



**Measuring the True Profitability and Assessment  
of Activity Based Costing Application in the  
Textile Sector of Pakistan**

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## **Abstract**

This study focuses on the costing system followed by textile sector in Pakistan and incorporates a wide range of problems into one study such as it investigates the rate of adoption of ABC system by textile sector of Pakistan by classifying them as Implementers, Supports, Non implementers, Unawares, the reasons for non implementation and as to why management was motivated to implement ABC system in future was also analyzed. Further analysis includes evaluation of routine costing systems followed by XYZ Textile Company, the consequences of implementing the traditional costing system, investigating the reasons that influence a firm's decision to change its current cost accounting system, evaluation of design and implementation of ABC system along with its documentation, challenges and opportunities faced by management in ABC implementation and finally comparison of product costing under the two costing systems i.e. traditional and ABC costing systems.

In order to accomplish these tasks firstly a questionnaire was developed and handed over to the finance and accounts staff of the different textile companies. They were asked to reply to the questionnaire on their perceptions, experiences and understanding. Telephonic and personal Interviews were also conducted. The questionnaire was send to about 60 textile companies out of which 42 responded, which accounts to 70% response rate. Secondly costing system of XYZ Textile Company was analyzed and comparison of product cost under ABC and Traditional costing system was accomplished

According to the findings of this study many companies of textile sectors have not implemented ABC system due to non active support of top management and time constraint. Some other technical factors includes, mindset of the organization , management is satisfied with current costing system , planning to implement it in future, lack of resources and high cost of system implementation etc. Valuable information about product and process were obtained by analyzing XYZ Company which shows that obtaining the right information at the right time and making the adequate business decision is the key to success for companies in contemporary business conditions and Activity-Based Costing, whose conceptual basis is business activity, contributes to that.

This system provides more accurate and reliable information on cost, income and product hence activity based costing is a better option for allocation of indirect cost.

Brewer (1998) and Hofstede (1980) researched that the increasing importance of Asian countries in the global economy and the effect of their local customs on firms management, both suggest that more research on ABC system is necessary in the Asian environment .Not much research work has been done on the assessment of ABC system in Pakistan specifically with respect to Pakistani Textile sector because firms seem to be reluctant to adopt and employ the concept of ABC costing due to lack of various resources such as time, money, efforts and trained staff etc.

Most of the companies in Pakistani textile sector are either following the usual costing system and relies on the overall profit of the company or on the traditional costing system. In both cases product cost and its behavior is not appropriately identified. So there is a need to switch to an improved costing system.

**Key terms:- Activity Based Costing, Traditional Costing, textile companies, strong active support of top management.**

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