

International Conference At Christ University Sustaining a Competitive Edge in the Changing Global Scenario ON 6th & 7th February 2018 Innovative Accounting Techniques Adopted by Women Entrepreneurs

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Abstract

Innovation is the mother of creation. Birth of Women entrepreneurs is not accidental but incidental to the circumstances. Product and Cost concepts are the two pillars for entrepreneurs to decide. There are many factors guiding the product to be produced and the cost to be quoted, to be saleable in the market. Women entrepreneurs (through AWAKE), who are into processing industries, faced the problem of fixing the price of the products produced. Eventually the innovations in accounting systems are unfamiliar to the women entrepreneurs as they follow the traditional methods which are rooted in the accounting ledger books being challengeably unchanged. In this ever-changing global competitive world of business, it is crucial that entrepreneurs should discover and implement new techniques to be more productive, efficient and profitable. It is also imperative for the cost analyst to study the costing procedures, make a thorough scrutiny of both accounting systems. The benefits in shifting from one technique over the other must be greater than the costs that would be incurred in the long run. The paper aims at finding the methods and techniques adopted to quote the price of the product by AWAKE entrepreneurs. It also aims at studying the differential cost quoted if ABC technique is adopted in the business.

Key words: Women Entrepreneurs, Activity Based Costing, Cost Activity, Cost Drivers.

Introduction

Prospective women after attending EDP programs conducted by AWAKE are on the road to become entrepreneurs. They have attended many programs where in the AWAKE members teach them how to produce products within their reach and affordability. They are ready with the new products to be produced which are easy for them. When contacted to these entrepreneurs many of them had chosen candle making as a prospective business. The reason for which was as simple as making candles. This business can be initiated

with much smaller budget and home based products. People purchase candles not only for tradition or religious but also to scent and decorate home and business places. People prefer candles for gifting at several occasions also. The popularity and consumer demands for scented and decorative candles create a tremendous business opportunity for the innovative start-up entrepreneurs.

The price quoted for these candles depends upon many factors. To fix the price for any products and to give exposure to the products manufactured by these entrepreneurs, AWAKE organizes Exhibition cum sale melas. These melas or exhibitions are organized world-wide, nation-wide where the products can be sold without the entry of intermediaries. The present paper focuses the strategies adopted to fix the price for the products manufactured by these entrepreneurs.

Activity Based Costing is one such technique of finding the cost of the product which is much more genuine than any other system. Other methods while gives importance to labour hour or machine hour to fix the price of the products, ABC takes into account each and every activity included in the production of product.

Research methodology:

The methodology adopted to collect the information is of course the primary data by interviewing only AWAKE entrepreneurs, who have conquered the market with the ease of manufacture & sale of candles. A short questionnaires focusing on the products, raw materials procurement, place of sale, cost of production involved & finally fixation of price is given due importance. Internet plays a vital role in any study. With the help of Google Scholar necessary data are scrutinized and collected to give meaningful information about the accounting procedures followed in candle production.

Limitations of the study

The study is conducted for the paper presentation in Christ University for only women entrepreneurs who are manufacturing candles. The major limitations of the study is that it is confined to women entrepreneurs through AWAKE, and place of study is Bangalore city.

Scope of the study

The present study gives scope for further study in the other products by small scale entrepreneurs. Normally Activity Based Costing is adopted by large scale operations as it is new concept and women entrepreneurs as such are un-aware of the new accounting techniques. Hence this study gives enough scope for the small scale entrepreneurs to adopt the new techniques that helps the entrepreneurs to quote competitive, comparative, prices to face the cutthroat competition.

Objectives of the study

- To study the costing strategy adopted to quote the price of the product
- To study and compare the traditional system and ABC system of costing to arrive at cost of the product
- To give suggestions for small scale entrepreneurs in fixation of prices.

Findings

Costing Strategy adopted to quote the price of the products manufactured:

Women entrepreneurs once get the training from the AWAKE decide on the products to be manufactured. Candle making for some may be due to the hobby and interest. Due to this hobby and interest they start manufacturing and grow into a home based business with huge profit. The hobby grows into self-sustaining operations with minimum investment and with full intention of growing business into successful operations and some might have acquired an existing candle company. To fix the price of the candles it depends on where the product is to be sold. The price of the product depends upon following sales places:

- Retail stores
- Craft Stores
- Consignment stores
- Whole sale
- & others

Each of these distribution channels dictates a generally accepted margin level. If it is sold for Retail stores generally a guide is followed among all the entrepreneurs: *The closer you are to selling the consumer, the higher the margin you should attempt to achieve.* This is arrived at after doing field research. The reason is that if order is taken for bulk it saves time, cost and of course price can be fixed nominally and if it is taken for 25,50, or 100 cantles at a time and sending the order each transactions need to be handled individually which increases the cost and time. In most of the instances usually the candle manufacturers have 40% to 60% maximum margin, depending upon the competition.

If whole sale venue is chosen then the candles are produced and sold to another entity and hence gives scope to focus on producing good product and building good brand image. Trade shows, trade publications, exhibitions, etc serve better opportunity to introduce the product. If the potential customer gives their indent it saves the shipping cost and even we can manage the inventory and consider for advertizing campaigns. Without any doubt the most important things to consider when developing the cost of the product is to know the competitors. In most of the cases the candles being sold in grocery stores are not always a competitor as

the candles are of different quality. The brand name of the candles may also not be the competitor as they have the ability to charge more for the name itself. The major thing to keep in mind is the target market and reviews the pricing of the candles being sold in these markets.

To quote the price of candles the survey gave the following strategies:

Sl no	Type of candles manufactured	No. of entrepreneurs	Costing strategy adopted	% of manufacturers
1	Paraffin Wax Candles	38	Traditional	97
2	Decorative candles	14	Market price	95
3	Handcrafted Candles	8	$VC+FC=TC+25\%$ margin	85
4	Twisted Candles	26	Market price	90
5	Designer Rose Candles	4	2*TC=price for whole sale, 4*TC=price for Direct sales	98
6	Birthday number candles	30	Market price	98
7	Floating candles & Scented candles	32	Market price	98
8	Fancy candles	25	Competitive price	94

Source: Primary Data

From the above data it's clear that many entrepreneurs fix the price either based on traditional or based on marginal costing method. Usually, to fix the price they follow the following system:

- Before pricing the candles, consider costs and target market. It's not easy to beat the competition on price alone.
- To calculate the total cost, add variable and fixed cost. Crunching these numbers helps to appropriately price candles to make a profit.
- A traditional pricing formula is to charge two times cost for wholesale orders and three to four times cost for direct sales. Another approach is to mark up candles based on a marginal profit percentage.
- Lastly to adjust the prices based on target market and any periodic sales or discounts being offered
- Believing the quality of the product and not to give up the price of the candles under any circumstances.

It's clear from the data nobody of them know about the new approaches, new techniques in accounting so that they can bid competitive price for their product. Activity based costing; of-course installed for large scale

manufacturers is not a cup of tea for candle manufacturers. But big and successful candle manufacturers say the following:

You have to know your candle making costs down to the penny. Otherwise, you could be losing money. It's a very important aspect of going from a hobby to a business. You have to do the numbers, and it's a huge win for you when you do."

— Jennifer G., Wax Cabin Candle Company

For pricing, I always start with my cost. I weigh and measure every component of my candles to get the exact cost, then figure my fixed overhead, and put a markup from there. That helps me cover operation costs as well as make a profit."

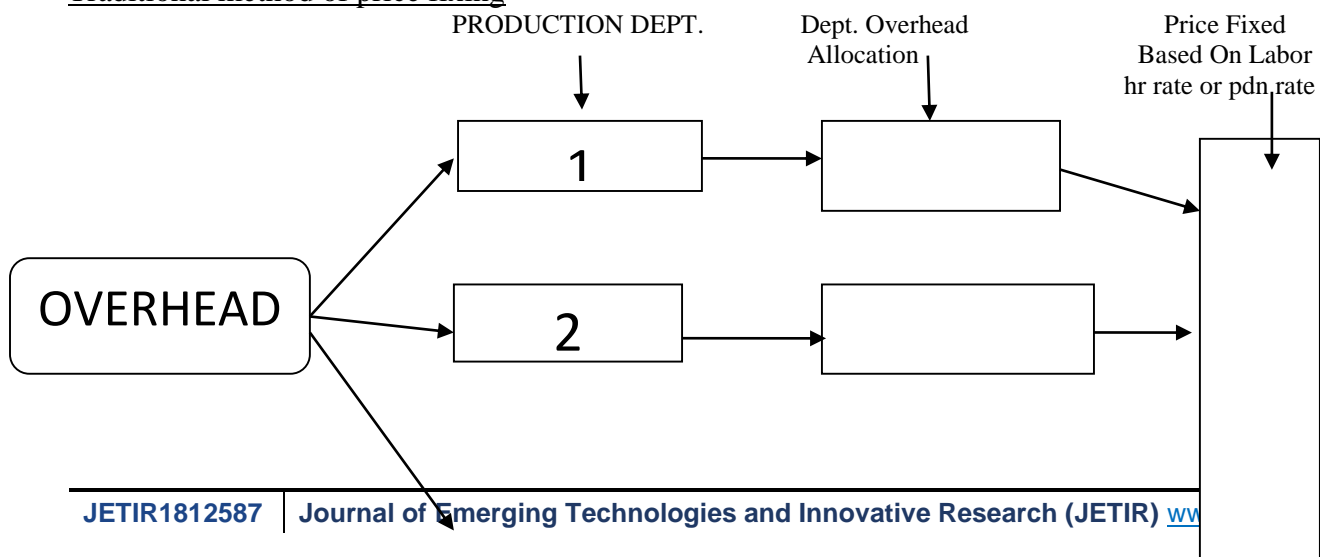
— Aubry P., Witty Wicks Candles

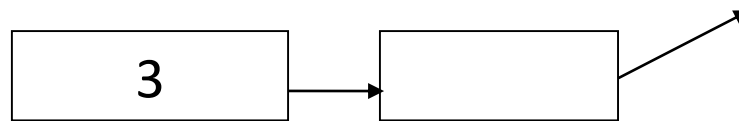
Comparing Traditional and ABC system

When the manufacturers were interviewed about the fixation of price and cost included, it was revealed that most of the manufacturers know fixed cost such as Rent, Insurance, Depreciation etc. and variable cost such as repairs, wages, packing material used etc. These two costs are added to arrive at Total Cost. Later a profit margin is added (again depending upon on type of candles manufactured and competitors) to arrive at final price of the candles to be sold in the marked.

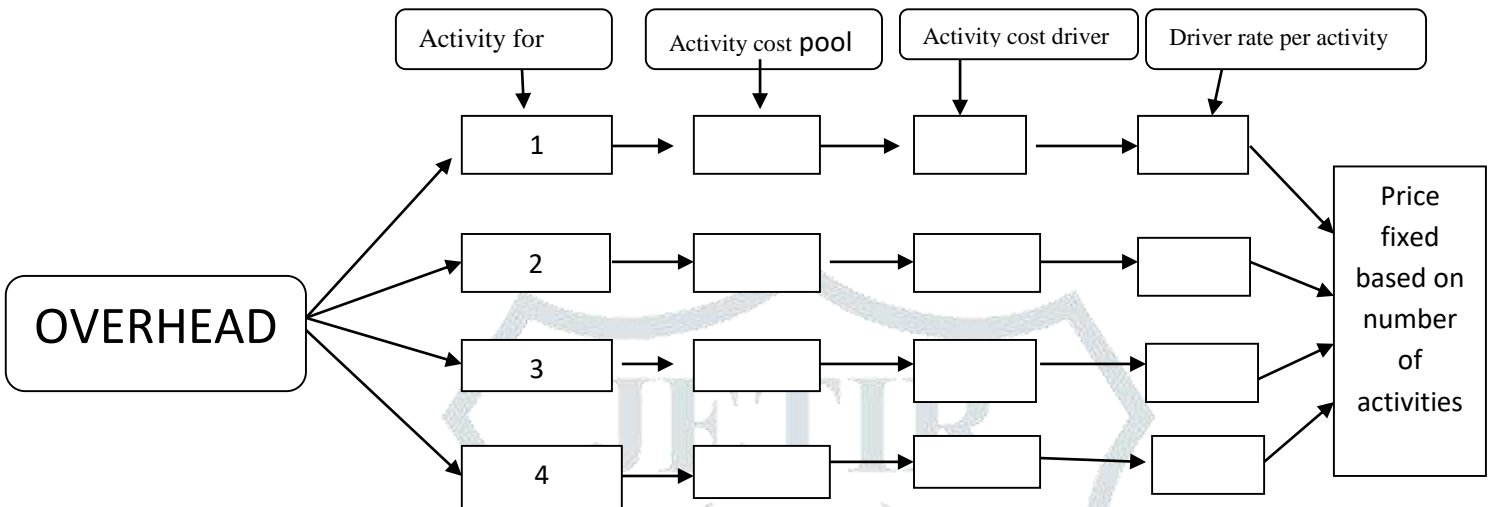
If the cost for the same product is to be calculated on activity based costing the cost has to be split on based on number of activities and cost drivers. Following are the activities and cost drivers and projected cost of the product if ABC is adopted. The following diagram clearly explains how the traditional and ABC varies in fixing the price of the product.

Traditional method of price fixing





Activity Based Costing



The above two figures illustrates that traditional system is based only on fixed and variable cost and does not consider other related costs which increases the cost of the product. Activity based costing relies on cost pools and cost drivers to assign the cost in accordance with overhead usage. Cost drivers are the factors that determine the number of activities that will be consumed by a given product. Examples of cost drivers include machine hours, size, complexity, type, and any other product attribute that can determine its cost.

Illustration to suggest ABC is better pricing method compared to traditional method:

Breakup cost

Particulars	Type A Candle	Type B Candle	Type C Candle	Total
Production & Sales in pieces	3,000	2,000	8,000	13,000
Raw material	20	25	35	80
Direct labour hrs	4hrs	2hrs	1hr	7 hrs
Machine Hr	2	2	1	5
Direct labour cost per unit	35	40	50	125
No of production runs	3	7	15	25
Number of purchase orders	50	50	60	160
Set up cost				
Machines	60,000			
Packing	45,000			
Advertising	40,000			
Labour hrs	45,000 hrs			

Cost of candle under traditional system

(based on assumption that all overhead are absorbed on labour hrs)

Particulars	Type A Candle (Rs.)	Type B Candle (Rs.)	Type C Candle (Rs.)
Direct material	20	25	30
Direct Labour	35	40	50
Overhead(Rs.5*labor hr)	20	10	5
Total	75	75	85

Overhead= $2,25,000/45,000=Rs.5$

Cost of candle based on Activity Based Costing

(Based on assumption that overhead is absorbed on activity cost drivers)

Setup cost=Machine cost/total production runs	
	60000/25
	2400 per set up
Packing= packing cost /total purchase orders	
	45000/160
	281 per pack
Advertising cost= Advertising cost/Total purchase orders	
	40000/160
	250 per advertising

Particulars	Type A Candle	Type B Candle	Type C Candle
Direct material(A)	20	25	30
Direct Labour (B)	35	40	50
Set up cost(2400* production runs)	7200	16800	36000
Packing(281*purchase order)	14050	14050	44960
Advertising (250*purchase order)	12500	12500	15000
Total overhead cost	33750	43350	95960
Overhead cost per unit©	11.25	21.67	11.99
Total Cost (A+B+C)	66.25	86.67	91.99

Comparison between Traditional and ABC system

Particulars	Type A Candle	Type B Candle	Type C Candle
Traditional	75	75	85
ABC	66.25	86.67	91.99
Result	-8.75	11.67	6.99

Hence from the above calculations it is proved that by adopting ABC system entrepreneurs can fetch good price for their products and they can also compete in a healthy competition.

Suggestions for small scale entrepreneurs

Normally SME's are referred to as "World's civil society builders" as they support and contribute to the country's economic development. SME's are having the potential to generate employment at regional level, state level, and national level and finally at the international level. Withholding the importance of these SME's in the economic opportunity and well being many organizations such as World Bank, Association of Chartered Certified Accountants, Consortium for advanced management and many other agencies are searching the ways to help and support SME's worldwide so that they can flourish in global community. To install ABC system, small entrepreneurs usually encounter the problems such as lack of formalized work and quality standards, costs, language cultural barriers, bureaucratic intricacies, limited management, lack of skilled employees, traditional & informal accounting practices etc. The major issue is the crucial importance of cost cutting. Hence ABC system should be acquainted by all small entrepreneurs for the following reasons:

- More accurate product costing compare to traditional method.
- Better profitability measurements and better informed strategic decisions about pricing product lines and market segments.
- Accurate allocation of overhead costs and identification of areas of waste.
- Managing target cost reduction, manage and control budgets, measure performance and increases efficiency.
- It will have positive impact on business performance.
- It facilitates proper decision making, increase in productivity and identification of activities that don't add value.

Conclusion and road for future research

The cost system followed in any of the small scale enterprises depends upon the nature of the products manufactured, market segment, product line etc. A standard Costing system combined with sophisticated traditional overhead allocation system will of-course yield accurate and competitive cost for the products manufactured. But it cannot fetch competitive cost price as ABC. The key for the management to decide which costing system to be adopted is by understanding the advantages and limitations of their costing systems installed. Critical decisions on faulty or incomplete information are more likely to undermine the company's current position than to improve the situation. Entrepreneurs who adopt activity based costing will find that it

is not only past focused but can facilitate future planning by pointing out inefficiencies, inadequacies and waste that will reduce the profits and directly impact on company's Competitiveness.

The study has shown that the implementation rate of ABC is very low. It implies that SME's are complacent with their existing challengeable unchanged traditional system which is probably simpler and inexpensive. Besides this, lack of expertise and high cost to switch to ABC are the major reasons for not adopting ABC among small scale entrepreneurs. The study also showed that most respondents are unaware of new innovations in accounting techniques. Some of who are aware are still in adaptation stage where training is provided for employees to understand the objectives and scope of ABC.

The present paper has focused on the comparison between the cost arrived under traditional system and ABC system of only candle manufacturers. It has also focused on the impact of installing the ABC in Small & Medium enterprises. The framework presented in this paper has studied and enumerated the advantages of installing ABC system in SME's. Future research can be done on other small scale manufacturers. For future studies this paper can be kept as base to study, analyze the factors inducing the installation of different costing systems in Indian SME's. The researcher can also do further research on types of consultant, educational network, financial support that are effective to small scale entrepreneurs in implementing ABC and can also investigate types of software that can be most effectively support ABC

Meanwhile ICAI, the premier Cost Accounting Institution can guide these small scale entrepreneurs in adopting and installing ABC. They can also give their expertise advice on the organizational changes during implementation process, the impact of efficient and informal internal communications during the implementation process.

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