

RFHHA MANAGEMENT TIP OF THE DAY FOR HOSPITAL ADMINISTRATORS 1308

What is Time-Driven Activity-Based Costing ?

Robert Kaplan and Steven Anderson have suggested Time-Driven Activity-Based Costing. This is a new approach to avoid the difficulties associated with large-scale ABC implementation (HBR November 2004).

In this revised model, managers estimate the resource demands of each transaction, product, or customer, rather than relying on time-consuming and costly employee surveys. The Time-Driven Activity-Based Costing method is simpler since it requires, for each group of resources, estimates of only two parameters.

1. What are the costs per time unit of capacity to supply resources to the business activities? (The total overhead expenditure of a department divided by the total employee time available).
2. An estimation of the unit times of activities: how much time it takes to carry out one unit of each kind of activity (as estimated or observed by the manager). This Time-Driven ABC approach also overcomes a serious technical problem associated with employee surveys: employees invariably report percentages that add up to 100, when they are asked to estimate time spent on activities.

Managers should take into account time that is idle or unused. The method also supports time equations, a feature that enables the ABC model to approximate the complexity of real-world operations. By showing how specific order, customer, and activity characteristics cause variation in processing times.

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