Preface

Many Danish companies have implemented Activity Based Costing (ABC) which is now the standard tool when designing cost accounting systems. However, experience also shows that ABC often develops into very complex models which often fall short of expectations. In the light of this, we are many who have waited for this book which presents a more efficient and simple way of implementing and using ABC.

When the ABC model was developed in the end of the 1980s, it took ten years before Danish companies really started taking the method to heart – and it is not until in recent years that public sector companies have begun to take an interest in ABC.

As we all know, ABC is complicated and an insufficient model design may create large and complicated models which place unrealistic demands on the availability of data and at the same time are hopeless to update and maintain. When ABC was initially introduced in Denmark in the beginning of the 1990’es, the classic Danish management accounting tradition rooted back in the 1960s still stood firm and at that time it meant that ABC gained acceptance slowly in Denmark.

With Time-Driven ABC it is different. The model is likely to catch on lightning fast in Danish management accounting and control practice. It may be too much to talk about a revolution as the new techniques more should be seen as a further development of the classic ABC model. However, the techniques and the models described in this book will be part of our language and in the future get to form the basis of many ABC implementations.

Most Danish universities have already Time-Driven ABC on the lecture plan and course organisers offer seminars and courses in Time-Driven ABC. The model has
also been integrated in leading foreign text books and the first Danish companies have implemented Time-Driven ABC or are in the process of implementing it.

There is no doubt that Time-Driven ABC gives a very good trade-off between model precision and implementation costs. Thus, in the future it must also be a demand on ERP systems and business intelligence software that it supports Time-Driven ABC, and consultants who want to implement ABC must update their knowledge.

Naturally, there are limitations. Time-driven ABC may quite true be implementable in all companies – also by small companies. However, it is a prerequisite for the simple and efficient modelling on which this book is based that the necessary data basis is present in the company’s IT systems. It is undoubtedly correct that the distribution of ERP systems, CRM system etc. means that many companies have a comprehensive amount of data at their disposal. But I still believe that one of the difficulties of implementing Time-Driven ABC will be the integration with the company’s more complex and in practice often non-integrated it systems.

Time-Driven ABC contains in particular a great potential for the public sector. In many public companies, a need for a new accounting model has developed as a consequence of the transition from expense based to accrual based accounting principles. However, there is not necessarily a need for very detailed and precise cost information just like the production structure is often not nearly as complicated as in large industrial enterprises. Thus, Time-Driven ABC will also be a good alternative to the design of ordinary ABC models as the more simple and intuitive approach will make it significantly easier to implement cost models without massive consultancy support at the same time as the model is suited exactly for the type of activities which are carried out in public companies.

The same is the case for companies who in recent years are implementing Lean in the production and the administrative processes. If a company takes the step to the full and organises the company around value streams it will mean that the accounting model must be redesigned. New budgeting principles and new ways of calculating profitability are needed and product calculations must be adjusted to the production
structure. Time-Driven ABC will also here be the ideal choice as the basis of a Lean Accounting model.

I expect that Time-Driven ABC will be used widely in Danish companies, and this book should be obligatory reading to everyone who concerns themselves with design and implementation of costing systems. There may be some consultants who become concerned about the fact that it may be simple to design a cost model, but there is no reason for this: It is, quite true, about making more efficient models with less resource effort – however, at the same it means that ABC may be employed in far more situations bringing the potential of management accounting and control as a management tool into focus. There will be work enough for everyone.

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