



## The implementation of activity-based costing system in Yemeni companies: A review

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### Abstract

The sector of industry in Yemen has a crucial contribution to national GDP. In order to improve the efficiency and competitiveness of the manufacturing by enabling them to make decisions based on a better understanding of their cost structure, they need to adopt Activity-Based Costing (ABC). The present paper aims at reviewing the research studies on the uses of ABC in the manufacturing units in Yemen. The review found that the majority of commercial banks in Yemen do not apply ABC. The banks which use ABC find that ABC helped to raise the bank's efficiency in resources management and its uses. The majority of the manufacturing units still use the Traditional Costing Systems and only 24% of the Yemeni industrial companies, mostly large companies apply ABC.

**Keywords:** costing system, industry, national GDP

### Introduction

The system which allocates the overhead cost to multiple activity cost pools and assigns the activity cost pools to products or services by means of cost drivers that represent the activities used. Activity-Based Costing (ABC) system is a technique that events cost of a product, based on the activities performed to create the product. ABC system is one of the new techniques and methods for making accurate decisions is controlling the cost by adopting activity-based costing and planning. ABC is considered as a level of activity management which is a costing technique that traces costs to different activity by using relevant cost drivers and then allocates costs to the product or services based on the level of activities consumed by the products produced or services performed. ABC system differs from the straight costing systems, which is built on the statement that merchandise drives the cost directly. ABC system drives indirect and holds expenses, first to the behavior & process and then to products, services and customers, giving managers a clearer picture of finances of their operations and services.

### Model of applying ABC

The model of applying ABC has two stages; a) costs are assigned to cost pools within an activity center based on a cost driver and b) costs are allocated from the cost pools to a

product based on the product's consumption of the activities.

### Procedures of ABC System

When applying ABC, companies use continuous development processes in terms of analyzing the cost, to reduce or eliminate the non value added activities and to attain an overall competence. For developing ABC system, companies appreciate the a variety of the involved costs which make the company:

- Analysis the Cost.
- Identify the value added and non value added actions.
- Realize the improvements and hold the benefit.

### The Benefits of ABC system

ABC system is proposed to help the companies to:

- recognize inefficient products, departments and behaviour
- assign more resources on cost-effective products, departments and activities
- direct the costs at an disposition level and on a departmental level
- find needless costs
- fixing price of creation or service logically.

To have a summary for the benefits of ABC with respect to the line of business, the following table illustrates the types of business and the repayment that can be predictable:

Table 1

No.	Business line	Proposed Procedures
1	Multi Product Manufacturers	Get better procedure, good organization and establish the success of each product
2	Distribution Channels	Charge their prosperity guide wise, market wise or even custom-wise.
3	Single Product Manufacturers	Obtain improved the course competence with the in order on the
4	Service Industries	Charge their ability, build good organization. This method will also allow them to assess the client wise success

**Purpose of the research article**

1. To introduce Activity-Based Costing system.
2. To review the research literature on Activity-Based Costing in Yemen.
3. To find out scope for further research on adopting Activity-Based Costing system in Yemen.

**Studies on Activity-Based Costing System in Yemen:**

1. Abdullah A. A. H. (2009)<sup>[1]</sup> in his doctoral research entitled "Activity-Based Costing: A Case Study of the Possibility of Its Application in Yemeni Manufacturing Companies" has investigated the discourse of Yemen and explored the possibility of applying ABC system in Yemeni manufacturing companies. The researcher studied the large manufacturing firms listed in the Ministry of Trade and Industry in Yemen. The study has revealed that manufacturing firms in Yemen still use the Traditional Costing Systems (TCS) methods of overhead costing despite of increase in overhead cost and decrease in labour due to the new changes in the business and manufacturing environment. Though TCS is inappropriate and need improvement but Yemeni companies use it for the purpose of preparing annual accounts, specific for inventory purposes. The study sample has recognized some benefits probably would be achieved in case the adoption and applying of ABC and tendency in adopting ABC system.
2. Abdullah N. (2008)<sup>[2]</sup> conducted a research on the applications of activity-based costing system in Yemeni industrial companies. The study aimed to demonstrate the reality of applying activity-based costing system in industrial companies in Yemen and the factors affecting it. The study found that 24% of the Yemeni industrial companies, mostly large companies applied the system; the study found that the support of senior management and ownership of non accounting information is directly linked to the application of this system. The study recommended that companies that apply traditional systems need to use costing systems that helps to calculate its costs accurately and researcher proposes using activity-based cost system to achieve this.
3. Al D'ari A. (2007) entitled "Activity –Based Costing& Customer profitability".

This study aimed to apply the costing system (A.B.C.) in the Yemeni banks as well as the possibility of using this system to determine customer profitability and determining the features of this system. The study found that the application of the

system of (ABC) in Saba Islamic Bank help in customer profitability analysis of the bank and make able to manage the relationship with its customers more efficiently, and raise marketing Bank and competitiveness, as the application of this system has helped to raise the bank's efficiency in resources management and its uses.

The study recommended the need for the banks' processing of the basic requirements for the application of this system such as the preparation of organizational structures, and administrative regulations, the manner in which helps to divide the main activities and to facilitate sub-application of this system, in addition to the need to develop information systems.

4. Bin Dhubea Hussein M. S. and Al-Riami Saleh A. (2017)<sup>[5]</sup> have studied the application of activity based costing and activity-based planning influences decision making in the oil companies in Yemen. The data was collected through questionnaires administered to finance staffs, the users of ABC and ABP and decision makers in two oil companies in Yemen (PetroMasila and Nexen).

This study found that that ABC and ABP have a positive influence on the decision making. Meaning that companies which use ABC and ABP system make accurate decision compare to other companies as perceived by decision makers, users of ABC and ABP, and finance staff.

5. Radwan A. (2006)<sup>[6]</sup> has conducted a research entitled "the application of costing system in the commercial banks operating in Yemen." This study aimed to highlight the importance of applying the (A.B.C.) system in the commercial banks of Yemen sector and knowledge of the difficulties that hinder the implementation of this system, in addition to knowing the extent of awareness of commercial banks in the Republic of Yemen, the importance of costs in the banking system. This study found that a large proportion of commercial banks in Yemen do not apply costing system, as well as the lack of awareness among commercial banks in Yemen, the importance of the application of cost accounting system, and the banking pricing with a large proportion of commercial banks in Yemen are without foundation based on cost systems.

**Summary of the studies**

Given below the summary of the previous studies showing scope, main objective and finding for each study:

**Table 2**

No.	Researcher	Scope of study	Objective	Finding
1	Abdullah A. A. H. (2009)	Yemeni Manufacturing Companies	exploring the possibility of applying ABC	Companies still use Traditional Costing Systems but they have tendency to use ABC
2	Abdullah N. (2008)	industrial companies	To explore the reality of applying ABC.	24% of the Yemeni industrial companies, mostly large companies applied ABC.
3	Al D'ari A. (2007)	Saba Islamic Bank	Studying the possibility of using ABC to determine customer profitability and features of ABC.	Application of ABC helped to raise the bank's efficiency in resources management and its uses
4	Bin Dhubea H. M. S. and Al-Riami S. A. (2017)	oil companies	Study the application of ABC and activity-based planning in influencing the decision making	ABC and ABP have a positive influence on the decision making
5	Radwan A. (2006)	Commercial banks	Exploring the usage and difficulties that hinder the implementation of ABC	A large proportion of commercial banks in Yemen do not apply ABC and no foundation based on cost systems

## **Conclusion**

The literature on ABC system in Yemeni industrial sector revealed that a large proportion of commercial banks in Yemen do not apply ABC and those banks which use ABC find that ABC helped to raise the bank's efficiency in resources management and its uses. Only 24% of the Yemeni industrial companies, mostly large companies applied ABC and the majority of the manufacturing units still use the Traditional Costing Systems though they have tendency to use ABC but currently there is no foundation base for ABC system.

## **Recommendation**

Intensive study should be conducted to cover the industrial, commercial and service units aiming at exploring the level of implementation of ABC and the impact of its uses on the performance of these units

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