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CASE STUDY

BOARD in Ray Way



Industry

Services

Application Area

Cost Accounting, Activity Based Costing

Company

Rai Way's main activity is the production and management of the technological path regarding the generation and broadcasting of television event signals. This path is divided into three basic activities: Contribution, Transmission and Broadcasting. The contribution service catches, "captures" images and then send them to the "direction"; then the signal is broadcast to the different relays or the satellite from which it is distributed to ours aerials. Contribution makes use of fiber optics, radio links and satellite channels; Transmission makes use of a network of radio links and, lastly, Broadcasting makes use of a chain of relay stations and, occasionally, satellite channels. The current company's current turnover depends mainly on a fiveyear contract with Rai which consists in the management of three analogical TV channels, four FM channels, three medium wave channels and one short wave channel. The company has 21 offices and approximately 2500 sites (production cost centers). The remaining of its turnover comes from services provided for thirdparty customers (about 150) and also includes Active Hospitality regarding, for example, the renting of relay stations to telecommunications networks (Tim, Omnitel, Wind, Blu). Given the lack of security offered to date by the Rai contract, currently Rai Way is preparing its entry into a more competitive market. In view of these considerations and the future changes to the company's setup, the objective of the Rai Way Cost Accounting project is to define profitability and contribution margins by service, site and customer.

Business Challenges

Fitting into this context the Cost Accounting system is designed by the work group taking into consideration the business logics previously described and the structure of the company's Information Systems.

It is worth to underline how, in general, the type of product or service offered strongly conditions the information available and the type of analysis you can make. For a service company with a considerable technological element the restrictions are even more obvious.



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BOARD Solution

In fact, in the majority of cases the supply of these technology based services generates the so-called "Technically combined costs", that are costs generated by production factors applied to the combined supply of several services, factors which imply a considerable indirect share being allocated to the various services on the basis of criteria which are ad hoc, tailor-made and probably not compatible with the other sectors/companies. In Rai Way the main difficulty in determining service costs is represented by the presence of Occasional Circuits and Permanent Circuits of service supply, which correspond to different flows of information that are characterized by different quality and completeness data.

This causes the requirement to use different allocation drivers on the basis of the type of service under consideration and, therefore, on the basis of the features of the information provided by the company's ERP, SAP R/3.

By considering the well-known classification of costs into direct costs, line indirect costs and indirect costs, the choices made have considerably reduced the incidence of indirect costs by more or less the same amount for the various service aggregates.

The charging of direct costs (directly charged) does not create any particular problems in that they are generally already linked with services within the company's ERP; for some particular types of services it was however necessary to use as a driver for the allocation of the costs shown in the ERP Sap (understood to be reliable and complete), the costs shown in the original Information System (understood to be partial, but characterized by the depth of the required analysis).

As far as the so-called Line Indirect Costs are concerned (not directly chargeable but generated by activities directly linked to the supply of the services), particular attention was put to the identification of Production Cost Centers (Sites) and to the consequent localization of costs.

Thanks to the cooperation of internal engineering personnel, the Work Group was able to define 5 ideal types of Site, each one corresponding to different regimes of resource and production factors consumption. These consumption regimes were then joined to specific percentages, by which it was possible to allocate the costs to the different types of services (Apparatus) supplied by the Sites and, lastly, to the individual services.

In this way the allocation of service costs was reached through standard drivers defined on the basis of a hypothesis of "normal" operating conditions and consumption of resources by the Sites.

Lastly, with regard to indirect costs (structure, administration, security, amenities, etc.), in general the allocation criteria used were able to be taken back to the commercial rule of turnover.

However, this allocation is used for the services for which it is feasible to assess the consumption of the resources generating the cost.



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Business Benefit

The choice of this criterion, as well as being recommended by the presence of residual combined costs, is also determined by the need to consider company production as being unified in order to obtain an analysis of the company's global margins.

Considering the difficulty of bringing back the methods described to a single teaching model, the system of Cost Accounting adopted can be defined as a mixed system, or, rather, a hybrid: after a first analysis it could seem to be based only on the criteria of total cost allocation, but in effect it lends the standard costs allocation criteria and logic, at least if we consider the determination of drivers for the line indirect costs and the personnel costs.

On the other hand, generally basic logic prefers an allocation of costs according to the activities carried out with regard to production, even if in some cases it was considered more suitable to allocate costs on the basis of production/sales volumes (especially for the services offered within the Occasional Circuits).

Probably the strength of the solutions adopted and, at the same time, the limits of transposition to other realities lies in the full adaptation to company management conditions, obtained thanks to the deliverance from the slavish imitation of models known in literature.