

Cost management at manufacturing stage using activity-based costing and target costing

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[https://doi.org/10.35609/gcbssproceeding.2023.1\(167\)](https://doi.org/10.35609/gcbssproceeding.2023.1(167))

ABSTRACT

The latest studies show a positive relationship between target costing and product innovation at the design stages. This study examines the role of target costing and activity-based costing (ABC) in further improving product design and eliminating non-value-added functions from product design to production stages. This paper surveys the contingent fit between activity-based costing (ABC) and target costing (T.C.) through a theoretical lens known as "contingency theory", which is based on a historically embedded understanding of the specific situation of organisations. The majority of supporters of T.C. and ABC are referring to these two techniques as a remedy to cope with the shortcomings of traditional costing systems. While both T.C. and ABC share many similarities in terms of providing necessary information for decision-makers in organisations, to our knowledge, no study has been reported in the literature to investigate if there is a fit between these two techniques in practice. So, we don't know the possible interaction between these two techniques and if they are replaceable. Our results show that T.C. and ABC are mutually complementary. Both share the same primary goal, such as: identifying non-value added activities and providing more accurate cost information for decision-makers in organisations. The results further show that using these two techniques together can give organisations a competitive cost advantage. Another interesting finding is that adopters of T.C. (versus non-adopter) are likelier to use ABC.

Keywords: Product innovation, target costing, activity-based costing, diffusion of innovations.