

ACTIVITY BASED ON COSTING

HERO MOTOCORP

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Abstract: Activity based costing has been claimed as a method of arriving at more accurate costs, often in order to set selling prices. In a market economy, the idea of selling prices based on costs is dangerous, with serious consequences for a business competitive stance. With the variety of conventions and concepts used in cost determination, there are no absolutes in determining product costs, hence the objective of accurate costs is diluted. However, the technique of ABC is being seen more as a cost-distortion alarm; more as an attention directing tool; more as a cost management tool.

Activity Based Costing is a methodology for understanding the activities, processes, services and products of a business; understanding what drives the cost of these activities and processes; and thus reducing the non-value-adding activities/processes.

Keywords: ABC, management accounting, manufacturing sector, time driven ABC.

INTRODUCTION

Activity Based on Costing (abc) is a bookkeeping method that enables the relationship to choose veritable cost related with each thing and organization made by the relationship without regard to the progressive structure. It is created to give increasingly precise methods for appointing the expenses of backhanded and bolster assets to works out, business frames, things, organizations, and customers.

OBJECTIVES OF THE STUDY:

- To know and comprehend the current costing technique pursued by saint engines.
- Identify and dispose of those items and administrations that are unrewarding and bring down the costs of those that are overrated.
- To redress the off base cost data. To apportion the expense for the exercises.
- To help discover lower cost options in contrast to giving administrations.

NEED OF THE STUDY:

- Fixing the price of an item or administration.
- Identification of procedures, items, exercises, or even whole divisions that aren't working proficiently.
- Achieving cost-control, at the item level or departmental dimension.
- Identification of pointless costs that could be killed.

LIMITATIONS OF THE STUDY:

- Source data isn't for each situation expeditiously open from conventional accounting reports.
- Reports from ABC don't commonly fit in with legitimate bookkeeping rules and can't be used for external declaring.

LITERATURE OF REVIEW

(Aggarwal & Kumar, 2017) Applications and Relevance of Activity Based Costing.

The main objective of this study is to explore areas of concerns for Indian firms in their approach towards ABC as an organizational performance management tool. For the purpose of our study, the sample size consisted of 50 companies in the primary data which belonged to the various sector in the Indian economy. These were global conglomerates manufacturing in the range of 25-100 products and were selected on their market performance in the period 2015-2017. The companies chosen were from a variety of industries. The study found that Indian companies have started employing ABC costing systems.

Witherite & Kim, 2006): Implementing Activity-Based Costing in the Banking Industry:- This study examined the application of system costs based on activities in the services sector, Which reviewed the system design costs based on activities in the banks, and the difficulties and the challenges facing its implementation. The study concluded that the system costs based on activities is the logical choice in the sector services, in particular in the banking sector to achieve many of the benefits, such as determining best of the cost of transactions as a result the efficient allocation of costs, and the ability to track costs for customers by understanding best of the costs associated with the performance of activities, as well as the ability to measure the profitability of customer or product, the positive implications in the ability to improve the decision-making process, and help banks achieve strategic objectives.

(Sharma & Gupta, 2010) Activity Based Costing: Strategic Implications for Indian Companies:- This study is attempt to highlight the development of costing systems globally and the factors responsible for evolution of Activity-based Costing. The study has done on Indian Companies about the use of the costing systems. 105 companies have surveyed with the attributes: (a) widely held companies (b) in operation for more than 5 years and (c) turnover greater than Rs. 100 cores. It shows that Activity-based costing is a definite improvement over the traditional methods on the premise that the costs are collected on the basis of activities rather 76 than products and it can effectively contribute to the top managerial decision-making process.

METHODOLOGY OF THE STUDY

• Primary Data

Following are the sources of primary data collected.

- Much of the information was collected from the cost accountant of hero motors (Mr. Sunil Kundap)
- Frequent discussions were made with other employees of the company.
- Met few senior level executive of the firm.

• Secondary Data

- Secondary information was gathered through a year ago equalization auto of legend engines.
- Books on cost bookkeeping were alluded.
- Company website

DATA ANALYSIS AND INTERPRETATION:-

Product name: UC (unit cost) Range series

Raw Material Requirements for the product

- Metal auto of length 1250 x 2500 x 1.2mm
- Weight of the auto is 30kg
- 21 Covers can be prepared from one metal auto.
- Autos required to prepare 1000 units is 48autos.
- Cost of auto metal per kg 37Rs.
- Weight of a Cover $\frac{30kg}{21} = 1.42kg$
- Gross Material cost per unit $= 1.42 \times Rs55 = Rs78.1/Cover$
- 8) Process Generated Scrap =0.65 kgs
- 9) Scrap rate =Rs12/kg
- 10) Revenue generated from scrap $= 0.65 \times 10 = Rs 6.5$
- 11) Net material cost $= 78.1 - 6.5 = Rs71.6$

CALCULATION OF COST PER UNIT BY ACTIVITY BASED COSTING

1) Purchase of Raw material

a) Raw material transport charges :

Weight of the goods 5000kgs (for the specified component) of auto metal
Delivered from R.C Nagar Hyderabad to hero motors Hyderabad = Rs.600.00

Therefore charges per unit $\frac{600}{5000KGS} = RS 0.12KG$
Cost of per cover $= 1.42kg \times Rs0.12 = Rs0.1704/cover$

b) Loading and unloading Charges = Rs300.00/ton

5 Ton x Rs300 = Rs1500.00
Therefore charges for per unit $\frac{1500}{5000Kgs} = Rs 0.20 Kg$
Cost per cover $= 1.42 \times Rs0.20 = Rs0.284/cover$

c) Storage charges = space required 10 x 5ft
 Rent 20000/month Building area = 10000sq ft
 Storage Cost = 50sq ft x Rs2.00 = Rs100.00/-
 Storage cost per day = Rs100/26Days = Rs3.84/day
 Storage cost per Cover = Rs3.84/1000Covers = Rs0.00384/cover

d) Material cost
 = 5000kgs x Rs 71.28 (exclusive of
 transport and loading and unloading
 charges) = Rs3,56,400
 5000kgs/1.42wt per kg = 3521 Covers
 Rs3,56,400/3521 Covers = Rs101.22 – scrap
 Rs101.22 – Rs6.5(scrap) = Rs94.72/cover

FINDINGS

1. Hero motors are specialized in deep drawn components that cater the electrical, elevator, home appliances automobile industry and the defense.
2. HERO motors follow traditional method of costing.
3. According to traditional costing the cost of the cover is Rs.143.50
4. According to Activity Based costing the cost of the cover is Rs136.68
5. According to costing followed by HERO motors they first identify the cost then they go for producing the product rather than identifying the activities first.
6. Appropriate variable overheads are identified to individual products through (Activity Based costing) ABC.
7. All levels of activities in the manufacturing cost hierarchy viz unit level, batch level, product level and facility level have been identified.
8. Cost drivers for the activities have been identified.

SUGGESTIONS

1. HERO motors should adopt Activity Based costing in their organization.
2. As ABC (Activity Based costing) integrates well with Six Sigma and continuous improvement programs the company can achieve minimum rejection rate.
3. To arrive at the actual cost of the product, overheads should not be directly assigned to the cost center which is basically done in traditional costing.
4. HERO motors can adopt cost control strategy where in the company can begin by evaluating non-labor expenses which can be controlled.

CONCLUSION

ABC (Activity-Based Costing) utilizes the activity concept and by using the activities, ABC can successfully link the product costs to production knowledge.

How a product is produced, how much time is needed to perform an activity and finally how much money is absorbed by performing this task are answered by the help of ABC (Activity-Based Costing) studies. This method is a dynamic tool for continuous improvement.

By focusing on processes that contribute to revenues and business operations, ABC (Activity-Based Costing) can accurately determine how each process relates back to specific products, customers, or services which can make a big difference after considering warehouse, sales, customer service, administration and other costs that are often applied at a standard rate, if at all. With ABC (Activity-Based Costing) you can drill into profitability and performance by almost any factor you can think of.

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