



Management Accounting

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TA Pedro Perdigão - pedro.perdigao@novasbe.pt

Practical Class #8

Agenda

01

THEORETICAL RECAP

ABC System

02

EXERCISE 21

The Supermercado da Estrela



Activity Based Costing (ABC)

Activity Based Costing: A system that first **accumulates** indirect resource costs for **each of the activities** of the area being costed, and then assigns the costs of each activity to the products, services, or other cost objects that require that activity.

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

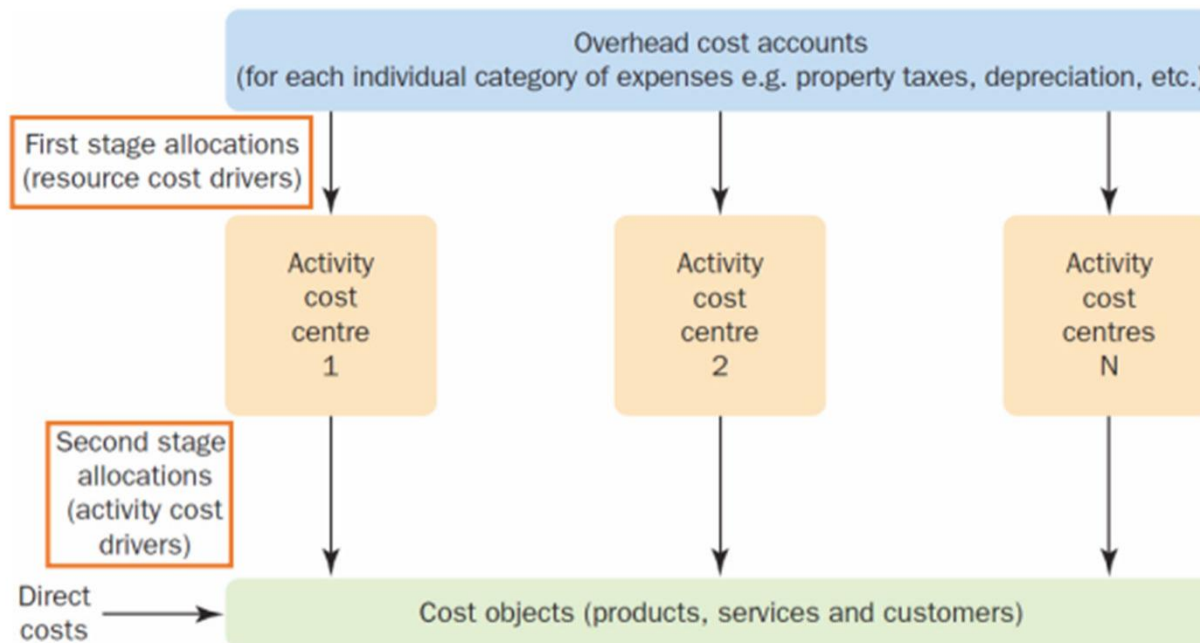
ABC leads to higher product costing accuracy:

- Greater number of cost centres in the first stage
- Greater number and variety of cost drivers in the second stage of the two Stage allocation process
- Cost drivers express the “real” consumption of activity resources by cost objects

Activity Based Costing (ABC)

The 2-stage allocation process:

1. Assign Overheads initially to activity cost centres
2. Attribution of activity costs to cost objects



Activity Based Costing (ABC)

Stage 2:

3. Cost Driver Rate = $\frac{\text{Activity Costs}}{\text{Volume of cost driver}}$

4. Attribution of activity costs to products $\text{Cost driver rate} \times \text{Volume of cost driver used by products}$



02

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