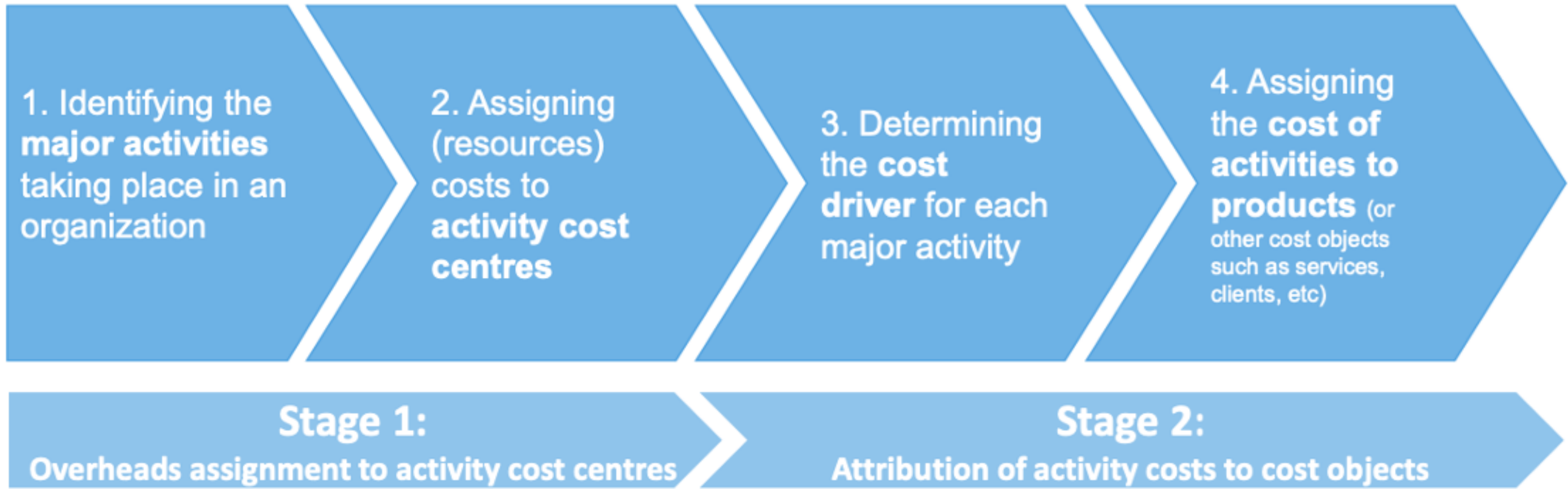
Note: ABC can be used to NMOH's
It looks like MOR, quite straight forward, right?

Yes, but here its all about activities, not departments. 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!

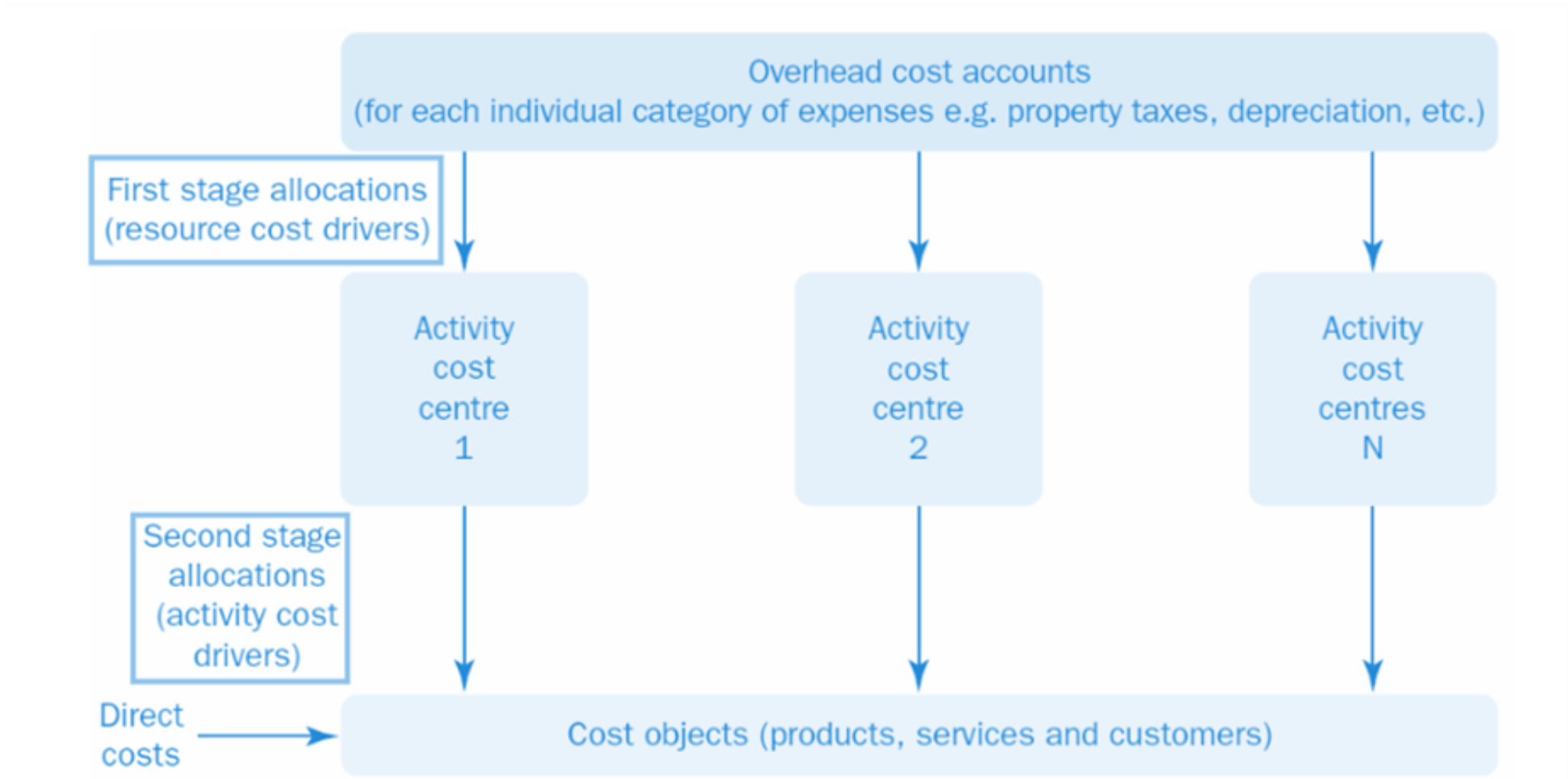
Step by Step ABC	Example
1) Identify different activities	Stapling
2) Identify Activity Cost Drivers	Nr Staples Stapled
3) Calculate Cost Driver Rate (CDR)	$\frac{Total\ Costs\ of\ Stapling}{Total\ Staples\ Stapled}$
4) Attribute Cost Driver Rate	$Nr\ Staples * CDR$

ABC Method

IN PRACTICE



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Exercise

22 – SANTA ISABEL CLINIC

Exercise

24 – LUSITANO BANK