

# Activity-Based Costing vs. Traditional Standard Costing

ASPECT	TRADITIONAL STANDARD COSTING	ACTIVITY-BASED COSTING
<b>Overhead Allocation Method</b>	Uses single or departmental overhead rates based on direct labor hours or machine hours.	Identifies multiple cost pools and assigns costs based on consumption.
<b>Cost Accuracy</b>	Averages overhead across all products, leading to cross-subsidization.	Traces costs to products based on resources actually consumed.
<b>Best Suited For:</b>	Simple production environments with homogeneous products and stable costs.	Complex manufacturing with diverse products, varying production processes, and multiple cost drivers.
<b>Visibility into Cost Drivers</b>	Limited insight; treats overhead as a "black box" to be absorbed	Clear visibility into which activities drive costs and how different products consume resources
<b>Decision-Making Value</b>	Adequate for financial reporting; limited strategic value.	Powerful tool for pricing, product mix, process improvement, and customer profitability decisions.
<b>Process Improvement Focus</b>	Limited connection between costs and operational activities.	Directly links costs to activities, highlighting improvement opportunities.