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Relevance and Superiority of Activity Based Costing (ABC) in Education Sector

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Abstract: ***Over the years India is witnessing a transition from agriculture based economy to knowledge based economy. International repute has been increased in significant proportion with reference to financial health of the country. In recent time, India can make a remarkable growth because of huge potential and opportunity in the form of youngest population, which is more technical efficient in comparison to global standard. As new environment demands more relevant cost information and performance informer an organization activities, process products services and customer which identity me nears of ABC in the education sector 60 now more and accurate cost can be assigned to each attiring and products. This paper focuses on the relevance and superiority of ABC over traditional costing system and the awareness about it in the education institutions of NCR Area.***

Keywords: ABC, Traditional Cost System

I. INTRODUCTION

It is the most appropriate time to poses on Indian education Industry as we are rapidly following the growth path in terms of no of university and enrollment of students. As in the developing countries one of the important objectives of the govt. is to improve the level of education and living standard of the peoples. This sector is me backbone of social and economic development in India and has emerged as the fastest growing sector in the global economy making. The era of economic liberalization has ushered in a rapid change in the education sector. The five year plan has reflected long term vision consistent with the international aspiration of which India has also seen a remarkable growth. India's education: Traditional Education, Professional Education and Special Education. There has been huge demand from all groups of society for reforms in education system. Out of many demand, one demand is the accounting system shall be robust and transparent, in Indian culture the primary objective at education is to pursue of internal knowledge that helps a person in his Endeavour to attain liberalization. The govt. of India has set up the education commission (1966) to determine the need and give a estimate of GDP required for higher education because it contributes significantly for economic development, social progress and political democracy in independent nation.

II. OBJECTIVES

1. To study the belief that ABC is important to provide Better information than traditional Cost System.
2. To study the superiority level of ABC over Traditional Cost System.

III. RESEARCH METHODOLOGY

For the study, the literature survey was undertaken according to variable wise. In the First stage, an effort was made to understand the problem clearly and to find out which aspects must be covered in the study. For this purpose a preliminary survey of literature was conducted under subject headings Activity Based costing. A thorough search was made through secondary sources to find the literature related with Activity Based costing published in different journals, books, reports, seminar/ conference proceedings, etc. and bibliography was prepared accordingly. In the second stage, the most relevant articles and documents were selected for detailed and in-depth study. Therefore, a thorough search and review of literature related to various aspects of the topic was conducted.

As Stated above, the area of study is limited to organizations in National Capital Region Delhi.

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IV. COLLECTION OF PRIMARY DATA

Mailed questionnaires, discussions and non-participant observation formed the tools and techniques of data collection from the primary sources. The branch offices served as the primary source of information.

V. FINDINGS

The Respondents of the University and their Respective affiliated Colleges, Professional Institutes from Haryana & Delhi (covered by NCR) Areas were administered the Questionnaire Consisting 22 Questions, Some questions were of the Nature of Scaling, some were of Percentage and some were of the nature of Open-ended/otherwise response Mechanism.

1. ***Belief:*** As far as belief of ABC was Related to the analytical process in the back drop of objectives, Almost all the educational Institutions believed that in comparison to the traditional Costing Mechanism was providing the better Information Pertaining the costs of the various activities of concerned Institutions. This Result implies that ABC is more informative as well as the better instrument in the hands of University officers operating/ dealing in Determining and Controlling the things attracting cost and financial matters.

2. ***Superiority level:*** Level of Superiority of ABC Over Traditional System

The Superiority of ABC System was adjudged on the basis of Responses given by the Respondents of the Universities and other educational Institution, on the basis of 5 point Scaling. The University and Professional Institutions in area of academics were enquired about their Knowledge Regarding the comparison of Traditional Costing and ABC.

It indicates that beliefs and Superiority are increasing in favor of ABC. It may also be Superiority that belief and Superiority Go together in one direction. Putting the same thing in other words the Superiority of ABC enhances the belief in ABC. The Results of Superiority were obtained as Narrated in the following manner:-

1. The superiority level of ABC was found significantly higher in IPU as compared to MDU ($\bar{x}$MDU =3.0769, $\bar{x}$IPU =3.8333, the difference=0.7564 was significant at 5% level of confidence, with difference=30). The Results are given Table 1 at No.2.

2. The Superiority level Responses of two small Samples based Means of two universities(MDU & KUK) were compared and difference of Superiority level as per Respondents was found in DU ($\bar{x}_{MDU} = 3.0769\ \bar{x}_{DU,} = 3.521$, t.05=1.6460 with S.E=0.2698, the Reference Value for t.05=1.645)

VI. HOW ABC WORKS?

Resources costs are assigned through activities;

- Activities are identified for both production and services;
- Cost drivers for each of the activity are determined;
- Cost is accumulated for each activity according to the cost drivers;
- Assignment of cost of activities to products and services on the basis of cost drivers.

VII. ABC TO ABM TO SCM

Most of the case studies on cost management have been written in manufacturing environment. However, Allied Office Products (Shank 2006) provides a setting of handling ABC in non-manufacturing environment. Further, the case study highlights the issues involved in transition from ABC to ABM and finally to Strategic Cost Management (SCM). Better understanding of the drivers underlying costs helps one to appreciate how ABM guides in reengineering and restructuring the set of activities in which an organization engages in. The case study positions the issues like identification of non-value adding activities, evaluating the competitiveness of cost structure of each of the value-adding activities, and prioritization .of cost drivers for management attention. The case study clearly spells out how the Customer Profitability Analysis, carried on the basis of ABC methodology, highlights faulty analysis used for decision making based on traditional cost analysis. Traditional cost analysis ranks both Customer A and B as equally profitable. However, ABC methodology highlights that Customer B is loss making and the company should focus on profitable Customer A. Most of the case studies on Customer Profitability Analysis force the discussion to end there. However, this case study takes the discussion to a higher platform by harping that the company should focus on loss-making Customer B as Customer A is more vulnerable to competition and does not fit the type of business in which the company is engaged. This builds a case for understanding costs in relation to the strategy resulting in SCM which is based on the concepts of value chain analysis, strategic positioning analysis and cost driver analysis.

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The usefulness and superiority of ABC is further reinforced in Advanced Micro Devices. The shift in strategy from managing' growth' to 'profitable growth' coupled with better product mix management, improves product design decision, and increases manufacturing efficiencies, motivates Advanced Micro Devices to experiment with ABC at its assembly facility in Penang, Malaysia. The experimentation with ABC methodology helps the organization to identify distortion in product costs. High-volume, simple products are over costed by 20-30% and low-volume, complex products, are under-costed by 600-700% by the extant costing system. Better cost data also helps the management to set transfer, prices more accurately as the transfer pricing mechanism is based on standard cost.

VIII. ISSUES TO MAKE ABC MORE EFFECTIVE

Service organizations need an operational control system that provides feedback on expenses incurred in each units as well as other measures to performance, such as quality and response time. These activity based budgets are then used by Operational Feedback Systems to compare and analyse the actual expenses incurred by each individual organizational units throughout the year. In return, Operational Feedback System provides the ABC with information about more recent efficiencies and capacity utilization of operations so that ABC system also updates their cost driver rates. This kind of continuous linking of different systems in an integrated environment gives additional robustness in the system by injecting real time response capability among the modules. The integrated system of ABC and Performance measurement may require monthly, weekly or even daily exchanges of information. For example, ABC system could be used to investigate the impact of different volumes on product and customer costs. In this kind of analysis, the ABC-calculated product costs must be embedded in the system that forecasts sales, production and profits. In a competitive environment, the demand for frequent and extensive information sharing is being highly intensified to understand effectiveness of new product launching. To make correct and meaningful decisions, an organization needs a broader information base than mere knowledge of costs.

Activity based management attempts to clarify each activity within a process as a value added activity. Value added activities are those which are necessary for the performance of the process while non-value-added activities are unnecessary, represent waste, and should therefore be eliminated. With the increasing of competition, service organizations have to focus of improving services to satisfy the customers by providing more innovative value-added services and eliminating non-value-added services as much as possible to reduce cost. The biggest challenge before them is in identifying the value-added activities and non-value-added activities. Non-value-added activities are frequently caused by inadequacies within existing process and thus cannot be eliminated unless these inadequacies are addressed. The most common definition says that an activity that adds value in the eyes of customer is the value-added one and non-value-added activity represents the one that customer should normally not pay for. For example, timely responding to after-sales problems of customers is generally considered as value-added activity whereas rectification in defects of service is a non-value -added activity. Normally, the managers have to use a value ranking scheme to focus their cost reduction programmes. Perhaps proponents of value added / non-value-added coding scheme believe that it is easier to reduce the cost of non-value-added activities than the value-added activities

IX. SUGGESTIONS

It may be suggested that all kind of educational institutes irrespective of university affiliation should adopt ABC cent percent.

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