

# Activity Analysis and Teaching of Accounting Definition

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The two management gurus that have profoundly influenced my way of thinking are Michael Porter and Robert Kaplan. In my opinion, their management thoughts have made great impact on how businesses are managed nowadays. Both, Michael Porter and Robert Kaplan, are Harvard Business School's professors. Porter's main area of research is improving business competitiveness. But, what intrigued me most was one of the statement that he had made in one of his books. He said that "the magnitude of activities influences the cost of processes". This statement asserts the importance of activities in cost management. As a management accounting person, my thoughts always dwell on cost management and, specifically, this statement hits the nail on the head pertaining to the problems of cost improvement.

Likewise, Robert Kaplan, with his co-author Robin Cooper, researched and wrote on activity analysis for the purpose of overhead absorption. They observed that business cost structure has shifted from being labour-intensive to a much capital-intensive mode. The high overhead component from heavy automation has rendered extreme importance to the tasks of overhead absorption for better costing of products. The traditional method of absorption was only acceptable with lower overhead component in the cost structure and a less competitive business environment. But, with the shift in the cost structure from direct labour to overheads, inaccurate estimation of overheads for products can distort product pricing and may result in business losing its competitiveness. Hence, the introduction of activity-

based costing for more accurate absorption of overheads into products. Activity-based costing uses activity analysis as a core method to identify cost drivers. Robert Kaplan and Robin Cooper's seminal work on activity-based costing has been developed further and it led to the introduction of activity-based management. Now, many managers apply activity-based management to eliminate non-value added activities, innovate processes and improve the overall effectiveness of business operations. I take pride in proclaiming that I met Robert Kaplan, my guru, personally. I have to thank Monash University Malaysia for making this possible.

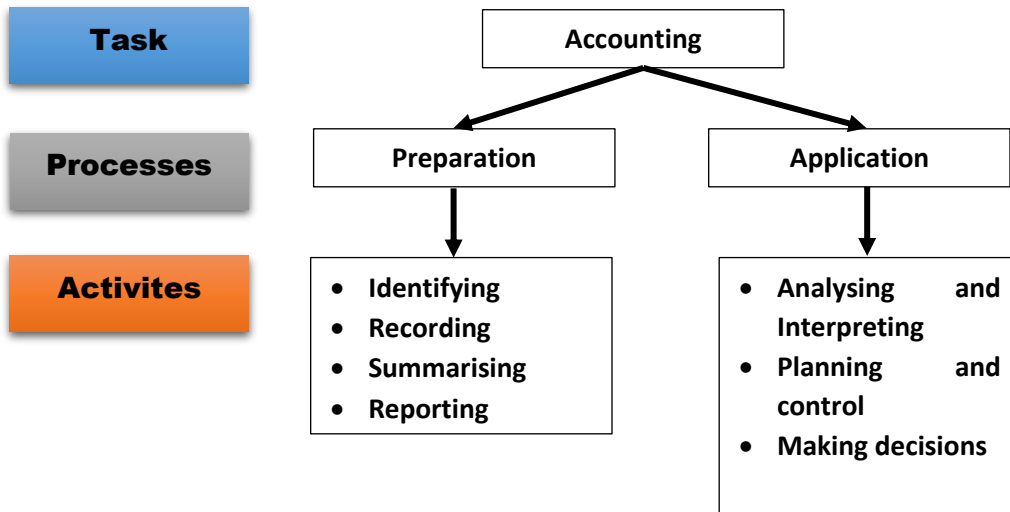
So, how can we use activity analysis in teaching of accounting definition? Students have the habits of memorizing all definitions, let alone accounting definition. As an accounting teacher, I feel very much embarrassed when my student, who had undergone a reasonable period of accounting study, is not able to recount the definition of accounting. For me, every definition should be internalised and reflected to understand the scope of the subject matter. It should be given life and its dynamism appreciated. But, sadly, many students study them for just making the grades in the exam and revert to memorization as it would be sufficient for their purpose.

Before I come to the part of using activity analysis as a teaching approach for accounting definition, let me first explain about activity analysis. An activity analysis breaks down a task to processes, sub-processes and finally to activities. It contends that when one understands the task in detail, it will be easier to devise changes for improvement. Activity analysis is considered as the fundamental step in deploying cost improvement techniques. For a large scale improvement, activity analysis provides the necessary input for business process reengineering. Alternatively, for small scale improvement, activity analysis identifies all non-value adding activities for elimination. Even in the current industry trend, The Industry

4.0, activity analysis helps in the process of detail identification of tasks, related processes and activities for improvement via new methods such as implementing cyber physical systems, internet of things, artificial intelligence and etc. If you are familiar with Data Flow Diagram (DFD), you should be able to equate activity analysis with the way DFDs are drawn to illustrate current and new system. As a matter of fact, activity analysis is the initial procedure that will be undertaken to draw DFDs. As such, you will see that a DFD will diagrammatically display the imperatives of breaking down tasks to processes and activities.

Accounting is a task. That is the reason why accounting is usually defined as an activity of identifying, recording, summarizing and reporting financial information for users to make informed judgement. Since it is a task, it must have processes and activities. Generally, all tasks must have two primary processes – preparation and application. Logically, no one wants to do something without having any use for it. So, the preparation process must be followed by application. Thus, your first level of activity analysis is to, steadfastly, break down tasks into the preparation and application processes. The next level is to break down, if any, the primary processes into sub-processes and sub-sub processes. Finally, these sub-processes or sub-sub processes are analysed into activities. In accounting perspective, the breaking down procedure can be done as provided in the diagram below:

## Activity Analysis of Accounting Task



Based on this activity analysis, accounting can be defined at process level or at activity level. The process level definition will be, “*Accounting is a process of preparing financial information for users to make wise decisions*”. Whilst, the activity level definition will be. “*Accounting is an activity of indentifying, recording, summarizing and reporting financial information for users to analyse and interpret, plan and control and to make decisions as to achieve their objectives*”. It can be noted that the activity level definition is more detail.

What can we achieve by using this teaching approach for the accounting definition? First, it helps students to internalize the accounting definition and understand the scope of the subject matter for their course of study. Next, it inculcates a process where students can use in analysing a task. By this way, students can understand tasks better and, as a result, their performance improves. Students can also use the acitivity analysis approach as a starting point to innovate something new and enhanced. In summary, I believe that this approach does not only teach the

accounting definition per se, it also teaches an analytical method that can be used extensively by students in their present and future times.

*The writer is the founder and content manager of [www.kvk-accounting.com](http://www.kvk-accounting.com) who advocates strongly on building cognitive thinking skills via better understanding of accounting concepts and simulating artificial intelligence process of learning from experiences. He views his exercises as a form of providing these learning experiences.*