

The Effect of Activity-Based Costing on the Performance of Supermarkets in Kisii Town, Kisii County

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Abstract: Performance in a business is always the desired end in any business but it's an area crowded by many challenges. To sustain competitiveness in the contemporary market, firms have been pushed to reduce costs, enhance income, and uphold the highest standards of product and service quality for their clients. However, numerous supermarkets have encountered an ongoing challenge in inventory management. The objectives was: To establish the effect of activity-based costing inventory on the performance of supermarkets in Kisii town, Kisii County; This study was grounded on the theoretical frameworks of resource-based view theory, lean theory, and the economic order quantity model. The research employed a descriptive survey research design. The research utilized a stratified random sampling to pick a sample size of 105 individuals from a target population of 384 respondents. Primary data was acquired through the use of closed-ended questionnaires. The researcher employed principal component analysis (PCA) test to ensure construct validity while experts and supervisor will ensure content validity. Additionally, Cronbach's Alpha was utilized to evaluate the internal reliability of the data on a threshold of >0.7 . The data analyzed data was visually presented through the use of tables and figures. The collected data was analyzed using descriptive statistics, including minimum, maximum, mean, and standard deviation measures. Inferential statistics techniques, such as simple and multiple regression analysis and correlation analysis, were employed. The researcher intended to employ content validity and correlation coefficient to ensure validity.

Keywords: Activity based costing, performance, inventory management.

INTRODUCTION

Inventory management practices play a vital role in minimizing costs and maximizing profits, also meeting customer demands by making sure there is enough stock at the right quantity, quality and available at the right time and the right place. To make sure inventory is managed properly, there needs to be adoption of inventory management systems. Inventory management systems refers to control and set of policies that manage the level of inventory, assess the inventory which will be maintained, raw materials will be used for production and the finished goods will be delivered (Jonsson & Mattsson, 2016).

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Inventory management practices have played a role in the business operations for many years in the global arena. Inventory management systems play a vital role in enhancing performance in controlling inventory in manufacturing companies. Companies in developed countries such as China, USA have continually tried to maintain in the competitive market through firm operations. It is high time for companies in developing countries such in Africa and India to implement effective inventory management systems in order to enhance competitive advantage (Rajeev, 2016). Handling of inventories such as raw materials, work in progress, and finished goods are stored as buffer stock in order to manage running out of goods (Salawati, Tinggi & Kadri, 2015). Too much of handling of stock especially finished goods occupy a lot of space hence

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increasing inventory costs such as handling costs and also negatively affects business operations (Dimitrios, 2016).

The ABC stock control method is predicated on the idea that a small number of items can account for a disproportionately high percentage of the cash value of the total inventory used in the production process, while a large number of items can account for a comparatively small percentage of the cash value of stores. The overall price tag is arrived at by multiplying the unit cost of the fabric by the number of units required for each individual product. In this approach to inventory management, the focus is on the products that contribute the most financially to production rather than the ones that contribute the least.

In the ABC Analysis method of stock control, products are sorted into one of three value categories. Class A: Expensive things. Between 15 and 20% of the inventory is responsible for 75 % of the entire value. It is important to keep an eye on things in this particular group. Class B: Goods of moderate cost. About 30–40% of the goods, or about 15% of the total value, fall into this category (Effiong, Akpan., 2019)). The ABC analysis is a well-structured categorizing method based on the Pareto principle that helps businesses prioritize their stock in grocery stores. Inventory management can be prioritized with the help of an ABC analysis. Inventory is organized into three groups, or "directions," labelled "A," "B," and "C," with "A" objects requiring the most attention from management. Regarding focus, Category C receives the least and Category B items the most (Atnafu. & Assefa, 2018).

This means that the ABC method represents how an organization uses its resources regarding its activities and how much it spends on those activities to produce a given outcome (Ben-Arieh & Qian, 2013). Designing, developing, procuring, producing, and inspecting a product must be done. Time spent by the manager is just one example of the many resources used when carrying out any task. Common examples of cost drivers are the number of units produced, the number of hours of lab our, the number of hours of equipment use, the number of orders received, etc.

South African businesses have recognized the

potential efficiency gains from adopting activity- based costing, although the practice is still not commonly implemented. The horizontal layout of an organization is crucial to the ABC method's effectiveness. For the ABC project to be successful, the people in charge of it need extensive experience and training in I.T. and access to data on how much various tasks would cost. They'll also need the backing of executives and shareholders. When managing money, most companies agree that activity-based costing is essential. While ABC has great potential, its widespread implementation has been hampered by issues such as a dearth of appropriate software, the complexity of data collecting, and a shortage of qualified accounting personnel (Alsayegh, 2020).

Key variables of ABC's Performance in accounting include behaviour, organizational culture, and technology (Mwangangi & Senelwa, 2018). The success or failure of an organization's implementation of ABC is also heavily influenced by factors such as the company's culture and organizational structure. When applied properly, ABC guarantees a company's expansion. Even in relatively modest businesses, the use of traditional costing methods causes product cost distortion. However, implementing the ABC accounting approach profoundly affects the steel manufacturing businesses. The profitability of a business depends on the efficacy of the ABC analysis of its inputs, outputs, costs, and inventory management (Onchoke & Wanyoike, 2016).

Main objective

The objective of the study was to investigate the effect of Activity-Based-Costing of the performance of supermarkets in Kisii Town.

METHODOLOGY

The study employed a descriptive survey reteach design with a target population of 337 from which a sample size of 101 respondents was derived through stratified and simple random sampling which rose to 126 after providing for 20% non-response rate. Data was gathered through structure questionnaire which were self-administered. Data was descriptively analyzed.

RESULTS

Response Rate

Response	Frequency	Response Rate
Questionnaire issued	126	100%
Returned questionnaires	110	87.3%
Not Returned	16	12.7%
Questionnaires used	101	80.16%
Questionnaires not used	9	7.14%

Activity-Based Costing

The ABC analysis is a well-structured categorizing method based on the Pareto principle that

helps businesses prioritize their stock in grocery stores. Inventory management can be prioritized with the help of an ABC analysis. The ABC stock control method is

predicated on the idea that a small number of items can account for a disproportionately high percentage of the cash value of the total inventory used in the production

process, while a large number of items can account for a comparatively small percentage of the cash value of stores.

Descriptive Statistics	N	Mean	Std. Deviation
All items are well categorized to ABC classes	101	3.31	1.173
A well-defined activity dictionary is developed and in use	101	3.55	1.144
Appropriate cost estimate techniques are applied	101	3.54	1.188
Cost are correctly assigned to products	101	3.54	1.368
Appropriate costing is applied to every product in its class	101	3.58	1.151
Continuous update of activity dictionary with expansion of inventory	101	3.50	1.119
Valid N (listwise)	101		
Overall mean		3.51	.8521

DISCUSSION

Based on table 4.13, a total of six statements were used to assess the variable procurement planning and procurement performance. The findings were displayed in the form of mean values and standard deviations. Table 4.13 illustrates the findings. From the findings on the statement whether All items are well categorized to ABC classes, the majority of the respondents moderately agreed (Mean=3.31, Std. dev=1.173). The standard deviation implies the presence of diverse responses. Further, on the statement whether A well-defined activity dictionary is developed and in use, results revealed that the majority of the respondents (mean=3.55 and Std dev =1.144). Furthermore, on the second statement on if appropriate cost estimate techniques are applied, the results the majority of the respondents moderately agreed (Mean=3.54, Std. =1.188). Moreover, whether cost are correctly assigned to products, the findings revealed that the majority agreed (Mean=3.54, Std. dev. = 1.368). The fifth statement on whether appropriate costing is applied to every product in its class, the findings revealed that a majority concurred with the statement (Mean=3.58, std. dev. 1.151). Lastly on the statement that Continuous update of activity dictionary with expansion of inventory, majority of respondents indicated agreement (mean=3.50, std. dev. 1.19). The overall mean is 3.5066 and std. dev. was 0.8521 implies that most of the respondents were moderately agreeing with most of the statements regarding activity-based costing and performance of supermarkets in Kisii town. Moreover, a standard deviation 0.8521 implies that the respondents were not very diverse on the statements.

CONCLUSION

The study findings individually the variables namely activity based costing, has a statistically significant relationship with performance of supermarkets in Kisii town Kisii County. Further, these variable acting compositely as inventory management practices also have a statistically significant effect on supermarket performance. The institutions should implement these inventory management practices singularly or compositely so as to enhance the overall

performance of the supermarket business. The study concludes that all these approaches if automated will be real time, accurate and responsive to the business demands of the time. Further, since these practices are technical in nature, the staff should be skilled for appropriate application in order to produce the desired results. Policy makers in the supermarket industry will should consider the inventory management practice that has the highest impact on performance and customize it to themselves more.

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