Ghar Ghar Ghughri

Allocating Bhujia Costs through Activity-Based Costing







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Abstract

The Vijayadashami festival is a great opportunity for food entrepreneurs in Indore and many customers enjoy eating ghughri and bhujia as part of their social gatherings, society events and corporate events. This case is about Ghar Ghar Ghughri, a seasonal catering business started by Ram, Lakhan and Sita. However, as the business grew over the years, they continued to use a traditional labour hour based costing method.

Although when looking at the accounts the three partners saw that they were making the most profit from their corporate customers, in reality this was not the case. Corporate customers often had bespoke packaging requirements, multiple delivery locations and lots of co-ordination. They also had many special requests which took up a large amount of management time and resources. On the other hand society customers were much easier to cater for even though they ordered more.

The three partners were concerned with how accurate their costing system was and decided to perform an activity based costing analysis. The case allows students to allocate overheads to activities within the organisation, calculate activity driver rates, analyse profitability per customer using different costing methods and understand the implications of cost distortion.

The case concludes by asking students to analyse a large Vijayadashami catering bid which initially looks profitable. Students will need to use activity based costing information to decide whether they should go ahead with the bid and consider what this means for pricing decisions, managing customer relationships and strategic decisions. This case shows how costing systems can affect management decisions within a growing Indian festival based company.

Case

Vijayadashami in Indore is more than just a festival. It's a celebration of community, of culture and of togetherness. The housing societies have their get-togethers, the families have their family get-togethers and the organisations have their own celebrations for their employees and residents. Ghughri and Bhujia are absolutely essential at these events and the demand for these products goes up massively during the season.

Five years ago, three friends (Ram, Lakhan and Sita) spotted this seasonal demand and decided to go into it with Ghar Ghar Ghughri, a festive food service venture which would specialise in freshly made ghughri and bhujia. It started off as a home based venture and has since grown into a fairly well known seasonal brand. The three partners had very clearly defined roles. Ram was in charge of marketing and customer relations. Lakhan was in charge of procurement, packaging and delivery. Sita was head chef and co-founder and she was in charge of production and quality. Her family recipe and her passion for quality were the defining characteristics of the business.

The Vijayadashami season of 2026 was the firm's most successful season ever. The business served three major customer segments:

- Family Customers
- Society Customers
- Corporate Customers

At the annual review meeting after the festive season Ram was very pleased with the performance from a financial perspective. The costing system in place showed that corporate were by far the most profitable customer group. "We should be absolutely focused on getting more corporate customers in the year ahead." Lakhan wasn't convinced. That's what the figures indicate, but my experience is entirely to the contrary. He went on to say that corporate customers were always asking for custom packaging, multiple delivery locations, last minute changes, branded presentations and a hell of a lot of coordination via phone and meeting. A lot of staff time was consumed by that. On the other hand large housing societies would place very large orders, required far less modification and were pretty straightforward to serve. Sita had been thinking about this for months and felt that a lot of the costs were being driven not by volume of production at all but by the activities that were being done for the customer. Customer support, delivery co-ordination, packaging customisation, dealing with the odd special request etc. all consumed a massive amount of the organisation's resources.

During the meeting she posed a question: "Do we really know which customer segment is making the profit and which is the one that's consuming the resources?" Ram responded: We allocate all indirect costs on the basis of Direct Labour Hours. We've always used that method. Sita smiled. "Customers don't consume labour hours. They consume activities." She pointed out that a labour hour based costing system could be very misleading if different customer groups used up the activities in very different proportions.

At the same time Ghar Ghar Ghughri were invited in to bid for a very large Vijayadashami contract from the Indore Corporate Welfare Association. Ram went straight to work on a quotation using the existing costing system. Prior to submitting the tender Sita had suggested we do an ABC study.

Exhibit 1:

Customer Segment Revenue and Cost Information

Particulars	Family	Society	Corporate
Revenue (₹)	18,00,000	24,00,000	36,00,000
Direct Material (₹)	8,00,000	10,00,000	11,00,000
Direct Labour (₹)	3,00,000	4,00,000	5,00,000
Direct Labour Hours	1,200	1,600	1,200

Exhibit 2
Activity Cost Pools

Activity Pool	Cost (₹)
Order Processing	1,50,000
Procurement	2,40,000
Cooking Operations	4,80,000
Packaging Operations	2,40,000
Delivery Coordination	3,60,000
Customer Support	1,80,000
Special Request Handling	3,50,000
Total	**20,00,000**

Exhibit 3
Customer Operating Statistics

Particulars	Family	Society	Corporate
Number of Orders	500	400	600
Total Cooking Hours	800	1,000	600
Number of Production Batches	100	100	100
Purchase Orders per Batch	1	3	4
Packaging Units	10,000	8,000	6,000
Delivery Minutes	8,000	7,000	3,000
Customer Calls	400	1,000	2,200
Special Requests	100	100	500

Exhibit 4
Proposed Corporate Tender
Estimated Direct Costs

Particulars	Amount (₹)
Direct Material	4,20,000
Direct Labour	1,20,000

Operating Requirements

Particulars	Quantity
Direct Labour Hours	300
Number of Orders	20
Number of Production Batches	8
Purchase Orders per Batch	4
Packaging Units	4,000
Delivery Minutes	3,000
Customer Calls	300
Special Requests	120

Note: Cooking hours of equivalent to Direct Labour Hours in case of this particular tender.

Exhibit 5
Tender Estimate Prepared by Ram

Particulars	Amount (₹)
Direct Material	4,20,000
Direct Labour	1,20,000
Applied Overheads (300 × ₹500)	1,50,000
Estimated Cost	6,90,000
Add: Mark-up (10%)	69,000
Tender Price Quoted	**₹7,59,000**

The concerns were simple and to address they decided to do an ABC analysis.

- Are corporate customers actually as profitable as they seem?
- Is the proposed tender actually going to be a profit? MA