

**ASSESSMENT OF COST CONTROL SYSTEM (THE CASE STUDY OF
SEMIRA FLOUR FACTORY IN WOLKITE TOWN).**



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COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF
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DECLARATION

I here declare that this senior essay entitled Assessment of cost control system Semira Flour Factory. Submitted in partial fulfillment of the requirement for a bachelor's degree in accounting and financing at Wolkite University through the Department of Accounting and Finance and all source of material used for this research has been duly acknowledged.

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ABSTRACT

The purpose of this thesis is to assess the cost control system in manufacturing costs at Semira flour factory P.L.F in Wolkite town. It looks through the company's management support, employees' involvement, arrangement of cost and responsibility centers, tools and techniques of cost control, cost classification, and allocation, methods of costing and its implementation, purchasing procedures, and finally the use of cost information of the company's data were collected through interview. The data were gathered through an interview addressed to the employees of the organization. The main aim of this study is to analyze the cost control system of the Semira flour factory in Wolkite town

Based on the analysis of the following points are recommended for Semira flour factory to improve its costing system and alleviate problems of making appropriate visions and effectively the overall activities. The factory should revise of its standard cost. This is because to reflect changes caused by environment, price, and competitor reactions controlling and decisions made by management become effective. To alleviate the labor efficiency variance, the factory should have better-implemented training and development of skills and abilities for employees.

This means labor efficiency variance is best solved by developing job training that is attained workplace by skilled supervisors and off-job training that means training outside the workplace like education, workshops, and similar

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CHAPTER ONE:

INTRODUCTION

1.1 Back Ground of the Study

A cost is a resource sacrificed or forgone to achieve a specific objective. Cost accounting is a unique subfield of management accounting that interfaces with both managerial and financial accounting and it is also a specialized area of accounting that attempts to satisfy the information needs of management. Management at all levels within an organization has the responsibility of planning, coordinating, executing, and controlling business operations. A large part of the information required to do these jobs efficiently is accounting oriented and it is the job of the cost accountant to accumulate prepare and interpret this information. Despite all, cost accounting is the process of accumulating the costs of the manufacturing process and identifying them with the unit produced (Horngren, 1999).

There are several different types of costs for a business. In this context, variable costs and direct costs are arguably the most relevant.

Variable costs have the most financial impact on a company when it comes to producing and delivering products or services. These costs come about as a result of the ordering, shipping, and handling of raw materials. Because these can sometimes require special terms, variable costs are included in the final amount.

Direct costs are also an important aspect to consider in the final markup stages of the product or service. Direct costs include the amount of time and effort put into creating the product. In other words, the hours of work that go into the production. Direct costs are another element to consider in a final markup. (Horngren. 2012)

Cost accounting is applied primarily to manufacturing organizations that compile and process raw material into finishing products. The major factor in business planning is the cost of

producing the company's products to achieve the major goals of the business. (Horengren, 1999)

Therefore, the manufacturing firm should give due attention to cost accounting cost control service as a tool that improves management decisions it's also major means of helping the manager to administer each of in services of an organization.

Manufacturing organization has distinctive nature that is transferring raw materials into finished goods. This process results in three different types of costs.

Direct material cost: - the cost of material purchased includes raw materials to be assembled into a complete unit that can be directly economically feasible with final products.

Direct labor cost: - Incurred for labor hours worked to be included direct labor it should be possible to include direct labor it should be possible to physically observe the time it takes to perform a given operation on an individual products unit is the workers time that can be directly traced to the production.

Overhead cost: - includes manufacturing costs other than the cost which are separately identified as material and labor.

Semira flour factory is one of the manufacturing companies. It is engaged in the production of finished products from a combination of raw materials.

So, it will be of great importance for such firms to adopt a well-developed cost control system. Considering the huge amount of input in raw material and labor, having a good cost control system help managers with decision-making that help towards achieving the organization's objective.

Cost control is used by management of cost analysis and interpretation in corrective action or measures to award increasing efficiency and economy of operation.

A system of standard costing is in operation so that cost control measures can give their best. Cost control aims at reducing efficiency wastage and setting up predetermined costs and in achieving them cost control is exercised through setting standards norms or targets and comparing actual performance.

Cost control systems that do not provide reliable information do not help managers; deciding in the face of replicable cost information decisions can be downright harmful. For this reason, the management must understand the nature and behavior of different elements of costs know when and where they are incurred, and who is responsible for them.

1.2 Background of the Organization

Semira flour factory is one of the flour manufacturing plants, under the supervision of Ethiopian Food Corporation, it is found 150km away from Addis Ababa to the southwest in Wolkite town. Semira flour factory which had formerly been called Semira macaroni and pasta factory. It was established as a manufacturing plant under the supervision of the Ethiopian food corporation, nationalized by Proclamation no 26/67.

The factory was established with a paid-up capital of 4.3 million birr, when the factory started its operation in 1999S E.C by a private enterprise it had two heat mill machines producing a capacity of this machine at the time was 700 quintals of 1 flour in 24 hrs.

In 2007's all the factory machine was repaired because of their depreciation, but there is no overall change in the machines. As a result of this, now a day the production capacity of the machines is declined to 500 quintals in 24 hrs.

Presently the factory has seven departments, which are

- 1) Administration department
- 2) Finance debarment
- 3) Commerce department
- 4) Production and technique department.

- 5) Audit and inspection department
- 6) Production and service delivery improvement department
- 7) Quality control department.

Currently along with these seven departments, there are 21 employees, from these, 15 employed are males and the remaining 6 employees are females. Major activities of the factories are: -

- To produce and sell different kinds of flour and related products with their related by-products.
- To develop the existing factory and to build a new factory if necessary, to increase the delivery.

1.3 Statement of the Problem

Cost control systems are an integral part of accounting which requires the identification, generation, presentation, and use of information relevant to formulate business strategy, planning and controlling activities efficient use of information, and decision-making for the company. It measures, analyses, and reports financial and non-financial information that helps managers to made full fill the goal of the Organization (Horngren, 2009).

Unable to properly apply the costing system lades to the problem of setting reasonable prices, loss of customers reduction in sales, and fall in profitability (Abuja, 2007).

The cost control system in manufacturing companies transforms raw materials to work in process and finished goods. Semira flour factory is a manufacturing firm that performs a cost control system to control costs incurred for direct material, labor, and overhead cost. Cost accounting challenges usually involves collecting, recording, reporting, and providing financial and non-financial information from several departments. Cost allocation methods require information from direct material, direct labor, and manufacturing overhead costs (M. N Arora, 2011).

Generally, adequately planned allocation of cost is important to a manufacturing company for survival and growth, because manufacturing firms without good cost accounting practices could face the problem of unprofitability and bankruptcy, problems in the allocation of cost, lack of

responsibility for each production departments business condition and economic environment in which they operate (Amarech 2003).

The researcher identified the major assessing controlling cost system As per our knowledge previous studies do address some specific objectives asses measuring and improving efficiency, aiding future planning in the organization even different research methods are also applied using an interview mixed research approach and as far as researchers knowledge there is no research which is conducted in Semira flour factory about cost controlling system and pricing which varies with the organization. Therefore, the researchers have initiated to conduct this research to assess the cost control system.

1.4 Research Question

This study would be trying to answer questions concerning with cost control system of the Semira flour factory to achieve the stated objective. these are:

1. Does the organization have a cost control mechanism?
2. What type of costing method is used by the firm?
3. Does the organization have an effective cost-control system?
4. How is overhead cost allocated?

1.5 Objective of the study

1.5.1 General objective

The general objective of the study was mainly to evaluate the cost control system of the Semira flour factory.

1.5.2 Specific objectives

1. To assess the cost control mechanism of the organization.
2. To assess what types of costing methods are used.

3. To investigate the system of cost control for direct material labor and factory overhead cost
4. To assess the actual and standard cost of the organization

1.6 Significance of the Study

An effective cost control system plays an important role in the success of the business. This research paper will assess the cost control system and identify if there was a problem in controlling cost and recommend some suggested solutions. It helps to take the result of this research the concerned body in the organization or any interested individuals can extend the study and identify a more special cost control system.

1.7 Scope of the Study

The study assessed the cost control system of the Semira flour factory. Under this, the researcher would try to present the company's performance towards the cost control system. The problems which affect the company's profitability and the possible suggestion that would be carried the problem of the organization.

The paper is specifically designed to assess the cost department and its relation with other financial departments in the company. The study was delimited in the Wolkite town head office of the Semira flour factory company this year's cost control system.

1.8 Limitations of the Study

There are some limitations that are expected to be faced in this research work. The following were among some limitations.

- The Planned respondents would have not an interested to give information. This constraint enforced the researcher to give more emphasis on secondary data.
- The finance would be allocated to conduct the research work would not sufficient and by itself would have its impact on collecting data which would be carried out at such a far distance from Wolkite University.

- The factory distance from the city and additional cost incur by transportation at this time to collect the data is so much more difficult.
- short period for interview collecting and analysis of questions of the data for the final report.

1.9 Organization of the Paper

The study would be organized and presented in five chapters. The first chapter gives a general idea of the background of the study, background of organizations, objectives of the study, research questions, statement of the problem, significance of the study, and scope and limitations of the study. The second chapter deals with the review of related literature to support the study by discussing the relevant literature from different materials. The third chapter presents the methodology of the study, Research Design, Research Method, Source of Data, Sample and Sampling Technique, and Method of Data Analysis. The fourth chapter is without Data analysis and presentation. Finally, the fifth chapter covers the summary of the findings, conclusion, and recommendation part of the study

CHAPTER TWO

LITERATURE VIEW

2.1 THEORETICAL LITERATURE

Meaning of Cost

The term cost has a wide variety of meanings. Generally, cost means the cost of production which is related to the money expenditure of concern on various factors of production. Cost refers to an outlay or expenditure of money to produce goods and services that assist in performing business operations. The Institute of Cost Accountants of India (ICAI) defines cost accounting as follows.

Cost accounting is primarily concerned with the recording and reporting of the cost of manufacturing goods and performing goods and performing services. The scope of the term of cost is broad and general because cost includes not only the actual expenditure but also the planned expenditure which does not involve any cash-outlays. (V.S. P RAO 2000PP.28-29)

2.2 Classification of Cost

Classification of cost is the process of grouping costs according to their common characteristics.

Direct and indirect cost

a) Direct cost: - Where an item of cost can be traced to a product or service unit, that cost is 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 whereas cost objective is any grouping to which cost is assigned such as a unit of inventory.

These are those cost that is incurred and conveniently identifies which particular cost unit, process, or department. The cost of raw materials used and wages of machine operators are common examples of direct costs (Hangmen, 2005, P.27)

b) **Indirect cost:** - These are general costs and are incurred for the benefit of several cost units' processes or departments. These costs cannot be conveniently identified with a particular cost unit or cost center. Depreciation of machinery, insurance, lighting, rent, managerial salaries, and materials used is common examples (Horngren, 2005, PP.27).

This is the opposite of direct cost. This is a cost that cannot be traced to a product or service unit. All indirect costs added together make overhead. (Akeem, 2017) Marginal Cost is the additional cost to be incurred to get additional work done. All additional fixed costs are added to make incremental costs. (Akcosts 2017)

Fixed and variables cost

a) **Fixed cost:** - These costs remain constant in a total amount over a specific range of activity for a specific period i.e. these do not increase or decrease when the volume of production changes building range and managerial salaries remain constants and do not change without put level and these are fixed costs. (Horngren, 2005 P.31) These are costs that do not always change with activity level. They are constant within a 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.

b) **Variable cost:** - Those costs tends to vary from indirect preparation to the volume of output. In other words, when the volume of output increase total variable cost also increases, and vice versa when the volume of output decrease, total variable cost as so decrease, but the variable cost per unit remain constant. (Horngren, 2005, P.31)

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 that tends to vary with the volume of output, the variable cost per unit is the same amount for each product, which means that the amount number of resources used and the price of these resources are constant for each additional unit product (Asaolu & Nassar, 2007)

- c) **Semi-variable or semi-fixed costs:** -These costs include both fixed and variables component i.e. these are partially fixed and partly variable for example introduction of an additional shift in the factory will require additional supervisors and a certain cost will increase by steps. (V.S.P RAO, 2000, P.255)

Controllable and non-controllable costs.

- a) **Controllable cost:** These are the costs that may be directed at a given level of management authority. For example, the cost of raw materials may be controllable by purchasing in large quantities.
- b) **No controllable costs:** These are the costs that cannot be influenced by the action of a specified member of an enterprise (M.N ARORA, 2006 P.91).

Relevant costs and irrelevant costs

- i. **Relevant cost:** relevant cost is a cost whose magnitude will be affected by the decision being made. Hence relevant costs are future costs that will differ depending on the action of the management for each decision; the management must decide which cost is relevant.
- ii. **Irrelevant costs:** These are those costs that will not be affected by the decision. To take an example from day to day life one may have to decide about making journeys by own car or by public transport bus. In this decision insurance cost of the car is relevant because it will not change whatever alternative is chosen.

2.3 Elements of Cost

Material cost

According to C.M.A London, materials cost is the cost of commodities supplied to an undertaking. Materials costs include the cost of procurement, freight in words, taxes, insurance, etc.

- **Direct materials:** - Direct materials cost is that which can be conveniently identified with and allocated to cost unit. Direct materials generally become a part of the finished product. 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).
- **In-direct materials:** - These are those materials that cannot be conveniently identified as individual costing units. The major category of overhead costs is operation overhead and general and administrative overhead. Manufacturing overhead costs are costs incurred in the factory for the production of goods and services. These include all indirect materials like grease, oil, cost of tread, etc., indirect labor like salary for factory managers, the salary warehouseman, and indirect expenses incurred in the factory such as rent for factory building, power, and the fuel used in the factory, insurance of factory building, etc.

Labor cost

Labor means human efforts engaged in the process of production, Labor may be direct or indirect. This cost of remuneration (Wages, salaries, commission, bonus, etc.

Direct labor: - Direct labor consists of wages paid to workers directly engaged in converting raw materials into finished products. These ways can be conveniently identified with particular

products, jobs, and processes. Wages paid to machine operators a case of direct wages. 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 labor: - is a general character and cannot be conveniently identified with particular cost units.

In other words, indirect labor is not directly engaged in the production operations but only assists or helps production operations.

Expense

All costs other than materials and labor are termed as expenses. It is defined as the cost of services provided to undertaking the national cost of the use of owned assets.

- a. **Director expenses:** - direct expenses as that expense which can be identified with and allocated to the cost center as units. It is a chargeable expense (V.S. PRAO, 2000, P.31)
- b. **Indirect expenses:** - all direct costs, other than indirect materials and indirect labor costs are formed as indirect expenses. These cannot be directly identified with a particular job process or work order and are common to cost units or centers (V.S.P. RAO, 2000, P31)

Other Cost Classification

a. Out-of-pocket costs

It involves payment to outsiders i.e. gives rise to Cash Expenditure as opposed to such costs as depreciation which don't involve any cash expenditure. Such costs are relevant for price fixation during a recession or when a make-or-buy decision is to be made. Out-of-pocket costs are costs that must be met with a current expenditure (Cherrington, 1989).

b. sunk costs

A sunk cost has already been incurred and cannot be avoided by decisions taken in the future. As it refers to past costs, it is called unavoidable costs. Sunk costs are defined as past costs that have already been incurred. Because sunk costs are historical costs (Cherrington, 1989).

c. Opportunity cost

Opportunity cost is the cost of selecting one course of action and the loss of other opportunities to carry out that course of action. It is the amount that can be received if the asset is utilized in its next best alternative. Opportunity cost is the cost or value of opportunity foregone when one course of action is chosen over another (Cherrington, 1989).

2.4 Cost Objectives

As a manager, you will often want to know the cost of something to help make a decision. we can this something as a cost objective or cost object defined as anything with decision make desires separate measurement of costs. Although you will most often want to know the cost of the product or services there are many other cost objectives that you might use example of cost objectives includes customer's departments, territories, and activities such as processing orders or moving mater, for example one, large manufacture of pet foods products recently it charged its cost management system to report both the cost of products its makes and the cost to serve the companies, major retail customers. It discovers that all its products were profitable, but the cost to sell to and services some customers were greater than the profit margin on the products sold to these customers. (V.S.P. RAO 2000, PP.8-9).

By using a combination of the cost objectives it's limited that some customers were a serious drain on the company's profit. The company can develop a strategy to improve the profitability

of those customers and change the way it conducted business to reduce its operating costs. (V.S.P.RAO 2000 PP.8-9)

2.5 Meaning of control

Controls are management's systematic efforts to achieve objectives; Activities are continually monitored to see that results stay within desired boundaries. Actual results of each activity are compared with plans and its significant differences are noted, remedial action may be taken.

Thermostats and fuses are simple examples of engineering controls. In contrast the control process in business a way includes human decision markers. In addition, the information on which control actions are based includes financial information, and the control activity is periodic rather than continuous. (Noreen Brewer, 2006, PP.5-6)

2.6 Meaning of system

A system is a set of two or more interrelated components that interact to achieve a goal system is almost always composed of small subsystems, each performing a specific function important to and supporter of the large system of which it is part. (Marshall. B, romey, poul john steinbortt, steinbortt, 2000, P.235)

2.7 Cost control system

To support the manager's decision accountant, go beyond simply determining the cost of products and services to developing a cost management system. Cost management system collections of tools and techniques that identify how management decision affects cost. The primary purposes of a cost management system are to provide.

Cost management aims to cost control introduce efficiencies, wastage, and setting up predetermined costs in cleaving their cost management and cost control rise through setting standards or forgetting to compare actual performance there to sustain development from formatting for gathering standards.

(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 to improve 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

A cost management system takes a more compressive role in an organization than a traditional costing accounting system cost management system is managing, planning, and controlling with the following objectives.

- To measure the cost of the resources consumed in performing the organization's significant activities. To identify and eliminate non-value-added costs taste is the cost of activities that can be eliminated with no deteriorations of products quality performance perceived value. (John Dearden,2002, PP.217-220)
- Cost control is the management and control of activities to determine product costs accurately to improve business to eliminate wastages identify cost devices, plan operations, and set business strategies.
- Actual cost is compared with the standard cost difference called variance. Variance analysis high right are operations in which corrective action is needed. Standard cost may be used in both process and job order costing systems.

Job order Costing system

In this system, a cost object is a unit or multiple units of a distinct product or service called a Job order costing system is a type of cost system that provides a separate record of the cost of each particular unit of product that passes through the factory. A job order costing system is commonly used by companies with products that are unique and divisible. In this product or service. Job is a task for which resources are extended in bringing a distinct product or service to market. (Charles T. Horngren, 2009).

Examples of businesses that use job order costing include;

- 1 Construction system

- 2 Furniture manufactures
- 3 Printing firms
- 4 Repair shops
- 5 Service-giving organization
- 6 Garages, etc.

Process costing system

This costing system is used for the manufacturing process which produces a single product or single mix of products continuously for an extended period. In this system, the cost of a product or service is obtained by using broad averages to assign a cost to the mass of similar units produced for general sale and not for any specific customers.

Companies that use process costing system are as follow;

- Cement factories
- Petroleum refineries
- Flour factories
- Beer factories
- Textile factories
- Beverage companies

Characteristics of process costing system

- The products manufactured are homogenous
- The cost is accumulated in department or cost centers
- Each unit produced will receive the same amount of direct material, direct labor, and MOH cost.
- Average unit cost is obtained by dividing the total by to unit produced in a given department (cost center).
- Costs are divided into two based on when the costs are incurred in the production process. (Charles T. Horengren, 2009)

- **Direct material cost:** this cost is usually added at one time either at the beginning, at the middle or at the end of the production process.
- **Conversion cost direct labor MOH cost-** these costs are usually added evenly or uniformly throughout the production process.

A process cost system is typically used by firms that produce a large number of identical units.

The responsibilities for cost control should be assigned to specified individuals who are also accountable for budgeting the cost under their control each manager's responsibility should be limited to the cost and revenues that are controllable by the managers, and performance is generally measured by comparing actual costs and revenues with the budget. Achieving these goals is called *responsibility accounting systems*. (Anderson, Needles, Daid well, 1991) To aid in controlling costs accounting may use predetermined cost amounts called standard costs.

Standard costs also can be the foundation for budgets and cost reporting. Standard cost is examined on other important aspects of cost control is the identification of the cost of the different activities rather than the cost of different departments and products. Reporting the cost of non-value-added activities is the first step toward their production or elimination (Carrington, Jown, 1998)

A management control system is means of gathering and using the information to aid and coordinate the planning and control decision through an organization and to guide the behavior of its management employee management control system refers to formal and informal control systems. The formal control management system of the company includes these explicit rules, procedures, performance measures, and incentive plans that guide the behavior of its manager and employee. The management accounting system is a formal accounting system that provides.

2.8. Empirical evidence for cost control system

The empirical studies carried out by earlier authors as regards the cost control system and control manufacturing costs are discussed below: Akeem's (2017) study aimed to examine the effect of cost control and cost control techniques in organizational performance. To examine the issue data were collected from primary sources, questionnaires.

Caroline (2014) examined the effects of cost management on the financial performance of manufacturing companies. The study tried to find 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 the Nairobi Exchange were selected. The study used a quantitative approach as well as a causal research multi-variance linear regression model. Data was sourced from both primary and secondary sources namely questionnaires and audited financial statements. The study found that cost management is positively related to the financial performance of manufacturing companies. This research recommended that the management should focus on managing the g cost of distribution, cost of labor, and cost of the stock

Salih Jamal(May 2012)- studied the cost accounting system of the Kotebe metal tools factory and defined cost accounting as the process and evaluation of operating cost data to provide information for external reporting, internal planning and control of ongoing operating cost, and special decision making.

Samrawit Yemaneh (April 2010)- the study was designed to assess the cost accounting system of the Ethiopian plastic share company. According to this study, the factory used standard costing of basic standard type while is not updated to the current situation, so this standard costing is not an accurate estimate of the cost.

Maksud Arebo(May 2011)- conducted his study on the cost accounting practice of Kaliti food share company and recommended that the basic problem of this company is price differentiation used to produce the same products. This comes from the purchase of the same raw material from different suppliers who sell their materials at different prices. This can be eliminated by buying raw materials from one reliable supplier

CHAPTER THREE:

RESEARCH METHODOLOGY

This chapter presents the activities and processes that will undertake 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, sampling techniques, sources of data, research instruments, and method of data analysis.

3.1 Research Design

The study was conducted on the assessment of the cost control system in the Semira flour factory in Wolkite town which is located south of Addis Ababa in Wolkite town to as out 150 km from Addis Ababa. Before, the research is more descriptive in nature.

3.2 Sources of Data

As far as the information would have concerned both primary and secondary sources of data would be used. The primary data is allocated from primary sources using, structured personal interview questions. For this type of question, the research design by using an equal proportion of closed-ended questions and open-ended questions. Generally, the primary data could be obtained from those bodies that were responsible for the cost control system (i.e. the cost accounting department, and human resource department), We also obtained Secondary data from the company accounting documents, financial statements, cost manuals of the firm, and Journals.

3.3 Method of Data Collection

To collect the primary data structured personal interview was selected. A structured personal interview helps to explain the answer given by the respondents. The secondary data are being collected from annual report documentation and financial statement of the company. The secondary data collection was less expensive than the primary data collection. The collection of secondary data saved time, many and they obtained more reliable quantities of cost data and

factual information concerning the cost of labor, material overhead, and other cost elements which were expected to be incurred, which would have been activity incurred in performing the activity.

3.4 Sample and Sampling Technique

Selecting a sample is fundamental for a research study. Therefore, the total number of employees of the organization working in the department of cost accounting, finance, central warehouse, production, and purchasing is 21 and the population for this particular study that helped to get accurate data was taking the total population impossible due to time constraints. So, the sampling technique is used. Sample techniques to acquire the primary data were judgmental and non-probability sampling. Nonprobability sampling helps to reduce the sample size and to have nonbiased and accurate answers from the volunteer respondents due to cost constraints and time limitations.

3.5 Method of Data Analysis

The data would be analyzed through different tools. The main tools used in this study were for measuring and comparing descriptive analysis which will be better and would be simple and verifying drawing inferences is used. This research paper was also analyzing data by using the tabulation method.

CHAPTER FOUR

4. RESULT in ANALIYISIS and DISCUSSION

This chapter shows the result obtained from the analysis of the study in the interpretation and discussion. The discussion section follows the result analysis and interpretation. The result of the study is based on several factors. These factors include standard costing, variance analysis, cost control mechanism, and allocation of cost. As most of the data is collected mainly from the primary expecting confirmation or reconciliation of response and the same use of secondary data due in the study. In the study, it is better to have the background information of the respondents

4.1 Analysis of Specific Information Costing System of the Factory.

The costing system refers to the way of accumulating and presenting cost data for the management concern principles applied in the ascertain of cost are often the same with other cost systems but the collection and presentation of cost information vary with the type of the product and nature of the operation.

According to my interview, the type of costing system adopted in the factory was the process costing system which is a continuous production environment each product passes through a series of production steps it passes from one department to another department.

To determine the cost of inventories a continues mass production of similar finished units, the respective department allocates the cost to each cost center.

A process costing system is used for a manufacturing process that produces continuously for an extended period. This system is used in industries that cost like or similar units of products that are often most produced. Hence assumed to receive the same amount of direct material, direct labor, and manufacturing overhead no attempt is made to allocate the manufacturing cost to a specific order.

First process costing is typically visualized as sequential flows of production from one department to another department working process department, and the finished goods department.

4.2. Procedures for a process costing system

The procedure is a sequential accumulation of cost to each cost center. The accumulation of materials, labor, and factory overhead costs enables the determination of the cost to each cost center. The factory produced special flour, 2nd level flour 3rd level flour, frushkelo, and prushka using the material of wheat.

In the process costing system, two main objectives are applied in the factory: -

1. Valuating goods manufactured and transferred from one department to the next department.
2. Valuating working in-process inventory remaining in production at the end of an accounting period.

The following steps are essential for the company to accomplish its main objectives.

- Summarize the flow of physical units produced.
- Determination of total costs for which an accounting is made.
- Computation of the work of the department in terms of equivalent units of production.
- Computation of the total cost for
 - Work completed and transferred out of the department
 - Work in process inventory at the end of the period.

As production moves from one department to the next department products are also processed in one step for each of the forgoing departments. Each production department performs some

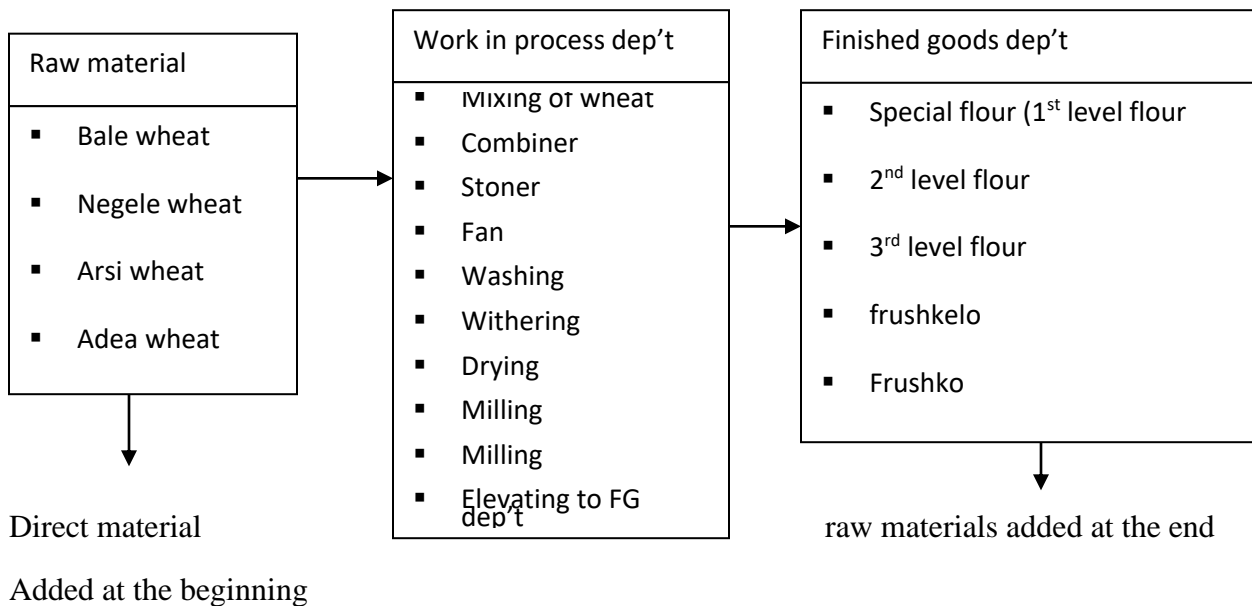
part of the total operation and transferred its completed production to the next department where it becomes inputs for their processing the completed production of the last department is transferred to the finished goods stock.

For a manufacturing organization to implement the above steps of process costing, it depends on the: -

- Weighted average method
- First in first out method (FIFOM)
- Last in first out method (LIFOM)

But according to the data collected. Semira flour factory used only the weighted average method to value the inventory. The weighted average is an average of the cost per unit of the cost of work in process or beginning inventory plus the cost of current production.

Figure 4.1 below shows procedures for process costing



Source: production manual of Semira flour factory

The above diagram shows that costs are accumulated in each cost center and as the processing in one division is completed and the computed units and their associated costs are transferred to the next department.

Even though the total cost is accumulated to the finished goods. According to for major elements of manufacturing cost in the manufacturing industry, the cost is categorized into raw materials, direct labor, and factory overhead.

4.2.1 3. Investigate the system of cost control for direct material labor and factory overhead cost

Raw materials: - raw materials are typically represented as a substantial cost of the production of the company. It can be physically identified with or traced to the finished goods which included: -

- Wheat
- Dry staff (store)
- Packaging materials

The factory production report would show the cost of the raw materials for the production of flour would constitute 40% - 50% of the total production cost of the factory.

From these costs of raw materials, we suggest that a large amount of the manufacturing cost is used for the purchasing of raw materials: -

Direct materials Xxx

Indirect materialsxxx

Cash (A/P) xxx

Work in Processes xxx

Raw materials xxx

Labor usage cost

In flour factories salaries and wages are properly classified as each cost center of product unit and fixed charged. Direct labor includes the cost of employees who work directly on the product.

Although labor cost is the largest cost in the factory next to raw materials cost. Due to the industry structure being almost labor intensive, it is the lowest cost when we consider countrywide. In general, labor and administrative cost are some of the factory production costs factories perform the activities involved in introducing finished products. In this factory, the labor and administrative costs occupy the largest of the manufacturing next to the raw materials costs. According to the data collected, the cost of the factory amounted during the year 2015 is 469,062 birrs from the total annual cost of 3,990,924 birrs of the company total cost incurred.

Table 4.1. shows the individual cost and their respective % age a computation of the total cost.

Description	Amount in birr	% age
direct labor cost	286,196	7.2%
indirect labor cost	55,447	1.4%
selling and distribution cost	19,870	0.6%
administration cost	62,933	2.3%
water utility	5,879	0.1%
medical cost	3,056	0.08%
car running cost	38,681	1.0%

Total cost	469,062	11.7%
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Source: total cost of Semira flour factory

According to the above table, the labor cost of the factory occupies 11.7% of the production cost of the factory.

Among these more costs are incurred in administration costs which is 2.3% of the total labor cost. How do you pay labor costs? The cost charge to labor was in the form of a fixed salary or wages. The company record labor is: -

Hour of labor used * Rate per hour paid to labor = Total labor cost

Factory overhead cost

It is somewhat more complicated, unlike other production costs of the factory. Because it is composed of many different manufacturing costs that show a variety of cost patterns. It includes

- Indirect labor cost that is incurred by the production
- Repair and maintenance department to maintain and repair these obsolescence and damaged machines. The wage of labor in these departments is considered as factory overhead costs.
- Indirect material, materials that are not directly traceable to the product but indirectly compulsory to the product for example electricity supply is an indirect material cost of the factory but without it, the production department asthmatically not continue its work i.e. the machine did not work.
- Tax on manufacturing facilities, a utility for the manufacturing process, and depreciation on manufacturing facilities are also included in factory overhead costs.
- In general, factory overhead costs are costs that are not direct labor costs and direct materials costs but are necessary to the production indirectly.

Working in process xxx

Raw materialsxxx

The factory has two departments these are production department and service department. Productions that are engaged directly in the manufacturing activity and that contribute to the content and form of the finished products. The production department of the company was also divided into three departments assembling, working processing, and finishing department each division has its own cost which has computed at each cost center.

The service department of the factory provided a service resistance to the production department. They contribute to the production process indirectly.

depending on the behavior or factory overhead costs of the company it is categorized into: -

- **Variable overhead costs:** - it is factory overhead costs that vary in proportion to the level of manufacturing activity. A good example of this is electric supply cost.
- **Fixed overhead cost:** - are factory overhead costs that remain constant as the capacity of production of the factory increases or decreases factory depreciation and factory supervisor's salaries are examples of fixed overhead costs.

Variable and Fixed Cost

Fixed cost: - these are costs that remain constant about the volume of each production unit. The cost of the supervisor is remaining constant whether the labor number increases or decreases.

Variable cost: - is accost that changed in production to change is cost driver or volume of production. The following tables show a fixed and variable cost analysis of the company during the year 3,990,924 birr of the company total incurred.

Table 4.3. Computation of variable and fixed cost

variable cost	Amount in birr	% age
direct materials	3,369,511	84.4%
direct labor	286,196	7.2%
indirect material	62,826	1.6%
indirect labor	55,447	1.4%
power supply	18,267	0.4%
excise tax	32,006	0.8%
subtotal	3,824,253	95.8. %
		95.8%
fixed cost		
service department	16,884	0.4%
production dept	36,984	0.9%
selling & distribution cost	19,870	0.6%
administration cost	62,933	2.3%
subtotal	166,671	4.2%
total variable & fixed cost	3,990,924	100%

Source: total cost of Semira flour factory

According to the above table the classification used by the company for a section of the variable and fixed costs 95.8% of total costs are variable and only 4.2 are fixed from the total cost of the factory.

The high % age of the administration costs was 2.3% of the total costs as the companies' new strategies state that reasonable action should take to bring these costs down to a reasonable level.

4.2.2. Cost controlling mechanisms

By actual and budgeted cost system

Cost controlling means checking whether the actual cost conforms with the planned cost.

Table 4.3. The comparison of actual and budgeted costs in the year 2003.

The result indicates the budgeted cost exceeds the actual cost the implication is that the factory cost control mechanism except for labor cost is very effective. The controlling work is under the responsibility of the manager. In the responsibility accounting system, the cost is classified and accumulated by the person responsible for this is called responsibility centers. The scope of this center is indicated what costs have been incurred and who is responsible for them as well. According to the data, the budgeted cost is greater than the actual cost but in the case of labor cost, the actual cost was greater than the budgeted cost be the course of personal differences some workers lack the skill and ability to perform by giving training opportunities to the employees. In this case, the factory incurs additional costs. In general, the researcher concludes that the factory's budgeting cost was effective and utilizing it.

Description	budgeted cost	actual cost	Variance
Work in process	48,476	40,055	8421
raw materials	840,237	572,827	267410
labor	290827	302,274	(11447)
factory overhead	74,904	68,140	6764

Source: total cost of Semira flour factory

4.2.3. Allocation of Overhead Cost

Overhead is those costs that cannot be directly assigned to cost objects such as product process or cost center. Some examples of items of overhead expenditure include supervisions lighting, heating, and rent. since we cannot trace special items of overheads allocated to individual products it's not possible to measure the accurate overhead resources consumed by product costs are likely to become more accurate of the production of overheads as a firm costs structure increase. From the result of the study, overhead is allocated to products using two stages of procedures. in the first stage, heads are allocated to a product cost center. while the second stage allocated the costs accumulated in the cost centers to the products. the objective of the first stage is to assign all manufacturing costs to a production cost center. In the second stage, a measure is selected for allocating the product center's expenses to products. From the study, it was found the factory used machine hours as a base for allocating overheads.

with the factory studied it is the case that service departments provide support or assistance to production departments. but these departments do not deal directly with the products. Therefore, it is not possible to allocate service department costs to products passing through these departments. overhead rate of each center by second stage allocation base consumed by each product.

4.2.4. Standard Costing

Standard cost is a carefully determined cost based on efficient operations. Standard cost aims to exclude past efficiencies and aim to take into account changes expected to occur in the budgeted period. It also indicates the costing system of an organization whose activities consist of a series of common repetitive operations.

From the study, Semira flour factory uses a standard costing system of the basic standard type which is not updated to the current situations, it is a predetermined calculation of how much costs should be under specified working conditions. It is built up from the assessment of the value cost elements and corrected technical specifications and qualification of materials, labor,

and other costs to the prices or wage rates expected to apply during the period in which the standard cost is intended to be used. According to the document of the factory it uses a standard costing system of the basic standard type which is not updated to the current situation.

This system is predetermined cost estimates that help management to know before production starts what the cost should be to control inefficiency and wastage of the source. Even though the factory uses basic standard costing, the result of the study should they how the revision of their standard costing to different factors. The factory revises its standard cost concerning technological change which is 62.5. this implies that the factory focus helps to increase its production capacity. However, the factory gives less emphasis on price change and competitors which is 25% and 12.5% respectively to revise the standard costing. Comparing the actual result with the standard cost helps enhancement in taking corrective measures and making management decisions and control.

4.2.5. Variance Analysis

Variance is the difference between the predetermined standard & actual costs. Predetermined cost figures made no more or less scientific bases result in the standard cost. The objective of the standard cost system and the calculation of variance are to provide feedback to planning and cost control to achieve effective cost control each prepared variance must be associated with a responsible person. The person given the responsibility must also have the authority to control that item of material or labor in the production process.

From the result of the study, the factory focuses on two types of variance analysis that is material variance and labor efficiency variance. The material usage of variance occurred due to the purchase of inferior material which may result in the production of low-quality products and loss of customers consequently profit will be affected.

In the same manner, if there was excessive wastage due to the inferior quality of raw materials extra costs will be occurred. These also affect profit and decisions made by management.

Labor efficiency variance

Labor efficiency variance is the difference between the standard labor hour for production and the actual labor hours worked during the period multiplied by the standard wage rate per hour. Despite this fact, several factors create this variance. From the result of the study, labor efficiency raises due to these factors.

- Personal differences between workers.
- Failure of machinery

As a result of the study indicates that a significant part of labor efficiency variance is due to personal differences that is differences in knowledge and skill. Speed to manipulate for these the management of the factory decides to apply motivated factors incentive to control these personal differences.

The management considers incentives are the key factors to alleviate personal differences hence labor efficiency.

The variance will be avoided. However, the fact is that individual differences may not exist because of a lack of skill and ability performs workers than qualified workers. This can be solved by giving training opportunities to the employees by giving a bonus for solving the above problem.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

The study was designed to evaluate the cost control system of Semira flour factories. The study focuses on showing how the costing system is applied in these particular factors and the impact the revealing costing system could have on managerial decision-making and control activities. For this purpose, those researchers are considered relevant for the assessment of the costing system.

These are standard costing, variance analysis, cost control mechanisms, and overhead allocation.

The study indicates that the factory uses the process costing method. The type of product they produce makes them use this system that is the factory produces a similar product. As a result, obtained from the study indicates the factory used a basic standard costing system which is not updated to the current situation. This standard costing is not an accurate estimate of costs; hence it has a substantial impact on the decision made as a result it will not be used for control purposes. The factory changes this standard by considering technological change but it did not consider other factors like price, not satisfaction business organizations are in a changing work so it should have adjusted to these situations.

On the other hand, the result of the study indicates that the actual cost is less than the budgeted cost. The reason is that each responsibility center managers are responsible for the cost incurred in their departments and also has the authority to propose budgets this help to localize responsibility in actual cost less budgeted and this help to localize responsibility in actual cost less budgeted costs. It is needless to say this system is a modern approach to cost controlling system and therefore, the decision made by the management will be reasonable. But variance

may exist due to many reasons. For example, according to the study material usage variance occurred not because of lack of effective cost controlling by poor quality materials.

The result also shows that in variance analysis the factory focuses mainly on material usage variance and labor efficiency variance. The material usage variance is occurred due to the purchase of inferior quality raw materials and labor efficiency variance is due to personal differences.

Allocation of overheads requires the assignment of overhead costs to cost centers and the allocation of overheads to products by using a proper allocation basis. The factory uses a direct machine power allocation basis with the help of this basis's factory allocates its overhead cost to each department. This system helps management for better analysis of indirect costs by each department and also it is possible to use exports in each department for indirect costs by each department also it is possible to use exports in each department for indirect cost-controlling purposes.

5.2. Summary of Findings

This part of the study aims to summarize the findings that have emerged from the data analysis presented in chapter four. Therefore, regarding the cost control system, the cost system utilized by the company is process costing and job order costing with the highest response rate, and also the maximum respondent replayed that the company is using a product to analyze cost. Regarding the cost structure of the company, most of the respondents replayed that the company cost structure consists of direct material, direct labor, and manufacturing overhead. Regarding work in process, the maximum respondent replayed that the company ending work in process includes the percentage of completed material, labor, and manufacturing overheads. And also, the highest respondent replayed that the company uses direct labor hours, direct labor cost, direct material amount, and direct material cost to allocate manufacturing overhead. Most respondents agree that the company is using material and labor to calculate variance and standard costing as cost control.

Regarding the use of cost information, the maximum respondent replayed that users use cost information when they decide on financial accounting, price, and production processes. And also, the maximum respondent replayed that the managers use cost information when they decide on price. Most of the respondents replayed that the cost accounting system provides information on a daily and upon-request bases. Regarding the benefit of the cost function, most of the respondents replayed that the company is benefiting from the cost function. But the company does not have a separate cost accounting department. And finally, the maximum respondent replayed that the company is highly affected by a lack of skilled manpower.

5.3. Recommendation

Based on the analysis the following points are recommended for Semira flour factory to improve its costing system and alleviate problems of making appropriate decisions and effectively controlling over all activities. The factory should revise of is standard cost. This is because it reflects changes caused by environment, price, and competitor reactions so that controlling and decisions made by management become effective.

To alleviate the labor efficiency variance, the factory should have better-implemented training and development of skills and abilities for employees.

This means labor efficiency variance is best solved by developing job training that is attained at the workplace by skilled supervisors and off-job training that means training outside the workplace like education, workshops, and similar.

The purchase of poor-quality raw materials reduces the profit-generating potential of the firm. Therefore, the objective of the firm will not be activated. It has also an impact on the costing system either directly or indirectly. So, to alleviate the material, us age variance quality measure of raw materials should be established.

In addition, the researcher has also appreciated the effort exerted by the factory in the application of effective cost control.

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Appendix
WOLKITE UNIVERSITY
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DEPARTMENT OF ACCOUNTING AND FINANCE

These interview questions are prepared by a student of accounting for the partial fulfillment of a BA degree in accounting. This aims to assess deeply the cost control system in the Semira flour factory in Wolkite. First of all, I would like to thank you for your willingness for responding to my interview questions.

3. What type of costing system does the company use?
4. How do you charge labor costs?
5. What is the accounting practice used for material costs, Labor costs, and overhead costs?
6. Does your organization use variable costs and fixed costs?
7. What is the accounting practice used for charging variable cost and fixed cost?
8. What techniques are used to control cost?
9. How do you allocate overhead costs?
10. Does your organization use standard cost?
11. What other methods are used other than standard cost?
10. Do you calculate variance in your organization?
11. What type of variance is calculated in your organization?
12. How do you control labor efficiency and effectiveness?

