



Activity Based Costing Model for Cost Calculation In Gas Companies: Empirical Evidence of Iran

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Abstract: With the reduction of public funding and the government's emphasis on accountability, output control and cost-effectiveness in the delivery of services, organizations need information to measure their activities, link their inputs with outputs, correct their pricing, and measure their performance in order to facilitate accomplishing their goals. This research is to explain the steps and the benefits of implementing Activity Based Costing (ABC) for the Iranian Gas Company. Using ABC the cost of one cub meter of consuming gas in all regions of capital was determined and compared with the results of the Traditional Costing System (TCS). Implementing ABC strongly changed company managers' prospective towards the company cost of services, provided a more effective system for company internal decision-making, improved the effectiveness of the costing system and cost management, and helped the managers to correct company pricing of services and the accomplishment of strategic goals by giving more correct cost information.

Key words: Activity Based Costing, Traditional Costing Method, Iranian Gas Company.

1. Introduction

Activity-based costing (ABC) is a dynamic approach to determining costs by assigning them to the principal activities performed within an organization. Widely applied in many manufacturing and services organizations, ABC improves their competitiveness by enabling them to make better decision based on an improved understanding of their product cost behavior. The main premise behind ABC is to classify overhead or indirect costs and to allocate them to end products or services based upon the activities required to produce these products (Raz and Elanathan, 1999). Basically ABC is a two-stage procedure in which the costs of resources in the first stage are allocated to activities to form an Activity Cost Pool, which in the second stage are allocated to cost objects based on these objects' use of the different activities (Thyssen et al, 2005). This contrasts sharply with the traditional cost system which holds that products cause costs. The traditional approach does not use cost pools, and it uses a single volume-based cost driver to allocate overhead costs to products with consideration just for volume-related characteristics. Traditional systems generally fail to address the long-term nature of products and customer relationships. By gathering and reporting aggregate cost information, these systems overlook the fact that some costs incurred