

COMPARATIVE ANALYSIS OF COST AND PRICING SYSTEM; (CASE  
STUDY ON WOW AND EDEN WATER MANUFACTURING COMPANAY)

A proposal submitted to Department of Accounting and Finance for the partial  
fulfillment of the requirement of Bachelor of Art Degree in Accounting and Finance

By; Tensae Aschale

Adviser; Mr. Kassu (msc)



COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

***JUN, 2019***

***Wolkite, Ethiopia***

## ABSTRACT

*cost and pricing is one of the most important thing that designed to have a good cost management and setting appropriate selling price of the product that have been able to generate a reasonable percentage of profit by covering its expenses. This study entitled as the comparative analysis of cost and pricing system in case of wow and Eden water manufacturing company. The general objective of the study tried to assess the cost and pricing system. The study used primary data sources. The primary data the researchers used is interview of accounting staff and other cost related professions. The information was analyzed by applying descriptive way using statically tools like, table, and percentiles. In this regard, the result of the study indicated that the company recording of cost data, type of applied costing system and base of company setting price. The study suggests a series of measures which could be taken by the company using computerized system to record and adopt mixed (cost +market) as well as the company identified their weakness and strength in order to achieve their goal.*

## **Acknowledgment**

Sincere thanks to almightily “God” Without his support nothing can be accomplished even work done is impossible. Secondly I would like to reward my deepest gratitude to my advisor Mr. Kasu Birbirsa. Who has provided his wise and intellectual’s advice, guidance and directive to make this proposal. It is a great chance to express my deepest appreciation and thanks to many peoples and friends whose unreserved guidance and constructive ideas have brought about the successful completion of my proposal. Thirdly, my appreciation goes to wolkite University, Colleges of Business and Economics, staff of accounting and finance both academic and administrative, as well as library staff for help me this chance to prepare a paper on accounting for the graduation research paper.

## Table of Contents

ABSTRACT.....	i
Acknowledgment .....	ii
ACRONOMY.....	v
<b>CHAPTER ONE</b> .....	<b>1</b>
1. INTRODUCTION.....	1
1.1 Background of the study .....	1
1.2. Statement of the problem .....	2
1.3 Objective of the study .....	3
1.3.1 General objectives:.....	3
1.3.2 Specific objective .....	3
1.4. Significance of the study .....	3
1.5. Scope of the study .....	4
1.6. limitation of the study.....	4
1.7 Organization of the paper.....	5
<b>CHAPTER TWO</b> .....	<b>6</b>
2. Literature Review .....	6
2.1. Theoretical studies.....	6
2.1.1 Definition Of cost and pricing system .....	6
2.2 Costing system .....	7
2.2.1 Job order costing system .....	7
2.2.2 Process costing system.....	8
2.3 Cost classification.....	10
2.3.1 Controllable and non-controllable costs.....	15
2.3.2 Relevant and Irrelevant costs .....	15
2.4 Elements of cost.....	16
2.5 Labor cost.....	16
2.6 Cost Allocation .....	17
2.7 Pricing Models.....	19
2.8. Empirical Literature Review .....	22
2.9 conclusion and knowledge gap.....	23

<b>CHAPTER THREE</b> .....	24
3. Research design and methodology .....	24
3.1. Research design.....	24
3.2. Data type, source and methods of collection.....	24
3.2.1 Data type.....	24
3.2.2 source of Data. ....	24
3.2.3 Method of Data collection.....	24
3.3 population design .....	25
3.4 Method of data analysis .....	25
<b>CHAPTER FOUR</b> .....	26
4. DATA ANALYSIS, PRESENTATION and INTERPRETATION .....	26
4.1 Personal Background of the Respondents.....	26
4.2 the respondent position in cost center .....	27
4.3 the respondent Qualification in the organization. ....	28
4.4 the costing system of company employ. ....	29
4.5 the company recording of data, major influence and base of setting price .....	29
4.6 comparative analysis of cost and pricing system in Eden and Wow water spring manufacturing company .....	31
4.7 the company direct cost evaluation and accepted accounting practice .....	32
4.8 the company cost classification system and allocation of overhead cost.....	33
4.9 the company cost center and indirect cost traceability.....	34
4.10 Assigning the company overhead cost and experienced man power .....	35
<b>CHAPTER FIVE</b> .....	37
5. CONCLUSION AND RECOMMENDATION .....	37
5.1. Conclusion .....	37
5.2 Recommendation .....	38
Reference .....	40
<b>APPENDIX</b> .....	41

## **ACRONYMY**

UK=United Kingdom

CPA=certified public accountant

R&D=research and development

## CHAPTER ONE

### 1. INTRODUCTION

#### 1.1 Background of the study

With diminishing or low costing and pricing system it is rarely possible for manufacturing companies to produce their products in a cost effective way and to deliver enough resources to fulfill the need of their customer so proper cost and pricing system is a corner stone of most organization. In any organization cost accounting is a Centre of attention it is a vita; tool in the management of the internal affairs of the organization. This involves managers examine past performance and systematically exploring alternative ways to make better informed decisions in the future. (C. T. Hornfren,1998)

The historical investigation of the development of cost accounting in UK, 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. (C. T. Hornfren,1998)

Production system during the latter part of the 19<sup>th</sup> 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 overheads and the integration of cost and financial accounts.

Product costing and pricing practice is one of the most important factors to insure the survivals of the firm. cost management helps an organization management create more value at lower cost by efficiently managing the organization value chain activities, processes and functions. (Hilton,2003, p:66).

Product costing system is asset of production on that accounts for an organization product costs and provide timely and accurate unit costs information product costing and controlling inventory valuation and financial statement preparation (Barron, 2010).

Product costing is the direct labor, direct material, consumable production supplies and manufacturing overhead that are used to create product. Product cost is also knowing unit cost.

Product cost can be considered the cost of labor required to deliver a service to customer (Mohammed, 2009).

Therefore, this proposal, aim to address the findings of a throughout study to establish the factor that have led to the success of effective cost and pricing system and how both company set their pricing system apply in wow and Eden water manufacturing company.

## **1.2. Statement of the problem**

the competitive market situation and technological advancement prevailing in the country is the main threat in many business sectors of the economy. Among many areas manufacturing factories are facing with the problem of rigid competition is among the inflexible as well as the foreign producers (world market). Due to lack of raw material, financial resource, man power skill and technology etc.

In any business enterprise whether they are manufacturing, merchandizing and service giving the product costing and pricing is very important. Therefore, the improper practice of product costing and pricing may result in the disruption of the operation affect the profitability of the organization and even cause bankruptcy, due to this, the proper practice of product costing and pricing is important for the company to sustain its operation and to maintain satisfactory level of growth. Because proper practice of costing and pricing is crucial for the success and failure of the business because every operating business incurs cost and fixing their product price. (Hilton,2003)

Early research into the subject of pricing and costing system had focused on the practices of manufacturing businesses. An important contribution to this study is the research conducted by According to Samrawit Yemaneh and Tsegereda Tefera in (1995and1997) respectively also have did or conducted their research or studies on cost accounting and pricing system of manufacturing companies and on their findings they have come up with a conclusion of that many companies use weighted average costing method as a form of cost accounting system for its product and labor costs are charged on hourly bases in the form of fixed salaries, but both of them have not studied that how manufacturing companies can use different cost reducing techniques and stages of production to be an effective in costing and pricing system in general. Several research gaps have been identified in the costing and pricing literature.

The important studies in this area were not conducted yet in recent years, with few research studies conducted in the past decade. The first research gap is the lack of examination on costing and pricing in the context of the manufacturing sector. Efficient price setting is important for sustaining the sector in an increasingly globalized economy. The second research gap identified is the knowledge of applying systematic costing models for improving pricing decisions in manufacturing organizations. Although theoretical benefits have been identified in the literature, the evidence has only been gathered for manufacturing businesses. Each of these gaps provide worthy paths for investigation. Therefore, due to the above reason and justified gap the researcher tries to answer the following major research questions.

1. What product-costing system can the company use to fix the price?
2. How to evaluate the accounting and report the direct cost of these company?
3. How can evaluate and assign the in direct cost in these company?

### **1.3 Objective of the study**

#### **1.3.1 General objectives:**

The main aim of the study is to evaluate cost and pricing system of the firm.

#### **1.3.2 Specific objective**

- . To examine the product costing system for price fixation
- . To evaluate the accounting and reporting of direct cost.
- . To evaluate allocation and assignment of indirect cost

### **1.4. Significance of the study**

Studying the costing system and pricing system and its application with the theoretical review have been important. The study has been the following importance;

First in doing this research the researcher, to have arrived picture of how the theoretical concepts are applied in the actual practice of the organization and improves skill. Secondly the recommendation given at the end of the study was help the organization to improves its

inefficiencies, and assess its practices and better match with the theoretical principle finally, the research work can serve in any time for other researchers who committed to study in such kind of manufacturing company, not any other type of companies whether or not companies assess how direct material, direct labor and manufacturing overhead costs are recorded and for others to as a starting point for further research on the same topic.

### **1.5. Scope of the study**

The study focuses on production costing and pricing system of Finance Department in those two (wow and Eden) manufacturing company. That is, the product cost accounting and pricing aspect of the company or the study emphasizes on manufacturing cost (material, labor and over heads).

And the study focus in the industry and firm as the whole the conclusion and output is more meaningful but due to for method used the researcher is limited to costing and pricing system of the firm.

In addition, the study covers specific aspects which should be considered in setting proper prices in selling products and its application in the company. But the study is more on costing and pricing accounting system.

### **1.6. limitation of the study**

The are some limitation that an expected to be faced on this research work. The following were among some limitation.

- The Planned respondents would have not an interested to give information for use of secondary data that restrict the researcher to access cost manual and the company cost data is hidden. This constraint enforced that researcher to give more emphases only primary data.
- The finance would be not sufficient to collecting data. the factory distance from the city incur transportation cost so the data collection is much difficult.
- Short span of time for collecting and analyzing of questions of the data for final report.
- Faulty of information or response given by the respondent and answered carelessly.

## **1.7 Organization of the paper**

There are five chapters that can be included in the study. The first chapter deals with the introduction background, statement of the problem, major research question, general objective, specific objective. Significance, and scope of the study and The second chapter presents literature review of product costing and pricing system and conclusion and knowledge gap.

Third chapter included methodology, research design, and sampling techniques, population, data source, and data analysis the forth chapter include data analysis, presentation and interpretation and the last chapter conclusion and recommendation.

## CHAPTER TWO

### 2. Literature Review

In this chapter an attempt is given to some high light on the theoretical and background of different area of cost and pricing system in the line with wow and Eden water manufacturing company.

#### 2.1. Theoretical studies

##### 2.1.1 Definition Of cost and pricing system

The term cost has wide variety of meanings. Generally, <<cost>>means cost production which is related to the money expenditure of concern on various factors of production. Cost refers to an outlays or expenditure of money to produce goods and services that assist in performing business operations. - Cost accounting is primary concerned with the recording and reporting of the cost of manufacturing goods and providing services. The scope of the term cost is broad and general, because it includes not only the actual expenditure but also the expenditure which does not involves any cash outlays. (RAP, 2000).

A cost is a payment of cash or its equivalent or the commitment to pay cash in the future for the purpose of generating revenues. A Cost provides a benefit that is used immediately or deferred to a future period of time. If the benefit is used immediately, then the cost is an expense, such as salary expense. If the benefit is deferred, then the cost is an asset, such as equipment. As the asset is used, an expense, such as depreciation expenses is recognized.

According to cost accounting (Horngren, 1997). Accountants usually define cost as a resource sacrificed or forgone to achieve a specific objective. Most people consider costs as monetary amounts (such as dollars, pesos pounds) that may be paid to acquire goods and services. As used in accounting cost refers to and outlay or expenditure of money to acquire goods and services that assist in performing operations. Occasionally an item will be acquired by giving up asset other than cash, such as trading marketable securities for inventory. In these cases, cost is a measurement, in monitory items of the amount of resource (market securities) used to acquire the goods (inventory) or services.

Goods and services that are acquired by manufacturing organizations include raw material, buildings, and land, equipment, and production labor and production supplies. These and similar cost are incurred when combining raw material processing them in to a finished product (Cherinegton, 1988).

## **2.2 Costing system**

### **2.2.1 Job order costing system**

The job order costing system accumulates cost applicable to each specified job order or lot of similar goods manufactured on a specific order for stock or for customer. When production on a job begins, the job is assigned a number and form called a job cost sheet is setup. As direct materials are used, their costs are entered on the job cost sheet. Similarly, direct labor cost incurred on a job is recorded periodically. When the job is completed (periodically as the job is worked on), manufacturing overhead costs applicable to the job are estimated and entered on the job cost sheet. The job cost sheet, when complete, shows the total costs of the completed job. The cost per unit may be obtained by dividing the total cost of the job by the number of units complete.

A job order costing system provides a separate record of the cost of each particular batch of product that passes through the factory. The system accumulates costs for a particular batch of production, commonly referred to as a job. A job has a definite starting and completion time as would, for example, the production of 10 pieces of windows, or 50 coffee tables. As the name implies, job order means, the units are produced as per the order of a customer, each customer order is different in terms of specification. A difference in specification means a difference in quantity of inputs used. An individual job does not mean a single output; rather it means a single order which can be just for stock that can be sold later to ready-made buyers. Whatever, whether for customer or stock, jobs are not similar, and their costs are also different. In job order costing system, costs are accumulated by job. For each job, the firm maintains a separate job cost sheet, which is a record on which manufacturing costs of the job are accumulated.

In job order costing, costs are accumulated by jobs, orders, contracts, or lots. The key is that; the work is done to the customer's specifications. As a result, each job tends to be different. For example, job order costing is used for construction projects, government contracts, shipbuilding,

automobile repair, printing jobs, wood furniture, office machines, machine tools, and luggage. Accumulating the cost of professional services such as lawyers, doctors and CPA's also falls into this category.

Process costing system is a costing system used for manufacturing processes which produce a single product or single mix of products continuously for an extended period of time. In process costing, costs are accumulated by departments, operations, or processes. The work performed on each unit is standardized or uniform where a continuous mass production or assembly operation is involved. For example, process costing is used by companies that produce appliances, alcoholic beverages, tires, sugar, breakfast cereals, leather, paint, coal, textiles, lumber, candy, coke, plastics, rubber, cigarettes, shoes, typewriters, cement, gasoline, steel, baby foods, flour, glass, men's suits, pharmaceuticals and automobiles. Process costing is also used in meat packing and for public utility services such as water, gas and electricity.

### **2.2.2 Process costing system**

The process cost system accumulates cost without attempting to allocate them during the accounting period to specific units of goods being manufactured. At the end of the fiscal period, the average cost per unit is determined by dividing the total number of units produced in to the total cost accumulated. Because of this technique, process costing is often referring to as average costing. If the process cost system is used, the goods manufactured must be similar in nature. So that an average cost will be meaningful. The process cost system is commonly used in such manufacturing operations as marble tiles and chips, in which the production process is standardized, continuous and the product remains essentially the same from day to day.

### **Similarities and Difference between Process and Job Order Costing**

As discussed in the previous unit, the production process influences the choices of cost accounting system. Firms producing distinct and unique products use job order costing system where as firms producing similar or identical units use process-costing system. Process costing system accumulate costs by departments for a period of time, just as a job order costing system accumulate costs by jobs, and the total cost will be assigned to the units produced in that period.

Process costing system is product costing system which is applied when identical units are produced in mass. Identical units are assumed to take the same amount of direct material, direct

labor & manufacturing overhead. These costs are accumulated over a period of time and the total cost is assigned to units produced in the period the cost is accumulated.

In process costing system, each unit is assumed to take equal amount of direct material, direct labor and manufacturing overhead. The difference between job order and process costing system is, thus, the extent of the averaging used to compute unit cost. In job order costing each job differs in terms of material used, labor incurred, and manufacturing overhead. Hence, it is impossible to assign the same cost for different jobs. On the contrary, identical units produced in mass take equal amount of direct material, direct labor, and manufacturing overhead. Thus, the unit cost can be found by dividing total cost by the number of units produced.

When a firm produces identical lots of goods repetitively, maintaining a separate job cost sheet would be unnecessarily expensive. The aggregate cost and the unit cost can be computed without a job cost sheet, thus saving the cost associated with producing such records. Costs are accumulated by departments over a certain period and the unit cost can be found by dividing the total cost to the units produced during that period. Process costing system fit among others to, paint manufacturers; oil refineries, sugar refineries, and salt producers.

The difference between job order and process costing arise from two factors. The first is that, the flow of units in process costing system is more or less continuous, and the second is that these units are indistinguishable from one another. Under process costing, it makes no sense to try to identify material, labor and overhead costs with a particular order from customers as we did in job order costing system, since each order is just one of the many that are filled from a continuous flow of virtually identical units from the production line. Under process costing, we accumulate costs by department, rather than by order, and assign these costs equally to all units that pass through the department during the period

A Further difference between the two costing system is that the job order cost sheet has no use in process costing, since the focal point of that method is on department. Instead of using job order cost sheets, a document known as cost of production report is prepared for each department in which work is done on products. The production report serves several functions. It provides a summary of the number of units moving through a department during a period, and it also provides a computation of unit costs. In addition, it shows what costs were charged to the department and

what disposition was made of these costs. The department production report is a key document in process costing system. The major difference between job order and process costing systems is summarized in the table below.

Base of comparison	Job order costing	Process costing
Type of product	Diversified, heterogeneous and unique products	Homogeneous products produced continuously
Cost accumulation	By job for a specified number of units	By department or cost center for a specified period of time
Work in process	One for each job	One for each department
Basic document	Job cost sheet for each job	Cost of production report for each department or cost centers
Cost per unit	Cost accumulated by job divided by units in job	Cost accumulated by cost centers divided by equivalent unit of production during a period of time
Reporting	By job	By cost center or department
Nature of costs for each cost object	Each job may use different amount of material, labor and overhead cost	Each units produced uses the same slandered amount of materials, labor and overhead cost

### 2.3 Cost classification

Classification of cost is the process of grouping cost according their common characteristics. It is a systematic placement of like items together according to their common features. There are several standard cost classifications and each classification has its own unique terminology. In this subunit, we present a comprehensive list of ways costs may be grouped, the concepts underlying each, and the terminology commonly used. Remember that the same cost may be included in several or in all of the following classifications.

#### 1. Time Period for Which the Cost is computed

Time can be broadly classified in to past and future. Costs can also be classified according to these time periods. Historical costs are those costs that were incurred in past period. Future costs, generally called budgeted costs, are those costs that are expected to be incurred in the future period. For example, the Br.8,000 cost of a computer acquired in 2008 is a historical cost in the financial statement of 2009. However, the Br.10, 000 cost to acquire a new computer in 2011 to replace the existing computer is a future cost.

## 2. Management Function

An organization may be separated into functional areas. A manufacturing company's functional areas generally include manufacturing, marketing, and general administration. One individual, such as a vice president of manufacturing or a vice president of marketing, has primary responsibility for a specific functional area. To evaluate the effectiveness of the functional area and the individual in charge of it, costs also must be grouped by functional area as follows.

**Manufacturing Costs** - include costs from the acquisition of raw materials through production, until the product is turned over to the marketing division to be sold. Manufacturing costs include the cost of the raw materials, payroll costs for people working on the product, and incidental costs such as taxes, power, depreciation, and repairs associated with manufacturing the product.

**Selling Costs** - are all costs associated with marketing and selling a product. They include all costs incurred by the marketing division from the time the manufacturing process is complete until the product is delivered to the customer. These costs include advertising, promotional offers, freight to deliver the product, and warehouse costs while the product is waiting to be sold.

**Administrative Costs** are all costs associated with the management of the company and include expenditures for accounting, legal, and administrative activities. Interest costs are also included among administrative costs.

## 3. Generally Accepted Accounting Treatment

The alternatives in accounting for a cost are to expense it or to capitalize it.

**Periodic Costs** are costs that are expensed in the period in which they are incurred. Periodic costs possess no future benefit and are generally associated with a non-manufacturing area of the

business. Examples of periodic costs include advertising, Interest, president's salary and sales commissions.

**Product Costs** consist of all costs associated with the manufacturing function of the business. They include materials, labor, and other factory overhead costs associated with assembling and processing the units. Because the company still holds the product and its usefulness has not yet expired, it is not appropriate to expense these costs. They are capitalized as inventory and held as unexpired until they are sold.

**Capital Costs** are similar to product costs in that they are also capitalized as assets. However, capital cost is the term used to describe the equipment, building and land held permanently for making business. These items are capitalized as tangible fixed assets and are depreciated over their useful lives. Product costs are reserved for inventorable costs associated with the manufacturing process

#### 4. Traceability to Products

From traceability point of view, cost is divided in to direct and Indirect cost:

**Direct Cost:** is a cost that can be economically traced to a single unit of finished product. For example; direct material & direct labor are direct costs

**Indirect Cost:** is one that is not directly traceable to the manufactured product. It is associated with the manufacture of two or more units of finished product, or is an immaterial cost that cannot be economically traced to single units of finished product. For example: Cost of electricity, Depreciation of equipment, indirect labor, indirect material, cost of different utilities, cost of repair and maintenance, Insurance for the factory are indirect costs.

A comparison of the labor cost of an assembly worker and a repair person in a cabinet shop will illustrate the difference between a direct and an indirect cost. The assembly worker's salary is typically classified as a direct cost because, it is a significant portion of the cabinet's total cost and because it is easy to trace the assembly worker's efforts to a particular set of cabinets. The machine repair person's salary would probably be classified as an indirect cost because; it is difficult or impossible to trace that individual's efforts to a unit of output. The repairperson is responsible for keeping all machines running properly. Since he or she work on several machines and the machines work on several different cabinets each day, we cannot trace this person's salary to a particular set

of cabinets. The lack of traceability requires that it should be classified as an indirect cost. The economics of tracing a cost to a particular unit of finished product is an important distinction between direct costs and indirect costs. Take a table that requires a few screws and a little glue to complete the assembly. Both of these items can be traced to a particular unit of finished product and would, therefore, qualify as direct costs. However, these items are usually classified as indirect costs if their amounts are immaterial when compared to the other materials going into the product. Also, the cost involved in tracing and recording the items as direct costs would be greater than the benefit of having that information.

## 5. Cost Behavior

Cost behavior describes how a cost changes with time or with changes in volume. Variable costs are costs that vary proportionately in total as the volume of production or sales changes. For example, if it takes Br.100 of lumber to make one unit of table and if five units are produced, the total cost of the lumber is Br. 500. The total variable cost increases in proportion with the number of unit's produced, but the cost of each unit remains the same. Fixed cost remains constant in amount as volume of production or sales changes. Straight-line depreciation on a plant asset is an example of a fixed cost. The amount of depreciation is the same regardless of the number of units produced.

## 6. Decision Significance

A decision involves making choices among alternative courses of action. The decision maker generally collects cost information to assist in making the decision. Relevant cost is future costs that differ with the various decision alternatives. They are costs that make a difference in a decision-making process. Irrelevant Costs do not relate to any of the decision alternatives, are historical in nature or are the same under all decision alternatives. Irrelevant costs are generally excluded from the analysis.

## 7. Managerial Influence

Managerial influence refers to the ability of a manager to control a particular cost. Remember that all costs are controlled by someone at some level in the organization if the time period is long enough. However, when we see for a particular manager at a particular level in the organization

and for a short period of time, there are some costs that can be influenced and some that cannot. Controllable costs are subject to significant influence by a particular manager within the time period under consideration. Uncontrollable costs are those costs over which a given manager does not have a significant influence.

## 8. Commitment to Cost Expenditure

Commitment to a cost expenditure focuses on fixed costs as opposed to variable costs and on budgeted costs as opposed to historical costs. Budgeted fixed costs can be broadly classified as committed costs and discretionary costs.

Committed cost is one that is an inevitable consequence of a previous commitment. Property tax budgeted for the coming year is an example of a committed cost. Suppose top management made the decision two years ago to construct a new warehouse. After it was completed, the tax commission placed an assessed value on it, and a property tax notice is now recapped annually according to the tax law. The property tax must be paid or the warehouse will be seized by the tax authority and sold to cover the unpaid taxes. Property tax is a committed cost that resulted from the decision to construct the warehouse.

Discretionary Cost, also called a programmed cost or a managed cost, is one for which the amount or the time of incurrence is a matter of choice. There are some nonrecurring costs for which a final commitment has not yet been made and that can be postponed until a future period or cancelled entirely. Replacing the carpet in the demolished offices and repainting the walls of the factory are examples of discretionary costs where the right timing is a matter of judgment. Even though the carpet is beginning to show some wear, it could continue to be used for several months without any interruption to normal operations.

## 9. Other Cost Classifications

Several other cost classifications are frequently used in discussing cost accounting and management decisions. Their primary usefulness is in helping to place correct perspective of the potential benefit of a possible course of action. These classifications include marginal costs, out-of-pocket costs, sunk costs, and opportunity costs.

**Marginal Costs**, also called incremental costs, are the costs that are associated with the next unit or the next project. The term marginal cost is widely used in economics to refer to the added cost associated with the production of an additional unit of output.

**Out-of-Pocket Cost:** is a cost that must be met with a current expenditure. Generally, an out-of-pocket cost is a cash expenditure associated with a particular decision alternative.

**Sunk Costs:** are defined as past costs that have already been incurred. Because sunk costs are historical costs, they are generally irrelevant to decisions affecting the current or future use of the asset.

**Opportunity Cost:** is defined as the cost or value of an opportunity forgone when one course of action is chosen over another. Opportunity cost is not an out-of-pocket cost, or even a future cost associated with the selected alternative, but represents the lost opportunity associated with each of the alternatives that are rejected.

### **2.3.1 Controllable and non-controllable costs**

From the point of view of controllability, costs are classified into controllable and non-controllable costs.

**Controllable cost:** - These are the costs which may be directly regulated at a given level of management authority. Cost of raw materials may be controllable by purchasing in large quantities.

**Non-controllable cost:** - These are the costs which cannot be influenced by the action of a specified member of an enterprise. It is very difficult to control costs like factory rent and managerial salaries. (M.N A, 2006).

### **2.3.2 Relevant and Irrelevant costs**

**Relevant cost:** - is a cost whose magnitude will be affected by a decision being made. Hence relevant costs are future costs that will differ depending on the action of the management for each decision; the management must decide which costs are relevant.

**Irrelevant cost:** - These are the costs that will not be affected by a decision. To take an example from day to day life one may have to decide about making journeys by own car or by public

transport bus. In these decision insurance cost of car is relevant, because it will not change whatever alternative is

## **2.4 Elements of cost**

**Material cost:** - According to C.M.A London, materials cost is the cost of commodities supplied to an under taking. Material costs include cost of procurement, freight in words, taxes, insurance etc.

**Direct materials:** - Direct materials cost is that which can be conveniently identified with and allocated to cost unit. Direct Materials generally become a part of the finished product.

**Indirect materials:** - These are those materials which cannot be conveniently identified with individuals costing units. Materials that are used in small amounts in the manufacturing process or that cannot easily be traced to specific products are called indirect materials. Glue used in manufacturing arm chairs and the thread are used even though they clearly become part of the finished goods. Records must be kept to show the exact amount of materials used in completing each specific job or group of product.

**Manufacturing overhead:** - All cost incurred in the factory that cannot be considered direct materials or direct labors are classified as manufacturing overhead (sometimes called factory overhead, manufacturing expenses or factory burden). Manufacturing overhead is usually subdivided in to three categories: -Indirect materials, Indirect labor and Other manufacturing overhead.

## **2.5 Labor cost**

**Labor cost:** - means human efforts engaged in the process of production, Labor may be direct or indirect. This is the cost of remuneration (wages, salaries, commission, bonus etc.)

**Direct labor:** -direct labor consists of wages paid to worker directly engaged in converting raw materials into fished products. These ways can be conveniently identifying with particular products, jobs or process. Wages paid to machine operator is case of direct wages. The employees who work directly with the raw materials in converting them to finished goods represent direct

labor. In factory that makes chairs, for example, the wages of workers who cut and sand lumber and of those who assemble the parts in to finished chairs are considered direct labor costs. In the manufacturing of clothing, the earnings of cutters and sewing machine operators are direct labor cost. Salaries and wages properly classified as product cost must be separated into direct labor or indirect labor for accounting purposes. Direct labor includes the wage of employees who work directly on the product and whose efforts can economically be traced to a particular unit. The wage paid to a laborer who will cut and polish lumber and assemble it to a table is a direct labor cost for the table. But the salary of a supervisor who will oversee the production process of the different products in the factory is an indirect cost as he will not be directly involved in the production process.

**Indirect labor:** - is a general character and cannot be conveniently identified with particular cost units. In other words, an indirect labor is not directly engaged in the production operation but only to allots or helps in production operations. The wages factory personnel who do not work directly on raw materials are called indirect labor.

## **2.6 Cost Allocation**

Cost allocation is inescapable problem in nearly every organization and in nearly every face of accounting

Terminology of Cost Allocation

**Cost object:** - is anything for which a separate measurement of cost is desired

**Direct cost of a cost object:-** Cost that is related to the particular cost object and can be traced to it in an economically feasible way.

**Indirect cost of a cost object: -** Cost that is related to particular cost object but cannot be traced to it in an economically feasible way.

**Purpose of Cost Allocation**

Costs that are related to a particular cost object but cannot be traced to it in an economically feasible way are called manufacturing overhead cost or indirect cost. The term cost allocation describes assigning indirect cost to the chosen cost object. Cost allocation can also be assigning cost from one or more service giving departments to operating departments. The followings are some of the purposes of cost allocation.

To provide information for economic decision, to justify cost or compute reimbursement, to measure income and asset for reporting and to encourage managers of operating departments to make wise use of services provided by service departments. It also provides more complete cost data for making decisions in operating departments, to help measure profitability in the operating departments, to put pressure on the service departments to operate efficiently and to develop overhead rates in the operating departments.

There is no one best way of allocating cost to cost objects. However, the followings are the Criteria for guiding cost allocation decisions usually used by cost accountants.

1. **Cause and Effect Criteria:** Using this criterion, a manager identifies the variables that cause a resource to be consumed. For example, managers may use hours of testing as a variable when allocating the cost of quality test area to products. Cost allocation based on cause and effect criteria are likely to be the most credible to operating personnel.

2. **Benefit Received Criteria:** using these criteria managers identifies the beneficiary of the output of the cost object. The cost of the cost object is allocated among the beneficiaries in proportion to the benefit each received. Consider corporate wide advertising program that promote the general image of the corporation rather than any individual product. The cost of this program may be allocated on the basis of individual revenue; the higher the revenue, the higher the divisions allocated cost of the advertising program. The rationale behind this allocation is that division with higher revenue has apparently benefited from the advertising more than division with lower revenue and, therefore ought to be allocated more of the advertising cost.

3. **Fairness or Equity:** This criterion is often cited in government contracts when cost allocations are the basis of establishing a price satisfactory to the government and its suppliers. Cost allocation here is viewed as a reasonable or fair means of establishing a selling price in the mind of the contracting parties.

4. **Ability to Bear:** This criteria advocates allocating costs in proportion to the cost objects ability to bear cost allocated to income. An example is the allocation of corporate executive salaries on the basis of division operating income. The presumption is that the more profitable division have a greater ability to absorb corporate headquarters cost.

## 2.7 Pricing Models

Pricing models in manufacturing firms are based on cost relationships. Prices based on costs are popular because they are easy to use and easy to understand. A very simple and widely used cost based pricing model in manufacturing firms is known as cost plus pricing with a cost plus a certain amount or percentage is added to the product cost determining its selling cost. It uses current selling price and competitor's price. (Hilton, 1997, p-751)

Many manufacturing firms use a cost plus or what is sometimes referred to as markup pricing method to set selling price for their products. Cost plus pricing means cost plus a certain markup. This is sufficient to cover administrative and marketing expenses and give a reasonable percentage of profit. (Hilton, 1997, p-751)

### Major Influences on Pricing Decisions

*Customers:* influence price through their effect on the demand for a product or service, Based on factors such as the features of a product and its quality.

*Competitors:* No business operates in a vacuum. Companies must always be aware of the actions of their competitors. At one extreme, alternative or substitute products of competitors hurt demand and force a company to lower prices.

*Costs:* influence prices because they affect supply. The lower the cost of producing a product, the greater the quantity of product the company is willing to supply. Generally, as companies increase supply, the cost of producing an additional unit initially declines but eventually increases. Companies supply products as long as the revenue from selling additional units exceeds the cost of producing them. Managers who understand the cost of producing products set prices that make the products attractive to customers while maximizing operating income. (Horengren 2012, p :434)

### *Time Horizon of Pricing Decisions*

#### *A Short-run pricing decisions*

Short-run pricing decisions: typically have a time horizon of less than a year and include decisions such as (a) pricing a one-time-only special order with no long-run implications, and (b) adjusting product mix and output volume in a competitive market.

*Two key factors affect short-run pricing.*

1. Many costs are irrelevant in short-run pricing decisions. For example, most of costs in R&D, design, manufacturing, marketing, distribution, and customer Service are irrelevant for the short-run pricing decision, because these costs will not. These costs will change in the long run and therefore will be relevant.
2. Short-run pricing is opportunistic. Prices are decreased when demand is weak and competition is strong and increased when demand is strong and competition is weak. As we will see, long-run prices need to be set to earn a reasonable return on investment

Long run pricing decision: pricing decisions have a time horizon of a year or longer and include pricing a product in a market where there is some leeway in setting price

Long-run pricing is a strategic decision designed to build long-run relationships with customers based on stable and predictable prices. A stable price reduces the need for continuous monitoring of prices, improves planning, and builds long-run buyer–seller relationships. But to charge a stable price and earn the target long-run return, a company must, over the long run, know and manage its costs of supplying products to customers. As we will see, relevant costs for long-run pricing decisions include *all* future fixed and variable costs. (Horemgren, 2012, p:435.436)

### *A, Long-Run Pricing Approaches*

Two different approaches for pricing decisions are as follows:

- I. Market-based pricing*
- II. Cost-based, which is also called cost-plus pricing*

#### *I. Market-based pricing*

The market-based approach to pricing starts by asking, “Given what our customers want and how our competitors will react to what we do, what price should we charge?” Based on this price, managers control costs to earn a target return on investment. Companies operating in competitive markets (for example, commodities such as steel, oil, and natural gas) use the market-based approach. The items produced or services provided by one company are very similar to items produced or services provided by others. Companies in these markets must accept the prices set by the market. (Horegern,2012, p:437)

#### *Target costing for target pricing*

Market-based pricing starts with a target price. A **target price** is the estimated price for a product or service that potential customers are willing to pay. This estimate is based on an understanding of customers' perceived value for a product or service and how competitors will price competing products or services. This understanding of customers and competitors is becoming increasingly important for three reasons:

1. Competition from lower-cost producers is continually restraining prices.
2. Products are on the market for shorter periods of time, leaving less time and opportunity to recover from pricing mistakes, loss of market share, and loss of profitability.
3. Customers are becoming more knowledgeable and incessantly demanding products of higher and higher quality at lower and lower prices.

## *II. Cost-based pricing*

The Cost-based approach to pricing starts by asking, "Given what it costs us to make this product, what price should we charge that will recoup our costs and achieve a target return on investment?" Companies operating in markets that are not competitive favor cost-based approaches. That's because these companies do not need to respond or react to competitors' prices. The margin they add to costs to determine price depends on the value customers place on the product or service. The general formula for setting a cost-based price adds a markup component to the cost base to determine a prospective selling price. Because a markup is added, cost-based pricing is often called cost-plus pricing,

Companies operating in less competitive markets offer products or services that differ from each other (for example, automobiles, computers, management consulting, and legal services), can use either the market-based or cost-based approach as the starting point for pricing decisions. Some companies first look at costs because cost information is more easily available and then consider customers or competitors: the cost-based approach. Others start by considering customers and competitors and then look at costs: the market-based approach. Both approaches consider customers, competitors, and costs. Only their starting points differ. Management must always keep in mind market forces, regardless of which pricing approach it uses. For example, building contractors often bid on a cost-plus basis but then reduce their prices during negotiations to respond to other lower-cost bids. (Horengern,2012p:445-450)

## 2.8. 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 finding of some selected studies on cost accounting practice and pricing system.

**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.

**Lucas, (1999)**- in stated to Girma Tafese. Who conducted one of the first major studies into the use of full costs to base decisions. The research found that only a minority of entrepreneurs based their pricing according to marginal revenue and cost curves as adopted in the profit maximization model. Instead, the majority of responses indicated they based the price of products on full average cost with an additional margin for profit. The role of competition was minor in influencing changes in these prices even though the respondents would merely reduce their profit margin to maintain similarity in prices. Although these findings were significant, the authors acknowledged several limitations such as the small sample size (38 responses) of the interviews and the overrepresentation of manufacturers in the sample.

**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.

**Samrawit Yemaneh** (April,2010)- 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.

## **2.9 conclusion and knowledge gap**

To sum up, this chapter covers the theoretical and empirical aspect of existed literature review. In theoretical literature review some concepts related to the research problems presented and discussed.

Those concepts are definitions of cost and cost accounting pricing system of, water Manufacturing business, type of cost classification, challenges of pricing practice view in some of the previous studies related to the research problem are presented under the empirical literature review.

How to relate or contradict the gap between the previous researcher study and finding are presented under this topic. Generally, most the previous study many companies use weighted average costing method as a form of cost accounting system for its product and labor costs are charged on hourly bases in the form of fixed salaries, but both of them have not studied that how manufacturing companies can use different cost allocation techniques and production cost to be an effective in costing and pricing system. Generally, in this study two deferent companies produce the same type of product so the researcher will look that company's cost allocation and price fixation practice and comparatively analysis of that two company's practice. Because of this the researchers are motivated to fill this gap and this problem in best way and share good work experience between two company and help to achieve their goal and objective successfully.

## **CHAPTER THREE**

### **3. Research design and methodology**

#### **3.1. Research design**

The research design to be employed in this study is descriptive research design to assess product costing and pricing practice of wow and Eden water manufacturing Industry. the researchers focused on a matter that describe the costing and pricing practice. The reason why the researcher is selected the descriptive research design is enable to review the past and present company's product costing and pricing. It gives more information for the readers after the compilation of the research and it also enable to describe the existing problem well.

#### **3.2. Data type, source and methods of collection**

##### **3.2.1 Data type.**

The research was conduct by using primary data. Primary data includes first-hand information which was collected from accounting staff and management through structured questionnaire.

##### **3.2.2 source of Data.**

The data desirable to assess the cost and pricing was obtained from primary source of data.

Primary data; was gather inside the industry from employees of the organization and management of accounting staff by distributing questionnaire and interview through related parties.

##### **3.2.3 Method of Data collection.**

To undertake this study, the researcher ware uses different method of data collection. To collect the primary data, the researcher was distributing questioners for the employee and cost accountant for the managers of the office and other higher status employee of the marketing department of the company. The distribute questioners was containing close ended questionnaires were use. the reason for the researcher were use close ended types questioners because, the close ended questions are favored over open ended questions for their efficiency and specificity, they are easier to measure, recorded, coded and analyzed. After the data collected from different sources, the researcher has analyzed and interpreted by using descriptive method. Why to select this method, descriptive method is method that sets out to describe and to interpret what is. It looks at individual, groups, institutions, methods and materials in order to describe, compare, contrast, classify,

analyze and interpret the entities and the events that constitute the various field of inquiry. so this method is related to this title and consistent to use compared to others.

### **3.3 population design**

Population is the set of people, products, firms, markets, and soon, that is interest to the researcher. The target population the researcher selected for this study is the total employees of the company excluding guardians. Since the whole populations are small in number (36), it is possible to address the whole population. So that, for this study the researcher used census survey technique. why to not the researcher selects other methods of sampling technique total population is small in number then don't have allowed to take a sampling.

### **3.4 Method of data analysis**

The collected data would be 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 would be summarized and concluded in to meaningful way that can be understood by any concerned body. Finally, narrative sentences would be used to present the study report and where necessary table would be supported by descriptive way of data analysis by comparing actual finding with theory in conducting the study.

## CHAPTER FOUR

### 4. DATA ANALYSIS, PRESENTATION and INTERPRETATION

In this chapter collected questionnaires from each two companies were analyzed, presented and interpreted Through in the comparative way of their assignment of cost and pricing system of those two (wow and Eden) water spring manufacture companies carefully.

#### 4.1 Personal Background of the Respondents

Table 4.1: general information of respondents was presented in the following table

General information of respondents			EDEN		WOW	
No	Item	category	Frequency	Percentage	frequency	Percentage
	Sex	Male	16	80%	10	62.5%
		Female	4	20%	6	37.5%
	Total		20	100%	16	100%
	Years' experience	1-3	10	50%	6	37.5%
		4-6	4	20%	6	37.5%
		7-9	4	20%	2	12.5%
		Above 10	2	10%	2	12.5%
	Total		20	100%	16	100%
	Education level	Below grade10 <sup>th</sup>	0	0%	0	0%
		Completed prep.	0	0%	0	0%
		diploma	2	10%	1	6.25%
		degree	16	80%	14	87.5%
		above degree	2	10%	1	6.25%
	Total		20	100%	16	100%

Source: survey data Questionnaires (2019),

As highlighted above on the table the general information of the respondents for the WOW and EDEN company, total 36 questionnaires' were collected from employees. and from this in Eden which 80% were male and the remaining 20% are females.in other way from wow water spring company 62.5% indicates the number of male employee and 37.5% of female employees. so this is the same to within Eden company because male employee is higher in both companies generally

when we compare sex 17.5% between Eden and Wow company are in terms of male employee Eden company is better but in terms of female percentage wow company are high.

Years of experience from Eden company total 20 questionnaires collected, among 50%(10) of them were between 1-3, and 20%(4) of them are between 4 and 6 years, and 20%(4) of them between 7-9, and the remaining one is 10%(2) above 10 years

Second, from wow company the total population 16 respondents again unexpectedly all of 16 was collected from which 62.5% were male and the reaming 37.5% are female respondents, from them 37.5%(6) are between 1-3, 37.5%(6) are from 4-6, 12.5%(2) are between 7-9, and the remaining 12.5 %(2) are above 10 years. In both side no respondents have less than one year and it conclude that, most of the respondents have more than one years' work experience therefore, those companies should have to invite the workers who have long experience in their profession.

Their education level of Eden company from 20 respondents 0% of them below grade 10<sup>th</sup> and similarly 0% of completed preparatory, and 10%(2) of them diploma and also 80%(16) of them have got degree, 10%(2) of them are above degree. When in the side of wow company, the education level of employee from 16 respondents 0% of them Below grade 10<sup>th</sup> and similarly 0% of completed preparatory like that of Eden company, and 6.25%(1) of them diploma and also 87.5%(14) of them have got degree, 6.25%(1) of them are above degree. so both of those two companies have not employee of below grade 10<sup>th</sup> and completed preparatory but included diploma, degree and above degree.

## 4.2 the respondent position in cost center

Table 4. 2 respondent position in cost center

		EDEN		WOW	
Item	Category	Frequency	percentage	frequency	percentage
What is your position in cost center	manager	1	5%	1	6.25%
	Employee	17	85%	14	87.5%
	Cost accountant	2	10%	1	6.25
	Total	20	100%	16	100%

Source: survey data questionnaires (2019),

According to table 4.2 shown respondent position in cost center, in Eden company (5%)1 of respondent in organization manager, (85%)17 of respondent is employee and (10%)2 of respondent are cost accountant. When we see in the side of Wow company from total respondent

(6.25%)1 of respondent in organization manager, (87.5%)14 of respondent is employee and (6.25%)1 of respondent are cost accountant. So both of those two companies one manager and many number of respondents are employee when compared to other positions.

### 4.3 the respondent Qualification in the organization.

Table 4. 3 the qualification of respondent in the organization.

		EDEN		WOW	
Item	Category	Frequency	percentage	frequency	percentage
What is your qualification in the organization?	Accounting	14	70%	13	81.25%
	Management	4	20%	2	12.5%
	economics	2	10%	1	6.25%
	Total	20	100%	16	100%

*Source: survey data questionnaires (2019)*

According to table 4.3 shown respondent qualification in the organization, in Eden company (70%)14 of respondent in organization are accountant, (20%)4 of respondent is management and (10%)2 of respondent are economics. When we see in the side of Wow company from total respondent (81.25%)13 of respondent in organization accountant, (12.5%)2 of respondent is management and (6.25%)1 of respondent are economics. So both of two companies include those three qualifications on human resource but most of respondents are accountants that have much greater than with other qualification in each organization.

#### 4.4 the costing system of company employ.

Table 4. 4 costing system of the company employ.

		EDEN		WOW	
Item	Category	Frequency	percentage	frequency	percentage
Which costing system does the company employ	Job-order costing system	0	0%	0	0%
	Process –costing system	20	100%	16	100%
	Total	20	100%	16	100%

Source: survey data questionnaires (2019)

As shown in table 4.4, the respondents of Eden and Wow company are answered process-costing system were applied in that company. all of the respondents respond that the company uses process costing system. In this, costing system is used for manufacturing process which produce masses of identical or similar unit of a single product or single mix of products continuously for an extended period of time.

#### 4.5 the company recording of data, major influence and base of setting price.

Table 4. 5: companies recording of data, major influence and base of setting price.

General information of respondents			EDEN		WOW	
No	Item	category	Frequency	Percentage	frequency	Percentage
1	How do you keep the recording of cost data ?	Manually	20	100%	16	100%
		computerized	0	0%	0	0%
	Total		20	100%	16	100%
2	What is your base for setting price?	Market based	4	20%	2	12.5%
		Cost based	6	30%	8	50%
		mix	10	50%	6	37.5%
	Total		20	100%	16	100%
3		customer	8	40%	5	31.25%

	What is the major influence on pricing decision	competitor	7	35%	4	25%
		cost	5	25%	7	43.75%
	Total		20	100%	16	100%

Source: survey data questionnaires (2019)

As shown in table 4. 5, when the company apply to keep the recording of cost data in their organization. All the respondents of both Eden and wow company respond that the company records its cost using manual system this implies there is no computer based recording of cost data were applied in their organization.

For the next question of the base of setting price applied in each organization responses of respondent from Eden company 20%(4) that answered market based pricing system and 30%(6) says cost based pricing system the remaining 50%(10) or most respondents answered that mixed pricing system were applied in their company. In comparatively the respondents of Wow company 12.5%(2) that answered market based pricing system and 50%(8) says cost based pricing system the other 37.5%(6) answered that mixed pricing system were adopted in their company. As per the respondents shown on the above table and analysis in Eden company 50% half of the respondent says mixed pricing system are functional but in Wow company 50% and half of response indicates cost based pricing system is dominated and performed,

Lastly the major influence of each organization on pricing decision in Eden company among respondents 40%(8) answered that customer of their product 35%(7) says influenced by other competitor and 25%(5) allocated that costs of their product is a major influence on their company pricing decision. Similarly, in Wow company 31.25%(5) respondents says that customer of their product 25%(4) says influenced by other competitor and 43.75%(7) allocated that costs of their product is a major influence on their company pricing decision. When we concluded that in Eden company the pricing decision is dominantly influenced by the customer of their product but in Wow company costs of their product is the main factor to determine pricing decision on their organization.

## 4.6 comparative analysis of cost and pricing system in Eden and Wow water spring manufacturing company.

Table 4. 6 cost allocating department and fixed and variable cost

General information			EDEN		WOW	
No	item	category	frequency	percentage	frequency	percentage
1	The factory cost allocating department use more than one pool for accumulating indirect cost	Strongly agree	5	25%	4	25%
		agree	8	40%	5	31.25%
		Neutral	6	30%	7	43.75%
		Dis agree	1	5%	0	0%
		Strongly dis agree	0	0%	0	0%
	total		20	100%	16	100%
2	Effectively separate fixed and variable cost in terms of output measure by cost center	Strongly agree	7	35%	6	37.5%
		Agree	10	50%	8	50%
		neutral	3	15%	2	12.5%
		disagree	0	0%	0	0%
		Strongly dis agree	0	0%	0	0%
	total		20	100%	16	100%

Source: survey data questionnaires (2019)

As shown in the above table 4. 6, the response of respondent related to the factory cost allocating department use more than one pool for accumulating indirect cost response from Eden company 25%(5) strongly agree, 40%(8) agree, 30%(6) neutral and other 5%(1) says dis agree but no any one respondent says strongly dis agree. Comparatively in Wow company 25%(4) respondents strongly agree, 31.25%(5) agree and other 43.75%(7) neutral but no any one respondent says dis agree and strongly dis agree. Generally, in Eden company most respondent says agree but in Wow company most says neutral. When we see the response related to effectively separate fixed and variable cost in terms of output measure by cost center respondent answer from Eden company 35%(7) strongly agree, 50%(10) agree, 15%(3) neutral and no any one respondent says dis agree and strongly dis agree. Comparatively in Wow company 37.5%(6) respondents strongly agree, 50%(8) agree and other 12.5%(2) neutral but no any one respondent says dis agree and strongly dis agree. So we conclude that there are no respondents say dis agree and strongly dis agree in both of those two company but similarly in each company half 50% answered that agree.

#### 4.7 the company direct cost evaluation and accepted accounting practice.

Table 4. 7: company direct cost evaluation and accepted accounting practice

General information			EDEN		WOW	
NO	Item	category	frequency	percentage	frequency	percentage
3	The company evaluate and review their direct cost in accurate way	Strongly agree	2	10%	2	12.5%
		agree	9	45%	5	31.25%
		neutral	4	20%	3	18.75%
		Dis agree	4	20%	4	25%
		Strongly dis agree	1	5%	2	12.5%
	Total		20	100%	16	100%
4	Accepted accounting practice used to report the direct material and direct labor cost	Strongly agree	5	25%	1	6.25%
		agree	9	45%	5	31.25%
		neutral	4	20%	7	43.75%
		Dis agree	2	10%	3	18.75%
		Strongly dis agree	0	0%	0	0%
	Total		20	100%	16	100%

Source: survey data questionnaires (2019)

As shown in the above table 4. 7, the response of respondent related to the company evaluate and review their direct cost in accurate way, response taken from Eden company 10%(2) strongly agree, 45%(9) agree, 20%(4) neutral, 20%(4) dis agree and other 5%(1) respondent says strongly dis agree. Comparatively in Wow company 12.5%(2) respondents strongly agree, 31.25%(5) agree, 18.75%(3) neutral, 25%(4) dis agree and other 12.5%(2) respondent says strongly dis agree. Generally, in Eden company most respondent says agree similarly in Wow company most says agree but comparatively Eden company respondents most in number than Wow. When we see the response related to accepted accounting practice used to report the direct material and direct labor cost, answer taken from Eden company 25%(5) strongly agree, 45%(9) agree, 20%(4) neutral and 10%(2) dis agree but no any one respondent strongly dis agree. Comparatively in Wow company 6.25%(1) respondents strongly agree, 31.25%(5) agree, 43.75%(7) neutral and 18.75%(3) but no any one respondent says strongly dis agree. So we conclude that there are no respondents say

strongly dis agree in both of those two company but in Eden company most respondent says agree but in Wow company most says neutral.

#### 4.8 the company cost classification system and allocation of overhead cost

Table 4. 8: company cost classification system and allocation of overhead cost

General information			EDEN		WOW	
NO	Item	category	frequency	percentage	frequency	percentage
5	The company direct and indirect cost classification system helps for financial reporting.	Strongly agree	5	25%	6	37.5%
		agree	11	55%	7	43.75%
		neutral	4	20%	3	18.75%
		Dis agree	0	0%	0	0%
		Strongly dis agree	0	0%	0	0%
	total		20	100%	16	100%
6	The company allocate the overhead cost as standard principle.	Strongly agree	1	5%	5	31.25%
		agree	10	50%	8	50%
		neutral	3	15%	2	12.5%
		Dis agree	5	25%	1	6.25%
		Strongly dis agree	1	5%	0	0%
	total		20	100%	16	100%

Source: survey data questionnaires (2019)

As shown in the above table 4. 8, the response of respondent related to the company direct and indirect cost classification system helps for financial reporting response taken from Eden company 25%(5) strongly agree, 55%(11) agree and other 20%(4) neutral but no any one respondent says dis agree and strongly dis agree. Comparatively in Wow company 37.5%(6) respondents strongly agree, 43.75%(7) agree and other 18.75%(3) neutral but no any one respondent says dis agree and strongly dis agree. Generally, in both company most respondent says agree and none of respondent says dis agree and strong dis agree. Secondly, the response of respondent related to the company allocate the overhead cost as standard principle, response taken from Eden company 1%(5) strongly agree, 50%(10) agree, 15%(3) neutral, 25%(5) dis agree and other 5%(1) respondent says strongly dis agree. Comparatively in Wow company 31.25%(5) respondents strongly agree,

50%(8) agree, 12.5%(2) neutral and other 6.25%(1) dis agree but no respondent says strongly dis agree. Generally, conclude that, in Eden company most respondent says agree similarly in Wow company most says agree, comparatively in Eden company 5%(1) respondent says strongly dis agree but none of respondent says strong dis agree.

#### 4.9 the company cost center and indirect cost traceability

Table 4. 9: response of respondent's company cost center and indirect cost traceability

General information			EDEN		WOW	
NO	ITEM	category	frequency	percentage	frequency	percentage
7	The cost center have positive attitude that differentiate overhead cost from the direct cost	Strongly agree	2	10%	3	18.75%
		agree	6	30%	5	31.25%
		neutral	7	35%	3	18.75%
		Dis agree	4	20%	3	18.75%
		Strongly dis agree	1	5%	2	12.5%
	Total		20	100%	16	100%
8	The company evaluate and differentiate the indirect cost as traceable to product cost and expenses	Strongly agree	1	5%	3	18.75%
		agree	3	15%	4	25%
		neutral	6	30%	2	12.5%
		Dis agree	8	40%	4	25%
		Strongly dis agree	2	10%	3	18.75%
	Total		20	100%	16	100%

Source: survey data questionnaires (2019)

As shown in the above table 4. 9, the response of respondent related with the cost center have a positive attitude that differentiate overhead cost from the direct cost, response taken from Eden company 10%(2) strongly agree, 30%(6) agree, 35%(7) neutral, 20%(4) dis agree and other 5%(1) respondent says strongly dis agree. Comparatively in Wow company 18.75%(3) respondents strongly agree, 31.25%(5) agree, 18.75%(3) neutral, 18.75%(3) dis agree and other 12.5%(2) respondent says strongly dis agree. Generally, in Eden company most respondent says neutral but in Wow company most says agree. When we see response taken from Wow company related to the question the company evaluate and differentiate the indirect cost as traceable to product cost and expense among that 5%(1) strongly agree, 15%(3) agree, 30%(6) neutral, 40%(8) dis agree and other 10%(2) respondent says strongly dis agree. Comparatively in Wow company 18.75%(3) respondents strongly agree, 25%(4) agree, 12.5%(2) neutral, 25%(4) dis agree and other 18.75%(3) respondent says strongly dis agree. Generally, in Eden company most respondent says dis agree but in Wow company most says equally agree and dis agree.

#### 4.10 Assigning the company overhead cost and experienced man power

Table 4.10 the assignment of overhead cost and experienced man power

General information			EDEN		WOW	
NO	Item	category	frequency	percentage	frequency	percentage
9	Assign the overhead cost to each product in pricing.	Strongly agree	3	15%	1	6.25%
		agree	7	35%	4	25%
		neutral	4	20%	3	18.75%
		Dis agree	4	20%	5	31.25%
		Strongly dis agree	2	10%	3	18.75%
	Total		20	100%	16	100%
10	The company have experienced man power to assign and allocate the factory overhead cost	Strongly agree	7	35%	4	25%
		agree	8	40%	5	31.25%
		neutral	3	15%	5	31.25%
		Dis agree	2	10%	2	12.5%
		Strongly dis agree	0	0%	0	0%
	Total		20	100%	16	100%

Source: survey data questionnaires (2019)

As shown in the above table 4. 10, the response of respondent related with assignment of overhead cost to each product in pricing, response taken from Eden company 15%(3) strongly agree, 35%(7) agree, 20%(4) neutral, 20%(4) dis agree and other 10%(2) respondent says strongly dis agree. Comparatively in Wow company 6.25%(1) respondents strongly agree, 25%(4) agree, 18.75%(3) neutral, 31.25%(5) dis agree and other 18.75%(2) respondent says strongly dis agree. Generally, in Eden company most respondent says agree but in Wow company most says dis agree. when we see the response of respondent related to the company have experienced man power to assign and allocate the factory overhead cost, response from Eden company 35%(7) strongly agree, 40%(8) agree, 15%(3) neutral and other 10%(2) says dis agree but no any one respondent says strongly dis agree. Comparatively in Wow company 25%(4) respondents strongly agree, 31.25%(5) agree, 31.25%(5) neutral and other,12.5%(2) dis agree but no any one respondent says strongly dis agree. Generally, in Eden company most respondent says strongly agree but in Wow company most says equally agree and neutral

## CHAPTER FIVE

### 5. CONCLUSION AND RECOMMENDATION

This chapter is focus in summarizing the major finding obtained from the analysis part. Then based on the findings conclusions and recommendation were drawn.

#### 5.1. Conclusion

This paper measured the comparative analysis of product costing and pricing system in case of Eden and Wow water spring manufacturing company.

In terms of company costing system both of the company respondents say apply process costing system. means those two company produce only one or identical type of product for a long period of time

In terms of company keep the recording of cost data all the respondents of those two company select keep manually recording system there is no use computerized system is applied.

For the base of company setting price most Eden company respondents say mix (cost + market) but most of Wow company respondents say cost based pricing system is applied

In the major influence of company pricing decision most respondents of Eden company select influenced by customers of their product but most WOW company respondents say other competitor companies influence on pricing decisions of their company.

In terms of pooling factor accumulating indirect cost in company cost allocating department most Eden company respondents agree but in Wow company most are neutral.

For the company effectively separate fixed and variable cost in terms of output measured by cost center most of Eden and WOW company respondents say agree so both of those companies effectively separate their cost.

In terms of the company evaluate and review their direct cost in accurate way most of Eden and WOW company respondents say agree so both of those companies evaluate in accurate way but Eden company is much better than WOW company.

In terms of the company applied accepted accounting practice used to report the direct material and direct labor cost most Eden company respondents agree but in Wow company most respondents are neutral so Eden company is applying much better than WOW company

For the company direct and indirect cost classification system help for financial reporting most of both company respondents say agree but Eden company is much better than WOW company in terms of cost classification used for financial report.

For the company cost center have positive attitude that differentiate overhead cost from direct cost most Eden company respondents say neutral but most WOW company respondents say agree then WOW company is better than Eden company for positive attitude

In terms of the company assign the overhead cost to each product in pricing most Eden company respondents say agree but most respondents of WOW company say dis agree so Eden company is better than WOW company in terms of assign the overhead cost to each product in pricing

For the company has experienced man power to assign and allocate the factory overhead cost most respondents of Eden company say agree but in WOW company most of respondents equally say agree and neutral so Eden company much better than WOW company in terms of experienced man power.

## **5.2 Recommendation**

Based on findings and conclusion given above is possible to forward valuable recommendations. This study brings the issue under study to attention and leads further researches by the management of the organization as well as by other concerned bodies.

Based on the findings in terms of company recording cost data albeit both companies apply manually recording system but when we measure their performance Eden company is performed bitterly than WOW company then WOW company is improving or reform their performance. under the consideration this performance of the two companies I recommended that companies to

keep the recording of cost data by using computerized system it is much better than manually because of technological advancement of the world it is ease and fast to record data appropriately. generally, it is many advantageous than manually recorded system.

According to the analysis the base of company sitting price Eden company is adopted mix (cost + market) base but WOW company is cost base then Eden company is best performance because mix base is many considerations for than cost base for to improve the company continues profit so WOW company is use mix base.

In The company operation in applied of accepted accounting practice used to report the direct material and the direct labor cost in Eden company these accounting practice is applied but in WOW company more or less not practical then WOW company is interest to apply.

In terms of company assign the overhead cost to each product in pricing Eden company is assign appropriately and performed in good manner but WOW company is not applying this assignment then for WOW company I recommend apply the assignment.

In terms of experienced man power of company Eden company is much better than WOW company so WOW company is enlarging their company employee in terms of quality and quantity measurement because human resource is the main factor for the success of every organization. generally, most Eden company performance is much better than WOW company is assess the overall organizational structure and performance of their work lastly take a corrective progress. Or share a use full experience from there compotator company(Eden).

## Reference

- Arora, N., 1997. Cost Accounting. 1<sup>st</sup>Ed. New Delhi: Vikas
- Coulthrst, N., 1999. Cost Accounting: Principles and applications. 4<sup>th</sup>ed. Singapore: B and Jo
- Cost Accounting: A Managerial decision-11<sup>th</sup>ed. New York:
- Cherrington, O. 1998. Cost Accounting. 18<sup>th</sup>Ed. San Francisco: West
- Garrison, Noreen& Brewer, 2006, Managerial accounting, 11th Ed.
- Hilton, Maher, Selton, 2003, cost management strategies for business decision, 2<sup>nd</sup> Ed
- Horengren, T. Foster, 2004. Cost Accounting a managerial emphasis 14<sup>th</sup> ed. New York upper saddle river
- Horace, R, Charles, E., 1986. Cost Accounting 4<sup>th</sup> Ed USA: Lynch
- Horngren, T. Foster, G. Datar, G., 2003. Cost Accounting: A Managerial decision-11<sup>th</sup>ed. New York: Prentice Hall
- Prentice Hall Coulthrst, N., (1999). Cost Accounting: Principles and applications. 4<sup>th</sup>ed. San Francisco: West
- Palmer, E., 1986. Cost Accounting. 4<sup>th</sup> Ed. Great Britain: At Foulks Singapore: B and Jo
- Web sites WWW. Cost accounting us/Costing fundamentals. Htm,

**APPENDIX**  
**WOLKITE UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**QUESTIONNAIRE FOR COST ACCOUNTANT**

**Dear Respondents**

I am the researcher to undertaking a research entitled “*Comparative analysis of cost and pricing system in case of WOW and EDEN water spring manufacturing company*” for a partial fulfillment of BA Degree in Accounting and Finance in wolkite University. You are one of the respondents selected to participate on this study. Your important response for the following questions is highly relevant for the successful completion of this paper. Please assist me in giving correct and complete information. I confirm you that the information that you share me will be kept confidential and only use for the academic purpose. Thank you in advance for your kind cooperation and dedicating your time!!!

Tensae Aschale

Note: - There is no need of writing your name

Make a thick mark (✓) in box which you think an appropriate response

**Part I: - General information**

1. Sex                      Male                       Female
2. Years of Experience
- 1-3 years     Above 10
- 4-6 years
- 7-9 years

3. Education status

- A. Below grade 10<sup>th</sup>  D. Degree   
 B. Completed preparatory  E. Above degree   
 C. Diploma

4. Your position in cost center

- A. Manager  B. Employee  C. Cost accountant

5. Qualification A. Accounting  B. Management  C. Economics

6. Which costing system does the company employ?

- A. Job-order costing system  B. Process-cost

7. What is your base for setting price?

- A. Market based  B. Cost based  C. mix

8. How do you keep recording of cost data?

- A. Manually  B. computerized

9. what are a major influence of their pricing decision?

- A. Customer  B. Competitor  C. Cost

**Part II: - Related Question to Comparative analysis of cost and pricing system**

Please use a tick (√) mark for your thought and where appropriate give your opinion in the table. Where 1 indicate strongly agree, 2 agree, 3 neutrals, 4 disagree, 5 strongly disagree.

No	List of related question <b>Direct cost</b>	1	2	3	4	5
1	The factory cost allocating department use more than one pool for accumulating in direct cost					
2	Effectively separate fixed and variable cost in terms of output measure by cost center					
3	The company evaluate and review their direct cost in accurate way					
4	Accepted accounting practice used to report the direct material and direct labor cost					
5	The company direct and indirect cost classification system helps for financial reporting					
	<b>Indirect cost</b>					

6	The company allocate the overhead cost as standard principle					
7	The cost center have a positive attitude that differentiate overhead cost from the direct cost					
8	The company evaluate and differentiate the indirect cost as traceable to product cost and expense					
9	Assign the overhead cost to each product in pricing					
10	The company have experienced man power to assign and allocate the factory overhead cost					

***THANK YOU IN ADVANCE!!!***