

**ASSESSMENT OF COST ACCOUNTING PRACTICE (A CASE STUDY
ON FIKIR WATER COMPANY)**

*A Research paper Submitted to the Department of Accounting and Finance in
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**COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**

BY: ASCHALEW TOLOSA

ADVISOR: MR. KEFIYALEW B. (MSC)

WOLKITE, ETHIOPA

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Acknowledgements.....	i
ABSTRACT.....	vi
CHAPTER ONE	1
1. INTRODUCTION.....	1
1.1 Background of the study.....	1
1.2 Statement of the problem	2
1.3. Research Question	3
1.4 Objective of the study.....	4
1.4.1 General Objective	4
1.4.2 Specific Objective.....	4
1.5 Significance of the study	4
1.6 Scope of study.....	5
1.7 Limitation of the study.....	5
1.8 Organization of the paper	5
CHAPTER TWO	6
LITERATURE REVIEW	6
2. THEORETICAL REVIEW.....	6
2.1 What is cost Accounting?.....	6
2.1.2 Classification of costs	6
2.1.2.1 Cost in their relation to the production.....	7
2.1.2.2 Cost in their relation to manufacturing department	8
2.1.3 Use of cost information	8
2.1.3.1 Cost for planning and control	8
2.1.3.2. Cost for analytical purpose	9
2.1.4Objective of cost accounting	9
2.1.5 Advantage of cost accounting.....	10
2.1.6 Costing system	11
2.1.6.1 Job order costing system	11
2.1.6.2 Process costing system	11
2.1.7 Process losses and wastage	12
2.1.7.1 Normal process loss	13
2.1.7.2Abnormal process loss.....	13

2.1.8 Accounting treatment of normal process loss.....	13
2.1.9 Accounting treatment of abnormal loss.....	13
2.2 Empirical Literature Review.....	13
2.3 conclusion and knowledge gap.....	18
2.4 Conceptual Frame works.....	19
CHAPTER THREE.....	20
RESEARCH DESIGN AND METHODOLOGY.....	20
3. Introduction.....	20
3.1 Research Approach.....	20
3.2 Research Design.....	21
3.3 Population and sampling technique.....	21
3.3.1 Target population.....	21
3.3.2 Sampling Technique and Size.....	21
3.4 Types and Source of Data.....	22
3.5 Data Analysis Method.....	23
CHAPTER FOUR.....	24
4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION INTRODUCTION.....	24
4.1 Results from questionnaire.....	24
4.1.1 Background Information of respondents.....	24
4.2 Employees response to the study related question with cost accounting practice of the water factory.....	27
4.2.1 Cost accounting method.....	27
4.2.2 Costing system effectiveness.....	29
4.3 Allocation of cost-to cost-object.....	30
4.4 Proper keeping and recording of cost data.....	33
4.5 The skill of human resource.....	36
4.6 Cost data for decision making.....	37
4.7. Techniques used to the company to reduce cost.....	38
4.7 Problem of the factory.....	38
CHAPTER FIVE.....	41
CONCLUSION AND RECOMMENDATION.....	41
Introduction.....	41

5.1 Conclusion.....	41
5.2. Recommendations.....	42
References.....	44
APPENDIX.....	45

List of Tables

	Page no.
Table 4.1 Demographic profile of employees	21
Table 4.2 Cost accounting method	23
Table 4.3 Costing system effectiveness	24
Table 4.4 Company allocate cost to cost object	26
Table 4.5 Proper keeping and recording data	28
Table 4.6 The skill of human resource	30
Table 4.7 The problem of factory	32

ABSTRACT

This research paper titled “Assessment of cost accounting practice” which was conducted on Fikir water factory. The main objective of the study was evaluating the cost accounting practice of Fikir water factory. In light of this objective, the study adopted descriptive research design with quantitative and qualitative research approach. To achieve this objective, primary data sources were used. Primary data were obtained using Questionnaire. The response shows that the factory uses cost accounting method like process costing, double entry system, cost allocation base proper keeping and record data... There are certain issues that become a problem for the cost accounting practice in the Fikir water factory. In this regard, the result of the study indicated that the major problem of the factory price setting for its products because the production cost of products is not properly and clearly determined, lack of adequate knowledge with respect to cost discounting system. The study suggests a series of measures which could be taken by the Fikir water factory to address various problems identified in the study.

ACRONYMS

MOH=Manufacturing Over Head

DL =Direct Labor

TC =Total Cost

CLIM = Chartered Institute of Management accountant

CHAPTER ONE

This chapter is an introduction part that includes background of the study, background of the organization, statement of the problems, objectives of the study, significant of the study, scope and limitation of the study.

1. INTRODUCTION

1.1 Background of the study

The historical investigation of the development of cost accounting in united kingdom, until fairly recently has paid a great deal of attention to the period to 1990. Much academic strategy and archival research has been an influence for development of costing system.

Costing system during the latter part of the 19th century has been examined in some depth. For example Boyan and Edward, 1974 concluded from their studies of coal, iron and steel company records from that period there was much sophistication in costing practices, the allocation of over heads and the integration of cost and financial accounts.

Cost accounting is an accounting system that provides financial and nonfinancial cost related information. Product costing is the cost of direct labor, direct materials, and manufacturing overhead that are used to create a product. And the purposes are for preparing financial statement, setting price and for control purpose .Thus cost accounting provides information for both management and financial accounting. (Horngren C. T, 2003).

An essential system of costing is an essential factor industrial under modern conditions of business and such may be regarded as an important part in the efforts of any management to serve business stability in manufacturing company. Manufacturing means the process of converting materials in to finished goods by using raw materials, labor, overhead cost and many types costs used in converting the raw materials in to products to be sold to customers (Frigo, 1986).

In planning cost accounting deals with the future. It assists to budget or predetermine material costs, labor and manufacturing, selling and distribution over headed. These costs may be used for determining process and measuring performances. In addition, they help managements in decision making with respect to capital expenditure or expansion of facilities. The control aspect

which deals with the present is achieved by comparing actual results with the budget or predetermined standard and investigating the courses of differences (Cherringtons, 1998 p 20).

The organization emphasis has been made on different cost finding methods for estimate the cost that has been incurred in a factory to manufacture specific products. One of the method is job order costing are readily identified by individual's units a batches which deal with broad average and masses of different units This method is application of costs to specific jobs. Which may be either a single physical unit or a few similar unites. This method is construction, garment factories, furniture manufacturing, metal tools factories, printing (Cherrington, 1998 p 227).

The second method is process coting is a system by firms manufacturing standard products for stock in a continuous floor, without reference to specific orders or lots. This method is mainly used whenever the output of individual's processes is reasonably uniform or homogenous, as in flow milling, cement manufacturing (Cherrington, 1998 p 278).

Generally, the cost accounting system when applied to the cost finding objective designed to accumulate the manufacturing costs and assign them to the units produced and the flow of these cost through manufacturing accounts. (Cherrington, 1998 p 279).

Thus, cost accounting provides information for both management and financial accounting. Any organization starting from sole proprietorship to the corporation acquire or know how and use of cost concept and practice. (Horngreen, 2003 p2-3).

Because cost accounting provides key data to mangers for planning, controlling, and evaluating decision making, fixing product price as well as to know service price. Cost mangers must use method of allocation because, we cannot observe causal link between this resources spending and use (Horngreen, 2003, p 2-3).

To this end, this study was assessed the analysis of cost accounting practice of Fikir water factory. Finally, what motivates me to conduct this study is that because as the company is new one to make sure whether it uses cost accounting systems in its management in accordance with the standards and theories of cost accounting and to investigate an over view of cost accounting practices within the organization.

1.2 Statement of the problem

Managers require information which is relevant, accurate and readily available to formulate and operationalize functional strategies and to make decisions on product costing and preparation of financial reports. Cost accounting includes those parts of both financial and management

accounting that collect and analyze cost information. It provides the product cost data required for special reports to management and for inventory costing in the financial statements. Production costs include all costs incurred in the manufacturing company from the receipt of the raw materials and supply of labor and services until production is completed and the finished product is packed with the primary packing materials (Buehiman David, 1998).

Product costing is the cost of direct labor, direct materials, and manufacturing overhead that are used to create a product. And the purposes are for preparing financial statement, setting price and for control purpose. Even if product costing has the above listed benefits for firms, the company has a problem to entertain such benefits from its costing department. The major problem of manufacturing company has a problem of price setting for its products because the production cost of products is not properly and clearly determined. (Girum Ketema, June 2014)

Cost control system in manufacturing companies that transforms raw materials in to work in process and finished goods. Fikir bottling water factory is one of the manufacturing firms which perform cost control system to control cost incurred for direct material, labor and overhead cost. (Girum Ketema, June 2014)

This study was tried to answer questions concerning with cost control system of the Fikir bottling water factory to achieve the stated objective. These are:

- Examine the costing system and classification of cost
- Assess how direct material, direct labor and manufacturing overhead costs are allocated and recorded
- See if there is a timely preparation of cost report for decision making
- Examine if the company have cost standards
- See whether costing methodology is used as a guide for pricing decision.
- What type of costing method is used by the organization?
- Does the organization have effective cost control mechanism system?

1.3. Research Question

- ✚ What type of cost accounting method does Fikir bottling water factory uses?
- ✚ How the Company does allocate cost-to-cost objects in Fikir factory?

- ✚ How the cost accounting information does contribute for management decision making in the factory?
- ✚ Is there proper keeping and recording of cost data in the factory?
- ✚ Does Fikir bottling water factory have skilled human resources that work on cost accounting?

1.4 Objective of the study

1.4.1 General Objective

The general objective of this study was to analyze the cost accounting practice in Fikir bottling water factory.

1.4.2 Specific Objective

- To evaluate the cost accounting method that the Fikir company uses
- To evaluate the cost allocation practice of the Fikir water company.
- To evaluate the effort of Fikir Water Company to use cost accounting information for management decision.
- To evaluate the level of proper keeping and recording system of cost data in fikir water company.
- To evaluate Fikir bottling water factory have skilled human resources that work on cost accounting?

1.5 Significance of the study

Doing a research has its own reason or significance in which it contributes for the improvement of resolving problems of the company. This study has the following significance. One, for the organization the output of the study will be helping to correct its problems. This study will also have significance to inform the corporation about its strength and weakness on the existing system and the possible suggestions may contribute to the company to manage its resources properly and correct its problems using the outputs of this paper. Additionally the recommendations given at the end will help the organization to improve its inefficiencies. Secondly, in doing the research the student researcher improves his/her research skill and lastly, the result of this study can be serving as base for further research. Finally, the research work can serve as starting point for further research on the same topic.

1.6 Scope of study

The study was conducted to cover as much as possible cost accounting practice which is focused on Fikir water Company. The cost accounting is the back bone for the survival of the company dealing with cost analysis. Then the study is specifically designed to assess the cost department of the company. And finally recommendation will be forwarded about the effectiveness of the company based on the findings on the data analysis part. Because researcher would try to present the company's performance towards cost control system and the problems which affect the company's profitability and possible suggestion that would be carried the problem of the organization

1.7 Limitation of the study

This study focuses on analyzing the cost accounting practice of Fikir water factory. This is due to many constraints which are actually beyond the capacity of the researcher like absence of sufficient times, transportation and financial problem. From respondent's side, lack of respondent's willingness, false information disclosure and the company managers have not volunteer to interview the research related question

1.8 Organization of the paper

The research paper was divided in to five separate sections. The first section is an introduction part includes background of the study, statement of the problems, objectives of the study, significant of the study, scope and limitation of the study. Second section present important related literature and empirical review, the third part discusses research methodology study which consists of research design, source of data, data collection method, target population, and sampling techniques and sample sizes. The fourth chapter focuses on analysis of the results and discussions. Finally, the last chapter (chapter five) gives conclusion and recommendation for the study.

CHAPTER TWO

LITERATURE REVIEW

The first chapter introduced the problem to be investigated in this study along with purpose cost accounting. In order to put the study within the context of the existing literature, the subsequent sections of this chapter present the theoretical review, empirical review and gap identification.

2. THEORETICAL REVIEW

2.1 What is cost Accounting?

Cost accounting is the process of accumulating the costs of manufacturing, and other functional processes and identifying these costs with units produced or some other object. It is a unique sub filed of managerial and financial accounting. Cost accounting is applied primarily to manufacturing. Organization that combine and process raw material in to finished products. (Horngreen, 2003)

Management accounting is the process of identification measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by managements of plane, evaluate, and control within an organization to assure appropriate use of and accountability for its resources (Cherrington, 1998, p 5).

Cost accounting provides mangers with relevant cost data to assist them in operating the business effectively. The management process includes developing an operating plan, implementing the plan, and evaluating the result of operation (Cherrington, 1998, p 54).

2.1.2 Classification of costs

Classification are needed for development of cost data that are useful management with regard to the following five purposes or aims: - these are

Planning profit by means of budget, controlling cost via responsibility accounting, measuring annual or periodic profit including inventory costing, assisting in establishing selling price and pricing policy and Furnishing relevant cost data for analytical processes for decision making (Horngreen 2003). Therefore costs are classified into broad category and some of them are listed below:-

2.1.2.1 Cost in their relation to the production.

The elements of manufacturing cost are direct material, direct labor, and factory overhead (indirect manufacturing). Direct material and direct labor costs are combined in to another classification called primary cost, and direct labor and factory overhead can be combined in to a classified called conversion cost which representing the cost of converting direct material in to finished products (Frigo, 1986, p 10).

Direct material are all materials that forms and integral part of finished product and that can be included directly in calculating the cost of product clued all to make automobile bodies. The case and feasibility with which the material item can be traced to the final product are major consideration in their designation as direct material. Give and facts to build furniture from part of the finished product but for costing purposes such item may be classified as in direct materials for man ufacturing cost (Frigo, 1986 p 10).

Direct labor (DL): is labor applied directly to the materials comprising the finished product. The cost of wedge paid to skilled or unskilled workers and assignable to the particular unit produced is termed direct labor (Frigo, 1986, p10).

Factory over head:-Defined as the cost of indirect material, indirect labor and all other manufacturing cost that cannot conveniently by charged to specific unit, job or products (Frigo, 1986, 10-11) Indirect materials are those needed for the competition of the product but whose consumption with regard to the product is either so small or so complex that is would be futile to treat them as direct material.

Indirect labor: - may be defined in contrast to direct labor as that labor which does not directly affect the constitution or the composition of the finished product. The term includes the labor cost of supervisor shop clerks, general helper cleaner and those employees engaged on maintenance work or other service work. Not directly related to production (Cherrington, 1998, p28).

2.1.2.2 Cost in their relation to manufacturing department

Factory is generally organized along departmental lines for production purpose. This factory department allocation is the basis for the important classification and subsequent accumulation of cost by departments Products and service department.

Product department: - is one in which manual and machine operation is performed directly upon any part of product manufactured, more specifically, producing department are those whose cost may be charged to the product because they have contributed directly to its production. whether two or more different type of machine perform operation on product with in the same department a break down into cost center increase the accuracy of product cost (Cherrington,1998 p. 492).

Service department:-one that is not directly engaged in production but tenders a particular type of service for the benefit of others department in some instance these service benefit of others service department as well as producing department represents a part of the total factory overhead and must be observed the cost of the product by means of the factory overhead cost (Cherrington, 1996 pp., 492-93).

2.1.3 Use of cost information

2.1.3.1 Cost for planning and control

A company of information system provides the data required for the preparation and operation of budget and for establishing standard costs.

Budget is a quantitative expression of a proposed plan of action by management for a specific period and an aid to coordinating what need to be done to implement that plan. A budget can cover both financial and non-financial aspects of the plan and serve a blue print for the company to flow in an upcoming period. A budget covers financial aspects quantities management expectation regarding income, cash flow, and financial position. Just as financial statements are prepared for past period. So can financial statements be prepared for future period for example a budgeted income statement, statement of cash flow and budgeted balance sheet (Cherrington, 2nd edition, 1998, p 227).

Advantages of budget

Budgets are big part of most management control style (System). Some advantages are listed below,

Compares strategic planning and implementation of plane Provided a framework for judging performance, motivates managers and employees, Promotes coordination and communication among sub units within the company (Horngreen,2003 pp., 176-177).

Standard cost: - Closely allied with the budget are standard costs which are predetermined cost for direct material, direct labor, and factory overhead. They are established by using information accumulated from past experience and data secured form research studies and it helps the management to form the foundation for the budget (Frigo, 1986, p97).

2.1.3.2. Cost for analytical purpose

Different type of involve varying kind of consideration in managerial analysis for decision making for example different analysis for decision making. For example, differential analysis for decision making in different and out of pocket cost are type of cost which attempt to envision when management in faced with the problem of abandoning one product and substituting another decision will demand the consideration of opportunity cost. If expansion of operating facilities is contemplated the relevant cost are future costs to be incurred should a project should be an abounded of capital cost never fully recovered through revenues, the company's management will face a cost situation that is formed a sunk cost. The many time and the disposal value of facilities.

2.1.4Objective of cost accounting

The main objectives of cost accounting are as follows. Ascertainment of cost: - This is the primary objectives of cost accounting. For cost ascertainment different techniques and systems of costing are used under different circumstances. Control of cost: - cost control aims at improving efficiency by controlling and reducing cost. The objective is becoming increasingly important because of growing competition. Guide to business policy: - Cost accounting aims at serving the needs of management in conducting the business with at most efficiency. Cost data provide guidelines for various managerial decisions like make or buy, selling below cost, utilization of idle plant capacity, introduction of a new product, etc. Determination of selling price: - Cost accounting provides cost information on the basis of which selling prices of products or services may be fixed. In periods of depression, cost accounting guides indicating the

extent to which the selling price may be reduced to meet the situation. In order to realize the objectives, the data provided by cost accounting may have to be re-classified, re-organized and supplemented by other relevant business data from outside the formal cost accounting system. (Arora, 2003, page 6).

2.1.5 Advantage of cost accounting

The principal advantages of cost accounting are; Reveals profitable and unprofitable activities. A system of cost accounting reveals profitable and unprofitable activities so that steps may be taken to reduce or eliminate wastages and inefficiencies accounting in any form such as idle time, under-utilization of plant capacity, spoilage of materials, etc. helps in cost control, cost accounting helps in controlling cost with special techniques like standard costing, budgetary control and also helps in decision making. It supplies suitable cost data and other related information for decision making, such as introduction of new product line, replacement of old machinery with an automatic plant, make or buy, etc. Cost is one of the most important factors to be considered while fixing prices. A system of cost accounting guides the management in the fixation of selling prices particularly during depression period when prices may have to be fixed below cost. Helps in inventory control perpetual inventory system, which is an integral part of cost accounting, helps in the preparation of interim profit and loss account. (Arora, 2003, page11-12)

Aids in formulating policies, Costing provides such information as enables the management to formulate production and pricing policies and preparing estimates of contracts and tenders. Helps in cost reduction, it helps in the introduction of a cost reduction programmer and finding out new and improved ways to reduce costs. Reveals idle capacity. A concern may not be working to full capacity due to reasons such as shortage of demand, machine break down or other bottlenecks in production. A cost accounting system can easily work out the cost of idle capacity so that management may take immediate steps to improve the position. Checks the accuracy of financial accounts, Cost accounting provides reliable check on the accuracy of financial accounts with the help of reconciliation between the two at the end of the accounting period. Provide cost data to outside agencies. A cost system produces ready figures for use by government, wage tribunals, trade unions, etc., for use in problems like price fixing, wage level fixation, settlement of industrial disputes, etc. Benefits working classes, Workers are benefited by introduction of

incentive plan which is an integral part of accost system. This results not only in higher productivity but also higher earnings for them. Helps in lowering prices, An efficient cost system is bound to lower the cost of production, the benefit of which is passed to the public at large in the form of lower prices of products or services. (Arora, 2003, page11-12)

2.1.6 Costing system

The two basic types of costing systems are used to assign cost to product or service. Which of them are as follow?

2.1.6.1 Job order costing system

In this system the cost object is a unit or multiple unit of a distinct product or service called a job. Job order costing system is a type of cost system that provides for a separate record of the cost of each particular quantity of product that passes through the factory. Job order costing system is commonly used by companies with product that are unique and divisible. In this system costs are assigned to a distinct unit, batch or lot of product, or service. Job is task for which resources expended in bringing a distinct product or services to markets. Examples of business that use job order costing includes; Construction system, Furniture manufactures, Printing firms, Repair shops, Service giving organization, Garages etc.(Cherrington, 1998, p 277).

2.1.6.2 Process costing system

In this costing system is used for manufacturing process which produces a single product or single mix of products continuously for an extended period of time. In this system the cost of a product or service is obtained by using broad averages to assign cost to mass of similar unites produced for general sale and not for any specific customers. Average cost over large number of nearly identical product companies that use process costing system are as follow (Cherrington, 1998 p 278).

Cement factories, Petroleum refineries, Flour companies, Beer factories, Textile factories, Beverage companies, Characteristics of process costing system the products manufactured are homogenous. The cost is accumulated in departments or cost centers, each unit produced will receive the same amount of direct material, direct labor, and MOH cost, Average Unit cost is obtained by dividing total cost to unit produced in a given department. (Cherrington, 1998, p314)

Costs are divided in to two based on when the costs are incurred in to the production process. Direct material cost: -This cost is usually added at one times either at the beginning, at the middle or at the end of the production process and Conversion cost (Direct labor (MOH cost) there costs are usually added evenly or uniformly throughout the production process.

Table2.1Shows The difference between job order costing and process costing system is listed in following table format.

	Concepts	JOB COSTING	PROCESS COSTING
1	Types of product	Diversified product line in which products are produced in batches with each batch representing a unique product	Homogenous products produced continuously
2	Cost accumulation	By job for a specified number of unit	By department or cost center for a specified period of time
3	Cost per unit	costs accumulated by job dividing when job is complete	Cost accumulated by cost center divided by equivalent units of production during a period of time
4	Reporting	By job	By cost center or department

Source: (Cherington, 1998, p 278).

2.1.7 Process losses and wastage

In industry which employs process costing a certain amount of loss occurs at various stage of production. Such loss may arise due to chemical reaction, evaporation, in efficiency, etc. It is therefore, necessary to keep accurate records of both input and output where the loss occurs at a late stage in manufacture, it is apparent that financial loss is greater. This is because more and more costs are incurred on processes as products move towards completion stage. Process losses may be classified in to normal process loss, abnormal process loss

2.1.7.1 Normal process loss

That amount of loss which cannot be avoided because of the nature of the material or process is normal process loss. Such a loss is quite expected under normal conditions. It is caused by factors like chemical change, evaporation, with draws for test or sampling, unavoidable spoiled quantities, etc.

2.1.7.2 Abnormal process loss

This type of loss consists of loss due to carelessness, machine break down, accident, use of defective materials, etc. thus it arises due to abnormal factors and represents loss which is over and above the normal loss (Arora, 2003, page 421)

2.1.8 Accounting treatment of normal process loss

Accounting treatment is a fundamental costing principle that the cost of normal losses should be borne by the good production. Normal losses are generally determined as a percentage of input. Sometimes such losses are due to loss of weight, say due to evaporation or chemical action. Since such wastage is not physically present, obviously it cannot have any value.

However, when normal loss is physically present in the form of scrap, it may have some value, i.e. it may be sold at some price. Whenever a scrapped material has any value, it's credited to the process account. (Arora, 2003, page 421-422)

2.1.9 Accounting treatment of abnormal loss

It has been stated earlier that abnormal loss due to carelessness, accidents, machine break-down and other abnormal reasons. Unlike normal loss, abnormal loss is not absorbed by good production, rather it is transferred to costing profit and loss account. This is because if the cost of abnormal loss were to fall on the good production, the cost there of will fluctuate and the information presented would be misleading. (Arora, 2003, page 422-423)

2.2 Empirical Literature Review

There is no single empirical study in the area of cost accounting practice and pricing system. The following attempt is made to summarize the main findings of some selected studies by different researchers about cost accounting practices in different countries.

Salawu et al., (2012) did a survey of Activity Based Costing Adoption Among Manufacturing Companies in Nigeria. The study reveals that inability of the traditional cost systems to provide relevant cost was the most highly ranked reason in their decision to adopt ABC. Traditional

methods of allocating overhead were therefore believed to be deficient in terms of improving global competitiveness. Also, 60% of the respondents have adopted ABC due to increased ranges of products, competition and increased overhead. Familiarity with and adoption of ABC was found to be across the manufacturing, more than half of the sample are familiar with it. The 40% of respondents who have not adopted ABC cited the cost and complexity involved with implementation as the main reason in non- adoption. However, cost of implementing ABC was enormous which hinder the small scale manufacturing from adopting it. This result may reflect the fact that larger firms are more likely to have the diverse mix of products or services that makes the use of ABC advantages. Consequently, the 24 study recommends that the companies who have not adopted ABC because of its high cost of implementation should endeavor to consider its adoption because in the long run the benefits derive from it will outweigh its cost. It helps to identify inefficient products, departments and activities and helps to allocate more resources on profitable products. In conclusion, the senior management should also give their utmost support to the implementation and success of ABC. (Sources Kubrom Negash,p(19)

Makomane and Michael (2016) conducted a study to examine the challenges and potentials of adopting cost accounting practices in African traditional healing. Although cost accounting is more prevalent in the private sector and the public sector, it is unpopular in African traditional healing. This study examined the necessity and benefits of adopting cost accounting practices to improve product and service pricing in African traditional healing. An exploratory case study that utilizes focus group interviews of traditional healers at the Makhuduthamaga Local Municipality in South Africa was conducted. Findings revealed the need to improve decision-making in traditional healing through the integration of cost accounting principles for appropriate costing of products and services through the provision 21 of accurate cost accounting information. The study recommended the development of a unique cost accounting model for use by traditional healers in South Africa. (Sources Kubrom Negash,p(19)

Alahdal et al (2016) conducted a study aimed to explain the role of cost accounting systems in the process of pricing decision-making in Yemeni industrial companies of Taiz City. The researcher has used both descriptive and analytical methods which suit the nature of the present study which is mostly based on field work and the theoretical underpinnings. A group of previous studies related to the subject of the study have been utilized in the construction of study

tools (questionnaires) which have been distributed in the industrial companies in the Taiz city, Yemen. The study targeted accounting costs, accountants, auditors and managers of financial department's in industrial companies. Data analysis through the Statistical Package for Social Sciences (SPSS) was the use of scientific statistical methods, frequencies and percentages, SMA, Standard deviation, t-test, Cronbach's alpha test. The results indicated that the cost of the accounting system applied in industrial companies provides quality accounting information; there is an impact of this information on the pricing decision-making; there are areas in which pricing decisions much depend on the information provided by the cost accounting systems. This study can contribute to the literature by providing an analysis of the role of cost information in pricing decisions within industrial companies in the Taiz city, Yemen.

Kariyawasam(2018) studied the cost management and account management practices of public quoted manufacturing companies in Sri Lanka. Research method used in this study was an applied research method, whilst the research strategy employed was a survey research strategy. Sample for the study consisted of 70 public quoted manufacturing companies in Sri Lanka. Findings from the study revealed that the main costing method used by public quoted manufacturing companies in Sri Lanka is activity based costing, followed by process costing and job costing. Findings from the study also revealed that cost information is mainly used by public quoted manufacturing companies for pricing related decisions, followed by customer profitability related decisions, and performance measurement; that the increasing interest and use of cost accounting in these companies is on account of the decline in firm profitability, increasing cost, intense competition, and high customer and supplier bargaining power; and that these manufacturing companies give high importance to traditional management accounting practices such as planning and control, budgeting, target costing, and cost volume-profit analysis.(Sources Kubrom Negash,p(20)

Novak et.al (2017) conducted study to analyze overhead cost behavior on decision making approach. The study reveals that cost management is one of the most significant issues in company performance and company financial management which any enterprise has to solve as in the periods of declines of sales revenues, as well as during their growth. In this study they designed and tested several regression models that could be suitable for cost behavior prediction and subsequent decision-making based on these predictions. They used multiple linear regression

models with a point estimate and with interval estimate of the model parameters. Comparison of regression models of cost behavior and their reliability was carried out due to the quality of the data collected for the case of basic and adjusted data. The overheads were divided into several groups of relevant costs and their dependences were examined on different factors other than only the production volume using the correlation 20 matrix. From the results of the transformed model they believe that asymmetric cost behavior is affected by asymmetric behavior of the chosen factors. As the final one was intended, the model representing the change in costs in time shifting about one-month period. This model can be used for examining costs in time shift by a short period (e.g., months) and thus it is possible to prove cost asymmetric behavior called "sticky costs". They used the model adjusted in accordance with Anderson et al. (2003) and they kept the model clearly transformed and assembled so that there remained only those variables that had a statistically significant effect on the dependent variable. The limitations of these models were also defined. Finally, graphical analyses of deviations were performed to find similarities in cost through cost centers and through the examined periods. Sources: (Kubrom Nagesh,p(20)

Lawal (2017) conducted study on effect of cost control and cost reductions techniques in organizational performance. In any organization, the major objective is to maximize profit, but the main constraints facing them are the rise in cost of operation. Due to this, the cost of production increases and could lead to certain cost control and cost reduction which make it complex for many organizations to operate as well organized cost limit of knowledge. The study aim is to critically examine and evaluate the application of cost control and cost reduction in organizational performance and also to review the budget as an effective tool of cost control and cost reduction. A descriptive survey research was adopted. A total number of 50 questionnaires were administered and used for the study. The analysis of data collected was undertaken by applying appropriate statistical tools. Regression analysis was used to test the hypothesis with the use of SPSS. Based on the findings, it was evident that cost control has a positive impact on organizational performance and also the style of management has a positive impact on organizational performance.

Ghanshyam P. S. and RadheShyam P. (2016) was conducted a study on cost management practice on and firm's performance in Nepal Oil Corporation. This study found the relationship

between cost management practices and firm's performance in Nepal Oil Corporation using data from 2004 to 2014. The study relied on secondary data extracted from the audited financial statement of the Nepal Oil Corporation. Independent variables include direct material cost, direct labour cost, selling and distribution overhead cost and office and administrative overhead cost while profitability (Return on assets) was taken as dependent variable representing the firm's performance. Correlation and regression analyses were employed to test the hypothesized relationships between the cost management and profitability. The results found a strong support for hypothesized with the direct relationships between cost management and performance measure.

Andersch et al (2011) have conducted a survey about the costing system in North America hardwood dimension and component manufacturers to understand the product costing practices of the companies. In this study, companies when bidding for jobs need to be able to price products competitively while also assuring that the necessary profitability can be achieved. These goals, competitive pricing and profitability, cannot be reliably achieved unless industry participants possess a full understanding of their company's cost structure. Competitors blame companies without detailed knowledge of their company's cost structure for submitting bids that are priced unreasonably low, thereby making it harder to achieve the necessary profitability.

Salih Jemal(May,2012)- studies on cost accounting system of kotebe metal tools factory and defined cost accounting as the process and evaluation of operating cost data to provided information for external reporting, internal planning and control of ongoing operating cost and special decision making. The result of the data analysis showed that the factory used the standard cost is not up to date to the current situation and the treatment of scrap is not identifying scrap with individual jobs. So, the factory should be revised the standard costing and it should adjust the treatment of scrap with individual jobs.

Samrawit Yemaneh (April, 2010) –defined on the study which was designed to assess the cost accounting system of the Ethiopian plastic share company. According to this study the factory used standard costing of basic standard type while is not updated to the current situation, so this standard costing is not accurate estimate of cost. The result and discussion port of this research was analyzed based on the data collected through interview with some supporting documentary

evidences such as the past years cost data. Based on this, the study intended to suggest possible solution to the problem identified.

Meksud Arebo(May,2011) The study “Assessment of cost accounting practice” was conducted on Kaliti Food Share Company. The main objective of the study is to assess the product costing system of the factory. The result of the data analysis showed that. The company uses both process costing and job order costing system. The basic Problem of the company is price differentiation that used to produce the same product.

2.3 conclusion and knowledge gap

Many researches are conducted about cost accounting practice on many company like on metal ,flour ,plastics, sugar and so on that concentrates on analysis on allocation of cost, recording method of cost and types of cost accounting and cost accounting information to contribution management decision making. The literature review has unfolded certain points in terms of the scope and application of cost accounting techniques. The major gaps are revealed as follows:

- Cost management is one of the most significant issues in company performance and company financial management.
- Cost control has a positive impact on organizational performance and also the style of management has a positive impact on organizational performance.
- Decision-making can be improved through the integration of cost accounting principles for appropriate costing of products and services through the provision of accurate cost accounting information.
- Cost reduction strategy should be embarked with emphasis on selling and distribution overhead cost and office and administrative overhead cost.
- Enterprises could utilize cost management systems in order to survive and to reach their goals.
- Organization goals such as competitive pricing and profitability cannot be reliably achieved unless industry participants possess a full understanding of their company’s cost structure.
- Firms are successful in capturing accurate cost and profit information from their ABC cost systems for value chain and supply chain analysis.

- Most of the Activity Based Costing research was done in developed countries and very few in developing countries.

The above Literature review highlights most of the studies so far conducted are mainly discussing that are related to the different elements and aspects of cost accounting systems. Some studies also covered cost systems and techniques and others are also related to cost accounting practices, but there are no in-depth specific study has been conducted covering substantial aspects on the cost accounting practices related to Ethiopian manufacturing companies on the best knowledge of the researcher. The scanning of literatures give an indication that there exists a gap in the existing study and a study is needed that include cost accounting system of Ethiopian manufacturing companies. Addressing the research study questions, the present study conducted in Fikir water factory.

2.4 Conceptual Frame works

Cost Accounting is the field of accounting that measure, records and report information about cost represented in the accounting system by out lays of cash, promise to pay cash in the future and expiration of the value of an asset. These include the cost of inventory, the cost of increasing sales volume and cost saved from energy efficiency equipment. (Horngreen, 2003)

Cost accounting provides information for management accounting and financial accounting management accounting measures and reports about financial and non-financial information that helps managers make decisions to fulfill the goal of the organization and financial accounting focus on reporting to external parties. (Horngreen, 2003, p2-3)

Cost accounting as the process and evaluation of operating cost data to provided information for external reporting, internal planning and control of ongoing operating cost and special decision making.

Generally the concept of cost accounting and its practices is different when we compare the developed one from developed countries. As we can see in the empirical part even the standardization of developing countries within themselves have a big different.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3. Introduction

This chapter was over view the methodology the study adopted in the research .It includes the research design will be used to assess about the research and detail methodology showing the logical framework that discusses research designed ,sampling designed and research method is presented. To achieve the objective of this research the appropriate method is adopted and method that will be used to collect the data and the method employed to run the data analysis and interpretation is discussed under this chapter.

3.1 Research Approach

There are two basic types of research approaches, quantitative and qualitative approach. In order to achieve the objective of this study and answer the research questions, the researcher will be uses both quantitative and qualitative approach.

Saunders et al. (2003) Quantitative approach is often thought of as being more objective and scientific than its qualitative counterpart and is therefore associated with the more traditional scientific approaches to research as used in the physical sciences. It can often be analyzed using standard statistical techniques to, for example, test validity. Quantitative data of course implies that what is being measured or researched can be quantified in the first place. It is therefore only applicable to phenomena that can be quantified and measured.

Saunders et al. (2003) Qualitative approach on the other hand, relates to data that cannot be subjected to quantitative or numerical analysis. It is therefore associated with phenomena that cannot be, or is difficult to quantify.

The reason for using quantitative approach for employees is that the researcher aims to make generalization. The other reason for using qualitative approach for employer is that researcher uses purposive sampling method and the researcher aims to gain understanding of their attitude rather than making generalization. The other reason that the researchers wants to choose those methods in relation to other methods is that they are well known and make possible and not complicated to do the study.

3.2 Research Design

Saunders et al. (2003) suggests that research design is the plan and structure of investigation so as to obtain answers to research questions. The plan is an overall scheme or program of the research process. It includes an outline of what the researcher will do starting from statement of the problem and hypotheses formulation to the final analysis of data.

The formidable problem that follows the task of defining the research problem is preparation of the design of the research project popularly known as research design. To achieve stated objective of study, the researcher used descriptive type of research design. Descriptive research designs focus on describing situation at set of circumstance by observing to give scientific description. The aim of the study is to describe the actual cost accounting practice and pricing system of Fikir water factory. And also the researcher also relayed on descriptive method, because of this method is more suitable to describe and measure the cost accounting practice of Company.

3.3 Population and sampling technique

3.3.1 Target population

In research methods, population is the entire aggregation of items from which samples can be drawn. The target population of the study is from the total population of 35 Fikir water factory infuses on the workers of finance, quality control and human resource department and other related to cost accounting staff of the factory. All the target populations are from the worker of only Fikir water factory located in Edja woreda Wasamar kebele.

3.3.2 Sampling Technique and Size

In this study, the sampling method is used to acquire the respondent is purposive sampling technique. In order to achieve the objective of the research, the study will purposely select 10 employees of the water factory. The reason for using purposive sampling techniques is the selecting employee related to cost accounting department of the company and that have to expect good knowledge about the cost accounting practice in manufacturing company.

Selecting sample would be fundamental for research study. Because taking the total population was impossible due to time constraints. So the sample technique would be used. Total sample technique to acquire the primary data would be judgmental and non-probability sampling. Non

probability sampling will help us to reduce the sample size and to have non biased and accurate answers from the volunteer respondents and due to cost constraint and time limitation.

3.4 Types and Source of Data

The study was concerned with both primary and secondary source of data.

A. Primary source

Saunders et al. (2003) suggest that one of the most fundamental distinctions between types or categories of data is that of primary versus secondary data. Primary data does not actually exist until and unless it is generated through the research process as part of the consultancy or dissertation or project. As we shall see, primary data is closely related to, and has implications for, the methods and techniques of data collection. For example, primary data will often be collected through techniques such as experimentation, interviewing, observation and surveys.

The primary data is allocated from primary source using, structured personal interview questions. This type of questions the researcher design by using equal proportion to closed ended questions and open ended questions and the researcher will be uses primary sources of data likes questionnaires because these methods are convenient, less complicated and easy for collection. Generally, the primary data could be obtained from those bodies that were responsible for cost control system (i,e the cost accounting department, human resource department),

B. Secondary source

Saunders et al. (2003) defines Secondary data, on the other hand, is information which already exists in some form or other but which was not primarily collected, at least initially, for the purpose of the consultancy exercise at hand. In fact, secondary data is often the start point for data collection in as much as it is the first type of data to be collected

The researcher uses the secondary sources of data to conduct this study; the sources will be used were documents related reports through investigations and verification of balances related transactions based on departmental activities of the organization and also obtained from the company accounting documents, financial statements, cost manual of the firm and Journals.

3.5 Data Analysis Method

The collected data was processed, analyzed and interpreted to report the result of researcher finding of the selected company. The data analysis begins by editing and classifying the collected data in more meaningful and relevant information to the study by attached documents (if any) as it is appropriate in conducting the study. Data editing means the process of examining collected data identify errors and omissions. As to data classification, the gathered data are arranging and grouped in to similar categories and generalize the data in order to facilitate the study. The interpreted data was summarized and concluded in to meaningful way that can be understood by any concerned body. Finally, narrative sentences used to present the study report and where necessary descriptive way of data analysis by comparing actual finding with theory in conducted the study.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

INTRODUCTION

This chapter presents analysis and interpretation of data that was collected through questioner and interview. “Questionnaire” is used as a primary data collection method to gather the required information. In addition that most of the data collected mainly from selected department heads, background information about respondents will have an important role for confirmation of the data. The remaining part of this chapter is organized as follows, qualitative statistics on the finding and result of discussion from Fikir water factory along with demographic profile and their response to the study related questions by using questionnaires.

4.1 Results from questionnaire

Questionnaire is very important to gather information and it is very useful. For this research which requires individual’s response about the cost accounting employees, the researcher used this data source as a primary source and has got in-depth information by using this technique.

4.1.1 Background Information of respondents

From total 22 questionnaires distributed to employees of the factory to 8 questionnaires from Management and Administration department and from Human resource department of factory and 14 questionnaires from production and other related operation department of factory, among them 20 questionnaires representing 90.9% are returned.

Table 1: Respondent's personal information

		Management and administration and Human resource department		Other Production and operational department	
Gender	Description	No of respondent	Percent %	No of respondent	Percent%
Gender	Male	8	80%	9	90%
	Female	2	20%	1	10%
	Total	10	100%	10	100%
Age	20-30	4	40%	5	50%
	31-40	4	40%	4	40%
	41-50	2	20%	1	10%
	>50	-	-	-	-
	Total	10	100%	10	100%
Educational Status	Diploma	2	20%	2	20%
	Degree	6	60%	6	60%
	Master	2	20%	2	20%
	Total	10	100%	10	100%
Work experience	<2 year	5	50%	6	60%
	3-5 year	4	40%	4	40%
	6-10 year	1	10%	-	-
	>10 years	-	-	-	-
	Total	10	100%	10	100%

Source: questionnaire

As it is shown on the above table, 80% of respondents are males and 20% of respondents are female in Management and administration and Human resource department and 90% of respondents are male and 10% of respondents are female in Production and other operational department. The table shows that Management and administration and Human resource department gender distribution for female employees are larger than Production and operational department in the water factory.

In the case of classification of respondents by age, 4 respondents, representing 40% are their age between 20 – 30 years and 4 respondents, representing 40% are their age between 31- 40 years and 2 respondent representing 20% are their age between 41-50 Management and administration and Human resource department and the respondents by age, 5 respondents, representing 50% are their age between 20 – 30 years and 4 respondents, representing 40% are their age between

31- 40 years and 1 respondent representing 10% are their age between 41-50. This indicates that the 90% employee's age is lies between 20 – 40 years in Production and operational department and the 80% employee's age is lies between 20 – 40 years in Management and administration and Human resource department and there is no old employee in the department.

With regard to educational level of respondents, the table shows that 2 respondents, representing 20% of the employees are holders diploma, 6 respondent representing 60% employee's holds degree and the remaining 2 respondent representing 20% employees are master degree holders in Management and administration and Human resource department and the 2 respondents, representing 20% of the employees are holders diploma, 6 respondent representing 60% employee's holds degree and the remaining 2 respondent representing 20% employees are master degree holders in Production and operational department, on the other hand there is no other educational level from the sample. This shows that highest percentages of employees are degree holders in Management and administration and Human resource department and Production and operational department of the factory.

In relation to work experience of employees, the table shows that 5 respondents, representing 50% of the employees have an experience of 0-2 years, 4 respondents, representing 40% of the employees have an experience between 3-5 years, and 1 respondent, representing 10% of the employees has an experience of 6 – 10 years in Management and administration and Human resource department and 6 respondents, representing 60% of the employees have an experience of 0-2 years, 4 respondents, representing 40% of the employees have an experience between 3-5 years, and there is no respondent, of the employees has an experience of 6 – 10 years in Other Production and operational department of the factory.

4.2 Employees response to the study related question with cost accounting practice of the water factory.

In this section the attitudes of employees related to cost accounting practice are discussed. The analysis and presentation is made using statistical tools such as frequencies percentage and tables.

4.2.1 Cost accounting method

Accounting is based on the fact that every financial transaction has equal and opposite effects in at least two different accounts. It is used to satisfy the equation $\text{Assets} = \text{Liabilities} + \text{Equity}$, whereby each entry is recorded so as to maintain the relationship and transactions are recorded in terms of debits and credits.

Table 2 cost accounting method

No	Question	Types of response	Management and administration and Human resource department		Other Production and operational department	
			No of respondent	Percentage	No of respondent	Percentage
1	Does the firm use double entry accounting system?	Yes	10	100%	10	100%
		No	-	-	-	-
		I don't know	-	-	-	-
		Total	10	100%	10	100%
2	Does the firm fiscal year is at the end of the year?	Yes	10	100%	10	100%
		No	-	-	-	-
		I don't know	-	-	-	-
		Total	10	100%	10	100%
3	Does the factory use process costing system?	Yes	10	100%	10	100%
		No	-	-	-	-
		I don't know	-	-	-	-
		Total	10	100%	10	100%
4	Does the factory use accrual base of accounting?	Yes	10	100%	10	100%
		No	-	-	-	-
		I don't know	-	-	-	-
		Total	10	100%	10	100%

Source: questionnaire

The above table shows that both Management and administration and Human resource department and Other Production and operational department 100% confirm use double entry accounting system, firm fiscal year is at the end of the year, accrual basis of accounting and process costing system it produces massive similar units of products for a long period of time produce only water. Generally, Fikir water factory uses appropriate cost accounting method.

4.2.2 Costing system effectiveness

Table4. 3 costing system effectiveness

Items	Fact.	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
The company current costing system is proper according to setting	Management and administration and Human resource department	5	50%	3	30%	2	20%	0	0%	0	0%
	Other Production and operational department	3	30%	5	50%	2	20%	0	0%	0	0%
The current costing system is convenient for effective production cost assignment	Management and administration and Human resource department	4	40%	3	30%	2	20%	1	10%	0	0%
	Other Production and operational department	4	40%	2	20%	1	10%	3	30%	0	0%

Source: questionnaire

Based on the above table show that in Management and administration and Human resource department 50%, 30% and 20% of respondents strongly agreed, agree and neutral respectively that the company's current costing system is proper according to its setting and in Other Production and operational department 30%, 50% and 20 of respondents strongly agreed, agree and neutral respectively that the company's current costing system is proper according to its setting. These show that Fikir water factory current cost accounting system are proper according to setting.

Show 40%, 30%, 20% and 10% of respondents strongly agreed, agree, neutral and disagree respectively that company's current costing system is convenient for effective production cost assignment in the perspective of Management and administration and Human resource department and 40%, 20%, 10% and 30% of respondents strongly agreed, agree, neutral and disagree respectively that the company's current costing system is convenient for effective production cost assignment in the perspective of Other Production and operational department. Generally, the water factories have better current costing system as it is convenient for effective production cost assignment.

4.3 Allocation of cost-to cost-object

In manufacturing company they have direct and indirect cost associated to the product. Direct costs of a cost object are costs that are related to the particular cost object and can be traced to it in an economically feasible way. Such costs are: Direct material costs are costs that the company uses to produce finished products in each cost center are directly to the cost of that product. Direct labor costs are cost of salary and wage, over time, leave pay of employees paid for the direct application of labor to manufacture a product.

Indirect costs: indirect cost of a cost objects are costs that are related to the cost object but that cannot be traced to it in an economically feasible way incurred in the practices of manufacturing a product and are not charged as direct material or direct labor costs a particular cost centers. Such costs are in direct labor cost, indirect materials cost, depreciation, electricity and repair and maintenance, fuel, stationary, insurance and others.

Table4. 4 company allocate cost-to-cost object

Items	Fact.	Strongly agree		Agree		Neutral		Disagree		Strongly agree	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
The factory cost allocating department use more than one pool for accumulating in direct cost	Management and administration and Human resource department	0	0%	7	70%	3	30%	0	0%	0	0%
	Other Production and operational department	5	50%	2	20%	3	30%	0	0%	0	0%
Those are properly allocating all of them to the cost object	Management and administration and Human resource department	3	30%	4	40%	2	20%	1	10%	0	0%
	Other Production and operational department	2	20%	3	30%	5	50%	0	0%	0	0%
The factory use predetermined rate for allocating manufacturing overhead cost	Management and administration and Human resource department	4	40%	6	60%	0	0%	0	0%	0	0%
	Other Production	4	40%	3	30%	2	20%	1	10%	0	0%

	and operational department										
The factory have proper accumulated production cost in each cost center	Management and administration and Human resource department	2	20%	3	30%	3	30%	2	20%	0	0%
	Other Production and operational department	4	40%	1	10%	5	50%	0	0%	0	0%

Source: questionnaire

The above table shows that in Management and administration and Human resource department 70%, 30% of respondents agree and neutral respectively and in Other Production and operational department 50%, 20% and 30% of respondents strongly agree, agree and neutral respectively the factory cost allocating department use more than one pool for accumulating in direct. These indicates that the factory use more than one pool for accumulating in direct cost.

The table shows 30%, 40%, 20% and 10% of respondents strongly agreed ,agree, neutral and disagree respectively in Management and administration and Human resource department and 20%,30% and 50% of respondents strongly agreed ,agree and neutral respectively in Other Production and operational department confirm those are properly allocating all of them to the cost object. Generally, the factories cost object are properly allocate cost object.

The table shows 40% and 60% of respondents strongly agreed and agree respectively in Management and administration and Human resource department and 40%, 30%, 20% and 10% of respondents strongly agreed, agree, neutral and disagree respectively in Other Production and operational department use predetermined rate for allocating manufacturing overhead cost. This implies that the factory use predetermined rate for allocating manufacturing overhead cost

The table shows 20%, 30%, 30% and 20% of respondents strongly agreed, agree, neutral and disagree respectively in Management and administration and Human resource department and 40%,10% and 50% of respondents strongly agreed, agree and neutral in Other Production and operational department have proper accumulated production cost in each cost center. This indicate that the factory have not proper accumulated production cost in each cost center.

4.4 Proper keeping and recording of cost data

Storekeeper is responsible for safeguarding the materials and supplies in proper place until they are required for production activities. The storekeeper have responsibilities such as maintaining the proper record of materials relating to the receipt and issue of materials; Arranging for physical verification of store items periodically; Supplying information of materials, stock position and so on whenever needed; Checking the physical quantity of materials and verify with a bin card; and Preventing unauthorized entrance into the store room.

Table 4.5 Proper keeping and recording of cost data

Items	Fact.	Strongly agree		Agree		Neutral		Disagree		Strongly agree	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
The company have a separate cost accounting department	Management and administration and Human resource department	6	60%	2	20%	2	20%	0	0%	0	0%
	Other Production and operational department	2	20%	3	30%	5	50%	0	0%	0	0%
The company have proper purchasing	Management and administration and Human resource department	4	40%	2	20%	4	40%	0	0%	0	0%

procedures	Other Production and operational department	5	50%	3	30%	2	20%	0	0%	0	0%
The purchasing department submit the proper documents to the cost accounting department for record at the time of delivery	Management and administration and Human resource department	3	30%	4	40%	3	30%	0	0%	0	0%
	Other Production and operational department	3	30%	3	30%	4	40%	0	0%	0	0%
The costing departments record the purchaser transaction immediately when it gets the proper source documents.	Management and administration and Human resource department	3	30%	4	40%	2	20%	1	10%	0	0%
	Other Production and operational department	2	20%	5	50%	2	20%	1	10%	0	0%
The factory store keeper sends and copy material receiving voucher to the costing department on time.	Management and administration and Human resource department	7	70%	3	30%	0	0%	0	0%	0	0%
	Other Production and operational department	7	70%	3	30%	0	0%	0	0%	0	0%

Source: questionnaire

The above table show that 60%, 20% and 20% of respondents strongly agreed, agree and neutral respectively in Management and administration and Human resource department and 20%, 30% and 50% of respondents strongly agreed, agree and neutral respectively in Other Production and operational department have a separate cost accounting department. This show that the factory have a separate cost accounting department and have better separate cost accounting department.

Show that 40%, 20% and 40% of respondents strongly agreed agree and neutral respectively in Management and administration and Human resource department and 50%, 30% and 20% of respondents strongly agreed, agree and neutral respectively in Other Production and operational department have proper purchasing procedures. The study shows that and the factory have good purchasing procedures.

According to the respondent 30%, 40% and 30% of respondents strongly agreed agree and neutral respectively in Management and administration and Human resource department and 30%, 30% and 40% of respondents strongly agreed agree and neutral respectively in Other Production and operational department purchasing department submit the proper documents to the cost accounting department for record at the time of delivery. The study shows that Fikir water factory purchasing department submit the proper documents to the cost accounting department for record at the time of delivery.

Show that 30%, 40% , 20% and 10% of respondents strongly agreed agree, neutral and disagree respectively in Management and administration and Human resource department and 20%, 50% , 20% and 10% of respondents strongly agreed agree, neutral and disagree respectively in Other Production and operational department costing departments record the purchaser transaction immediately when it gets the proper source documents. So, the factory are recorded transaction proper source of documents.

Show that 70% and 30% of respondents strongly agreed and agree respectively in Management and administration and Human resource department and Other Production and operational department store keeper sends and copy material receiving voucher to the costing department on

time. Generally, Fikir water factories are properly store keeper sends and copy material receiving voucher to the costing department on time

4.5 The skill of human resource

Table 4.6 the skill of human resource

Items	Fact.	Strongly agree		Agree		Neutral		Disagree		Strongly agree	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
The factory employees have sufficient knowledge and skill for their job responsibility		5	50%	3	30%	2	20%	0	0%	0	0%
		3	30%	4	40%	3	30%	0	0%	0	0%
The factory cost accounting staff members are professionally qualified in accounting		3	30%	5	50%	2	20%	0	0%	0	0%
		4	40%	4	40%	2	20%	0	0%	0	0%
The department has adequate staff member in number, they are efficient		4	40%	2	20%	2	20%	2	20%	0	0%
		0	0%	4	40%	3	30%	3	30%	0	0%
The production department control the employee to work properly a production schedule		5	50%	1	10%	4	40%	0	0%	0	0%
		5	50%	1	10%	4	40%	0	0%	0	0%

Source: questionnaire

The above table shows that in Management and administration and Human resource department 50%, 30% and 20% of respondents strongly agreed, agree and neutral respectively and in Other Production and operational department 30%, 40%, and 30% of respondents strongly agreed, agree and neutral respectively the employees have sufficient knowledge and skill for their job

responsibility. The study shows that most of the factory employees have sufficient knowledge and skill for their job responsibility.

In Management and administration and Human resource department 30%, 50% and 20% of respondents strongly agree, agree and neutral respectively and in Other Production and operational department 40%, 40%, 20% of respondents strongly agree, agree and neutral respectively that the factory cost accounting staff members are professionally qualified in accounting. This shows that most of the factory cost accounting staff members are professionally qualified in accounting.

The department have adequate staff member in number, they are efficient 40%, 20%, 20% and 20% of respondents strongly agree, agree, neutral and disagree respectively in Management and administration and Human resource department and 40%, 30% and 30% of respondents agree, neutral and disagree respectively in Other Production and operational department. These studies show that the factories have adequate staff member in number and efficiencies.

The production departments controls the employee to work properly a production schedule that 50%, 10% and 40% of respondents strongly agreed, agree and neutral respectively in Management and administration and Human resource department. The researcher observed from the study, the company production departments control employee to work properly a production schedule.

4.6 Cost data for decision making

Many manufacturing company managers expect the cost data as much useful as required so that various usable economic decisions can be drawn from it. As a result the cost accountant has the highest responsibility of presenting the cost data in a way that makes decision makers understand easily, interpret and make decision based on it. The factory selling prices of manufactured goods are set based on two important factors the cost of production, which is directly related to input price as cost of production increase selling price accordingly will increase to retain the profit margin at its original amount. The other is the demand factor.

According to the respondent of both department of the factories purpose of cost information is need to proper setting price and the company to know the total profit and loss and the preparation of financial statement.(Source: questionnaire).

4.7. Techniques used to the company to reduce cost

Currently, the company is incurring a large amount of costs but still maintaining the quality of products produced. By now, the company is to design methods of reducing its production cost using the following techniques. Replacing the old truck with the new ones so that timely maintenance cost is highly reduced, Comparison of its suppliers as free market is granted by the existing government, encouraging the domestic suppliers of raw materials so that inputs can be purchased with much lower price than the imported once. (Source: questionnaire)

4.7 Problem of the factory

Table 4.7 Problem of the factory

Items	Fact.	Strongly agree		Agree		Neutral		Disagree		Strongly agree	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
The factory has Problem of price setting for its products because the production cost of products is not properly and clearly determined.	Management and administration and Human resource department	0	0%	6	60%	0	0%	4	40%	0	0%
	Other Production and operational department	0	0%	6	60%	0	0%	2	20%	2	20%
The company doesn't properly apply the cost accounting system	Management and administration and Human resource department	0	0%	4	40%	0	0%	3	30%	3	30%
	Other Production and operational department	0	0%	4	40%	0	0%	3	30%	3	30%

lack of adequate knowledge with respect to cost discounting system	Management and administration and Human resource department	0	0%	3	30%	0	0%	0	0%	7	70%
	Other Production and operational department	0	0%	3	30%	0	0%	2	20%	5	50%
The company has mishandling of records and cost information which can be opens the way to apply in appropriate cost accounting system and methods	Management and administration and Human resource department	0	0%	0	0%	0	0%	8	80%	2	20%
	Other Production and operational department	0	0%	0	0%	0	0%	6	60%	4	40%
The main causes of labor efficiency variance are Personal difference	Management and administration and Human resource department	0	0%	3	30%	0	0%	5	50%	2	20%
	Other Production and operational department	0	0%	3	30%	0	0%	2	20%	5	50%

Source: questionnaire

The above tables show that in Management and administration and Human resource department 60% and 40% of respondent agreed and disagree respectively and in Other Production and operational department 60%, 20% and 20% of respondent agreed, neutral and disagree respectively the factory has Problem of price setting for its products because the production cost

of products is not properly and clearly determined. The researcher observed from the study, Fikir Water Company has Problem of price setting

Thus tables show that 40%, 30% and 30% of respondent agreed disagree and strongly disagree respectively in Management and administration and Human resource department. The researcher observed from the study, they have some problem respect to thus but, they properly apply the cost accounting system.

In Management and administration and Human resource department 30% and 70% of respondent agree and strongly disagree respectively and in Other Production and operational department 30%, 20% and 50% of respond agree, disagree and strongly disagree respectively lack of adequate knowledge with respect to cost discounting system. According to respondent they have some problems related to cost discounting but, have not lack of adequate knowledge with respect to cost discounting system.

The table shows 20%, 40% and 20% of respondent strongly agree, agree and s disagree respectively and in Management and administration and Human resource department 60% and 40% of respondent agree and strongly disagree respectively and in Other Production and operational department has mishandling of records and cost information which can be opens the way to apply in appropriate cost accounting system and methods. The study shows that the factory has some problem of mishandling records and cost information.

The table shows 30%, 50% and 20% of respondent agree, disagree and strongly disagree respectively and in Management and administration and Human resource department and 30%, 20% and 50% of respondent agree, disagree and strongly disagree respectively and in Other Production and operational department has the main causes of labor efficiency variance are Personal difference. This implies the factory decided Personal difference has not the main causes of labor efficiency variance but, one problem of labor efficiency variance.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

Introduction

The preceding chapter presented the results and discussion, while this chapter deals with conclusions and recommendations based on the findings of the study. Accordingly, this chapter is organized into two subsections namely conclusion and recommendation.

5.1 Conclusion

The main objective of the study is to analyze cost accounting practice in Fikir spring water Share Company based on the cost accounting method, allocation of product cost, skilled human resource and price setting mechanisms and cost effectiveness of the factory. Even if product costing has some valuable benefits for firms the company has a problem of price setting for its products because the production cost of products is not properly and clearly determined.

To address these objectives, a descriptive research design was used and primary data was collected through survey questionnaires and cost accountant workers selected by purposive sampling method. Frequencies and percentage were used to analyze the responses of Fikir spring Water Company to wards cost accounting practice.

The finding of the study reveals, the proper cost accounting practice provides a lot of benefits mainly for the manufacturing company of Fikir water factory. According to the employee responses that the company gets a lot of benefits such as simply know total profit and loss, building good image of the factory, reduction of unnecessary cost related to the production of the product, and in addition it also increases the revenue of the company.

The finding of the study reveals, Fikir spring water uses cost accounting method such as; - accrual base, double entry system of transaction record in both debit and credit, fiscal year of the company is at end of the year prepare financial statements and uses process costing system produced in mass production which usually pass in continuous fashion is process costing system.

The study also revealed that Fikir water factory current cost accounting system is proper according to setting and company's current costing system is convenient for effective production cost assignment. This is used to control the company's flow of production costs easily. In addition the researcher conclude from the study most of Fikir spring water Share Company have skilled human resources that work on cost accounting and he/she is responsible to provide the right information about cost and budget at the right time for management to help them for their decision making practically for planning and controlling.

The finding show that Fikir Water Company use cost for their product pricing purpose and for preparation of their financial statements. It uses cost plus pricing approach to price their product by computing the material cost. Labor cost, overhead cost and administrative expenses and to this adds up the desired profit percentage. This pricing approach used to fix the desired profit percentage of the company. The preparation of financial statement also used to know its net income and net loss.

The researchers conclude that Fikir water Company Proper keeping and recording of cost data. Storekeeper has responsibilities such as maintaining the proper record of materials, cash receipt and payment.

The finding shows that Fikir Water factory has Problem of price setting for its products because the production cost of products is not properly and clearly determined.

Fikir water Share Company costing accounting practice concluded as it used appropriate cost allocation base, use the product costing system based on their process of production. The company product costing practice is good that makes if possible business operation and now a day is growing by increasing the products it produces and producing in large volume.

5.2. Recommendations

Based on the above mentioned conclusions, the researcher recommends the following points:

In least developing countries like Ethiopia, there is problem in cost accounting practice. In order to cost products efficiently and effectively, run the business by controlling costs, and increase its profit timely, modern costing method has to be implemented.

- ✎ Fikir water factory purchasing department must follow the company purchasing procedure in order to make input transaction data in timely and accurate manner. Especially the water factory gives more attention to improve purchasing department.
- ✎ Fikir water factory are buying the same raw material in different price from different supplier so they should buy raw materials from one reliable supplier to eliminate the different cost of products. And teach the organization employee about product costing and its purpose.
- ✎ Fikir spring Water Company has some problems of man power. So, need some professional qualified accountant in terms of number of human resource and efficiency. As much as possible teach the organization employee about product costing and its purpose.
- ✎ Fikir water costing method are not bad, but in order to compete with other competitors on the market, the company should implement modern costing method, to use product costing efficiently and effectively and run the business by controlling costs and increasing its profit timely.
- ✎ Fikir Water factory has Problem of price setting for its products because the production cost of products is not properly and clearly determined.so the factory production cost of product should be clearly determined.
- ✎ Fikir water factory production department control the employee to work a production schedule are not in bad stage but in order to compete with other competitors, the water factory production department control the employee to work a production schedule and assignment, effective production cost and allocation of cost-to cost-object in a separate cost accounting department.

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APPENDIX
WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

I will be a graduate student in the Wolkite University from department of Accounting and Finance. Currently, I am undertaking a research entitled '*cost accounting practice in Fikir water factory*'. You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of the cost accounting practice in Fikir water factory. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only use for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Sincerely,Aschalew Tolosa

General Instructions

- There is no need of writing your name.
- In all cases, where answers to options are available, please tick (√) in the appropriate box.
- For questions that demand your opinion, please try to honestly describe your responses on the space provided.

Section I: General information of respondents:

- ❖ Put tick (√) mark in the appropriate box for questions that involve choices & provide brief statement for open end questions in the appropriate space.

1. Gender: Male Female

2. Age: < 20 years 20-30 31-40 41-50 above 50

3. Education: Diploma First degree Master's Degred other, please specify _____

4. Work experience: < 2 years 3-5 year 6- 10 year > 10 years

Section II: Questionnaires related with the cost accounting practice of Fikir water factory

Please indicate the degree to which these factors are affecting the performance of your factory. After you read each of the practice, evaluate them in relation to your factory and then put a tick mark (√) under the choices below. Where, **5** = strongly agree, **4** = agree, **3** = neutral, **2** = disagree and **1**= strongly disagree.

1. Please indicate the degree to which you agree with the following statements concerning with the cost accounting method does the company use.

1. What is the system of recording transaction?

Double entry accounting Single entry accounting

2. When the fiscal years of the factory?

At the beginning of the year at the end of the year

3. What kind of costing systems are used to accumulate cost?

Job order costing system Process costing system

4. Does the factory use accrual basis of accounting?

Yes No

No	Cost accounting method	1	2	3	4	5
1	The company current costing system is proper according to its setting					
2	The current costing system convenient for cost effective production cost assignment					

1. Any other information you can give me that are important _____

2. Please indicate the degree to which you agree with the following statements concerning with the company allocate cost-to-cost object

No	The allocation of cost	1	2	3	4	5

1	The factory cost allocating department use more than one pool for accumulating in direct cost					
2	Those are properly allocating all of them to the cost object					
3	The factory use predetermined rate for allocating manufacturing overhead cost					
4	The factory have proper accumulated production cost in each cost center					

2. Any other information you can give me that are important

3. Please indicate the degree to which you agree with the following statements concerning with the company proper keeping and recording of cost data

No	Proper keeping and recording of cost data	1	2	3	4	5
1	The company have a separate cost accounting department					
2	The company have proper purchasing procedures					
3	The purchasing department submit the proper documents to the cost accounting department for record at the time of delivery					
4	The costing departments record the purchaser transaction immediately when it gets the proper source documents.					
5	The factory store keeper sends and copy material receiving voucher to the costing department on time.					

3. Any other information you can give me that are important_____

4. Please indicate the degree to which you agree with the following statements concerning with the company have skilled human resources that work on cost accounting.

No	The company skilled human resources that work on cost accounting	1	2	3	4	5
1	The factory employees have sufficient knowledge and skill for their job responsibility					
2	The factory cost accounting staff members are professionally qualified in accounting					
3	The department has adequate staff member in number, they are efficient					
4	The production department control the employee to work properly a production schedule					

4. Any other information you can give me that are important_____

5. Problem of the factory

No.	The cost accounting practice related problem.	5	4	3	2	1
1	The factory has Problem of price setting for its products because the production cost of products is not properly and clearly determined.					

2	The company doesn't properly apply the cost accounting system					
3	lack of adequate knowledge with respect to cost discounting system					
4	The company has mishandling of records and cost information which can be opens the way to apply in appropriate cost accounting system and methods					
5	The main causes of labor efficiency variance are Personal difference					

To management bodies

1. For what purpose do you need cost information?
2. How is the cost of by products and scrap material treated?
3. How do you make pricing decision?
4. When there is unfavorable cost, what done the management of Fikir water factory?
5. Any other information you can give me that are important