

**ASSESSMENT OF COST ACCOUNTING PRACTICE  
(A CASE STUDY ON ZEBIDAR BEER BREWERY)**

**A RESEARCH SUBMITTED TO THE DEPARTMENT OF ACCOUNTING  
AND FINANCE FOR THE PARTIAL FULFILMENT FOR THE  
REQUIREMENT OF BACHLOR OF ART (BA) DEGREE IN  
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## **ABSTRACT**

*The study “Assessment of cost accounting practice” was be conducted on zebidar beer factory. The main objective of the study is to assess the product costing system of the factory. To achieve this objective, both primary and secondary data sources was be used. Primary data was be obtained using in-depth interview and questionnaire where as secondary data was be obtained from annual reports records and financial statements of the factory. The data was be analyzed by using descriptive type of analysis. Quantitative data was be analyzed by applying percentages and qualitative data was be analyzed by using narrative or statement form. Finally the researcher was recommend conclude by based on findings.*

## ACRONYMS

APOHR = Actual Product Overhead Rate

UC = Unit Cost

TC = Total Cost

PO = purchase order

# CHAPTER ONE

## 1 Introduction

### 1.1 Background of the study

In today's proper costing system is a very important tool for the success of any organization as well as personal financial manager.

An essential system of costing is an essential factor industrial under modern conditions of business and such may be regarded as an important part in the efforts of any management to serve business stability In this study, attention is given to the costing practice of manufacturing company. Manufacturing means the process of converting materials in to finished goods by using raw materials, labor, overhead cost and many types costs used in converting the raw materials in to products to be sold to customers. Thus cost accounting provides information for both management and financial accounting it measures and reports financial and non-financial information that relates to the past of acquiring or consuming resources by the organization. Any organization starting from sole proprietorship to the corporation acquire or know how and use of cost concept and practice. Because cost accounting provides key data to mangers for planning, controlling, and evaluating decision making, fixing product price as well as to know service price. Cost mangers must use method of allocation because, we cannot observe causal link between this resources spending and use. To this end, this project was evaluate the cost accounting practice of Zebidar beer brewery.

### 1.2 Back ground of the organization

Zebidar beer Company was established in 2005. It is located at near wolkita town ,167km south west of Addis Abeba of Gubera .Currently the factory runs beer production lines with annual production capacity of 350,000 liter beer and According to Raei melesse, brand manager at zebidar, jemarhulegeb Sc brings together 1,100local shareholders, bankers, insurers , hotel owners and the like are part of Unibra, which was established in 1960 in Belgium, ,has been operational in Africa holding the license for Skolbrand, a Brazilian beer originating from Belgium.

### **1.3 Statement of the problem**

Technological advancement and growing need of mankind has been the prime cause for today's dynamic business environment. So the need for consistent recording in business enterprises arose. Cost accounting especially for manufacturing companies is the key factor for achieving the desired profit since cost of raw materials is the major expense .Even though, the roles of cost accounting system is becoming essential in all profitable and non-profitable organization, the application and lack of adequate knowledge with respect to this system can affects its activities and responsibilities and even retarded the continuous development of the costing system.

The weakness of cost accounting department was automatically lead the management to take poor decision, which may affect the companies' business strategy and even lead to bankrupt. The department of one business entity can be weak due to mishandling of records and cost information which can be opens the way to apply in appropriate cost accounting system and methods.

Thus, by taking the above and similar facts into consideration, the researcher was try to give an insight on whether or not the costing department of company under investigation is giving the proper information relevant for managerial control and decision making.

### **1.4 Research question**

- What type of cost accounting method is used by the company?
- What does the company allocate cost to cost object?
- What is the cost accounting information contributed for management decision making?
- What is there proper keeping and recording of cost data?
- Does the company have skilled human resources that work on cost accounting?

## **1.5 Objective of the study**

### **1.5.1 General Objective**

The general objective of this study is to assess the cost accounting practice of Zebidar beer brewery.

### **1.5.2 Specific Objective**

- To see the recording practice and how the cost records are maintained.
- To ascertain the cost allocation practice of the company
- To evaluate the company effort to use cost accounting information for management decision.
- To produce appropriate recommendations to improve the company cost accounting practices.

## **1.6 Significance of the study**

This research paper has the following importance. First, the result of the study was help the factory to correct its problems. Second, in doing the research, the student researcher was develop research skills and finally, the research paper can be uses as base for further research.

## **1.7 Scope of the study**

The study was cover as much as possible all cost accounting practice which is focused on zebidar beer brewery Company. The cost accounting is the back bone for the survival of the company dealing with cost analysis. Then the research paper was specifically design to assess the cost department of the company in zebidar beer brewery company.

## **1.8 limitation of the study**

There may be so many limitations to complete the study

- Difficult to inspect an aspects of the company
- Some staff members may not willingness to give the required information because of carelessness or intentional failure.
- Time and financial constraint to go every day and collected the data in detail.

## **1.9 Organization of the paper**

The study will cover five separate chapters. The first chapter is an introduction part includes background of the study, statement of the problems, objectives of the study, significant of the study, scope and limitation of the study background of the organization. Second chapter present important related literature review, The third chapter contains research design, source of data and method of data collection, sampling technique, sampling size, and method of data analysis, finally The fourth chapter displays data analysis and presentation. The fifth chapter contains conclusion and recommendation.

# CHAPTER TWO

## 2 LITERATURE REVIEW

### 2.1 What is cost Accounting?

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

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

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

Cost accounting provides mangers with relevant cost data to assist them in operating the business effectively. The management process includes developing an operating plan, implementing the plan, and evaluating the result of operation (Cherrington, 1998, p54).

### 2.2 Classification of costs

Classifications are need for development of cost data that are useful management with regard to the following five purposes or aims these are

1. Planning profit by means of budget.
2. Controlling cost via responsibility accounting
3. Measuring annual or periodic profit including inventory costing
4. Assisting in establishing selling price and pricing policy
5. Furnishing relevant cost data for analytical processes for decision making. There for costs are classified in to broad category and some of them are listed below.

### **2.2.1 Cost in their relation to the production.**

The elements of manufacturing cost are direct material, direct labor, and factory overhead (indirect manufacturing). Direct material and direct labor costs are combined in to another classification called primary cost, and direct labor and factory overhead can be combined in to a classified called conversion cost. Representing the cost of converting direct material in to finished products (Frigo, 1986, p 10). Direct material are all materials that forms and integral part of finished product and that can be included directly in calculating the cost of product clued all to make automobile bodies. The ease and feasibility with which the material item can be traced to the final product are major consideration in their designation as direct material. Give and facts to build furniture from part of the finished product but for costing purposes such item may be classified as in direct materials for manufacturing cost (Frigo 1986 p 10). *Direct labor*: is labor applied directly to the materials comprising the finished product. The cost of wage paid to skilled or unskilled workers and assignable to the particular unit produced is termed direct labor (Frigo, 1986, p10).

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

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

### **2.2.2 Cost in their relation to manufacturing department**

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

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

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

## **2.3 Use of cost information**

### **2.3.1 Cost for planning and control**

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

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

#### **Advantages of budget**

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

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

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

### **2.3.2. Cost for analytical purpose**

Different type of involve varying kind of consideration in managerial analysis for decision making for example different analysis for decision making.

## **2.4 Costing system**

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

### **2.4.1 Job order costing system**

In this system the cost object is a unit or multiple unit of a distinct product or service called a job. Job order costing system is a type of cost system that provides for a separate record of the cost of each particular quantity of product that passes through the factory. Job order costing system is commonly used by companies with product that are unique and divisible. In this system costs are assigned to a distinct unit, batch or lot of product, or service. Job is task for which resources expended in bringing a distinct product or services to market (Cherington,1998, p 277).

Examples of business that use job order costing includes

- ↳ Construction system
- ↳ Furniture manufactures
- ↳ Printing firms
- ↳ Repair shops,
- ↳ Service giving organization
- ↳ Garages, etc

### **2.4.2 Process costing system**

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

- ↳ Cement factories
- ↳ Petroleum refineries
- ↳ Flour companies
- ↳ Beer factories
- ↳ Textile factories
- ↳ Beverage companies
- ↳ Characteristics of process costing system (Cherrination, 1998, p314).

- ↪ The products manufactured are homogenous
  - ↪ The cost are accumulated in departments or cost centers
  - ↪ Each unit produced was receive the same amount of direct material, direct labor, and MOH cost.
  - ↪ Average Unit cost is obtained by dividing total cost to unit produced in a given department (cost center)
  - ↪ Costs are divided in to two based on when the costs are incurred in to the production process.
1. Direct material cost: - This cost is usually added at one times either at the beginning, at the middle or at the end of the production process.
  2. Conversion cost (Direct labor (MOH cost) there costs are usually added evenly or uniformly throughout the production process.

## **2.5 The difference between job order costing and process costing system in table format.**

### **2.5.1 Job order costing**

**Types of product;** Diversified product line in which products are produced in batches with each batch representing a unique product

**Cost accumulation;** by job for a specified number of unit

**Cost per unit;** costs accumulated by job dividing when job is complete

**Reporting;** by job

### **2.5.2 Process costing**

**Types of product;** Homogenous products produced continuously By department or cost center for a specified period of time.

**Cost accumulation;** Cost accumulated by cost center divided by equivalent

**Cost per unit;** units of production during a period of time

**Reporting;** by cost center or department

# CHAPTER THREE

## 3 RESEARCH DESIGN AND METHODOLOGY

### 3.1 Research design

To solve the main research problem and answer the research questions the student the researcher was use descriptive research design. The researcher was use descriptive design to describe the real facts in which was be collected about the characteristics of the company's costing staff and the company's procedures of production cost determination.

### 3.2 Types of data collection

The student researcher was collect the needed data from both primary and secondary sources. Primary data sources are: - the production staff members, the finance staff members, store personnel's, and from cost accounting division. And the secondary data was be collected from procedure manuals for purchasing, recording, production and reporting activities and reports.

### 3.3 Population sampling size and sampling technique

The study target population was consists members of the company's staff group and general manager in total population 97 of which production staff 68, material store staff 2, finance staff 14, purchasing staff 2, cost accounting staff 4 and 7 taken from management group and the rest from the staff group. The sample size was be taken whole population 97 was be taken by using census method of sampling technique because the total target population is small.

### 3.4 Method of data collection

The researcher was collect the primary data by using the questionnaire which was be prepared by both open ended and close ended questions. Secondary data was be observed from the company's procedural manuals and reports.

### 3.5 Method of data analysis

The researcher was implement descriptive method of analysis. The researcher was classify the data that was be collected and present in table form. The frequency and percentage distributions of the respondents' responses was be identified, for each question; and such tabulated data was be analyzed and interpreted under each table.

## **CHAPTER FOURE**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **Introduction**

This chapter consists of the findings of the study. To get firsthand information, questionnaire and observation were the data collection instruments used. To this end, a total of 97 copies of questionnaire were distributed to employees who are in charge of cost accounting. The result of the questionnaire is presented, analyzed and interpreted with the help of table in percentage technique.

Census sampling technique was used to select the respondents and accordingly existing employees are drawn from different department, Finance, Central warehouse, Purchase, Production, and cost accounting division. Therefore, the first table focuses on the introductory questions like department, gender, age, educational background and work experience. The rest tables focus on the different issues that means based on the different questionnaires.

#### 4.1 Analysis of the characteristics of the study participants

Table 1: presentation of the characteristics of the study participants

No	Background of respondents	No. of respondents	Percentage
1	Department		
	Finance staff	2	2.06
	Central warehouse	7	7.21
	Purchasing staff	2	2.06.
	Material store staff	14	14.4
	Production staff	68	70.1
	Cost accounting staff	4	4.12
	Total	97	100
2	Gender		
	Male	57	58.76
	Female	40	41.23
	Total	97	100
3.	Age		
	Below 30	31	32
	30-50	60	62
	Above 50	6	6
	Total	97	100
4.	Education level		
	Under grade 12	-	-
	Diploma level	19	20
	Degree level	68	70
	Above degree	10	10
	Total	97	100
5	Work experience		
	1-10 years	68	70
	10-20 years	19	20
	Above 20 years	10	10
	Total	97	100

The above table illustrates number and percentage of the characteristics respondents' response on department, gender, age, education level, and work experience. Response on departments house 4.12% of the respondents are in the cost accounting division the rest 95.88% are distributed in the other departments which is 2.06% finance, 7.21% from central warehouse, 2.06% from purchase department, and the rest 70.1% from the production department. Sex ratio prevail in the final study of 97 respondents show that 57(59%) of male respondents and 40(41%) of female respondents as indicate in the above table.

Response on age show that 32% of the sample employees below 30, 62% is between 30-50 age intervals, and the rest 6% above 50 ages. From the sample employee above 20% are diploma holders, 70% are at degree level, and the rest 10% are above degree level. According to the above table employees work experience show that 70% of the sample employees are 1-10 years, from 10-20 years 20%, and the rest are above 20 years which is 10% of the sample employees.

## **4.2 Analysis of the study findings**

To solve the main research problem and answer the research questions used descriptive design research. Descriptive design to describe the real facts in which are collected about the characteristics of the company's costing staff and the company's procedures of production cost determination. The research has classified the collected data in to different categories based on the measurement scale used by each question of the questionnaire and present in table form. The frequency and percentage distributions of the respondents' responses are identified, for each question; and such tabulated data are analyzed and interpreted under each table.

### 4.2.1 Organization of costing staff department

Table 2: Strength and weakness of costing staff

No	Questions	Types of Response	No of respon	Percen Tage
1.	Does the company have a separate cost Accounting department?	Yes	97	100
		No	-	-
		I don't Know	-	-
		Total	97	100
2.	If your answer is yes for question one does it has adequate staff members and are they Efficient?	Yes	97	100
		No	-	-
		I don't Know	-	-
		Total	30	100
3.	Are the cost accounting staff members Professionally qualified in accounting?	Yes	80	82.47
		No	17	17.52
		I don't Know	-	-
		Total	97	100
4.	Do you think this staff is discharging its Responsibility?	Yes	87	89.69
		No	10	10.3
		I don't Know	-	-
		Total	97	100
5.	If your answer is no for question 1; is there Other party who records cost data?	Yes	90	93
		No	7	7
		I don't Know	-	-
		Total	97	100
6.	Do you think this responsible party can discharge its Responsibility properly?	Yes	91	94
		No	6	6
		I don't Know	-	-
		Total	97	100

Based on the respondents on the above table we can understand that the companies have a separate cost accounting department with adequate staff members which are fairly efficient in their work which is confirmed by 100% of the respondents answer. We are observed that in our study ZEBIDAR BEER BREWARY have a separate cost accounting department with dependent duties which are:-

Cost accountant has the duty to provide information whether costs is placed for the required purpose or not. Cost accountant has the duty to record and formalize transactions in a formal manner and also preparing yearend adjustments. To follow up tax for payments to prepare corporate budget of the company. To compute manufacturing costs each year.

From response we get 82.47% of the respondents agreed on the fact that the accounting staff members are professionally qualified in cost accounting. Costing staff members have sufficient knowledge and skill i.e. he/she is responsible to provide the right information about cost and budget at the right time for management to help them for their decision making practically for planning and controlling. Cost accountant has the duty to provide information whether costs is placed for the required purpose or not; to follow up tax for payments; prepare corporate budget of the company and many other responsibilities.

89.69% of the respondents believe that the employee satisfy responsibilities and skills heeded for the costing department. The respondents also answered that the costing department have adequate staff members which are efficient discharging their responsibility properly. The rest 10.3% of the respondents answered that they have no discharging their responsibility properly.

#### 4.2.2 Purchase of raw material and Inventory management

Table 3: Respondents answer in connection with purchase of raw material and inventory management

No	Questions	Types of Response	No of respon	Percen Tage
1.	Does the firm purchase raw materials for Stock?	Yes	97	100
		No	-	-
		I don't know	-	-
		Total	30	100
2.	Does the firm use just in time inventory Management?	Yes	90	93
		No	7	7
		I don't know	-	-
		Total	97	100
3.	Does the company have proper purchasing Procedures?	Yes	97	100
		No	-	-
		I don't know	-	-
		Total	97	100
4.	If your answer is yes for question 3 does it Follow properly?	Yes	90	93
		No	7	7
		I don't know	-	-
		Total	97	100
5.	Do you think this staff is discharging its Responsibility?	Yes	50	52
		No	47	48
		I don't know	-	-
		Total	97	100
6.	If you said yes for question 6 does it submit the receiving report to submit to the costing Department for record?	Yes	50	52
		No	40	48
		I don't know	-	-
		Total	97	100

From the answers collected about the purchase of raw materials and Inventory management 100% of the respondents confirm that the Company purchase raw materials for stock. ZEBIDAR BEER BREWERY company purchase department is usually engaged in purchasing a number of materials and services falling in different categories. The activities are performed regularly by purchase professionals with the objective of fulfilling organization's materials and service's needs.93% of there respondents agree on the point that the company use just in time inventory management.

The rest of the respondent's i.e.7% says that zebidar Beer Brewery Company does not use just in time inventory management. ZEBIDAR BEER BREWERY conducted physical inventory once a year. In addition it is clear to see from the respondent's answer who participated in physical. Inventory has observed: During physical count some custodians were not wilting to show all the properties under their control due to lack of knowledge or understanding the purpose of physical inventory. During physical count from year to year some disposed asset are counted Responses on missing number of assets show the existence of assets without identification number

.The company has proper purchasing procedures and 100% of the Respondents confirm on this fact and it is followed by proper method. The purchasing department also provides accurate supplier costs and accurate transportation costs. None of the respondents have information if purchasing department submits the proper documents to the cost accounting department for record of the time of delivery. According to the responses collected from the staff 52% of the Respondents agree on the point that the purchasing management staff is discharging their responsibilities; like receiving report to submit to the costing department for record. In ZEBIDAR BEER BREWERY usually checked against a purchase order (PO) before payment. As we observed they also provides vital information to the product costing effort. For example: input transaction data in a timely and accurate manner and identify any discrepancies in the bills of material and routing. The rest 48% of the respondents disagree on the point that the purchasing management staff is discharging their responsibility.

No	Questions	Types of response	No of respon	Percen Tage
1.	Does the store keeper send and copy material receiving voucher to the costing department on time?	Yes	97	100
		No	-	-
		I don't Know	-	-
		Total	97	100
2.	Does the costing department record the purchaser transaction immediately when it gets the proper source documents?	Yes	94	97
		No	3	3
		I don't Know	-	-
		Total	97	100

Table 4: Issue related with store keeper and costing department

Based on respondents on the above table we can understand that 100% of the respondents agree on the fact that the storekeeper send and copy material receiving voucher to the costing department on time. In ZEBIDAR BEER BREWARY Storekeeper is responsible for safeguarding the materials and supplies in proper place until they are required for production activities. The storekeeper have responsibilities such as maintaining the proper record of materials relating to the receipt and issue of materials; Arranging for physical verification of store items periodically; Supplying information of materials, stock position and so on whenever needed; Checking the physical quantity of materials and verify with a bin card; and Preventing unauthorized entrance into the store room. The respondents which are 97% point that the costing department records the purchaser transaction immediately when it gets the proper source document. The rest 3% of the respondents says it doesn't records the purchaser transaction immediately when it gets the proper source document.

### 4.2.3 Product costing system

**Table 5: presentation of accounting system and production**

No	Questions	Types of Response	No of response	Percentage
1.	Does the firm use double entry accounting System?	Yes	91	94
		No	6	6
		I don't know	-	-
		Total	97	100
2.	Does the firm use accrual basis of accounting?	Yes	92	95
		No	5	5
		I don't know	-	-
		Total	97	100
3.	Does the company produce distinct products For a time basis?	Yes	94	97
		No	3	3
		I don't know	-	-
		Total	97	100
4.	If you said yes for question 3 does it record their production cost separately on a cost Sheet?	Yes	94	97
		No	3	3
		I don't know	-	-
		Total	97	100
5.	If your answer is no for question 3, does it produce massive similar units of products for a Long period of time?	Yes	97	100
		No	-	-
		I don't know	-	-
		Total	97	100

For the question presented on presentation of accounting system and production the company uses double entry accounting system and 94% of the respondents confirm this and the rest 6% says the company did not uses double entry accounting system. ZEBIDAR BEERBREWARY use double entry accounting system. Double entry accounting is based on the fact that every financial transaction has equal and opposite effects in at least two different accounts. It is used to satisfy the equation  $Assets = Liabilities + Equity$ , whereby each entry is recorded so as to maintain the relationship. In the double entry system, transactions are recorded in terms of debits and Credits. Since a debit in one account was be offset by a credit in another account, the sum of all debits must therefore be exactly equal to the sum of all credits. 95% of the respondents approve that the firm uses accrual basis of accounting which provides a better view of the company's current result and the future earning potential of the company. ZEBIDAR BEER BREWARY produces distinct product for a time basis with recording their production cost separately on a cost sheet and 97% of the staffs agree with the point. 100% of the respondents stated that it produces massive similar units of products for a long period of time.

Table 6: presentation of product costing system

No	Questions	Types of Response	No of response	Percentage
1.	Does it have more than one product?	Yes	-	-
		No	97	100
		I don't know	-	-
		Total	97	100
2.	If your answer is yes for question 1, are they Preceded jointly to their splitting point?	Yes	-	-
		No	97	100
		I don't know	-	-
		Total	97	100
3.	Are the production costs accumulated in Department basis?	Yes	90	93
		No	7	7
		I don't know	-	-
		Total	97	100
4.	Does the production department use material requisition form to receive raw materials from	Yes	97	100
		No	-	-
		I don't know	-	-
		Total	97	100
5.	Does the production department have material specification?	Yes	90	93
		No	7	7
		I don't know	-	-
		Total	97	100
6.	If you answered question 5 yes does it request Material based on such specification?	Yes	89	92
		No	8	8
		I don't know	-	-
		Total	97	100
7.	Does the production department return back to store and inform the costing department when it has excess raw materials?	Yes	82	85
		No	15	15
		I don't know	-	-
		Total	97	100

The firm does not produce more than one product which is following in more than one processing unit which is preceded jointly to their splitting point. 100% of the respondents have confirmed these stages of production. ZEBIDAR BEER BREWERY attempts to achieve the primary objective of satisfying the society demand by producing a massive of products. The respondents which are 93% stated that the production cost is accumulated in department basis.

ZEBIDAR BEER BREWERY Company designed its cost centers in three main departments based on the function and operation of the machineries, the type of products. The activities of the department engaged in products identified based on these cost structure and pricing derivate after accumulating the prime cost under each cost centers. The product cost of inventory sold is removed from finished goods and added to cost of goods sold which is an expense of the period in which the sale occurred. Cost of goods sold is closed in to the income summary account at the end of the accounting period.

In process costing, labor, material and overhead costs offer are incurred at different rates in production process. Direct material is usually placed in to production at one or more discrete points in the process. In contrast, direct labor and manufacturing overhead, called conversion costs, and usually are incurred continuously throughout the process when an accounting period ends, the partially completed with respect to material and conversion activity. And the rest 7% disagree. 100% of the respondents point that the production department use material requisition form to receive raw materials from the store. The respondents (93%) agreed that the production department have material specification while the other does not agree on the subject matter.

The company uses process costing for products that are produced in mass production of the like units which usually pass in continuous flow through a series of uniform production stage called process or operations. The basic approach to this costing system is to accumulate costs in a particular operation or processing department for Number of units completed during the period to determine the unit of the product. Based on the answer collected from the staff 92% said that the firm requests material based specification. The respondents point production department return back to store and inform the costing department when it has excess raw materials. On this subject the rest 8% says that the company does not have return back to store and inform the costing department when it has excess raw materials.

## Purpose of product costing for the company

ZEBIDAR BEER BREWERY Company use product costing for three purposes. According to the respondents costing has three purposes mainly at ZEBIDAR BEER BREWERY Company. Each of them is listed below.

1. For financial statement: reporting purpose ZEBIDAR BEER BREWERY Company product costing is also used for purpose financial statements. Its importance is to prepare a schedule of cost of goods manufactured a schedule of cost of goods sold, and an income statement.

2. For setting price purpose: Pricing a product is one of the Important ingredients in profitability decision and major determinant for the factory to share the market. The pricing approach adapted by ZEBIDAR BEER BREWERY Company is cost plus pricing approach. The reason to choose cost for product pricing are:-Because of practical simplicity: there is not sufficient time to price a product through demand and marginal cost analysis and so the manger of this factory must rely on a quick and straight forward method for selling price. As a good starting point, product cost gives the factory's manger the place to start product pricing.

3. for control purpose: The cost estimate embodies the standard against which actual costs incurred during production can be measured. The data can be used to correct adverse situations.

Table 7: issue related with manufacturing overhead allocation

No	Questions	Types of response	No of response	Percentage
1.	Do you think the firm use proper predetermine rate for allocating manufacturing overhead Costs?	Yes	97	100
		No	-	-
		I don't know	-	-
		Total	97	100
2.	Does the firm have a proper time keeping mechanism to identify the labor hour Consumption?	Yes	97	100
		No	-	-
		I don't know	-	-
		Total	97	100
3.	Does the cost allocating department use more Than one pool for accumulating indirect costs?	Yes	87	90
		No	10	10
		I don't know	-	-
		Total	97	100
4.	If yes, for question 3, does it properly allocate all of them to the cost object?	Yes	87	90
		No	10	10
		I don't know	-	-
		Total	97	100
5.	Does the accounting department prepare Interim production reports to management?	Yes	95	98
		No	2	2
		I don't know	-	-
		Total	97	100

#### 4.2.4 Manufacturing overhead allocation

based on the respondents about issues related with manufacturing overhead allocation on the above table 100% of the respondents agreed that the firm uses proper pre-determined rate for allocating manufacturing costs; and also that the firm have proper time keeping mechanism to identify the labor hour consumption. Zebidar beer brewery have two types of overhead, which are administrative overhead and manufacturing overhead. Administrative overhead includes those costs not involved in the development or production of goods or services, such as the costs of front office administration and sales; this is essentially all overhead that is not included in manufacturing overhead. Manufacturing overhead is all of the costs that a factory incurs, other than direct costs. 90% of the respondents stated that the cost allocating department uses more than one pool for accumulating indirect costs i.e costs that are related to the cost object but that cannot be traced to it an economically feasible way incurred in the practices of manufacturing a product and are not charged as direct material or direct labor costs as particular cost centers. Such costs like indirect labor cost, indirect materials cost, depreciation, electricity and water, repair and maintenance, fuel, stationary, insurance and others. The factory also use actual overhead rate which is the rate at which overhead cost are actually incurred during an accounting period. Cost allocation base that should be used when allocating the indirect cost pools.

$$\text{APOHR} = \frac{\text{AOH Cost for the accounting period}}{\text{Actual amount of the cost driver}} \quad \text{where: Actual product}$$

APOHR= overhead

The typical procedure for allocating overhead is to accumulate all Manufacturing overhead costs into one or more cost pools, and to then Use an activity measure to apportion the overhead costs in the cost pools to inventory. Thus, the overhead allocation formula is Cost pool / Total activity measure = Overhead allocation per unit they also allocate overhead costs by any reasonable measure, as long as it is consistently applied across reporting Periods. Common bases of allocation are direct labor hours charged against a product, or the amount of machine hours used during the production of a product. The respondents also point that the firm allocates all of the indirect costs to the cost object properly. But the rest 10% does not agree on the above fact

#### 4.2.5. by product costing, spoilage and process costing

Table 8: presentation of byproduct, spoilage, and process costing

No	Questions	Types of response	No of respon	Percen Tage
1.	Does the firm have supervisors for product Quality inspection?	Yes	97	100
		No	-	-
		I don't know	-	-
		Total	97	100
2.	Does the firm production department produces Spoiled outputs?	Yes	97	100
		No	-	-
		I don't know	-	-
		Total	97	100
3.	Does the firm have by products?	Yes	91	94
		No	6	6
		I don't know	-	-
		Total	97	100
4.	If your answer is yes for question 3, do you think the value of by products are treated well Through allocating?	Yes	91	94
		No	6	6
		I don't know	-	-
		Total	97	100
5.	If your answer is yes for question 2, do you think that the production cost of good products Consider the cost of spoilage?	Yes	86	89
		No	11	11
		I don't know	-	-
		Total	97	100

As seen in the above table about presentation of byproduct 100% of the respondents have stated that the company has supervisors for product quality inspection.

All of the respondents confirm that the production department produces spoiled outputs and also on the fact that the firm have byproducts. The respondents which is 94% point that the value of byproducts are treated well through allocating while the other 6% of the respondents says the value of byproducts are not treated well through allocating . The cost of By Product accounting methods is normally used. As we observed the production method recognized the By Product at the time of production. The sales method delays recognition of By Product until the time of sale. We have observed 89% of the respondents agreed that the production cost of goods product consider the cost of spoilage. In product costing, the cost of direct materials includes cost of scrape, waste and normally anticipated spoilage that occur in ordinary course of production process. Unanticipated or abnormal amount of scrape, west and spoilage should be expressed in the period incurred or, in some situation, may be included in the factory overhead. Then the company use directly this type of costing system for the treatment of allocation of the cost. The rest 11% of the respondents challenge the above fact. In cost accounting, process costing assumes that all units produced are identical. When spoilage creates costs in a process-costing environment, the company applies the following methods to account for them.

### **Cost accounting for abnormal spoilage**

Accountants post the cost of abnormal spoilage to a “loss for abnormal spoilage” account. The loss isn’t related to cost of goods manufactured. Instead, abnormal spoilage is a separate cost that you can’t recover. As a result, abnormal spoilage isn’t included as a product cost. So they break it out first. The company accountant was put the cost in a loss account separate from costs of manufacturing.

### **Cost accounting for normal spoilage**

Costing normal spoilage takes a little math. The company adds spoilage costs to cost of goods manufactured. Now consider how costs are assigned using process costing. As units move from one production department to another, the costs Move along with them. Process costing uses equivalent units to account for units that are partially complete. The percentage of completion for material cost might be different from conversion costs, and vice versa. Equivalent units even things out. The goal is for each equivalent unit to have the same amount of costs attached to it.

## 4.2.6 Costing system effectiveness and convenience

Table 9: presentation of costing system effectiveness and convenience

No	Questions	Types of response	No of respon	Percentage
1.	Do you think the company's current costing System is proper according to its setting?	Yes	95	98
		No	2	2
		I don't know	-	-
		Total	97	100
2.	Do you thing the costing department is properly Discharging its responsibility?	Yes	93	96
		No	4	4
		I don't know	-	-
		Total	97	100
3.	Do you think the current costing system enables the department to assign fair Production cost to products?	Yes	95	98
		No	2	2
		I don't know	-	-
		Total	97	100
4.	If your answer is yes for question 3 does it Follow properly?	Yes	85	88
		No	12	12
		I don't know	-	-
		Total	97	100
5.	Is the current costing system convenient for Cost effective production cost assignment?	Yes	80	82
		No	17	18
		I don't know	-	-
		Total	97	100

Based on the respondents on the above table we can understand that 98% of them agreed that the company's current costing system is proper according to its setting and the rest 2% disagree that the firm have proper costing system. ZEBIDAR BEER BREWERY Company prepares cost of goods manufacturing statements monthly, then the total amount for the year is added for the preparation of financial statements i.e. income statements. It is this measurement that shows profitability of the company. Therefore, the need for reduced production costs is given great attention in attaining the organizational objectives.

The respondents which is 96% stated that the costing department is properly discharging its responsibility and also the current costing system enables the department to assign fair production cost to products and convenient for cost effective production cost assignment while the rest 4% disagree on the above point. Managers expect the cost data as much useful as required so that various usable economic decisions can be drawn from it. As a result the cost accountant has the highest responsibility of presenting the cost data in a way that makes decision makers understand easily, interpret and make decision based on it. Selling prices of manufactured goods in ZEBIDAR BEER BREWERY Company are set based on two important factors. The production cost of which is directly related to input price. As cost of production increase selling price accordingly was increase to retain the profit margin at its original amount. The other is the demand factor

Have proper costing system. ZEBIDAR BEER BREWERY Company prepares cost of goods manufacturing statements monthly, then the total amount for the year is added for the preparation of financial statements i.e. income statements. It is this measurement that shows profitability of the company. Therefore, the need for reduced production costs is given great attention in attaining the organizational objectives. The respondents which is 96% stated that the costing department is properly discharging its responsibility and also the current costing system enables the department to assign fair production cost to products and convenient for cost effective production cost assignment while the rest 4% disagree on the above point. Managers expect the cost data as much useful as required so that various usable economic decisions can be drawn from it. As a result the cost accountant has the highest responsibility of presenting the cost data in a way that makes decision makers understand easily, interpret and make decision based on it. Selling prices of manufactured goods in ZEBIDAR BEER BREWERY Company are set based on two important factors. The production cost of which is directly related to input price. As cost of production increase selling price accordingly was increase to retain the profit margin at its original amount. The other is the demand factor.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.3 SUMMARY**

As it is stated in the background section, product costing is the cost of direct labor, direct material, and manufacturing overhead that are used to create a product. And to the purposes are for preparing financial statement, setting price, and for control purpose. Even if product costing has the above listed benefits for firms the company has a problem of price setting for its products because the production cost of products is not properly and clearly determined.

The objective of this study was assessing the product costing system of the company. To solve the main research problem the student research team has used descriptive research design and primary and secondary data sources are used .From ZEBIDAR BEER BREWERY company cost accounting manual and from the respondents answer we have observed the following:-ZEBIDAR BEER BREWERY Company has updated manual. The Company uses cost accounting for their product pricing purpose and for preparation of their financial statements. It uses cost plus pricing approach to price their product by computing the material cost. The preparation of financial statement also used to know its net income and net loss. The current costing practice of product costing used for preparing financial statement, for setting price purpose and for control purpose. Costing system for products that are produced in mass production which usually pass in continuous fashion is process costing system. These costing systems accumulate costs in a particular costing center. zebidar beer brewery purchase raw material from different suppliers who sell their materials at different price. Most of the productive department employees found at lower position is not qualified as their position require, even though they acquired the position by long experience.

## 5.2 Conclusions

Based on the data presentation, analysis and interpretation of the previous chapter, the following conclusions are forwarded. ZEBIDAR BEER BREWERY Company is vast organization that spends huge amount of budget on cost. ZEBIDAR BEER BREWERY have a separate cost accounting department with adequate staff members which are fairly efficient. ZEBIDAR BEER BREWERY use proper controlling mechanism for handling and keeping of cost related transactions. We are positively looking ZEBIDAR BEER BREWERY company have to take proper action on the point we describe in our finding the company has to plan in order to reduce poor productivity of labor. We have tried to reconcile the theoretical and practical accomplishment on the practice of cost accounting in the analysis part of Our study and we have given our conclusion on the findings of the company cost accounting practice that have to be more of as corrected.

## 5.3 Recommendation

As concluding remark, we would like to forward some recommendations on the ZEBIDAR BEER BREWERY company product costing practices.

- It should buy raw materials from one reliable supplier to eliminate the different cost of products. Rather than buying supplies from different supplier.
- It should ZEBIDAR BEER BREWERY attract highly qualified professionals for its supportive departments with good pay and employee benefit in order to improve their poor labor productivity.
- It should ZEBIDAR BEER BREWERY purchasing department must follow the company purchasing procedure in order to make input transaction data in timely and accurate manner.
- It should In order to implement product costing efficiently and effectively and run ZEBIDAR BEER BREWERY business by controlling costs and increase its profit timely, modern costing method has to be implemented. As much as possible teach the organization employee about product costing and its purpose .delegation of authorities with accountability should be directed down to each level of organization unit as well as to each individual who possess zebidar beer brewery company property.

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**APPENDIX**  
**Wolkite university**

**Department of Accounting and *finance* Questionnaire**  
**On cost accounting practice**

**Dear respondent,**

The aim of this study is for the partial fulfillment of degree program in Wolkite university. The issue of questionnaire is to obtain your perceptions, opinion and views on cost accounting Practice in your corporation. It forms major parts of the project and the information you give was enable us to establish a clear picture of cost accounting in certain organization. Your cooperation to respond is very important to this research survey because it represents hundreds of others who are not included in our sample. Please answer every question. Space is provided at some parts of the section for you to add.

Further we would like to stress that all information you provide was be treated in strictest confidence.

We thank you very much for your cooperation.

**RESEARCH QUESTION TO ZEBIDAR BEER BREWERY COMPANY**  
**ON COST ACCOUNTING.**

Guideline:- Please read each question and put (√) mark of your response on the box provided.

No need of writing your name

Department

Finance  Purchases Production  Cost accounting division

Other Specify \_\_\_\_\_

Gender

Male  Female

Age

Below 25  26-30  31-40  40-50  above 50

Educational Background with Work Experience

10th complete  1-8

Certificate  9-15

Diploma Holder  16-20

BA Holder  20-25

Other Specify \_\_\_\_\_  above 25

#### **A. Question about the cost accounting department**

artme

1. Does the company have a separate cost accounting department?

yes  No  I don't know

2. If your answer is yes for question one does it has adequate staff members?

yes  No  I don't know

3. If the department has adequate staff members in number, are they efficient?

yes  No  I don't know

4. Are the cost accounting staff members professionally qualified in accounting?

yes  No  I don't know

5. Do you think such employees have sufficient knowledge and skill for their job responsibility?

yes  No  I don't know

6. Do you think this staff is discharging its responsibility?

yes  No  I don't know

7. If your answer is no for question1; is there other party who records cost data?

yes No I don't know

8. Do you think this responsible party can discharge its responsibility properly?

yes No I don't know

**B. Question about product costing system**

1 Does the firm purchase raw materials for stock?

yes No I don't know

2 Does the firm use just in time inventory management?

yes No I don't know

3 Does the company have proper purchasing procedures?

yes No I don't know

4 If your answer is yes for question 3 does it follow properly?

yes No I don't know

5 Does the purchasing department submit the proper documents to the cost accounting Department for record at the time of delivery?

yes No I don't know

6 Does the company have receiving committee?

yes No I don't know

7 If you said yes for question 6 does it submit the receiving report to submit the costing Department for record?

yes No I don't know

8 Does the store keeper send and copy material receiving voucher to the costing department on time?

yes No I don't know

9 Does the costing department record the purchaser transaction immediately when it gets the Proper source documents?

yes No I don't know c

10 Does the firm use double entry accounting system?

yes No I don't know

11 Does the firm use accrual basis of accounting?

yes No I don't know

12 Does the company produce distinct products for a time basis?

yes No I don't know

13 If you said yes for question 12 does it record their production cost separately on a cost sheet?

yes No I don't know

14 If your answer is no for question 12, does it produce massive similar units of products for a long

Period of time?

yes No I don't know

15 Does it have more than one product?

yes No I don't know

16 If your answer is yes for question 15, are they following in more than one processing unit?

yes No I don't know

17 If your answer is yes for question 16, are they preceded jointly to their splitting point?

yes No I don't know

18 If your answer is no for question 16, are they proceeded separately?

yes No I don't know

19 Are the production costs accumulated in department basis?

yes No I don't know

20 Does the production department use material requisition to receive raw materials from The store?

yes No I don't know

21 Does the production department have material specification?

yes No I don't know

22 If you answered question 21 yes does it request material based on such specification?

yes No I don't know

23 Does the production department return back to store and inform the costing department when

it has excess raw materials?

yes No I don't know

24 Do you think the firm use proper predetermine rate for allocating manufacturing overhead Costs?

yes No I don't know

25 Does the firm have a proper time keeping mechanism to identify the labor hour consumption?

yes No I don't know

26 Does the cost allocating department use more than one pool for accumulating indirect costs?

yes No I don't know

27 If yes, for question 26, does it properly allocate all of them to the cost object?

yes No I don't know

28 Does the accounting department prepare interim production reports to management?

yes No I don't know

29 Does the firm have supervisors for product quality inspection?

yes No I don't know

30 Does the firm production department produces spoiled outputs?

yes No I don't know

31 Does the firm have by products?

yes No I don't know

32 If your answer is yes for question 31, do you think the value of by products are treated well Through allocating?

yes No I don't know

33 If your answer is yes for question 32, do you think that the production cost of good products Consider the cost of spoilage?

yes No I don't know

### **C. Question related with costing system effectiveness and convenience**

1. Do you think the company's current costing system is proper according to its setting?

yes No I don't know

2. Do you think the costing department is properly discharging its responsibility?

yes No I don't know

3. Do you think the current costing system enables the department to assign fair production cost to products?

yes No I don't know

4. If your answer is yes for question 3 does it follow properly?

yes No I don't know

5. Is the current costing system convenient for cost effective production cost assignment?

yes No I don't know

6. What is your opinion about the effectiveness of the current costing system?

.....  
.....  
.....  
.....  
.....

7. What is your comment for improving the current system of product cost determination?

.....  
.....  
.....  
.....