

Application and Research of Activity-based Costing in Administrative Institutions of China

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Keywords: Activity-based Costing; Administrative Institutions; Cost Control

Abstract. After the generation of activity-based costing, more and more people begin to pay attention to the effect on cost management brought by this new theory and method. In addition, more and more enterprises begin to replace the traditional cost accounting methods with activity-based costing to carry out better cost control. However, the activity-based costing is seldom used in the administrative institutions. This paper is to analyze the feasibility of the activity-based costing application in the administrative institutions and provide some suggestions for its application in the administrative institutions.

In the 1980s, professors R.Cooper and R.Kaplan of the Harvard University made activity-based costing to be paid a great attention in the field of theory and be applied in practice. Activity-based costing is a distribution method of indirect expenses. With activities as the collection objects of the indirect expenses, the resources expenses are collected to the activities by determining and measuring the resources drivers, and then the costs of activities are collected to the products or the customers by determining and measuring the activity drivers. In recent years, the traditional cost accounting methods are already being challenged. In the current situation, more and more enterprises begin to pay attention to activity-based costing management and try to apply the new theory and method to save the costs of enterprises and stand out in the economic globalization environment. However, activity-based costing has not been widely popularized and applied in the administrative institutions in our country. The theoretical researches on this aspect are very rare. Following are the problems that should be solved quickly for us. Whether the activity-based costing can be applied in the administrative institutions in our country. Whether the activity-based costing has obvious advantages more than the traditional cost accounting methods in the cost management of the administrative institutions in our country.

Advantages of Activity-based Costing Compared to the Traditional Cost Accounting Methods

As a product of development of the times and scientific progress, activity-based costing gets more and more attention because of its advantages in application compared to the traditional cost accounting methods. The following four aspects of advantages are summarized by comparing activity-based costing with the traditional cost accounting methods.

Activity-based Costing Can Help to Carry Out Better Cost Control

In application of the traditional cost accounting methods, “product” is seen as the center. The direct materials costs are determined according to the quantity and unit price of the materials required by products in the process of cost control. The direct labor costs are determined according to the records and the wage rate. With “activity” as the center, activity-based costing is to provide more accurate and effective cost accounting information by analyzing the activity drivers. This method can reduce losses and waste in all links and reduce the consumption of resources as much as possible to constantly reduce the costs.

Activity-based Costing Can Effectively Combine Cost Calculation and Cost Control

The traditional cost accounting is just for calculating the costs. In the traditional cost accounting systems, most of the indirect expenses are distributed to the products as the direct labor expenses. Obviously, this distribution method is not applicable for the enterprises have products with huge kinds, much number and much differences. The application of this method also bring some drawbacks to the cost control of enterprises. Activity-based costing is to reduce the waste in all links, save the resources to the most extent and complete the activity tasks with high efficiency and

high quality based on the analysis combining the causes of costs and the results of activity execution.

Activity-based Costing Can Provide More Accurate Cost Accounting Information

In the traditional cost accounting methods, the objects of cost calculation are singly distributed according to the resources consumed. This method is implemented in the premise of assuming all the indirect expenses relative to the direct labor and the output quantity. But under the environment of higher and higher informationization and automation degree, this distribution method directly causes the untrue distribution of the indirect expenses. The costs of the products with high quantity and low complexity are higher than the actual costs. The costs of the products with low quantity and high complexity are lower than the actual costs. Activity-based costing distributes the indirect expenses to the activities according to the resources drivers, and then includes the activities to the cost objects according to the drivers with the cause and effect of cost objects and resources consumption as the starting point. This new method overcomes the defect of supposing a premise of the traditional cost accounting methods and make the cost calculation to be more accurate and reliable.

Activity-based Costing Can Reduce the Subjective Factors in Cost Formation

From the angle of fund compensation, some expenses which do not form the costs of products are included into the costs (allowable cost) in practice. Allowable cost includes the cost of rejects, the depreciation of the fixed assets and the administrative expenses and the travel expenses for management and organization of production activities. These expenses are affected by some subjective factors such as the workers' responsibility and cost management consciousness and the interpersonal relationship between the workers or between the workers and the leaders. In the activity-based costing system, it make the distribution basis more reasonable, responsibility differentiation more easy and the subjective factors in cost calculation less to differentiate responsibility center according to the activities.

Feasibility Analysis of Activity-based Costing Application in Administrative Institutions

With the constant development of science and technology, the outside environment of the modern enterprises has been greatly changed. These changes require enterprises to take effective measures to meet the requirements of the times for the enterprise system. So the activity-based costing has obvious advantages than the traditional cost accounting methods is accepted and applied by more and more enterprises. But in the administrative institutions of our country, only a few institutions apply the activity-based costing. It is one of the problems we currently face whether the advanced activity-based costing can fully play its advantages in the administrative institutions.

Administrative Institutions Should Have Cost Drivers

In activity-based costing, the resources are distributed to the activities according to the drivers. The activity center should also provide the data needed in the cost calculation with activity-based costing when the expenses are distributed according to the cost drivers. Based on the work characteristics of the administrative institutions, when the activity center need to be determined, the core of cost control should be determined according to the management purposes, the main aspects of the units' tasks should be analyzed with the cost-benefit principle as the premise, and the costs should be distributed to the activities according to the cost drivers.

Administrative Institutions Should Have Modern Information Technology Support

With the globalization of economic development, the competition between countries is more and more intense. In order to increase the labour productivity, reduce the product costs and improve the quality of products, All countries actively adopt computer automation and other advanced technologies. The development of technology promotes the development of management concepts and methods. Activity-based costing is generated and developed under such background. However, to well apply this advanced cost management method, the administrative institutions should have the advanced hardware conditions. Only in this way can the advantages of activity-based costing be fully played.

Administrative Institutions Should Have Active Cost Management Awareness

The purposes of activity-based management are to increase the cost information quality and strengthen the cost control in order to increase the efficiency and effectiveness of cost management. So we can say that active cost management awareness is the basis of effective activity-based management.

Problems and Countermeasures of Activity-based Costing Application in Administrative Institutions

Activity-based costing is applied relatively late in the field of practice in China, and its application in the administrative institutions is still immature. So it is inevitable to encounter some problems in the application process. It will have a positive impact on the application of activity-based costing in the administrative institutions to solve the problems encountered one by one.

External Environment Is Not Mature

Since the generation of activity-based costing, many institutions had realized that this method has many advantages in cost control. In the case of no full consideration of their own conditions, these institutions blindly applied activity-based costing that caused the undesired cost management and control. At present, our country is still at the preliminary stage of socialism development. At this period, many factors affect the active application of activity-based costing such as the lower productivity level and the weak foundation of science and technology. To well apply activity-based costing in the administrative institutions in our country, some measures must be taken such as actively developing science and technology, encouraging scientific and technological innovation and accumulating experience by learning about the application experience of activity-based costing of foreign developed countries.

The Cost Management Awareness of the Administrative Institutions Personnel Is Weak

As an advanced cost management method, the design and application of activity-based costing will add up to a lot of extra work for the personnel of all departments. So some negative sentiments are hard to avoid in the institutions. So before the activity-based costing is implemented in the institutions, an internal training should be conducted for the workers to enhance their cost control awareness, improve the professional quality of the related personnel and avoid the negative effect in the application process of activity-based costing. The leaders of administrative institutions should also improve their own quality, enhance the cost control concept and view the problem of cost control from the angle of unit competition. The support of institutions' leaders is one of the premises of better application of activity-based costing.

The Ability of Internal Financial Staff of Administrative Institutions Is Limited

In China, the accounting personnel of administrative institutions have already been used to conduct accounting with the fixed mode in accordance with the accounting system and principles for a long time who lack the professional judgment. In addition, because activity-based costing is generated and developed relatively late, and its knowledge is relatively new. Many financial staffs have no profound understanding of this method. Activity-based costing is a relatively complex cost accounting method which not only need the support of advanced science and technology but also need the compound talents with high quality. So it is inevitable to encounter some problems in the application process of activity-based costing. This requires the administrative institutions to pay more attention to the reeducation of financial staff, impart the relative knowledge of activity-based costing and popularize advanced science and technology knowledge. Only in this way can activity-based costing really play a role in cost control. In addition, the accounting personnel in our country should not only learn the financial knowledge but also possess management knowledge and some computer technologies. The compound talents make the application of activity-based costing in both enterprises and administrative institutions to be more effective and successful.

Conclusion

As an innovation of the traditional cost accounting methods, activity-based costing is more

adaptable to the development and changes of economy and society. Although it is generated from the manufacturing system, it has a wide applicability as a cost management method. Through the above analysis, we can see that it has certain feasibility to apply activity-based costing in the administrative institutions. But in the application process, we should follow the cost-benefit principle, identify the activity drivers and raise the cost control awareness of the staff. Only in this way can activity-based costing be effectively applied in the administrative institutions.

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