

## Activity-Based Costing in the Cost Control of Auto Parts Manufacturers Applied Research

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**Abstract:** With the development of the automobile industry, the business scale of auto parts manufacturing companies has continued to expand, but corporate profits have not increased at the same time. The survey found that the cost control problems of such companies are more serious. To this end, this article sorts out the problems that exist in the cost control of auto parts manufacturers. The study found that the cost accounting methods of enterprises need to be improved, and the application of activity-based costing can bring better results. The cost control system under the ABC of auto parts manufacturers, and put forward relevant suggestions to ensure the smooth implementation of ABC.

### 1. The Operating Status of Auto Parts Manufacturers

Auto parts manufacturing enterprises are an important part of the specialized division of labor in automobile manufacturing. They mainly realize the sales of their products by providing supporting parts for automobile manufacturers and automobile maintenance enterprises [1].

With the rapid economic development and the significant increase in residents' income, China's automobile industry has developed rapidly. According to the statistics of the China Automobile Manufacturers Association, as of the end of 2019, China's domestic sales reached 25.721 million and 25.769 million, respectively. China has a huge market size and prosperity. The consumer demand has become the world's largest automotive market [2]. The prosperity of China's auto market has also led to the vigorous development of upstream parts and components companies, making the overall situation of my country's auto parts industry tend to be good, increasing in scale and increasing income. However, in recent years, the slowdown in macroeconomic growth and the complete withdrawal of preferential purchase tax policies have made the overall macro environment of the automotive industry appear in a downturn. The upstream auto parts manufacturers are also affected by the impact of vehicle companies. It began to decline, profits became thinner, and the market situation tended to be severe. According to statistics, as of the end of 2019, the profit margin of my country's auto parts sector has dropped from 21.31% in 2014 to 19.63%, and the industry's sales revenue has also experienced negative growth for the first time, down 12% year-on-year. In addition, competition in the auto parts industry is fierce. Judging from the "Double Hundred" list of auto parts companies published by "China Automobile News" over the years, foreign brands occupy a major position in the list of the top 100 international companies, and the ranking has not changed much, while only 11 companies in China are selected. This reveals the market law of the strong, and also shows that the main market for auto parts is occupied by international suppliers, and it is difficult for China's auto parts manufacturers to develop and grow. Coupled with the impact of this year's new crown epidemic, it is expected that the auto parts market in China and even the world will bear a huge impact in the future, which will further intensify the already fierce competition in the auto parts industry.

Under the dual pressure of the sluggish macro environment and intensified competition in the industry, Chinese auto parts manufacturers want to break the monopoly position of foreign-funded

enterprises in key auto parts fields, actively respond to changes in the industry market environment, and continuously improve their profits. It is necessary to pay attention to the cost reduction and efficiency increase and pricing marketing of enterprises. However, in a market-led economy where industry giants continue to push down costs and the pricing of similar parts and components tends to be unified, it is difficult for companies to increase sales by reducing the unit price of auto parts. Therefore, my country's auto parts manufacturers can only turn their attention to themselves, by strengthening the cost control of their own enterprises, tapping the potential of departmental coordination, reducing unnecessary costs, and improving the company's income-generating ability and profitability.

## **2. Problems in Cost Control of Auto Parts Manufacturers**

### **2.1. Cost Accounting Methods are Unscientific, Leading to Errors in Business Decision-Making**

The business decision-making of an enterprise relies on scientific cost accounting methods. In view of the number of types of auto parts and the difficulty of the process, auto parts manufacturers often use the variety method to aggregate their production costs [3]. This traditional cost method is indeed universal, but it is only suitable for traditional manufacturing industries with fewer product types, low manufacturing costs, and small enterprises. The modernized development of auto parts production enterprises has expanded in scale, indirect costs have risen, and the types of parts have diversified. The production requirements of different models of the same type of parts products are no longer the same. The traditional cost method is difficult to take into account all aspects, and it is difficult to meet the cost management needs of modern production [4]. It has caused the overestimation or underestimation of product cost, caused the deviation of marginal contribution, and misled the decision-making and strategic deployment of enterprises.

### **2.2. The Content of Cost Accounting is Simple, Leading to Unclear Reasons for Expense**

The traditional cost method can only reflect the amount of cost funds consumed, but cannot reflect the reasons for various cost changes. It collects manufacturing costs indiscriminately. It has data on storage and delivery of finished products, but no data on the manufacturing process [5]. It cannot specifically reflect the actual consumption of departments and operations, and it is difficult to provide substantial information for companies to reduce costs. Suggest. It also enables managers to focus on value-added costs when controlling costs, and fail to pay attention to the importance of non-value-added cost control. Although the non-value-added cost does not directly affect the value of the product, it is also a necessary expenditure of the enterprise, and it can be eliminated through the improvement of enterprise technology. For example, by continuously improving the level of production technology and gradually increasing the product qualification rate to 100%, the cost of quality inspection can be eliminated.

### **2.3. The Cost Control System is Not Sound, Resulting in a Lack of Communication between Various Departments**

The lack of a scientific cost control system makes it difficult to coordinate the relationships among various departments [6]. At present, most of the auto parts manufacturers in China still adopt the extensive cost control model, and mistakenly believe that the cost control of the enterprise is the accounting and recording of the cost incurred, and they simply aggregate all the responsibilities of cost control. In the financial department, other departments and management of the enterprise lack the initiative and consciousness of cost control. It is difficult to find the key nodes of high cost by relying solely on the post settlement of the financial department. If the right medicine is prescribed, the cost control of the enterprise can only stay at the theoretical level, and it is difficult to achieve the desired goal.

## **3. Establish a Cost Control System for Auto Parts Manufacturing Enterprises under the ABC**

Auto parts manufacturers have large production scales, many departments, a wide range of Auto parts manufacturers have large production scales, many departments, a wide range of products, and a large proportion of indirect costs [7]. It is more suitable to use the activity-based costing method to calculate costs. At the same time, auto parts manufacturers have complete information technology systems and high-quality employee groups, which also laid the foundation for the smooth implementation of the ABC. This article will construct an applicable cost control system based on the operating characteristics of auto parts manufacturers.

### **3.1. Divide Resource Projects and Determine the Operation Center**

The first step in building a cost management system based on activity-based costing for auto parts manufacturing enterprises is to clarify the resources consumed by the enterprise and the specific operation center of production. According to the actual consumption of the enterprise, the resource items are divided into: energy and power expenses, travel expenses, employee salaries, storage expenses, maintenance expenses, office expenses, and low-value consumables. Resources are interrelated and affect each other. An operation center often consumes more than one type of resources [8]. Therefore, clarifying the actual consumption of resources is the basis for implementing ABC. In addition, the identification of operation links is also the core work of ABC to carry out cost control. We can divide operation centers according to the production business process of auto parts manufacturers, which are specifically divided into order negotiation, product development, material procurement, component assembly, and procedures. Nine operation centers including writing, finished product inspection, marking and packaging, warehousing and transportation. Once the operation center is established, the production details can be in-depth. First, the cost is collected from resources to operations, and then the collected cost of each operation is collected to auto parts products.

### **3.2. Clarify Resource Drivers and Calculate Resource Costs**

Resource motivation is an important basis for the collection of resources to operations. There are many types of resource motivations [9]. The important motivations of each resource project should be determined according to the principle of importance, tedious and unnecessary content should be discarded, and key information should be extracted. With reference to the resource items consumed by auto parts manufacturers, resource drivers can be roughly divided into the number of raw materials, the number of auxiliary materials, the number of employees, the level of positions, the number of plants, the number of equipment, the number of maintenance, and the number of electricity consumption. The determination of resource drivers directly determines the amount of costs collected in the operation link, which is the basis for accurate calculation of the cost of parts and products.

### **3.3. Calculate Cost Drivers and Allocate Operating Costs**

The cost driver is an important basis for assigning operations to products. The cost driver is the basis for measuring the number of operations consumed by various parts and components, and is a necessary prerequisite for the allocation of operating costs. Therefore, when determining the cost driver, it is necessary to ensure the accuracy and enforceability of the cost driver and the reason for the consumption of operations. It is consistent with a certain degree of representativeness and influence, and must be practical. As far as the operations of auto parts manufacturers are concerned, cost drivers can be roughly divided into: number of orders, research and development man-hours, proportion of purchased materials, mechanical man-hours, manual man-hours, transportation distance, and storage times. By clarifying the cost drivers, the allocation rate can be accurately calculated, and the cost of each operation consumed by each component product can be determined and the additions can be summarized.

### **3.4. Determine the Allocation of Total Costs to Cost Objects**

The collection of completed activities to product objects is the last step of activity-based costing [10]. The actual cost information of the component product can be calculated by summing up all the

operating costs consumed by each type of component product and the direct cost expense it consumes. Although the types and quantities of resource operations consumed by different types of parts and components are different, the actual consumption of each type of auto parts products, such as bumpers and engines, can be accurately measured through the allocation process of "resources-operations-products" Material cost, lighting cost, quality inspection cost, etc. Aiming at each link of the output of the auto parts itself, the accounting and integration cost are calculated, and strive to show the product cost closer to reality.

#### **4. Guarantee Measures for the Application of Activity-Based Costing in Auto Parts Manufacturers**

##### **4.1. Improve Ideological Understanding and Make Preparations**

Improving the ideological awareness of all employees is the primary task of implementing the ABC in the enterprise. The idea of traditional costing is deeply ingrained, and it is difficult for management or employees to accept and master ABC at a time. Therefore, auto parts manufacturers should pay attention to the preliminary tasks and improve the ideological awareness of employees. As far as the management is concerned, it is necessary to fully understand the science and necessity of ABC, accurately implement the leading position of ABC in cost control work, pay attention to the quality and effect of all aspects of work in real time, and advocate with conference papers and broadcast, WeChat push and other channels to strengthen the publicity and education of ABC. As far as internal employees are concerned, it is necessary to eliminate conflicts, improve the ideological awareness of operating cost accounting, strengthen information exchange and inter-departmental communication, be familiar with the production process and technology of products, proactively standardize cost awareness, and strive to improve the operating efficiency of the enterprise .

##### **4.2. Build a High-Quality Team and Improve the Accounting System**

The so-called "workers who want to do well must first sharpen their tools". On the basis of unified thinking and understanding, auto parts manufacturers also need to invest funds to increase the management and training of internal employees; improve the accounting system and build a good implementation operation Cost of hardware facilities. Activity-based costing has a wide range of calculation objects and many calculation steps, which strictly tests the professionalism of employees and the advanced nature of the data system. In terms of employee operations, companies should arrange training for all employees as soon as possible, set up a special guidance group for activity-based costing, carry out accounting and computer skills training courses, hire experienced professional consultants to guide, and strengthen cooperation and exchanges with successful companies. , To create an outstanding talent team. As far as data systems are concerned, companies should introduce some complete and unblocked computer information systems and mature financial software to collect all information about product costs accurately and quickly; they must consider the actual situation and design their own cost control system; and strengthen The application of information system and financial software is combined to simplify the basic steps of activity-based costing, shorten accounting time, and improve operating efficiency.

##### **4.3. Set up a Supervisory Department and Set up an Incentive Mechanism**

Incentives and supervision are important measures to ensure the effective implementation of ABC. The basic theory and operating procedures of activity-based costing are relatively complicated, which invisibly increases the difficulty of all employees, especially accountants. In order to maintain and improve the enthusiasm of employees, it is necessary for companies to formulate reasonable performance evaluation standards, and support performance evaluation results to divide salary levels and reward ranges. By linking the workload of implementing ABC with employee compensation, and giving certain spiritual rewards at the same time, it encourages employees to support and cooperate with the reform of enterprise ABC.

In addition, the supervision and inspection mechanism is also indispensable. Enterprises should set up a special supervision department to clarify the scope and responsibilities of each department and each employee's activity cost work, regularly assess and evaluate the effect of work completion, and impose necessary punishments on department leaders who have not completed tasks or completed tasks with poor quality. In order to correct the attitude of all employees and increase their vigilance, and strictly prevent the inaccurate calculation results of ABC due to personal fault. At the same time, companies must continue to strengthen internal management and control, clarify the various precautions and points for implementing the activity-based costing method, implement dynamic management of the company's cost accounting, discover problems in time and take feasible remedial measures, so as to form good rewards and Supervision mechanism to ensure the smooth implementation and application effect of ABC in auto parts manufacturing enterprises.

## 5. Conclusion

The activity-based costing method fits the company's production and operation characteristics with comprehensive and accurate advantages and improves the company's cost accounting system. It successfully compensates for the shortcomings of the traditional cost method and meets the cost control needs of modern auto parts manufacturers. It is hoped that the successful application of the activity-based costing method can help companies understand the product cost structure in depth, help the accounting department provide more realistic cost consumption conditions, help the leadership to make scientific and correct business decisions, improve the competitiveness of the company, and achieve prosperity. Great blueprint.

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