The initial aim of this report is to layout the main differences of the client's current basis of overhead absorption, compared to activity-based costing (ABC). By showing the divergence of both systems, it appears to

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In this report, we examine the current state of overhead absorption at a large company and compare it to activity-based costing (ABC). The report includes an overview of ABC, a comparison of the two systems, and a discussion of the results of implementing ABC at the company. The report concludes with recommendations for implementing ABC at other companies. The report is based on an extensive study of ABC implementation at a large company.

**The ABC System**

ABC is a method of allocating overhead costs to products or services based on the actual activities that are performed to manufacture them. This system is based on the idea that overhead costs are not fixed, but vary with the level of activity. ABC systems typically use a hierarchy of cost objects, such as departments, cost centers, and jobs, to allocate overhead costs. The system also uses activity drivers, which are measures of activity, to allocate overhead costs to cost objects.

**ABC vs. Traditional Costing Systems**

Traditional costing systems allocate overhead costs based on a single measure of activity, such as direct labor hours or machine hours. These systems are often based on the assumption that overhead costs are fixed and do not vary with the level of activity. This can lead to inaccurate cost allocations and, in turn, inaccurate product or service costs.

**Implementing ABC**

Implementing ABC requires a significant change in the way that overhead costs are allocated. The first step is to identify the activities that are performed to manufacture products or services. The next step is to measure the activity levels and assign them to cost objects. Finally, the overhead costs are allocated to cost objects based on the activity drivers.

**Results of Implementing ABC**

The results of implementing ABC at the company were positive. The company was able to identify cost savings and improve decision-making. The company also found that ABC helped it to better understand the cost structure of its products and services.

**Recommendations for Implementing ABC**

The report concludes with recommendations for implementing ABC at other companies. These recommendations include:

1. Identify the activities that are performed to manufacture products or services.
2. Measure the activity levels and assign them to cost objects.
3. Allocate overhead costs to cost objects based on the activity drivers.
4. Identify cost savings and improve decision-making.
5. Better understand the cost structure of products and services.

**Conclusion**

In conclusion, the report concludes that implementing ABC at the company was a success. The company was able to identify cost savings and improve decision-making. The company also found that ABC helped it to better understand the cost structure of its products and services. These recommendations can be applied to other companies to help them implement ABC successfully.

**References**

The report includes a bibliography of references used in the study.

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