

# Utilization of Activity-Based Costing system in manufacturing industries – methodology, benefits and limitations<sup>1</sup>

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## Abstract

The subject matter of this paper is the detailed consequences of putting in place an Activity-Based Costing system and its structure within the manufacturing industry. Moreover, it defines steps within ABC application, as well as analyzing the input and output information and data required for effective utilization of the system. The close bond between cost allocation methodology and application procedures is also determined within this work, thereby describing all the features necessary for effective ABC implementation.

The results published herein come from research projects run over a 3-year timeframe, ones focused on the methodology of implementing an Activity-Based Costing system and its resultant influence on the efficiency of manufacturing businesses. The author has conducted a number of ABC system applications in manufacturing industries in order to gather the data and information necessary to define application and allocation principles.

The paper reveals two final outcomes. The first of these determines the methodology of building an ABC system, looking at the essential steps necessary to construct a system in an organization. The other describes cost allocation methodology, which is performed within separate stages of implementation.

The major part of paper is dedicated to explaining the methodological steps within ABC implantation, which include a feasibility study and review, activity and cost object definition, assigning costs to activities, defining the appropriate cost drivers for individual activities, determining the output measures for individual activities, calculating the primary rates of individual activities, assigning the costs of support activities to primary activities, and calculating the costs of defined cost objects.

One important issue that determines the eventual form and structure of the ABC system is senior managers' demand for data utilizable for decision making. All these requirements need to be defined in relation to the structure of the system. An effectively implemented Activity-Based Costing system then provides accurate product costing and proves a useful aid for managing business operations. In the final part of paper, the results are discussed according to the all features of ABC application in the manufacturing industry.

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<sup>1</sup> The article is processed as an output of a research project Methodology of the Activity-Based Costing system implementation and its influence on the manufacturing industries efficiency registered by the Grant Agency under the registration number 402/07/P296.