Activity-Based Costing

Accounting & Finance

Assigning overhead by what actually drives it.

Building an ABC model.

1. **Identify activities**
   The things that consume resources — setups, inspections, orders.

2. **Pool the costs**
   Group overhead by the activity that causes it.

3. **Choose cost drivers**
   A measure that moves with the activity, such as number of setups.

4. **Calculate driver rates**
   Cost pool divided by total driver volume.

5. **Assign to products**
   Driver rate times each product's driver usage.

ABC typically shows low-volume specials cost far more than volume-based costing suggested — and high-volume lines less.