

## Upcoming 2010 Events

- CAM-I Second Quarter Meeting  
San Francisco  
June 6-9

## People in the News

- Thanks to William O. Stratton, Ph.D., Denis Desrochem, Rael A. Lawson Ph. D., and Toby Hatch for their insightful article *Activity-Based Costing: Is it Still Relevant?*, published in *Management Accounting Quarterly* (Spring 2009)

According to their survey of 348 manufacturing and service companies worldwide, "Our results indicate that ABC continues to offer organizations significant value from strategic and operational perspectives"

# Activity-Based Costing

The roots of Activity-Based Costing (ABC) go back almost 100 years.

In 1919, the earliest known reference to ABC, Dexter S. Kimball Professor of Industrial Engineering and Dean, College of Engineering, Cornell University published *Cost Finding*.

Dated in terms of examples (in 1919 the fully burdened direct labor rate was 38 cents an hour), the emphasis was on activity costing and accounting for activity cost, activity output, and activity performance.

In 1971, George J. Staubus, Professor of Business Administration at the University of California Berkeley, published *Activity Costing and Input-Output Accounting*. Again the focus was on activity costing and accounting.

In 1988, CAM-I published *Cost Management for Today's Advanced Manufacturing: The CAM-I Conceptual Design*.

The concepts included the ABC two-stage cost assignment methodology where resources (costs) are first traced/assigned to activities (work) and the resultant activity costs are then traced/assigned to products, services and customers (cost objects).

Known as the CAM-I Cross, the focus of ABC was no longer just activity costing and activity accounting but rather a tool for cost analysis, profitability analysis, and performance measurement.

SAP, SAS, IBM and other Enterprise class software providers recognized the power of ABC and acquired most of the stand

alone ABC software providers between 2002 and 2006, embedding ABC in their suite of products with a broader emphasis on performance excellence and management.

Today, ABC is more of a best practice for cost assignment, included in projects for product /service profitability analysis, process improvement, shared service charge back, customer profitability or even for vendor analysis.

ABC has been around for 100 years because it is aligned with the basic mission of any commercial organization: convert resources to products and services customers want to buy.

Resources fund the activities (work) required to make and provide products and services to customers. Activities are the means of conversion, the so called "value add" by the business.

**Improve your analytical capability. Know your ABC's**

**John A. Miller**

