

ABC COST METHOD

When we talk about a company's financial analysis, we think of accounting documents (balance sheet, income statement, etc.), and the intermediate management balances. But the results obtained from these ratios may be insufficient to have a good understanding of the company's performance and its cost control. This is where the ABC method comes in. What exactly? How do you calculate costs from the ABC method? Here's everything you need to know about this method.

What is the ABC method?

The ABC method for activity-based costing is an accounting method that consists of analyzing the expenses generated by the different cost centres. In practice, the ABC method allows for analysis of costs by activity. This is another specific version of the full cost method.

The ABC method steps

The implementation of ABC requires a few key steps:

Step 1: identification of key activities of the company;

step 2: the choice of cost drivers;

Step 3: allocation of resources to activities;

Step 4: grouping of inductors and calculation of unit cost;

Step 5: the calculation of the cost of production based on activity.