|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|

|  |  |
| --- | --- |
| chapter |  |
| 17 | Activity-Based Costing |

 |
|

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|

|  |  |
| --- | --- |
|

|  |
| --- |
|  |

 |
|  |

|  |  |  |
| --- | --- | --- |
|

|  |  |
| --- | --- |
|  | the navigator |

 |
|

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|

|  |
| --- |
|  |
|  |

|  |  |
| --- | --- |
| •    | Scan [Study Objectives](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-feafxd-0002)  |
| •    | Read [Feature Story](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-fea-0001)  |
| •    | Scan [Preview](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-fea-0002)  |
| •    | Read **Text and Answer**  |
| •    | Work [**Using the Decision Toolkit**](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-fea-0011)  |
| •    | Review [**Summary of Study Objectives**](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-sec-0032)  |
| •    | Work [**Comprehensive**](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-fea-0012)  |
| •    | Answer [**Self-Test Questions**](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-exsec-0001)  |
| •    | Complete **Assignments**  |

 |
|  |

 |

 |
|

|  |  |
| --- | --- |
| study objectives  |  |

 |
|

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **After studying this chapter, you should be able to:**

|  |
| --- |
|  |
|  |

|  |  |
| --- | --- |
| 1.    | Recognize the difference between traditional costing andactivity-based costing. |
| 2.    | Identify the steps in the development of an activity-based costing system. |
| 3.    | Know how companies identify the activity cost pools used in activity-based costing. |
| 4.    | Know how companies identify and use cost drivers in activity-based costing. |
| 5.    | Understand the benefits and limitations of activity-based costing. |
| 6.    | Differentiate between value-added and non–value-added activities. |
| 7.    | Understand the value of using activity levels in activity-based costing. |
| 8.    | Apply activity-based costing to service industries. |
| 9.    | Explain just-in-time (JIT) processing. |

 |
|  |

 |

 |

|  |  |  |  |
| --- | --- | --- | --- |
|

|  |  |  |
| --- | --- | --- |
|  |  feature story  |   THE ABCs OF DOUGHNUT MAKING—VIRTUAL-REALITY STYLE |

 |
|

|  |
| --- |
| Super Bakery, Inc., created in 1990 by former Pittsburgh Steelers' running back Franco Harris, is a nationwide supplier of mineral-, vitamin-, and protein-enriched doughnuts and other baked goods to the institutional food market, primarily school systems. Super Bakery is a *virtual corporation,* in which only the core, strategic functions of the business are performed inside the company. The remaining activities—selling, manufacturing, warehousing, and shipping—are outsourced to a network of external companies.Super Bakery draws these cooperating companies together and organizes the work flow. The goal is to add maximum value to the company while making the minimum investment in permanent staff, fixed assets, and working capital. The results are notable: Super Bakery's sales have grown at an average annual rate of approximately 20% during much of its existence.One of Super Bakery's challenges has been to control the cost of the outsourced activities. Management suspected a wide variation in the cost of serving customers in different parts of the country. Yet its traditional costing methods were spreading costs over the entire customer base. Each customer's order *appeared* to cost the same amount to complete. In actuality, orders with high profit margins were subsidizing orders with low profit margins. Super Bakery desired a system that would more accurately assign the costs of each order. With such a system, pricing could be improved.The company looked at and eventually changed to a system that could identify the costs associated with the *activities* performed in the business—manufacturing, sales, warehousing, and shipping. The new activity-based costing system showed that the costs and profit margins on each sale vary significantly. Super Bakery is now able to track the profitability of each customer's account and the performance of outsourced activities. This doughnut maker, as a result, even knows the cost of the doughnut holes!*Source:* Based on Tom R. V. Davis and Bruce L. Darling, “*ABC in a Virtual Corporation*,” *Management Accounting* (October 1996), pp. 18–26. |

 |
|

|  |  |
| --- | --- |
|  | INSIDE CHAPTER 17… |

 |
|

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|

|  |
| --- |
|  |
|  |

|  |  |
| --- | --- |
| •    | [**Traveling Light**](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-fea-0004)  |
| •    | [**Using ABC to Aid in Employee Evaluation**](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-fea-0006)  |
| •    | [**What Does NASCAR Have to Do with Breakfast Cereal?**](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-fea-0008)  |
| •    | [**Wasted Effort**](http://edugen.wiley.com/edugen/courses/crs6367/kimmel9780470534786/c17/kimmel9780470534786/c17/kimmel9780470534786c17xlinks.xform?id=c17-fea-0010)  |

 |
|  |

 |

 |

|  |  |  |
| --- | --- | --- |
|

|  |  |
| --- | --- |
|  | preview of chapter 17 |

 |
|

|  |  |  |  |
| --- | --- | --- | --- |
| As indicated in the Feature Story about Super Bakery, Inc., the traditional costing systems described in earlier chapters are not the best answer for every company. Because Super Bakery suspected that the traditional system was masking significant differences in its real cost structure, it sought a new method of assigning costs. Similar searches by other companies for ways to improve operations and gather more accurate data for decision making have resulted in the development of powerful new management tools, including **activity-based costing (ABC)**. The primary objective of this chapter is to explain and illustrate this concept.The content and organization of this chapter are as follows.

|  |  |
| --- | --- |
|

|  |
| --- |
|  |

 |
|  |

 |

 |

 |

 |

|  |
| --- |
|  |
| Copyright © 2011 John Wiley & Sons, Inc. All rights reserved. |