# A COMPARATIVE ANALYSIS OF ACTIVITY BASED COSTING (ABC) AND TRADITIONAL COST ACCOUNTING (TCA) METHODS IN A DOMESTIC MANUFACTURING COMPANY: A CASE STUDY

## G.G.D. Sanjeewani, M.S. Nanayakkara and Y.M.B.A. Manawansha

*Department of Accounting and Finance, Faculty of Management and Finance, University of Ruhuna, Matara, Sri Lanka*
Corresponding author: sanjeewaniggd@gmail.com

In today's world, manufacturing companies are changing and becoming more information intensive, highly flexible and immediately responsive to the customer expectations. In this dynamic scenario, it is very hard to sustain competitiveness without an accurate cost calculation system which gives high quality information for the management decision. There are several accounting systems which have been developed over time for the purpose of calculating the overhead cost per unit in both manufacturing and service organisations specifically Traditional Cost Accounting method (TCA) and Activity Based Costing method (ABC). Despite the fact that comparative analyses of ABC method and TCA method have been well documented worldwide, only few studies have attempted in Sri Lankan context. Thus, this paper, drawing upon a data set in 2012 in the well-established domestic manufacturing company in Sri Lanka. In this study both primary data, obtained from interviews, discussion, and observation of production process, and secondary data, extracted from costing reports and sheets, have been collected. In this case study employs the exploratory data analysis technique as the main analysis tool. Moreover the results are obtained between the two cost accounting methods by comparing the percentage of TCA profit margin and ABC profit margin. Research findings are evident that as compared to Traditional Cost Accounting method, Activity Based Costing method gives the accurate/exact costs of the products and shows a meaningful relationship between identified activities with overhead cost ratio for each products.

**Keywords:** Activity Based Costing, Cost pool, Overhead, Traditional based costing