

Greetings!!!

Cost is the key to enterprise product pricing and the foundation to achieve product pricing strategy. At present, while enterprises choose the most basic pricing method which is called cost-plus method for pricing product, the effect of cost is more marked. The key to reasonable pricing is to determine a cost accounting method, which provides accurate cost information for enterprise and can be the scientific basis in pricing. ABC activities have been around for more than two decades and many companies in a variety of sectors have implemented activity based thinking. Activity based costing is a method for assigning costs to products, services projects, tasks, or acquisitions based on activities that go into them and resources consumed by these activities.

Companies implement activity based costing in order to:

- Identify individual products that are not profitable.
- To find the true costs of products so as to support pricing policy.
- Reveal unnecessary costs to eliminate.

Product cost plays an important foundation role in pricing. With the high development of new technology, traditional cost accounting methods cannot meet the industry's need for accurate cost information. Activity Based Costing, which focuses on activity and its cost driver, can determine the cost of the product to arrive at a reasonable price much more accurately. Cost and Management Accountants know that traditional cost accounting can hide or obscure information on the costs of individual products and services, especially where local cost allocation rules misrepresent actual resource usage. As a result, the move to ABC is usually driven by a need to understand the "true costs" of individual products and services more accurately.

Activity-based cost (ABC) and activity-based management (ABM) systems have emerged to meet the need for accurate information about the cost of resource demands by individual products, services and customers and these systems also enable indirect and support expenses to be driven first to activities and

processes and then to products, services and customers. In this way managers have obtained a clearer picture of the economics of their operations and could improve their decisions. ABC and ABM have brought about radical changes in cost management systems. The principles and philosophies of activity based thinking apply equally to service companies, government agencies, process and manufacturing industries. Management practices and methods have changed over the last decade and will continue to change. Organizations have moved from managing vertically to manage horizontally. There has also been a move from a function orientation to a process orientation. ABC technique mirrors the functioning of an organization and contributes to strategic decision-making processes. It identifies the relation of the product within the business activity and the resources it requires.

In a business organization, the ABC methodology assigns an organization's resource costs through activities to the products and services provided to its customers. It is generally used as a tool for understanding product and customer's cost and profitability.

Familiarity with and adoption of ABC has been found to be comparable across both the manufacturing and service sectors. Both service and manufacturing firms are benefitted with the applications of ABC mechanism. ABC also focuses management to ensure that cost effective methods are used to produce current products to current customers at a price that generates the maximum positive ABM Product and Customer Contributions and also to ensure that the ABM Contributions are used effectively to generate new products and services to new markets such that the return on the investment in sustaining costs is greater than that which would be achieved by shareholders investing elsewhere.

This issue presents a good number of articles on the cover story theme 'Activity Based Costing & its Applications' by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.

