

SCHOOL OF GRAGUATE STUDIES

ASSESSMENT OF COST ACCOUNTING PRACTICE AND ITS IMPACT ON ORGANIZATIONAL PERFORMANCE IN CASE OF FIKR SPRING WATER PLC, WOLKITE, SOUTH ETHIOPIA

BY

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ACRONYMS AND ABBREVIATIONS

ABC Activity Based Costing

CIMA Chartered Institution of Management Accountants

GAAP Generally accepted accounting principles

PLC Private limited company

SPSS Statistical Package for Social Sciences

USA united States of America

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ABSTRACT

The purpose of this research is to assess cost accounting practices and its impact on organizational performance in case of Fikr Spring Water PLC. It looks through the company's management support, employees' involvement, arrangement of cost and responsibility centers, tools and techniques of cost control and reduction, cost classification and allocation, methods of costing and its implementation, purchasing procedures and finally the use of cost information of the company's. The finding of the research revealed that the company does not give chance for employees to participate in budget preparation and standard setting, it does not use target costing as cost control and reduction tools and techniques and reporting without relating of actual and planned information. Lack of assign costs to particular cost objects and each cost object has not separate measurement of cost, return back to store and inform the costing department when it has excess raw materials, use only traditional costing method and giving cost information for external users are other problems that found out in the study. So in light of the above problems, the following recommendations were forwarded. The company should try to include employees in budget preparation and standard setting, try to use target costing, and relate actual with planned information in reporting. It should also assign costs to particular cost objects and each cost object has separate measurement, return back to store and inform the costing department when it has excess raw materials, try to use modern costing method and in time of need give cost information for external users.

Key words: Cost accounting, cost accounting tool and techniques, Cost control & Reduction and manufacturing cost.

CHAPTER ONE
INTRODUCTION

1.1. Background of the proposed Study

Cost accounting is both an art and a science, with the goal of recording, categorizing, summarizing, and analyzing a variety of expenses with the intention of assisting upper management in making choices in a manner that is more time and resource effective (Kont, 2013). The primary goal of cost accounting is to provide managers with critical cost information that can be used to guide decision making. It provides the detailed cost information that management needs to control current operations and plan for the future. According to Khan, Parvin & Sayeeda (2019) cost accounting offers information for both financial accounting and management accounting. The objective of financial accounting is to present an accurate picture of an organization to all of its stakeholders through financial statements. Management accounting produce information that helps workers, managers and executives make better decisions and improve their organization's process and performance, whereas the objective of cost accounting is to determine the unit cost of a product and, as a result, present an accurate picture of the operational activities that are carried out by an organization (Hilton, 2011). In a broad sense, the purpose of cost accounting is to provide management with a decision-support system so that the management team can enhance performance. Accounting for costs is mostly an internal activity that establishes a comparison between the actual amount of money spent on a transaction and the projected amount of money spent on that transaction.

In this era of globalization, firms in every industry are facing up against some of the most intense competition in their fields. The process of making judgments and earning a profit is becoming ever more challenging and difficult with each passing day (Bhuiyan, 2014).

When used appropriately, accounting for costs has the potential to become a significant benefit to successful decision-making. Companies in developing countries like Ethiopia have begun to implement cost accounting practices which were first adopted by companies operating in developed countries. Parallel to these developments, research studies which have been conducted initially in developed countries are followed by studies conducted in developing countries (Ali, 2010).

According to Samaha and Abdallah (2011), cost accounting has three main purposes; these are cost control, cost computation and cost reduction. Cost accounting is an accounting system that

provides financial and non-financial 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 preparing financial statement, setting price and control (Krumweld and Suessmair, 2005). Cost accounting information system eases the management of a company by providing accurate, fast and reliable cost information through the process of planning, controlling and decision making. The system of cost information is an important source in many administrative decisions, such as pricing decisions, determination of the optimal mix of products, and measurement of the cost of operations within the company (Alahdal et al, 2016). Cost and management accounting systems provide information for planning, control and decision making within an organization by focusing on determining the cost of projects, processes or products.

Method of costing differs from industry to industry and depends on the nature and type of the business. It is advisable to design effective costing systems to manage and control costs of the organization efficiently. So, good cost accounting system supports the pricing technique while quoting the bids or accepting the offers (Aron, 2014).

The methods used in product costing (such as activity-based costing, process costing, and job order costing), the indirect costs allocation base (such as direct labor hours, machine hours, direct material costs, units of output), and the use of cost accounting information in decision making (such as pricing decisions, performance decisions) will all be examined in this paper as they relate to Fikr Spring Water PLC.

1.2. Statements of the problem

Cost accounting deals with the identification, accumulation, allocation, and control of costs. It provides the information on product costs that is required for management-specific reporting as well as the inventory costing that is included in financial statements. The term "production costs" refers to all of the charges that are spent by the manufacturing firm from the moment that raw materials are acquired, labor is given, and services are performed all the way up to the point when the final product is packaged using basic packaging materials.

Cost accounting in manufacturing firms provides information for building and maintaining a competitive edge through manufacturing excellence, which necessitates attention to all performance components. Companies in every business now face some of the most intense competition in their respective fields as a due to globalization. Every day brings new challenges

and difficulties in terms of making decisions and turning a profit (Bhuiyan, 2014). When implemented correctly, cost accounting has the ability to greatly improve decision-making success. This is due to the fact that an accurate costing of the product will allow the top management to make decisions that are suitable for the current situation.

Some past studies conducted in Ethiopia were mostly focused on investigating the role of management accounting practices in managerial decision Making in different sectors (Tewodros, 2009, Yohannes, 2018, and Mintesinot, 2013). Yohannes (2018), undertaken a study on the use of Management Accounting Practices in Managerial Decision Making in selected real estate companies in Addis Ababa city. The findings indicate that the management's attention on management accounting is below the necessary level and that very little management accounting information is used for decision making. Tewodros (2009) investigated how some particular manufacturing enterprises in the city of Addis Abeba used management accounting data in decision-making and management control. The study's findings indicate that there is only a limited amount of management accounting information use in Addis Abeba's industrial enterprises, and that managers who do utilize it are effective decision- and control-makers. On the other hand, Mintesinot (2013) conducted a study on the role of management accounting in enhancing decision making at metals and engineering corporation (METEC). The results indicate the use of management accounting information for decision making is very low and the management's focus towards management accounting is below the required level. Further, the research result shows that the accounting policy is financial accounting oriented and not helpful in making management accounting reports.

On the basis of the findings presented above, one might come to the conclusion that an assessment of the cost accounting practices utilized by Ethiopian businesses and its impact on organizational performance, of which Fikr Spring Water PLC is a part, has not yet been conducted. As a consequence of this, research on the topic is required in order to address the issue.

1.3 Research Questions

The study focused on the assessment of cost accounting practice and its impact on organizational performance in Fikr Spring Water. So, this study investigates to answer the following research questions:

1. What is the current cost accounting practice adopted in the company to achieve organizational effectiveness?
2. How does the cost accounting practice of the company influence its productivity?
3. Does the cost accounting approaches, tools, and methodologies used to improve the organizational performance?
4. Does the company's cost accounting information prepared help managers to be effective in their decision making?

1.4 Objective of the study

1.4.1. General Objective

The general objective of the study was to assess the cost accounting practice and its impact on organizational performance of Fikr Spring Water PLC.

1.4.2 Specific objectives

The specific objectives of this research are:

- To assess the current cost accounting practice adopted in the company to achieve organizational effectiveness
- To access how cost accounting practice of the company influence productivity
- To assess the cost accounting approaches, tools, and methodologies are used by the company to improve the organizational performance
- To assess whether the company's cost accounting information prepared help managers to be effective in their decision making

1.5 Significance of the study

The study's findings will contribute to the current body of literature concerning this phenomenon, particularly concerning the application of cost accounting techniques in Ethiopia, where there is a lack of research on this subject. The findings benefit academics interested in learning more about the cost accounting practice used in various businesses. Policymakers and the government can also utilize the study's results to construct and broaden the understanding of

cost accounting methods. The research not only assists managers in making decisions through the utilization of cost accounting information, but it also assists management accountants in producing information that is helpful for decision-makers.

. In general, the study will use for:

- Manufacturing firms to practice cost accounting for the effectiveness and efficiency of the company.
- For the company's policy makers-it may assist as to identify level of use of cost accounting firms and factors that affect the use of cost accounting that may ensure the future policy decisions made by the company is evidence based.
- Other researchers- they may use as reference to study the practice of cost accounting to give further solutions for the problem.

1.6 Scope of the Study

This research paper aims to evaluate the company's cost accounting system. So, the study, which is concentrated on Fikr Spring Water PLC, would encompass all cost accounting practices as much as possible. As a result of a lack of time and resources, the student researcher has decided to restrict the scope of the study so that it will only focus on a single company named Fikr Spring Water PLC, and it is possible that the sample will not be a typical representative of the entire community.

1.7 Limitation of the study

The limitations that occurred in the time research study were: The study limited to the Ethiopian Fikr Spring Water PLC , the findings are only from the Fikr Spring Water company's perspective. In case, similar research in the future may extend to cover the other industries. The other limitation that researcher confronted was the Fikr Spring Water PLC confidentiality policy obligated only to observe original document. Hence, the researcher could not obtain the copy of the documents. The other limitation as in all case studies, the generalizability of the conclusion is limited to this Fikr Spring Water Company. The study will be limited to the Fikr Spring Water PLC, and the findings are only from the Safe Water. Similar research in the future may extend to cover the other factories.

1.8 Organization of the Study

This proposal is structured in to four chapters. Chapter one gives general information about the background, statement of the problems, purpose and significance of the proposed study. Chapter two covers a literature review on both the theoretical and empirical aspects of cost accounting practices. Chapter three describes the methodology adopted to achieve the proposed objectives. Chapter Four is about the budget of the proposed work and the time plan for the study to be conducted. The fifth chapter present summary of finding conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

This section presents the review of related literatures in order to establish a basis for the application of cost accounting practices. The selected sub topics will look into the general theory relating to cost practice, cost reduction and cost techniques. The review covered previous theoretical literature, empirical studies conducted in various countries on this subject and the research gap. This chapter reviews cost accounting from both the theoretical and empirical aspects.

2.2 Theoretical reviews

Cost accounting is the process of recording, analyzing, classifying, summarizing and allocating costs associated with a process and then developing various course of action to control the costs. Its goal is to advise the management on how to optimize business practice and process based on cost efficiency and capability. It also provides the detailed cost information that management needs to control current operations and plan for the future. Cost accounting is the art and science of recording, classifying, summarizing and analyzing cost to help management make provident business decision. There are basically three purposes of cost accounting; these are cost control, cost computation and cost reduction (Marco, 2016).

Cost accounting can be grouped in different ways by different scholars. Nigam and Jain (2001) put together a frame work for classifying total costs by five bases, which are behavioral, functional, responsibility, traceability and relevance to decision making. The first two groups are related to the present proposed study. The behavioral classification measures the changes in costs in relation to the changes in level of activity. The three categories are fixed, variable and semi variable. Fixed costs are costs that remain constant regardless of the volume of output within a certain level. They are also called capacity costs as they denote the productive capacity. Thus when the range of activity expands beyond the peak capacity, the current fixed costs rises to another level, which is termed as step costs (Nigam and Jain, 2001).

Variable costs- respond directly to the volume of output at a constant rate, example direct material, sales commission. Semi variables –Those activities which require a minimum fee (i.e.

the fixed component) plus additional charges for actual usage (i.e. the variable component) incur semi variable costs (also known as mixed costs), example telephone, repair, electricity charges.

The functional classification is based on the purpose of activities undertaken. It is divided in to manufacturing and non-manufacturing categories. Manufacturing costs comprise every cost in the plant up to the point when goods are finished, i.e. direct material, direct labor and factory overheads (Nigam and Jain, 2001).

Direct materials- are those materials which can be conveniently identified with and allocated to cost units. They are the acquisition costs of all materials that eventually become part of the object and that can be traced to the cost object in an economically feasible way. Acquisition costs of direct materials include freight in charges, sales taxes and custom duties. Direct materials are the raw materials from which the product is made and comprise the value of materials that are physical observable as being identified with the finished good and that may be traced to the finished product in an economically feasible manner. Direct labor cost-labor cost is the cost of remuneration such as wages, salaries, commissions, bonuses, etc. Direct manufacturing labor costs include the compensation of all manufacturing labor that can be traced to the cost object in an economically feasible way (Nigam and Jain, 2001).

Direct labor consists of wages paid to workers directly engaged in converting raw materials in to finished products. These costs can be conveniently identified with a particular job or process. Manufacturing overhead costs- The total of all indirect costs is termed as overhead costs, non-productive cost, factory burden, supplementary costs, are all manufacturing costs that are considered part of cost object in an economically feasible way example include power samples, property taxes on plants plant depreciation and the compensation of plant managers(Nigam and Jain, 2001).

There are also three types of non-manufacturing costs. Administrative costs relate to organizing and controlling the operations, hence are largely fixed in nature, example key personal and clerical staff salaries, electricity bill and equipment of general office. The second non-manufacturing cost is marketing costs that include selling and distribution. These are the costs to move the goods from the plant to customers, example warehouse, vehicles, wages of packers and drivers. Lastly financing costs are paid for raising and using capitals, example loan interest, fees for issuing shares, bonds coupons (Nigam and Jain, 2001).

2.2.1 Purpose of cost accounting

Decreasing profitability, increasing costs and computation, and economic crises are reasons which increase the importance of cost accounting. It is important to remember that cost accounting information is just a means to an end, and the final product is a managerial decision based off information generated by the cost accounting system The most accurate information is not always sought out nor cost effective, but the best available information is desired. The information being collected and used is for managerial purposes only. (Taylor 2000). The main objectives of cost accounting are as follows: Ascertainment of cost-This is the primary objective of cost accounting .For cost ascertainment, different techniques and systems of cost accounting are used under different circumstance. Control of cost; Cost control aims at improving efficiency by controlling and reducing cost. It is becoming increasingly important because of growing completion. Guide to business policy- cost data provides guidelines for various managerial decisions like make or buy, selling below cost, utilization of idle plant capacity, and introduction of a new product. 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 in deciding the extent to which the selling prices may be reduced to meet the situation. Measuring and improving the performance of cost accounting measures efficiency by classifying and analyzing cost data and then suggest various steeps improving performance so that profitability is increased. (Samaha and Abdallah , 2011).

2.2.2 Cost Accounting Practice

(Wilson and Chua, 2003) claimed that cost accounting was practiced by the mechanized multi process, cotton textile factories that appeared in England and United States around 1800. This point of view was consistent with Garner (2004) who pointed out that cost accounting had emerged only after eighteenth century as a result of the rise of the factory system in the industrial revolution The traditional view contained that cost accounting arose due to the increase use of fixed capital prompted accountants during the industrial revolution to graft cost accounting on the double entry system (Johnson, 2001).

The evolution of cost accounting is a single in to three eras-the first era from the first appearance until before the industrialization; the second from the industrialization to the twentieth century and there after the third (Antonelli and Vetal, 2009). During the first

era, the nomenclature cost accounting might not exist as a clear and well recognized concept like it is today, the activity could be called by other names. The first point appearance of cost accounting can be traced back to the fourteenth century (Thukaram, 2012) With the expansion of the scale of business, mainly in manufacturing activities that small enterprises started to produce trade items such as books, woolens, coins and wine, an expansion in cost accounting was required (Cunagin and Stancil , 2002).

The industrialization began in the late eighteenth century in England as the industrial revolution and later spreading to other parts of the world led to fundamental changes in agriculture, manufacturing, transportation economic policies and the social structure (Montagna,2001

The change in macro environment gave rise the new developments in cost accounting as a result of the enormous impact on a manufacturing methods and costs (Schwarz, 2007). The advancement of means of communication during the twentieth century enhances the possibility to export and import theory and practices (Parker and Yamey, 2004), hence the voice from one original source is able to induce echo on a much larger scale which is manifested by the growing debates in the research field.

A manufacturing company's income statement is more complex than a retailer or a merchandiser as it transforms raw materials into finished goods through the use of labor. As a result of manufacturing goods, manufacturers must understand the various costs associated with this production process. It is simply not sufficient to know the price paid for raw materials when manufacturing a finished product. The cost accounting system used by a manufacturing company should be able to provide information relevant for the external reporting system. For a manufacturing firm, financial reporting separates costs based on when those costs becomes recognized as expenses. All costs manufacturers can be classified as product or period costs. Product costs are frequently referred to as manufacturing costs. These costs are assigned specifically to units of production and recognized as an expense when product is sold. As such, product costs follow the product through inventory and are recorded as an asset in the inventory system. Period costs include all other manufacturing costs. These costs are expensed as they are incurred (Lanen, Andorsen and Maher, 2008).

2.2.3 Development of costing practice

A useful cost accounting system allows a business to acquire accurate product and service costing for pricing, determining optimal products or services mixes, assisting with decisions on whether to and what to outsource, determining preferred channels of distribution, targeting activities for process implement, managing cost customer relations and making investment decisions. It is important for businesses to adopt and utilize cost accounting methods that fully recognize cost and allow for innovation within the company (Kawan, 2011). In developing an effective cost accounting system; executives can apply several techniques that will undoubtedly assists in the operations of the organization. Executives should understand the importance of these methods in producing one efficient cost accounting system that will help cut costs and produce quality out puts. Techniques that management can utilize to develop a better cost accounting system to compete in the global market include standard costing, target costing, activity based costing (ABC) and the just in time approach (Hansen, 2009).

Cos accounting practice cannot be set up without any active support of top management and employee of a company. If management has a positive attitude towards setting standards, budgeting and provides direction for implementation and control, a company will be able to implement its plans efficiently. Management involves directing the activities of others, making sure that other people do what should be done. Workers involvement states to using maximum efforts of all employees of a company to resolve problems. Having active worker involvement is important in cost reduction scheme. Labor cost consist the major parts of product cost in manufacturing companies. Thus, managing the productivity of workers mean reducing labor costs those results to maximize the returns of the company.

Generally the types of cost, Elements of manufacturing cost & Techniques of costing are describes as follows;

2.2.3.1 Types of cost

Fixed Cost: These are costs that do not always change with activity level. They are constant within certain range of activities. It is when the maximum limit of a particular activity range is exceeded that fixed costs jump up. It can also be defined as costs that do not respond to a change in the level of activity such as an increase in output. Thus they represent one extreme of cost behavior in that within a certain period they remain the same. (Asaolu and Nassar 2007) defines

fixed cost as the cost which tends to be unaffected by increases or decreases in the volume of output.

Variable Costs are costs that vary with the level of activity. The higher the activity level the higher the amount of the cost incurred. Activity level is measured in terms of number of units produced. Variable cost is the cost which tends to vary with the volume of output, the variable cost per unit is the same amount for each for each unit produce, which means that the amount of resources used and the price of these resources are constant for each additional unit product (Asaolu & Nassar, 2007)

Semi variables –Those activities which require a minimum fee (i.e. the fixed component) plus additional charges for actual usage (i.e. the variable component) incur semi variable costs (also known as mixed costs), example telephone, repair, electricity charges.

Direct Cost: Where an item of cost can be traced to a product or service unit, that cost is direct to that product or service unit. Such a cost should be allocated to that product or service unit. (Betts, 1994) defines direct cost as the cost that is traceable and attributed to a product. (Dury, 1985) defined direct costs as one that is directly related or traceable to a cost objective where cost objective is any grouping to which cost is assigned such as unit of inventory.

Indirect Cost: This is the opposite of direct cost. This is a cost that cannot be traced to a product or services unit. All indirect cost added together make overhead.(Akeem, 2017)

Marginal Cost is the additional cost to be incurred in order to get additional work done. All additional fixed costs are added to make incremental cost. (Akeem, 2017)

2.2.3.2 Elements of manufacturing cost

There are three terms commonly used when describing manufacturing costs are direct materials costs, direct manufacturing labor costs, and indirect manufacturing costs. These terms build on the direct versus indirect cost distinction of manufacturing costs.

Direct materials costs are the acquisition costs of all materials that eventually become part of the cost object (work in process and then finished goods) and can be traced to the cost object in an economically feasible way. The costs of direct materials include not only the cost

of the materials themselves, but the freight-in (inward delivery) charges, sales taxes, and customs duties that must be paid to acquire them (Srikant et al., 2018).

Direct manufacturing material costs include the acquisition of materials with their related costs that can be directly traced (Datar and Rajan, 2012).

Direct manufacturing labor costs include the compensation of all manufacturing labor that can be traced to the cost object (work in process and then finished goods) in an economically feasible way (Srikant et al., 2018). For conversion of raw material into finished goods, human resource is needed, and such human resource is termed as labor. Labor cost is the main element of cost in a product or service. Direct labor cost is easily traceable to specific products.

Direct labor costs are specially and conveniently traceable to specific products. Direct labor varies directly with the volume of output.

Indirect manufacturing costs are all manufacturing costs that are related to the cost object (work in process and then finished goods), but cannot be traced to that cost object in an economically feasible way. This cost category is also referred to as manufacturing overhead costs or factory overhead costs (Srikant et al, 2018). Costs other than direct material and direct labor cost which are not clearly associated with specific product are manufacturing overhead costs. Overheads include the cost of indirect material, indirect labor and indirect expenses. The major category of overhead costs is operation overhead and general and administrative overhead. Manufacturing overhead costs are costs incurred in the factory for production of goods and services. These include all indirect material like grease, oil, cost of tread etc., indirect labor like salary for factory managers, salary of warehouse man and indirect expenses incurred in the factory such as rent for factory building, power and fuel used in the factory, insurance of factory building etc.

2.2.3.3 Techniques of costing

In developing an effective cost accounting system; executives can apply several techniques that will undoubtedly assists in the operations of the organization. Executives should understand the importance of these methods in producing one efficient cost accounting system that will help cut costs and produce quality out puts. Techniques that management can utilize to

develop a better cost accounting system to compete in the global market include standard costing, target costing, ABC and the just in time approach (Hansen,2009).

The following techniques of costing are used by the management for controlling costs and making managerial decisions:

2.2.3.1 Traditional Costing

1. Historical (or Conventional) Costing

It refers to the determination of costs after they have been actually incurred. It means that cost of a product can be calculated only after its production. This system is useful only for determining costs, but not useful for exercising any control over costs. It can serve as guidance for future production only when conditions continue to be the same in future.

2. Standard Costing

It refers to the preparation of standard costs and applying them to measure the variations from standard costs and analyzing the variations with a view to maintain maximum efficiency in production. What is done in this case is that costs of each article are determined before-hand under current and anticipated conditions, but sometimes they are determined before-hand under normal or ideal conditions. Then actual costs are compared with the predetermined costs and deviations known as variances are noted down. Thereafter, the reasons for the variances are ascertained and necessary steps are taken to prevent their recurrence. Standard costing is one of the most known and widely used product costing systems. Standard costing was developed for the needs of a traditional production environment which differ significantly from the needs of a modern days' production environment. This costing system suits best an organization whose activities consists of a series of common or repetitive operations and the input required to produce each unit of output can be specified. Standard costing is also suitable for organizations that produce many different products with a series of common operations. Standard costing is a widely used accounting system because it can create information for a lot of purposes: decision-making purposes, providing challenging targets to achieve, assists on setting budgets, acts as a control device by highlighting unwanted activities and simplifies the task of tracing costs to products for profit measurement and inventory valuation purposes. (Drury, 2004)

3. Marginal Costing

The marginal costing concept is based on the principle that each cost unit should be charged only with those costs which it exclusively caused to be incurred, this method is also known as direct costing or variable costing (Layne, 1984).It refers to the ascertainment of marginal costs by differentiating between fixed costs and variable costs and the effect on profit of the changes in volume or type of output. In this case, only the variable costs are charged to products or operations while fixed costs are charged to profit and loss account of the period in which they arise.

4. Target Costing

Standard costing reduces costs at the production stage where as target costing helps to reduce cost over the entire product life cycle. The term target cost is the difference between the sales price needed to capture a predetermined market share and the desired per unit profit (Hansen, 2009). This difference is the allowable cost that managers permit for the cost of the product. In this process, management must find cost reductions if current costs are higher than the target cost. This ensures that management changes the operations of the entire business in order to achieve such results. Target costing also requires extensive interactions among the productions, marketing and accounting departments, so that everyone is in sync with the same idea (Kaplan, 2006). This cost management techniques helps to reduce costs in each stage of the development of the product.

5. Absorption costing

Absorption costing is based on the premise that the normal costs of running a firm should be charged to the individual cost units in order to ascertain the total cost of each unit. By such an exercise, the cost units absorb the total costs. The product units are thus charged not only with direct cost, but also with a fair share of the overhead cost (Layne, 1984). According to (Kinney and Rail-born, 2011), absorption costing treats the costs of all manufacturing components (direct material, direct labor, variable overhead and fixed overhead) as inventor able, or product, costs in accordance with GAAP(Generally accepted accounting principles). Absorption costing is also known as full costing. Under absorption costing, costs incurred in the non-manufacturing areas of the organization are considered period costs and are expensed in a manner that properly

matches them with revenues. In addition, absorption costing presents expenses on an income statement according to their functional classifications. A functional classification is a group of costs that were all incurred for the same principal purpose. Functional classifications generally include cost of goods sold, selling expense, and administrative expense.

2.2.3.2 Activity-based costing (ABC)

In ABC accounting, the system attempts to reveal costs through direct tracing instead of allocation. This creates a more accurate pictures of the total costs associated with a product. Besides reducing costs, this management tool also improves the final price that customers pay for the product by focusing on the activity involved. The philosophy behind using ABC is the value that it provides to customers at a cost less than the price customers pay for that value. Activity is any discrete task that an organization under takes to make or deliver products or services. Products or services consume activities and activities consume resources. ABC is a two stage product costing method that assigns cost first to activities and then to the products based on each product's use of activities. There are four steps involved in ABC (Kinney, 2006).

First, the activities consume resources are identified and costs are assigned to them. Identifying the activities that consume resources can sometimes be challenging and interesting. Identifying these activities, activities can be classified into value added and non-value added. When following the production process all the way through, managers often uncover many non-value added activities that can be eliminated from this first step.

Second, cost drivers associated with each activity are identified.

Third, a cost rate per cost driver is computed. A predetermined rate is equals to the estimated indirect cost divided by the estimated volume of allocation base.

Fourth, costs are assigned to products by multiplying the cost driver rate by the volume of cost driver units consumed by the product. ABC uses more data than conventional costing but provides more informed estimates of product costs. Having better cost information enables managers to make decisions about pricing.

Activity based management focus on managing activities to reduce costs. Identifying users of ABC is not always easy for a variety of reasons. First, It is a cost accounting system that focuses

on an organization's activities and collects costs on the basis of the underlying nature and extent of those activities. Multiple predetermined overhead rates are then calculated using the various cost drivers of organizational activities. ABC focuses on attaching costs to products and services based on the activities conducted to produce, perform, distribute, and support those products and services. The three fundamental components of activity-based costing are

- Recognizing that costs are incurred at different organizational levels,
- Accumulating costs into related cost pools, and
- Using multiple cost drivers to assign costs to products and services.(Michael & Cecily,2011)

2.2.4 Methods of Costing System

CIMA England has defined the costing as the techniques and process of ascertainment costs. Weldon defines costing as classifying, recording and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of suitable arranged data for the purpose of control and guidance of the management. It includes the ascertainment of the every order, job, contract, process, service or unit as may be appropriate. It deals with the cost of production, selling and distribution. Thus costing deals with the procedure of ascertaining cost of products or services. The techniques of costing involve the following steps;

- Collection of expenditure
- Classification of expenditure according to the elements of cost
- Allocation of expenditure to the cost centers or cost units.
- Apportionment of expenditure to the cost center or cost unit.

Costing should not be confused with cost accounting. Costing can be carried out arithmetically whereas cost accounting is the formal mechanism by means of which costs are ascertained (Beyenesh, 2012). Costing is an essential work for the efficient management of any enterprise and gives most useful information for preparation of financial accounts. It enables a business not only to find out what various jobs or processes have cost but also what they should have coasted. It indicated where losses and wastage are occurring before the work is finished, so that the immediate action may be taken to avoid such loss or wastage. Also all expenditures are

localized and there by controlled in the light of information provided by the cost record(Beyenesh, 2012).Types of costing system refer to the techniques and processes employed in the ascertainment of costs. There are different methods of costing for different industries. The methods of costing to be used in the particular company depend up on the type of manufacturing and nature of industry (Willamsan, 2009). The two basic types of costing systems are used to assign cost to product or service. Each of them are describing as follows:

2.2.4.1 Job order costing system

Job order costing is method of ascertaining cost in those industries in which goods are manufactured or services rendered against specific order from customers. A job order cost system manufacturing accumulates costs of material, labor and manufacturing overhead expense by specific orders, jobs, batches or lots. Job costing system is a method in which cost object is a unit or multiple units of a district product or service called a job. Job order costing system are widely used in construction, furniture, printing and similar industries where the costs of a specific job depend on the particular order specification (Willamsan, 2009).

2.2.4.2 Process costing system

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 product or service is obtained by using broad averages to assign cost to mass of similar units produced for general sale and not any specific customers. Average cost over large number of nearly identical produce companies that use process costing system are cement factory, petroleum refineries, flour companies, beer factories, textile factories and beverage companies.

According to Arora (2003), processes costing system follow the following procedures: First, the factory is divided in to a number of processes and an account is maintained for each process. Second, each process account is debited with material cost, labor cost, and direct expenses and overhead allocated or apportioned to the process. Third, the output of a process is transferred to the next process in the sequence. Finally, the finished output of the last process is transferred to the finished goods account. A single work in process account may use by a company that has only one producing department or continuously produces a single product. On the other hand department works in process accounts are preferable if production flow through several cost centers or departments separate cost figures for each process might also be desirable. In

manufacturing process costing setting, each unit receives the same or similar amounts of direct material costs, direct labor costs and indirect manufacture costs (Horngren, 2003). According to him, there are five steps in calculating unit costs in process costing system. These steps are:

- Summarize the flow of physical units of output.
- Compute output in terms of equivalent units.
- Compute cost per equivalent unit.
- Summarize total costs to account for.
- Assign total costs to units completed and to unit in ending work in process.

There are basically three purposes of cost accounting; these are cost control, cost computation and cost reduction (Marco, 2016).

2.2.5 Cost Control

In the process of manufacturing companies, the concern of cost control management is essential in order to effectively utilize the material resources. In addition to this, cost control includes the management measures implemented to ensure that cost continues in accordance with the management plan. The significance of cost control cannot be over emphasized as an existence technique for manufacturing companies because they ensure appropriate monitoring of cost against budget and correct any financial impropriety the company. The term cost control is used widely and no uniform definition exists (Horngren et.al, 2012).

Cost control is concerned with an element of marginal cost which involves the determination of unit cost, measurement and correction of the performance of subordinates to make sure that the objective of the enterprises and the means to obtain them are accomplished effectively and economically (Lockey, 2002). Cost control is the regulation of cost of operating a business and is concerned with keeping costs within acceptable limits. These will usually be specified as a standard cost or target cost limits in formal operational plan.

(Anthony, 2005) regards cost control as cost management or cost containment and defined it as a broad set of cost accounting methods and management techniques with the goal of improving

business cost efficiency, by reducing costs or at least restricting their rate of growth. Businesses use cost control methods to monitor, evaluate and ultimately enhance the efficiency of specific areas, such as departments, divisions or product lines within their operations.

2.2.6 Cost Reduction

(Asaolu and Nassar, 2007) define cost reduction as the term used for planned and positive approach to the improvement of efficiency. It can be viewed in many ways, such as increasing productivity, and elimination of waste.

Cost control aims at reducing the actual to the targets, cost reduction aims at reducing the targets themselves. In other words, the aim of cost reduction is to see whether there is any possibility in bringing about a saving in cost incurred- material, labor, overheads, etc. According to the Terminology of Cost Accountancy of the Institute of Cost and Management Accountants London, Cost reduction is to be understood as the success of real and unchanging reduction in the unit costs of goods manufactured without impairing their suitable for the use intended. Thus, the term cost reduction denotes real or genuine saving in production, administration, selling and sharing costs resulting to the elimination of wasteful and inessential elements from the design of the product and from the techniques and practices carried out in connection therewith. The necessity for cost reduction arises when the profit margin has to be increased without an increase in the sales turnover i.e. for the same volume of sales, the cost should be reduced. (Akeem, 2017)

2.2.7 Use of cost information

(Drury and Tayles, 2005) state that Manufacturing organizations assign costs to products for two purposes: First, for internal profit measurement and external financial accounting requirements in order to allocate the manufacturing costs incurred during a period between cost of goods sold and inventories. Second, it uses to provide useful information for managerial decision making requirements. In order to meet financial accounting requirements, it may not be necessary to accurately trace costs to individual products With knowledge of the fixed costs and variable costs, the manager should use this information, along with the financial statements, to aid in the decision making process.

The traditional income statement is primarily used for external reporting. The value approach or the contribution margin income statement is more useful for internal decision making

(Lanen, Anderson, and Maher, 2010).According to (Samrawit, 2010) cost information can use for two purposes. These are describing briefly as follows. A company's cost information system provides the data required for the preparation and operation of a budget and for establishing standard costs. Budget- In money companies predetermining or estimating factory overhead constitutes the initial step toward budget program. The budget program lists of all members of management in the task of creating workable and acceptable plan of action welds the plan in to homogenous unit. Communicate to all managerial levels difference between planned activity and actual performance and point out unfavorable conditions which need corrective action. Standard cost- Closely allied with the budgets are, standard cost which are predetermined cost of direct material, direct labor and factory overhead. They are established by using information accumulated from past experience and data secured from research studies and it helps the management to form the foundation for the budget. A standard cost under given condition which is held constant in order to observe measure fulgurations. The measurements of deviation from established standard norms are accomplished.

2.3 Empirical evidence for cost accounting practice

The empirical studies carried out by earlier authors as regards the cost accounting practice to reduce and control manufacturing costs are discussed below: Akeem (2017) the study aimed to examine the effect of cost control and cost reduction techniques in organizational performance. To examine the issue data were collected from primary source, questionnaires. The data were analyzed by regression analysis to test the hypothesis with the use of SPSS. The researcher was found that cost control has a positive impact on organizational performance. The researcher recommended that cost control and cost reduction scheme must be properly administered in an organization by setting realistic standard.

The study carried out by Saaydah and Khatatneh (2014) on the adoption of some recent cost accounting tools and their perceived effects on the performance of Jordan manufacturing companies shows that few modern techniques have been adopted so far. The authors used 30 companies which represent 25% of the targeted population and confirm reasonable level of awareness and adoption of in time manufacturing, Balance Score Card, ABC, Target costing and Kaizen costing in their order of intensity. Their findings also reveal that the tool that faces the greatest difficulty in terms of adoption is Target costing followed by ABC.

Caroline (2014) examined the effects of cost management on the financial performance of manufacturing companies. The study tried to found the effects of supply chain management, labor management and stock management on the financial performance of manufacturing companies. To conduct the study six manufacturing companies listed on Nairobi Security exchange were selected. The study used quantitative approach as well as causal research design multi variance linear regression model. Data was sourced from both primary and secondary sources namely questionnaire and audited financial statements. The study found that cost management is positively related to financial performance of manufacturing companies. This research recommended that the management should focus on managing cost of distribution, cost of labor and cost of stock.

Siyanbola and Raji (2013) studied the impact of cost control on manufacturing industries' profitability on West Africa Portland Cement PLC. The study was conducted based on primary data direct interviews, observations and use of questionnaire from 74 randomly selected respondents. The respondents were taken across all the units of the company's employees in production, sales, purchasing, accounts, and warehouse divisions and from the customers. In this study, budget was considered as the main instrument for achieving effective cost control and it was viewed as from strategic standpoint. They point out that cost control is the major significant concern in business and disregard of which will affect the profit at any time.

They also stated that a good cost control system starts with the behavior of employees in the organization as employees are instrumental for the achievement of organizational goals. In analyzing the data and to test the hypothesis, person correlation model was employed. The study found that cost control has a positive effect on business profitability. The study recommended that component of cost such as material, labor and overhead cost and workers' behavior could be tactically controlled with measures like responsibility accounting, data collection and data reporting.

New approaches to cost accounting, such as the ABC, did not receive widespread adoption. As Sharman (2003) states, an Ernst and young survey in 2003 of about 2,000 chief financial officers revealed that 98% of respondents reported that cost information is distorted due largely to improper overhead allocation. It is reported that about 80% of the USA companies still use the traditional cost allocation methods. Of the many companies that tried to implement the ABC

costing, only 20% were able to sustain it. Many companies claimed that the ABC system design is too complex.

Anand (2004) studied cost accounting practice in India corporations to verify any significance difference between using ABC and traditional cost system. The study established that the firms are successful in capturing accurate cost and profit information from their ABC cost systems for value chain and supply chain analysis. The results suggest that the firms have better insight for bench marking and budgeting with ABC cost system. Yet the consistency in their priority of budget goals is taking unlike the firms which are using traditional costing systems.

In study conducted on 40 industrial companies in Egypt, Elshahat (2007) concluded that cost accounting information in Egypt is available at a basic level, and used more external (pricing) purposes than for internal (performance) purposes. They also found that the use advanced cost accounting techniques such as activity based costing system seem absent. The comparative study conducted by Joshi(2001) revealed that Indian manufacturing companies rely heavily on the traditional cost accounting techniques such as variable costing, budget for day to day operations, capital budgeting tools, return on investment based performance evaluation, and performance evaluation. However, the adoption rates of recently developed practices such as shareholder's value analysis, performance evaluation, product life cycle costing, back flush costing, activity based budgeting, and value chain analysis, have been rather low and slow.

An analysis conducted by (Samaha K. and Abdallah S., 2011), entitled A comparative analysis of ABC and traditional costing system: The case of Egyptian metal industries company compares ABC results with traditional accounting (volume based) ones in an Egyptian metal industry company; In fact traditional accounting can lead to price distortion. In particular, the study highlights that volume based methods underestimate low volume products and overestimate high volume products while ABC, tracing overhead consumption, lead to more precise results.

2.4 Knowledge Gap

Though cost accounting is not new knowledge to Businesses in Ethiopia, as discussed on the Statement of the Problem section above, the coverage to the assessment is not quite broad and up to date that such the contribution of such a research becomes valuable. On top of that, this research is to be conducted at the Fikr Water PLC in Wolkite and thus it is an important addition

to the variety of research in terms of the location of firms even outside the capital city Addis Ababa.

The approaches followed, the tools used and the methodologies deployed decide the quality of the cost accounting assessment on a given company. And the practical usage of the cost accounting dictates more on the output of the business firm. Such detailed information of a company gives further insights for futures researchers to be conducted in Ethiopia and to the company itself as well.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter presents the activities and processes that undertaken to gather data for the research work. It gives full details of how data are collected and processed for this research work. The discussion was centered on the following: Research design, Population under study, sampling techniques, sources of data, research instruments, and method of data analysis.

3.1 Research Design

The study adopted descriptive research design. Hence, descriptive statistics describes the characteristics of particular individuals or situations concerned with specific perceptions and with narration of facts. This is essential to protect biasness and maximizes reliability of information. So, this study will describe on the assessment of cost accounting practices by the factory.

Descriptive research design involves both quantitative and qualitative data. Quantitative approach involves numerical data subjected quantitative analysis whereas qualitative approach involves data in textual form that concerned with subjective valuation of attitude, thoughts and behavior (Kothari, 2004). According to Schweitzer (2009) quantitative approach was used for its appropriateness to the determination of developing research questions and it is suitable for the type of numerical data required in the study. In analyzing case study descriptive research, both qualitative and quantitative research approach is needed (Yin, 2003). Therefore, in this study the researcher employed both research approaches.

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3.3 Population and sample Design

Employees of Fikr Spring Water PLC who is working in cost accounting department and other financial departments was the population of this study and given questionnaires to the selected sample of the population. Structured interview for cost department manager and the manager of the organization has done to get the first hand information.

3.3.1 Sample Frame

A sampling frame is "a list of elements from which a sample may be drawn, also called a working population" (Zikmund, et al., 2010). Quinlan (2011) describes a sampling frame as a chart or complete list of all the individuals, case or unit within the given population. In this study, the sampling frame consisted of 250 employees from Fikir Spring Water PLC. The list from which the sample drawn and obtained from human resource department of Fikir Spring Water PLC

3.3.2 Sample Size

A sample is defined as a subset or subgroup of the population and therefore comprises some members who are selected from it (Sekaran and Bougie, 2013).

Decisions as to "whether to work with an entire population or a sample of the population are made based on the size of the population, the time available for the research, and the requirements of the research" (Quinlan 2011, p. 208). If the researcher decides to use a sample, it is important that the sample selected and the sampling method that is used are clearly described (Quinlan). Based on the information from the data, for the population of 250 at 5% margin of error and 95% confidence level the sample size is 154.

$n = N/1+N\ (e)^2$

Where n= sample size, N = population size, e = level of precision given that 95% confidence level and p = ±5% are assumed.

$$n = 250/1+ 250\ (0.05)^2$$

$$= 154$$

3.3.3 Sampling technique

Sampling technique can further be divided into "two broad categories, probability and non-probability samples "(Ghauri and Gronhaug, 2010, p. 139).

"In probability sampling, the elements in the population have some known, nonzero chance or probability of being selected as sample subjects and in the non-probability sampling, the elements do not have a known or predetermined chance of being selected as subjects" (Sekaran and Bougie, 2013, p. 245).

This study used a probability sampling; to select the actual respondents, the researcher used simple random sampling techniques.

3.4 Type and Sources of Data

The researcher used both primary data and secondary data. The primary data collected using questionnaires from the sample size employees working in cost accounting department and other financial departments. In addition, an interview for cost department manager and the manager of the organization to get the first hand information was carried out. Secondary data was gathered by reviewing various cost accounting documents such as reports, polices, manuals and other documents of the department that are helpful to the analysis.

3.5 Procedures of data collection

The questionnaires were distributed in person to the targeted respondents. And follow-up calls were conducted to provide feedback, clarification and remainder. Statistical analysis then conduced on this data. For literature review and other purposes, articles, manuals, websites and other secondary data were reviewed.

Data were primarily collected through simple self-administered questionnaires with Likert scale 5 types of questions. A Likert scale 5 is a variation of the summated rating scale with consists of statements that express either a favorable or unfavorable attitude toward the object of interest (Cooper and Schinddle, 2014). Respondents were asked to agree or disagree with each statement. Each response was given a numerical score to reflect its degree of favorableness (1= strongly disagree, 2=Disagree, 3=Not sure,

4=Agree, 5=strongly agree). Likert scales5 helped the researcher to compare the respondents' score with a distribution of scores from the sample group. Interviews were used as a second the

tool to get more insight and meaning of the research problem. Respondents were asked to fill the questionnaire and send it back within five days. One week later, a reminder was sent to the selected respondents. Two weeks after the initial posting, remainders were again sent to respondents who had not returned their questionnaires. Structured interview questions were used.

3.6 Methods of Data Analysis

Data analysis is the application of reasoning to understand the data that have been gathered. In its simplest form, analysis may involve determining consistent patterns and summarizing the relevant details revealed in the investigation. The appropriate analytical technique for data analysis is determined by management's information requirements, the characteristics of the research design and the nature of the data gathered (Zikmund et al., 2009). The data collected will be analyzed by quantitative and qualitative data analysis methods.

The researcher employed descriptive statistical method specifically frequency distribution and percent with tables in order to avail the finding of the study. Percentages are suitable for comparative analysis of data. The use of frequency distribution tables by the researcher in analysis of data give faster and more understandable presentation of the data collected by the researcher. In addition to this, the information gathered through interview utilized to elaborate major factors related to cost accounting practices of the organization and the resulted presented in the form of summary and narration.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

This chapter deals with data presentation, interpretation and analysis of the study. The chapter has two parts: the first is demographic variables of the respondents; while the other part of data analysis made on opinion survey on cost accounting practice.

4.1 Respondents' profile

To do this research, 154 questionnaires were distributed in person to the targeted group of employees. These questionnaires were distributed to employees of Fikir Spring Water PLC in different financial departments. Out of the total 154 questionnaires were fully responded and returned, thus achieving 100 percent responses rate.

Table 1: Response Rate

Total questionnaires	154
Completed and Returned questionnaires	154
Response Rate	100 percent

Table 2 : Department, Sex and Age of the respondents

Departments	**Variable Categories**	**Frequency**	**Percent**
	Finance	37	24
	Frequency	12	8
	Production	18	12
	Purchase	31	20
	Cost accounting	56	36
	Total	**154**	**100**
sex	Male	118	76.8
	Female	36	23.2
	Total	**154**	**100**
Age groups	21-30	92	60
	31-40	49	32
	41-50	13	8
	>51	-	-
	Total	**154**	**100**

Source: Own survey, 2023

Respondents on department shows 36% of respondents are in cost accounting division, 24% in finance, 8% from central warehouse, 12% in production and 20% from purchase. It implies that more questionnaires are given for cost department which directly related to the study. This increase the accuracy and reliability of the study. The respondents on sex indicate that 76.8% of the respondents were male and 23.2%were female, which shows

the majority of the respondents are male. As the above table depicts the age distribution of the respondents, that is; 60% of the respondents are within the age of 21-30, 32% fall within the age of 31-40, 8% fall within the age of 41-50. This implies that most of the employees are young and trainable.

Table 3: Educational status and work experience of respondents

	Variable Categories	**Frequency**	**Percent**
Educational status	Grade10 or 12	-	-
	Certificate	18	12
	Diploma	49	32
	Degree	74	48
	Masters	13	8
	PHD	-	-
	Total	**154**	**100**
Work experience	1-5	31	20
	6-10	80	52
	11-15	25	16
	16-20	18	12
	>20	-	-
	Total	**154**	**100**

Source: Own survey, 2023

From the above table, we can infer that about 48% of the respondents are BA degree holders 32% of the respondents are Diploma degree holders, 12% are Certificate holders and the rest 8% are master's degree holders. This indicates that most of the employees in the organization are well educated. And since the majority of respondents are educated, it can be concluded that almost all employees are capable of understanding and answering the questions of the questionnaires and it increases efficiency through reducing costs. This support the study done by Sitty (2001) stated that educational level of employees determines capability in their day today activities.

The above table shows that 20% of the respondents have been working with the organization for 1-5 years, 52% from 6-10 years, 16% from 11-15 and the rest 12% are from 16-20. This means most of the respondents have good knowledge about the environment and they are well aware of the activities performed; most importantly, how cost accounting practiced in the organization, which in turn increases the reliability of the responses by the participants.

4.2 Respondents' awareness about cost accounting practice related questions

The researcher analysis is based on the employees' awareness of the following thematic areas: top management support and employee involvement in cost control and reduction, cost accounting tools and techniques, ways of cost classification and allocation, ways of organizing responsibility and cost center, ways of costing system and purchasing procedure and finally uses of cost information to control and reduce costs in the organization. In each table, the researcher used short forms. These are T= Total, F=Frequency, A=Agree, SA= Strongly Agree, NS= Not Sure, DA=Disagree, SDA= Strongly Disagree and %=Percent.

4.2.1 Top management support in cost control and reduction

The study is intended to evaluate the top management support of cost accounting practice in reducing and controlling manufacturing costs at Fikir spring water PLC. Top management support involves establishing standards, budget preparation, applying cost control tools and techniques in the company, measuring performance against the set standards and correcting deviations from standards and plans. Amoako and Acquaah (2008) stated that, for cost control systems to be successful, it must be initiated and supported by management. If management has positive attitude towards setting standards, budgeting and providing direction for implementation and control, a company will be able to implement its plans efficiently.

Related to the top management support, the following two questions were interview for managers:

Question 1, how frequently cost accounting reports are written? The interviewee replied that it is written in quarterly. As researcher observed the reports of the organization, the cost department manager writes cost accounting reports at every quarter for the top managers and the board members. To communicate managerial decision measures reviewing standards and budgets cost is important.

Question 2, how frequently your company review standard costs and budgeted cost in its cost reduction and control practice? The interviewee answered it as managers reviewed standard cost and budget cost monthly.

The study results indicated that standard costs and budget review is conducted monthly to realize any problem on the process and implementation as well as any deviation from the targets set. Regularly reviewing cost control and reduction tools and techniques is helpful in

order to correct any deviation happened (Bedilu, 2006). One can infer from this study that the company management thoughtfulness to regular monthly standard cost and budget review and communicate management decision making. According to the response obtained from interview in question how set cost standards, prepare budget and how to decide product price? Cost control starts by establishing manufacturing cost standards. Based on these standards cost budgets are prepared. As the researcher reviewed documents, the top management of the company establishes standards, prepare budget, and evaluate deviations and measure performances. The researcher also found that the new standards are set based on standard unit product cost. When the new products introduced in the operation, a new standard cost is calculated on this particular product based on the purchase price of materials. This shows that the result got from the questionnaire proved by the interview and document reviewing which have similar conclusion.

4.2.2 Employees involvement in cost control and reduction practice

Employees' involvement refers to using maximum efforts of all the employees of the company for optimal usage of resources to reduce costs and maximize profit. The empowerment of individuals' employees and teams is essential to generate motivation for work (Huang and Zhang, 2013). To examine this, the researcher asked the respondents and they answered as it shown in table 4.4

Table 4: Employees involvement in cost control and cost reduction practice

No.	.		SDA	DA	NS	A	SA	T
1	Employees participate in budget Preparation and standard setting.	F	44	74	18	18	-	154
		%	28	48	12	12	-	100
2	Training given by the company to Upgrade the skill of the employees enhances employees' skill and this resulted to increase productivity.	F	12	-	18	68	56	154
		%	8	-	12	44	36	100
3	Training employees are helpful in Reducing labor cost of the company.	F	6	-	18	81	49	154
		%	4	-	12	52	32	100
4	Training labor assists to enhance the Product quality, reduce material wastage and reduces material cost.	F	-	-	18	43	92	154
		%	-	-	12	28	60	100
5	Incentives motivate employees'	F	-	-	18	87	49	154

	enhance staff morale and increase productivity.	%	-	-	12	56	32	100
6	Job rotation is helpful to train easily, Motivate employees, enhance employee morale and increase productivity.	F	13	6	18	61	56	154
		%	8	4	12	40	36	100

Source: Own survey, 2023

When the respondents asked whether employees participate in budget preparation and standard setting or not, they answered 28% strongly disagree, 48% disagree, 12% agree and the remaining 12% were not sure. This indicates that employees did not participate in the company's budget preparation and standard cost setting. When respondents asked whether training upgrade and enhance employees skill and increase productivity or not, they replied that 44% agree, 36% strongly agree, 12% not sure and the remaining 8% were strongly disagree. From this result, it is possible to say that training upgrades and enhances employees' skill to increase productivity. In analyzing whether trained employees are helpful in reducing labor cost of the company or not, the majority of respondents (52% agree and 32% strongly agree) replied that trained employees can reduce labor cost is helpful. To the contrary 4% of the respondents were strongly disagreeing and 12% of the respondents were neither agreed or disagree. When respondents asked whether training labor assists to enhance the product quality, reduce material wastage and reduces material cost or not, the respondents replied that 60% strongly agree, 28% agree and 12% were not sure. This implies that training labor assists to enhance the product quality, reduce material wastage and reduce material cost. When respondents asked whether incentives motivate employees' enhance staff morale and increase productivity or not, they responded that 56% agree, 32% strongly agree and the remaining 12% were not sure. This indicates that incentives motivate employees' enhance staff morale and increase productivity. About whether job rotation is helpful to train easily , motivate employees, enhance employee morale and increase productivity or not, respondents were replied 40% agree 36% stronglyagree,12% not sure, 8% strongly disagree and 4% were disagree. As the result shows, one can conclude that job rotation is helpful to train easily, motivate employees, enhance employees' morale and increase productivity.

In general, majority of respondents agree with employee's involvement is helpful in controlling and reducing of manufacturing costs. Besides respondents believe in incentives, motivation, training and job rotation enhances employees' morale and increase productivity.

This situation supported by Huang and Zhang (2013) who stated empowerment, motivation and training are techniques that used to enhance workers' motivation and increase productivity. According to the respondents' response results, skilled employees can have a potential to improve productivity. This is supported with the study conducted by Myronenko (2012) stated that upgrading the skill of employees improve productivity.

Budget is an important aspect of cost control in any organization. To answer the question, who involved in cost budget preparation? Interviews were conducted with cost department manager. According to the response, in budget preparation only department managers participate, but not all employees. This situation is against the views of Jackson and Schuler (2005), who found out all employees involvement in budgetary preparation leads to minimize role vagueness, and this has a relation with higher performance. To answer the question how cost budget prepare, the respondents response revealed that before cost budget preparation, standard cost data about each cost elements are collected from company's accounting information system

Based on collected cost data standard cost is set and manufacturing cost budget prepared. Another question which forward for cost department was for whom and how often the cost department write reports? The response revealed that the cost department writes reports for the board members of the company at every quarter.

4.2.3 Cost accounting practice for reducing and controlling manufacturing costs

The importance cost accounting practices has increased more than ever. The reasons for this are the domestic and global competition getting severer by globalization, decreases profit margins, increasing input prices due the tightening energy sources, economic crises, etc. Therefore, companies operating in developing countries have also begun to implement cost accounting practices which were first adopted by companies operating in developed countries. Parallel to these developments, research studies which have been conducted initially in developed countries are followed by studies conducted in developing countries (Ali, 2010). Questions related to cost accounting practices for reducing and controlling manufacturing costs were raised for the respondents and the respondents replied as follows in table 5

Table 5: Cost accounting practice for reducing and controlling manufacturing costs

No.	Statements		SDA	DA	*NS*	A	SA	T
1	Cost accounting practices applied in this Company is effective to enhance the profitability of the organization.	F	3	37	9	74	31	154
		%	2	24	6	48	20	100
2	The company efficiently uses cost Reduction and control techniques to measure performance.	F	62	37	18	37	-	154
		%	40	24	12	24	-	100
3	Cost accounting practices have a Significant influence on the profit margin of the organization.	F	-	-	31	74	49	154
		%	-	-	20	48	32	100
4	The company has utilized cost reduction And control tools and techniques policy to attain its maximal target.	F	-	6	37	62	49	154
		%	-	4	24	40	32	100
5	The cost accounting practice of cost Reduction and control tools and techniques applied in this organization reduce the cost of products without affecting the quality of the products.	F	-	37	6	43	68	154
		%	-	24	4	28	44	100

Source: Own survey, 2023

When respondents asked whether cost accounting practices applied in this company are effective to enhance the profitability of the organization or not, the respondents replied that 48% agree, 20% strongly agree, 24% disagree, 6% not sure and 2% were strongly disagree.It shows that the cost accounting practices in the company are nearly effective to enhance the profitability of the organization. Cost accounting practices applied in this company are effective to enhance the profitability of the organization. It is supported by Oyadonghan and Ramond (2014) who stated that there is a positive relationship between cost accounting and profitability. When respondents asked whether the company efficiently uses cost reduction and cost control techniques to measure performance or not, the respondents answered 40% strongly disagree, 24% disagree,

24%agree and 12% were not sure. It implies that the company is not efficiently used cost reduction and control techniques to measure performance. The respondents were also asked whether cost accounting practices have a significant influence on the profit margin Of the organization or not. For this, the respondents replied that 48% agree, 32% strongly

agree and the remaining 20% were not sure. It indicated that cost accounting practices have a significant influence on the profit margin. The idea is supported by Siyanbola and Raji (2013) founds that cost control has a significance influence on the profit margin of the company.

When the respondents asked whether the company has utilized cost reduction and control tools and techniques policy to attain its maximal target or not, the respondents answered that 40% agree, 32% strongly agree, 24% not sure and 4% were disagree. It shows that the company has utilized cost reduction and control tools and techniques policy to attain its maximal target. It is supported by Selamawit (2014) who stated that a policy is a statement that describes in very general terms may intend course of action. If policies are to function effectively, it is very important that they be placed in written form.

Finally, the respondents were asked whether the cost accounting practice of cost reduction and control tools and techniques applied in this organization reduces the cost of products without affecting the quality of the products or not. They replied that 44% strongly agree, 28% agree, 24% disagree and 4% not sure. It implies that the cost accounting practice of cost reduction and control tools and techniques applied in this organization reduces the cost of products without affecting the quality of the products.

According to the interview response for the question in what ways the company classifies costs and what are these cost classifications? The company classifies cost as material, labor and overhead costs. On the other hand it also classifies as manufacturing and non- manufacturing but it does not classify costs as fixed, variable and semi -variable.

4.2.4 Cost control and reduction tools and techniques

There are different types of cost control and reduction tools and techniques such as standard costing, budgetary cost control, quality cost control and target cost control. Cost control is one of the most important functions in a company and that it is crucial not only for the price choice but also in order to understand what really succeed in the company

Table 6: Cost control and reduction tools and techniques

No.	Statements		SDA	DA	NS	A	SA	T
1	Which cost reduction and cost Control tools and techniques your company uses in its cost							
	Standard cost control	F	-	-	12	80	62	154
		%	-	-	8	52	40	100
	Budgetary control	F	-	49	-	31	74	154
		%	-	32	-	20	48	100
	Quality cost control	F	12	-	6	56	80	154
		%	8	-	4	36	52	100
	Target costing	F	74	37	31	12	-	154
		%	48	24	20	8	-	100

Source: Own survey, 2023

When the respondents asked whether the company uses standard cost or not, the respondents answered that 52% agree, 40% strongly agree and 8% were not sure. This implies that the company uses standard costing to control and reduce its costs. This is supported by CIMA (2005) stated that the main uses of standard costing are for performance measurement, control and creation of selling price. The respondents also asked whether the company uses budgetary control or not to reduce and control cost, they responded that 48% strongly agree, 20% agree and 32% disagree. This indicates that budgetary control is applicable in the company to control and reduce costs. This situation supported by Adebayo et.al. (2014) that discovered that budgetary control contributes to the profitability of a firm and can reduce costs. They also discovered that budgetary control help manufacturing companies can reduce costs and maintain high quality products. When the respondents asked whether the company uses quality cost control or not, they replied that 52% strongly agree, 36% agree, 8% strongly disagree and 4% were not sure. This shows that the company uses quality cost control as cost control and reduction tools and techniques. This supported by (Stan and Klein, 2012) stated that quality control reduces the cost of inspection, decrease defects, increase productivity and enhance market share. The respondents asked whether the respondents use target costing or not, they replied that 48% strongly disagree, 24% disagree, 20% not sure and 8% were agree. From this one can infer that target costing is not applied as cost control and reduction tool in the company. This is contrary with the study of Imeokparia and Adebisi (2014) who stated that target costing is a fundamental cost management technique which

reduces cost based on the difference between the selling price and target profit margin of a product for the purpose of becoming competitive in the market. In general, the result revealed that standard cost control, budgetary control and quality cost control are cost control and cost reduction tools and techniques which are applied in the company whereas target costing is not applicable.

For the question in the interview that asked as which type of cost reduction and cost control tools and techniques applied in the company? Why? According to the response, the company uses standard cost control, budgetary control and quality cost control as cost control and cost reduction tools and techniques but not target costing. The respondent also answered as the company does not use modern techniques of costing system like ABC system rather it uses traditional techniques of costing system for the question, what type of costing system does the company use?

4.2.5 Responsibility center and cost center in cost control and reduction

A responsibility center in cost accounting denotes a segment of a business organization for the activities of which responsibility is assigned to a specific person. Thus a factory may be split into a number of centers and a supervisor is assigned with the responsibility of each center. All costs relating to the center are collected and the manager responsible for such a cost centers judged by reference to the activity levels achieved in relation to costs. Even an individual machine may be treated as a responsibility center for cost control and cost reduction (ICAI, 2018).

A cost center is defined by (CIMA of UK, 2005 as "allocation person, or item of equipment or group of these) for which costs may be ascertained and used for the purpose of control." Thus, a cost center refers to a section of the business to which costs can be charged. It may be allocation (a department, a sales area), an item of equipment (a machine, a delivery van), a person (a sales man, a machine operator) or a group of these. The main purpose of ascertaining the cost of a cost center is control of cost.

Table 7: Responsibility center and cost center in cost control and reduction

No.	Statements		SDA	DA	NS	A	SA	T
1.	The accounting system of the Company clearly defines the responsibilities and obligations of each department in order to measure their performance.	F	-	-	62	49	43	154
		%	-	-	40	32	28	100
2.	The company adopted proper keeping, Recording and accumulation of cost data.	F	6	-	31	49	8	154
		%	4	-	20	32	44	100
3.	The company assigns costs to Particular cost objects and each cost object has separate measurement of cost.	F	74	49	19	-	12	154
		%	48	32	12	-	8	100
4.	The accounting system of the Company collects and reports both planned and actual information in each responsibility center and this helps managers to measure each center performance.	F	-	6	80	49	19	154
		%	-	4	52	32	12	100
5.	Responsibility accounting the Organization helps for budgetary control purpose by giving budgeted and actual cost information.	F	6	-	18	74	56	154
		%	4	-	12	48	36	100
6	The company creates a good Cooperation and coordination between cost department and other financial departments.	F	-	12	18	44	80	154
		%	-	8	12	28	52	100

Source: Own survey, 2023

When respondents asked whether the accounting system of the company clearly defines the responsibilities and obligations of each department in order to measure their performance or not, the respondents replied that 32% agree, 28% strongly agree and

40% were neither agree nor disagree. It implies that the accounting system of the company is more or less defines the responsibilities and obligations of each department in order to measure their performance. This is in line with the study conducted by Hanini (2013) who showed the importance and significance of the relationship between implementing responsibility accounting, the company's profitability and operational efficiency.

When the respondents asked whether the company adopted proper keeping, recording and accumulation of cost data or not, they responded that 44% strongly agree, 32% agree,

20% not sure and the remaining 4% were strongly disagree. It indicates that there is proper keeping, recording and accumulation of cost data that adopted in the company. This is supported by Arsema (2015) stated that if any company is planning to run a successful business, accurate and timely financial information is a must this accurate and timely financial information is greatly dependent on the record keeping of every transaction. The record keeping will help to monitor the success or frailer of any business.

When the respondents asked whether the company assigns costs to particular cost objects and each cost object has separate measurement of cost or not, the respondents replied that

48% strongly disagree, 32% disagree, and 12% not sure and 8% was strongly agreed. In this point any one can understand that the company does not assign costs to particular cost objects and each cost object has not separate measurement of cost. This is supported by Lanen, Andorsen and Maher (2010) who stated that the production costs are assigned specifically to units of production and recognized as an expense when product is sold. As such, product costs follow the product through inventory and are recorded as an asset in the inventory system

The respondents were asked whether the accounting system of the company collects and reports both planned and actual information in each responsibility center and this helps managers to measure each center performance or not, the respondents answered that

52% not sure, 32% agree, 12% strongly agree and 4% were disagreeing. It implies that more than half of the respondents were not sure that the accounting system of the company collects and reports both planned and actual information in each responsibility center and helps managers to measure each center performance. But, as a researcher observed in the reports of the company, the accounting system of the company collects and reports only the actual information in each responsibility centers which helps Managers to measure center performance. It means that the report does not write with relating of the planned information. When the respondents asked whether responsibility accounting the organization helps for budgetary control purpose by giving budgeted and actual cost information or not, they replied that 48% agree, 36% strongly agree,12% not sure and 4% were disagree. It indicated that responsibility accounting in the organization helps for budgetary control purpose by giving budgeted and actual information.

Finally the respondents were asked whether the company creates a good cooperation and coordination between cost department and other financial departments or not, the respondents responded that 52% strongly agree, 28% agree 12% not sure and
8% were disagreeing. It showed that the company creates a good cooperation and coordination between cost department and other financial departments.

As a researcher got in the interview for the question how does the company organize responsibility and cost center and assign costs to its cost center?, the company organize responsibility and cost center for the effective allocation of costs to control and reduce cost but it has its own limitation to assign costs to particular cost objects and each cost object has not separate measurement of cost.

4.2.6 Costing system and purchasing procedures

Types of costing system refer to the techniques and processes employed in the ascertainment of costs. There are different methods of costing for different industries. The methods costing to be used in the particular company depends up on the type of manufacturing and nature of industry (Willamsan, 2009). Purchasing is the activity responsible for getting the right material to the right place, at the right time, in the right quantity, at the right price. It is a function in a business whereby the enterprise obtains the inputs for what it produces, as well as other goods and services it requires (Herel,
2006).The questions that relate the costing system and purchasing procedures and the replied of the respondents are shown in table 4.8 as follows.

Table 8: Costing system and purchasing procedures

No	Statements		SDA	DA	NS	A	SA	T
1	The purchasing department submits the Proper documents to the cost accounting department for record at the time of delivery.	F	-	-	12	55	87	154
		%	-	-	8	36	56	100
2	The store keeper sends and copy material Receiving voucher to the costing department on time.	F	-	6	37	62	49	154
		%	-	4	24	40	32	100
3	The costing department records the Purchaser transaction immediately when it gets the proper source documents.	F	-	-	43	49	62	154
		%	-	-	28	32	40	100
4	The production department uses material Requisition form to receive raw materials from the store and it has material specification and it requests material based on such specification.	F	12	-	6	49	87	154
		%	8	-	4	32	56	100
5	The production department returns back To store and inform the costing department when it has excess raw materials.	F	49	74	6	25	-	154
		%	32	48	4	16	-	100
6	The company has a proper time keeping Materialism to identify the labor hour consumption.	F	-	12	18	49	74	154
		%	-	8	12	32	48	100

Source: Own survey, 2023

When the respondents were asked whether the purchasing department submits the proper documents to the cost accounting department for record at the time of delivery or not, they responded that 56% strongly agree, 36% agree and 8% were neither agree nor disagree. It implies that the purchasing department submits the proper documents to the cost accounting department for record at the time of delivery. The respondents were asked whether the store keeper sends and copy material receiving voucher to the costing department on time or not, they replied that 40% agree, 32% strongly agree, 24% not sure and the remaining 4% were disagree. This shows that the store keeper sends and copy material receiving voucher to the costing department on time. When the respondents asked whether the costing department records the purchaser transaction immediately when it gets the proper source documents or not, the respondents answered that 40% strongly agree, 32% agree and

28% were neither agree nor disagree. In this everyone can conclude that the cost department records the purchaser transaction immediately when it gets the proper documents. The respondents were asked whether the production department uses material requisition form to receive raw materials from the store and it has material specification and it requests material based on such specification or not, they replied that 56% strongly agree, 32% agree, 8% strongly disagree and 4% not sure. It implies that the production department uses material requisition form to receive raw materials from the store and it has material specification and it requests material based on such specification.

When the respondents asked whether the production department returns back to store and inform the costing department when it has excess raw materials or not, they replied that 48% disagree, 32% strongly disagree, 16% agree and 4% were not sure. This shows that the production department does not return back to store and inform the costing department when it has excess raw materials. The respondents also asked whether the company has a proper time keeping materialism to identify the labor hour consumption or not, the replied that 48% strongly agree, 32% agree,12% not sure and 8% were disagree. This indicates that the company has a proper time keeping materialism to identify the labor hour consumption.

Finally, the company has timely proper keeping documents, sending and receiving documents, recording documents, material specification form and exchanging information with other departments. This is supported by (Herel, 2006, as cited by Selamawit, 2010) who stated that purchasing is the activity responsible for getting the right material to the right place, at the right time, in the right quantity, at the right price. It is a function in a business whereby the enterprise obtains the inputs for what it produces, as well as other goods and services it requires. However, the production department does not return back to store and inform the costing department when it has excess raw materials which contrary the above idea.

4.2.7 Use of cost information

Manufacturing organizations assign costs to products for two purposes: First, for internal profit measurement and external financial accounting requirements in order to allocate the manufacturing costs incurred during a period between cost of goods sold and inventories. Second, it uses for providing useful information for managerial decision making requirements. In order to meet financial accounting requirements, it may not be necessary to accurately trace costs to individual products (Drury and Tayles, 2005).

Table 9: Use of cost information

No	Statements		SDA	DA	NS	A	SA	T
1	The company uses cost information for:							
	Budget determination and allocation	F	-	9	9	25	111	154
		%	-	6	6	16	72	100
	Fixing the price of their product	F	-	18	18	18	100	154
		%	-	12	12	12	64	100
	Accepting or rejecting any project	F	6	-	31	86	31	154
		%	4	-	20	56	20	100
	Future product and investment plan by providing necessary information by cost control and maximize profit.	F	-	-	49	80	25	154
		%	-	-	32	52	16	100
	Performance evaluation of each activity in particular and the organization as a whole.	F	-	-	18	111	25	154
		%	-	-	12	72	16	100
	Supply cost information for external users such as government, investors, creditors, etc.	F	92	43	19	-	-	154
		%	60	28	12	-	-	100

Source: Own survey, 2023

Table 4.8 summarizes about the use of cost information for the company. For budget determination and allocation, respondents replied that 72% strongly agree, 16% agree, 6% not sure and 6% was disagree. It implies that the company uses cost information for budget determination and allocation. This is supported by Samrawit (2010) who stated that a company's cost information system provides the data required for the preparation and operation of a budget and for establishing standard costs. For fixing of the price of their product, the respondents answered that 64% strongly agree, 12% agree, 12% not sure and 12% strongly disagree. This shows that the company use cost information for fixing of the price of their products. The respondents also asked whether the company uses cost information for accepting or rejecting any project or not, they replied that 56 % agree, 20% strongly agree, 20% not sure and the remaining 4% were strongly disagree. This implies that the company uses cost information for accepting or rejecting any projects.

When the respondents asked whether the company uses cost information for future product and investment plan by providing necessary information by cost control and maximize profit or not, they responded that 52% agree, 16% strongly agree and 32% not

sure. It shows that the company uses cost information for future product and investment plan by providing necessary information for cost control and maximizes profit. Respondents were asked whether the company uses cost information for performance evaluation of each activity in particular and the organization as a whole or not, the y replied that 72% agree, 16% strongly agree and 12% were not sure. This indicates that the company uses cost information for performance evaluation of each activity in particular and the organization as a whole. When the respondents asked whether the company supplies cost information for external users such as government, investors, creditors, etc. or not, they replied that 60% strongly disagree, 28% disagree and 12% not sure. This implies that the company does not supply any cost information for external user such as government, creditors, investors, etc.

In general, the respondents were agree that cost information uses in the company for fixing price, budget determination and allocation, accepting or rejecting any project, future product and investment plan and performance evaluation. However, the company does not supply cost information for external users. This contrary the study of Thukaram (2012) who stated that a total number is sufficient for the purpose of external reporting since profitability analysis is done for the entire business a whole.

As the researcher got from the interview, the use of cost information is only for internal purpose not for external. In the company, cost information uses for price fixing, budget determination and allocation, accepting or rejecting any project, future product and investment plan and performance evaluation. For the question, how to decide price of products? The interview replied that the company determine price by considering raw materials price, market price and competitors.

CHAPTER FIVE:
CONCLUSION AND RECOMMENDATION

5.1 Summary of the study

This part of the study aims to summarize the findings that have emerged from the data analysis presented in chapter four. From examining how frequently the cost department write report and the management review standard cost and budget, majority of respondents agree that cost department writes report at every quarter. On the other hand standard cost and budget review is conducted monthly to realize any problem on the process and implementation as well as any deviation from the targets set. Majority of the respondents agree with employees involvement is helpful in controlling and reducing a manufacturing costs. Besides respondents believe in incentives, motivation, training and job rotation enhances employees' morale and increase productivity. However, employees do not participate in budget preparation and standard setting.

Regarding to cost accounting practice, most respondents agree that the applied cost control and reduction tools and techniques are effective, efficient and has significant influence on profit and productivity. The company has its own cost accounting policy and it uses standard cost control, budgetary control and quality cost control as cost control and reduction tools and techniques but target costing is not applicable. About the responsibility and cost center, majority of respondents agree that the company identifies the obligation of each responsibility center, has proper recording, keeping and accumulation of cost, creates good cooperation among departments and the responsibility centers provide information for budget control. However, in time of reporting the actual does not relate with planned information and the company does not assign costs to particular cost objects and each cost object has not separate measurement of cost. Regarding to costing system and purchasing procedure, as most respondents agree that the company has timely proper keeping documents, sending and receiving documents, recording documents, material specification form and exchanging information between cost department and others. However, the production department does not return back to store and inform the costing department when it has excess raw materials. From the use of cost information, the respondents were agree that cost information uses in the company for fixing price, budget determination and allocation, accepting or rejecting any project, future product and investment plan and performance evaluation. But, the company does not supply cost information for external users.

5.2 Conclusion

According to Ali (2010), cost accounting is the process of recording, analyzing, classifying, summarizing and allocating cost associated with a process and then developing various course of action to control the costs. Its goal is to advice the management on how to optimize business practice and process based on cost efficiency and capability. It also provides the detailed cost information that management needs to control current operations and plan for the future. The broad objective of this research was to assess the system of cost accounting practices in control and reducing in manufacturing cost. Investigating the company's management support, employees involvement, arrangement of cost and responsibility centers, tools and techniques of cost control and reduction, cost classification and allocation, methods of costing and its implementation, purchasing procedures and use of cost information at Fikir Spring water PLC were the specific objective derived from the broad objective.

From this study, the following major findings have been drawing:

- In the company, there is management support and employee's involvement by which the management reviews standard cost and budget monthly and the employees have incentives, motivation, training and job rotation to enhance their morale and productivity but they do not participate in budget preparation and standard setting.
- The company has cost accounting policy and it uses standard cost control, budgetary control and quality cost control as cost control and reduction tools and techniques but target costing is not applicable
- The company identifies the obligation of each responsibility center, has proper recording, keeping and accumulation of cost, creates good cooperation among departments and the responsibility centers provide information for budget control. However, in time of reporting the actual does not relate with planned information and the company does not assign costs to particular cost objects and each cost object has not separate measurement of cost.
- The company has timely proper keeping documents, sending and receiving documents, recording documents, material specification form and exchanging information between cost department and others. However, the production

department does not return back to store and inform the costing department when it has excess raw materials.

- Cost information uses in the company for fixing price, budget determination and allocation, accepting or rejecting any project, future product and investment plan and performance evaluation. But, the company does not supply cost information for external users.
- The company has separate cost accounting department, written manuals and guidelines and professionally qualified employees in accounting and finance. It classifies cost as material, labor and overhead costs. On the other hand it also classifies as manufacturing and non-manufacturing.
- The company does not use modern techniques of costing system like ABC system rather it uses traditional techniques of costing system.

5.3 Recommendation

The following recommendations are forwarded based on the conclusion of the study:

- The company should include employees in budget preparation and standard setting for the productivity and effectiveness of the company.
- In order to produce the necessary cost information for users, cost section should have adequate number of employees and well-structured Accounting manual and policy which is intentionally designed for cost accounting.
- In time of reporting, the company should try to relate actual with planned information and assign costs to particular cost objects and each cost object should have separate measurement of cost. Since assigning costs enable to be ascertaining for the costs that the company needs to know which helps to control cost.
- The company should classify costs as fixed, variable and semi variable since it helps to measure costs in relation to the change in levels of activities and it should use cost principle to value fixed asset.
- The company also tries to use modern system of costing since it allocates each cost for each activity, use more data provide more informed estimates of product costs, give better cost information for decision making and helps to reduce costs.

- Although the company has timely proper keeping documents, sending and receiving documents, recording documents, material specification form and exchanging information between cost department and others, its production department should return back to store and inform the costing department when it has excess raw materials.
- Even though the company use cost information for price fixing, budget determination and future product and investment plan and performance evaluation, it should also give cost information for external users in time of need.
- This research is conducted only in one company. More research should be conducted in different companies to get comprehensive results and to understand the importance of cost accounting practice and its effective on manufacturing firms' performance.

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APPENDEX

Questionnaires guide

Dear respondents:

My name is Rahel Abrha BA student in department of Accounting and Finance at Wolkite University. The aim of this questionnaire is to assess the Cost Accounting Practice and its impact on organizational performance in Ethiopian Fikir Spring Water PLC. The information you provide in response to the items in the questionnaire will be used as a part of the data needed for the study. I would like to assure you that the information you provide will be used only for the purpose of achieving academic award. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study. Your honest and thoughtful response is invaluable.

Thank You for your cooperation

Best regards, Rahel Abrha ,

BA student at Wolkite university

Department of Accounting and Finance May, 2023

General Instruction

This questionnaire contains two sections. Please provide your response to the questions based on the instructions under each section. If you have comments or if you want to provide further explanation, please use the space provided at the end of the questionnaire. Please note:

Writing your name is not required

Section one: Demographic variables of the respondents

Instruction: Please tick [ ] in the box that best reflects your answer to the questions.

1. Sex

   Male [ ] Female [ ]

2. What is your age group? [ ] 31-40 [ ] 41-50 [ ] 51-65 [ ] >65 [ ]

3. What is your educational status? Grade 10 or 12 completed [ ] Certificate [ ] Diploma [ ] Degree [ ] Masters [ ] PHD [ ]

4. Work experience 1-5 [ ] 6-10 [ ] 11-15 [ ] 16-20 [ ] >21 [ )

Section two: Questions related to the study

The purpose of this section is to obtain information about how cost accounting is practice to control and reduce costs in your organization.

Instruction: please put tick mark in each column based on your level of agreement for each statement under each heading 1=strongly disagree (SDA), 2=Disagree (DA), 3=Not sure (NS), 4=Agree (A), 5=Strongly Agree (SA).

2. Questions about the cost accounting practice

2.1 Employees involvement in cost control and reduction practice

S.no	**Questions**	**1**	**2**	**3**	**4**	**5**
1	Employees participate in budget preparation and standard costing.					
2	Training given by the company to upgrade the skill of the employees enhances employees' skill and this resulted to increase productivity.					
3	Training employees are helpful in reducing labor cost of the company.					
4.	Training labor assists to enhance the product quality.					
5	Incentives motivate employees' enhance staff morale and increase productivity					
6	Job rotation is helpful to train easily, motivate employees, enhance employees' morale and increase productivity.					

2.2 Cost accounting practice for reducing and controlling manufacturing costs

No	Questions/Statements	1	2	3	4	5
1.	Cost accounting practices applied in this company are effective to enhance the profitability of the organization.					
2	The company efficiently uses cost reduction and control techniques to measure performance.					
3	Cost accounting practices have a significant influence on the profit margin of the organization.					
4	The company has utilized cost reduction and control tools and techniques policy to attain its maximal target.					
5	The cost accounting practice of cost reduction and control tools and techniques applied in this organization reduces the cost of products without affecting the quality of the products					

2.3 The Cost control and reduction tools and techniques of the company

No	Questions/Statements	1	2	3	4	5
1.	Standard cost control					
2	Budgetary control					
3	Quality cost control					
4	Target costing					

2.4 Responsibility center and cost center in cost control and reduction practice of the company

No	Questions/Statements	1	2	3	4	5
1.	The accounting system of the company clearly defines the responsibilities and obligations of each department in order to measure to measure their performance					
2	The company adopted proper keeping, recording and accumulation of cost data.					
3	The company assigns costs to particular cost objects and each cost object has separate measurement of cost.					
4	The accounting system of the company collects and reports both planned and actual information in each responsibility center and this helps managers to measure each center performance.					
5	Responsibility accounting the organization helps for budgetary control purpose by giving budgeted and actual cost information.					
6	The company creates a good cooperation and coordination between cost department and other financial departments					

2.5 Costing system and purchasing procedures practice of the company

No	Questions/Statements	**1**	**2**	**3**	**4**	**5**
1.	**Cost information:** Budget determination and allocation					
2	Fixing the price of their product					
3	Accepting or rejecting any project					
4	Future product and investment plan by providing necessary information by cost control and maximize profit					
5	Performance evaluation of each activity in particular and the organization as a whole.					
6	Supply cost information for external users such as government, investors, creditors, etc					

2.6 The company's cost accounting information use

	Statements	1	2	3	4	5
	The company uses cost information for:					
	Budget determination and allocation					
	Fixing the price of their product					
	Accepting or rejecting any project					
	Future product and investment plan by providing necessary information by cost control and maximize profit.					
	Performance evaluation of each activity in particular and the organization as a whole.					
	Supply cost information for external users such as government, investors, creditors, etc.					

If you have any comments please write in the following space.

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Interview questions

To examine the manufacturing cost accounting practice of cost control and reduction tools and techniques, the researcher will conduct interview with top management (the manager of the company and cost department manager).

The questions raised in the interview will be:

1. How frequently cost accounting reports are written?

2. How frequently your company review standard costs and budgeted cost in its cost reduction and control practice?

3. How is the management support and involvement of employees in cost control and reduction?

4. for whom and how often the cost department writes reports?

5. Who is responsible in setting cost standards and preparing budget and how to decide the price of the product?

6. In what ways the company classifies costs and what are these cost classifications?

7. How does the company organize responsibility and cost center and assign costs to its cost center?

8. What type of costing method used in your company? Traditional or modern like ABC

9. Which type of cost reduction and cost control tools and techniques applied in the company? Why?

10. For what purpose the company uses cost information?