COMPARATIVE ANALYSIS OF COST ACCOUNTING SYSTEM IN SUMEYA FLOUR FACTORY AND ABEROS FLOUR FACTORY

COLLEGE OF BUSINESS AND ECONOMICS

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A senior essay submitted to department of accounting and finance for the partial fulfilment of the requirement of art (BA) degree in accounting finance

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Abstract

Proper use of cost accounting system enables the business to be successful in planning and controlling of their operations as well as capable of costing of product and services properly. The Study was conducted to analyses the cost accounting system on flour factory in worabe town. To achieve the Objective of the study, the researcher uses both qualitative and quantitative research approach and the study used primary data collection methods. The sample size of the study consists of 14 employees of the companies, using close ended questionnaire with selected accountants of the finance departments and other department staffs. The sampling technique was non probability (judgmental) sampling. The relevant data for the study were analyzed by using a descriptive form of data. Finally, the researcher summarized and concluded the findings to provide possible recommendations for concerned activity to keep the cost accounting system in order to maintain the factories in good performance

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LIST OF ACRONYMS AND ABBRIVATION

ABC: Activity Based Costing

AMAT: Advanced Management Accounting Techniques

COGM: Cost of Goods Manufactured

DM: Direct Material

GAAP: Generally Accepted Accounting Principles

IFRS: International Financial Reporting Standard

IT: Information Technology

MAP: Management Accounting Practice

MOH: Manufacturing Over Head

SM: Small and Medium Enterprise

USAID: United States Agency for International Development

CHAPTER ONE

1. INTR0DUCTION

1.1. Background of the Study

Cost is usually defined as a resource sacrificed to achieve a specific objective, usually expressed in monetary terms (Horngren et al, 2000). Cost accounting is the process of accumulating the costs of manufacturing, another functional processes and identifying these costs with units produced or some other object. It is a unique sub field of managerial and financial accounting. Cost accounting is applied primarily to manufacturing Organization that combine and process raw material into finished products (Cherrington, 1998).

Cost accounting addresses the informational demands of both financial and management accounting by providing product cost information to external parties (stockholders, creditors, and various regulatory bodies) for investment and credit decisions and for reporting purposes, and internal managers for planning, controlling, decision making, and evaluating performance (Kinney et al.,2011)

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)

As Lanen et al., (2011) stated cost accounting continues to experience dramatic changes. Developments in information technology (IT) have nearly eliminated manual bookkeeping. Emphasis on cost control is increasing in banks, hospitals, manufacturing industries (from computers to automobiles), airlines, school districts, and many other organizations that have traditionally not focused on it. Cost accounting has become a necessity in virtually every organization, including fast-food outlets, professional organizations, and government agencies.

It measures and reports financial and non-financial statement information that relates of financial and non-financial statement information that relates to the post of acquiring or a consuming

resource by an organization. Any organization starting from the smallest sole proprietorship to the largest corporation acquiring knows how and use cost accounting concept and practice. Because cost accounting provides key data to manager for planning, Controlling, evaluating decision making fixing product price as well as to know for vice price. (Horngren, 2003).

Cost accounting information system designed to provide valuable information is useful for the management of the company to assist them in the exercise of its various functions of planning, control and decision-making where management needs cost information- accurate, fast and reliable. The system of cost information is an important source in many administrative decisions, such as pricing decisions, determination of the optimal mix of products, and measurement of the cost of operations within the company, eventually evaluation of the results. (Alahdal et al, 2016). Cost accountants must work with the users (or customers) of cost accounting information to provide the best possible information for managerial purposes (Lanen et al, 2011). In the preparation of the financial information the role of cost accountant is invaluable in guiding and recommending the alternative courses of action.

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

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

Even though method of costing system differs from company to company and it depends on the nature and type of the business, it is advisable to design effective costing systems to manage and control costs of the organization efficiently and effectively. Therefore, in this research the comparative cost accounting system of Sumeya and Aberos flour factory would examined. The findings of the study will promote the other researchers to make the manufacturing sector a focus of interest in cost accounting research.

1.2. Statement of the problem

Cost accounting is the process of measuring, analyzing, and reporting financial and non-financial information related to the costs of acquiring or using resources in an organization. For example, calculating the cost of a product is a cost accounting function that meets both the financial accountant's inventory-valuation needs and the management accountant's decision-making needs (such as deciding how to price products and choosing which products to promote). However, today most accounting professionals take the perspective that cost information is part of the management accounting information collected to make management decisions. Thus, the distinction between management accounting and cost accounting is not so clear-cut. (Horngren et al,2018).

The drive for this study is, even if cost accounting has manifold advantages, such as the above listed benefits for organizations, based on the preliminary study performed during 2018 by the researcher the company under this study has a problem to entertain such benefits from its costing system. Another drive of the research is as Drury and Tayles (2005) state that over the three decades, most of the research focused on cost system design has concentrated on studying ABC systems. Previous studies have assumed that cost systems consist of two alternatives, either traditional or ABC systems. On the other hand, researchers in developing countries, assert that there is a lack of knowledge concerning the current state of management accounting practice in developing countries (Joshi, 2001)

Cost accounting provides information for both management and financial accounting. It measures, 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. The company does not properly apply the cost accounting system leads an organization to problems. It is to say that how an organization can plan its operation without knowing cost centers and costs are more and how to bring down improper cost increments for certain cost objects Cost mangers must use method of

allocation because, we cannot observe causal link between this resources spending and use. Failure to make better decision based on financial reports is a feature of the company due to multiple books kept by businesses in order to avoid taxes and other obligations, so that the company does not has audit-worthy financial records. These poor accounting increases the likelihood of bankruptcy and makes bankruptcy administrations more difficult as well (USAID-Ethiopia, 2007).

Many previous studies on this area were conducted abroad like study by Kariyawasam(2018) studied the cost management and account management practices of public quoted manufacturing companies in Sri Lanka ,Alahdal et al (2016), conducted a study aimed to explain the role of cost accounting systems in the process of pricing decision-making in Yemeni industrial companies of Taiz City and Salawu et al., (2012) did a survey of Activity Based Costing Adoption Among Manufacturing Companies in Nigeria. In addition, there are also studies in Ethiopia like Mintesinot Hailu (2013), studied the role of management accounting in enhancing decision making and Tewodros T. (2009), studied Assessment on the use of Management Accounting Information for Decision Making and Management Control. The prior researchers mainly focused on single companies. Therefore, on the basis of the above studies the present researcher would attempt to find out some gaps which are not addressed by the prior researchers. The study would fill the gap by comparatively analyze the cost accounting system of Sumeya flour factory and Aberos flour factory. In addition, this study would have tried to fill the time gap of the previous literature by using recent data.

Finally, the researcher would point out some research questions;

1.3. Research question

- How does the factory manage the accumulation of basic manufacturing cost elements?
- How does the factory allocate manufacturing cost to cost objects?
- How is the cost accounting information contributing for management decision making?

1.4. Objective of the study

1.4.1. General Objective

The general objective of this study is to comparatively analyze the cost accounting system of Sumeya and Aberos flour factory.

1.4.2. Specific objectives

- To evaluate the accumulation of basic manufacturing cost elements.
- To analyze manufacturing cost allocation to cost objects.
- To assess the contribution of cost accounting information for management decision making.

1.5. Significance of the study

A research in the area of the cost accounting system of manufacturing companies is relevant for several reasons. Since business activities, being dynamic, require decisions by management almost on a daily basis. The study would beneficial to the management of the company to understand the cost behavior and would able to make the right decision in the sphere of planning and managing the costs at different levels of activity for alternative courses of action.

The study may help to the public to give knowledge related to cost accounting well and good understanding. This study would use as the secondary source or material for other researchers who can be study further more on cost accounting and other related issues. It would also use for reference for cost accounting information it is useful for the organization for its future action. In that the organization corrects unwanted procedures that affect the process of cost accounting information.

1.6. Scope of the study

The study would cover as much as possible all Cost Accounting System which is focused on Sumeya and Aberos Flour Factory.

1.7. Organization of the paper

The study has five chapters; the first chapter which is an introductory section of the paper includes background of the study, statement of the problem, objective of study, significance of the study and scope of the study. The second chapter deals with the related literature review which includes theoretical literature review, empirical studies, and summary and literature gaps. The third chapters' deal with the research methodology of the study which contains research design, source of data, data collection method, target population, and sampling techniques and sample sizes. Chapter four focuses on analysis of the results and discussions. The last chapter five gives conclusion and recommendation for the study

CHAPTER TWO

2. LITERATURLE REVIEW

Introduction

This chapter seeks to review literature of existing bodies of literature on the subject of the research. The chapter analyzed theoretical and empirical evidence findings, showed the research gap and finally presents summary of literature relevant to the study.

2.1. Theoretical Literature Review

2.1.1. Nature of Cost Accounting

2.1.2. Definition of Cost:

'Cost' is not easily defined. The following quotations highlight the meaning of cost: Alchian (1972) states that 'in economics, the cost of an event is the highest valued opportunity necessary forsaken. The usefulness of the concept is a logical implication of choice among available options. Only if no alternative were possible or if amounts of all resources were available beyond everyone's desires, so that all goods were free would the concept of cost and choice be irrelevant.' For accounting, Sprouse and Monnitz (1962) define cost as 'an exchange price, a forgoing, a sacrifice made to secure benefits. Kohler (A Dictionary for Accountants, p.139) defines cost a "an expenditure or outlay of cash, other property, capital stock, or services or the incurring of a liability therefore, identified with goods or services purchased or with any loss incurred, and measured in terms of the amount of cash paid or payable or the market value of other property, capital stock, or services given in exchange."

2.1.3. Cost accounting

Cost accounting is defined in such a wide variety of ways by different authors as follows:

Cost accounting is the process of accumulating the costs of manufacturing, another functional processes and identifying these costs with units produced or some other object. It is a unique sub field of managerial and financial accounting. Cost accounting is applied primarily to manufacturing Organization that combine and process raw material into finished products (Cherrington, 1998).

Cost accounting addresses the informational demands of both financial and management accounting by providing product cost information to external parties (stockholders, creditors, and various regulatory bodies) for investment and credit decisions and for reporting purposes, and internal managers for planning, controlling, decision making, and evaluating performance. (Kinney et al.,2011)

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)

Cost accounting attempts to satisfy costing objectives for both financial and management accounting. When cost accounting is used to comply with a financial accounting objective, it measures and assigns costs in accordance with GAAP. When used for internal purposes, cost accounting provides cost information about products, customers, services, projects, activities, processes, and other details that may be of interest to management. The cost information provided plays an important support role for planning, controlling, and decision making. This information need not, and often should not, follow GAAP (Hansen & Mowen, 2006)

Cost accounting is a conscious and rational procedure by accountants for accumulating cost and relating such costs to specific products or departments for effective management action. Such costs are used in balance sheets and income statements for the purposes of stock valuation and income determination (Layne, 1984).

Cost accounting as an information processing system includes a series of ordered and logically connected activities. The key purpose of these activities consists in translating data on the use of resources involved in the company's operations into information which reflects the costs of specified reference objects (Nowak and Wierzbiński, 2010).

Cost Accounting (or costing) can be defined as the process of collecting, classifying, assigning and analyzing the costs associated with the activity of an organization (Blocher, 2005).

Cost accounting is the process of measuring, analyzing, and reporting financial and non-financial information related to the costs of acquiring or using resources in an organization.

For example, calculating the cost of a product is a cost accounting function that meets both the financial accountant's inventory-valuation needs and the management accountant's decision-making needs (such as deciding how to price products and choosing which products to promote). However, today most accounting professionals take the perspective that cost information is part of the management accounting information collected to make management decisions. Thus, the distinction between management accounting and cost accounting is not so clear-cut. (Horngren et al,2018).

Advantage of cost accounting

Coe (1981) states that the allocation or assignment of costs and expenses to products or services results in cost data available for:

Pricing annual or periodic physical inventories, Maintenance of reasonably accurate monthly or periodic dollar inventory total for financial statement purposes without the taking and pricing of physical inventories more often than perhaps one year ,Aid in setting selling price ,Recovery of costs from customer under contract providing for reimbursement of actual costs or escalation based on specified cost data ,Make-or-buy studies ,Profit planning ,Analysis of operations and operating deficiencies ,Control of costs and expenses ,Capital budgeting decisions and Numerous other managerial decisions.

2.1.4. Classification of costs

Costs may be classified and grouped of different purposes for which, costs are measured. There is several standard cost classification and each classification has its own unique terminology. An organization may be separated in to functional areas. A manufacturing in company's functional areas generally includes manufacturing, marketing and general administration. Manufacturing cost includes costs, from the acquisition of raw materials through production until the product can be turned over to the marketing devisor to be sold. Manufacturing costs include, the cost of raw materials, payroll cost, for the people working on the product and incidental costs such as tax payer, depreciation and repairs associated with the manufacturing equipment (Horngren, 2003, p2-3)

Selling costs cost are all costs associated with marketing and selling product. They include all costs incurred by the marketing division from the time to manufacturing process is complete until the product is delivered to the customer. These costs include advertising, promotional offers, freight to deliver the product and warehouse costs while the product is waiting to be sold (Horngren, 2003, p2-3)

Administrative costs are all costs associated with the management of the company and include expenditures for accounting legal and administrative activities. Interest costs are also included among administrative costs. (Horngren, 2003, p2-3)

Classification by accounting treatment

Product costs consist of all costs associated with the manufacturing function of the business. They include materials, labor and other factory costs associated with assembling and processing the unit. Because the company still holds the product and its usefulness has not yet expired, it is not appropriate to expense these costs. They are capitalized as inventory and holds unexpired costs until they are sold (2nd Cherrington p.22).

Capital costs are similar to product costs in that they are also capitalized as assets; however capital costs are the term used to describe the acquisition of plant and equipment. These items are capitalized as tangible fixed assets and depreciated over there useful lives. Product costs are reserved for inventor able costs associated with the manufacturing process (2nd ed. Cherrington p 22). Material cost is the value of material used to produce certain product and to facilitate the production activity. This can further be divided in to direct and indirect material. Direct material cost is that which can be identified with a specific product and directly changed to the cost of that product whereas indirect material cost is that which cannot be identified with specific product and cannot easily be changed to the cost of that product (Frigo, 1986 p 10).

Labor cost is a total cost of a salaries paid for the application of labor to manufacture a product. Thus, labor cost which is identifiable directly with specific products is known as direct labor while that part to flavor cost which cannot be identified and cannot be changed to the cost of specific product is termed as indirect labor. (Frigo 1986 p, 10).

Factory overhead

A group of expenses that are incurred in the manufacturing of a product and not classified as direct material or direct labor are known as factory over headed. Such costs are indirect material, indirect labor, power lights, fuel etc. (Frigo 1986, p 10-11).

Classification by tractability to product

Direct cost: - Direct cost is one that can be economically traced to a single cost object; the cost object is a unit of finished product (2nd edition cherrington p.22).

Indirect Cost:-Indirect costs are one that is not directly tradable to the manufacturing products (2nd edition cherrington p 22).

Classification by decision significance

A decision involves making choices among alternative courses of action. The decision maker generally collects cost information to assist in making the decision (2nd edition cherrington p 23). Relevant costs are costs that make a difference in a decision making process (2nd edition, cherrington p 23).

Irrelevant costs :-Irrelevant costs are costs that make a difference in a decision making process (2nd edition cherrington p 23).

2.1.5. Elements of manufacturing cost

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

Direct materials costs are the acquisition costs of all materials that eventually become part of the cost object (work in process and then finished goods) and can be traced to the cost object in an economically feasible way. The costs of direct materials include not only the cost of the materials themselves, but the freight-in (inward delivery) charges, sales taxes, and customs duties that must be paid to acquire them (Srikant et al., 2018).

Direct manufacturing labor costs include the compensation of all manufacturing labor can be traced to the cost object (work in process and then finished goods) in an economically feasible way (Srikant et al., 2018)

Indirect manufacturing costs are all manufacturing costs that are related to the cost object (work in process and then finished goods), but cannot be traced to that cost object in an economically feasible way. This cost category is also referred to as manufacturing overhead costs or factory overhead costs (Srikant et al., 2018).

2.1.6. Costing system

2.1.6.1. Job 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 unity of product that passes through the factory. Job order costing system is commonly used by companies with products that are unique and divisible in this product or services. Job is task for which resources extended in bringing distinct product or services to market. (2ndeditionCherrington,1998, p 227).

In this system, the cost object is a unit or multiple units of a distinct product or service called a job. Each job generally uses different amounts of resources. Each job generally uses different amounts of resources. Job costing is suitable when it is required to obtain the cost of a Job or a specific order or a batch of finished products (Prasad, 1981).

2.1.6.2. Process costing system.

In this system, the cost object is masses of identical or similar units of a product or service. The focus of a process cost system is the cost center to which costs are assigned. It is usually a department, but it could be a process or an operation. Costs accumulated by a cost center are divided by the number of units produced in that cost center to compute the cost per unit. The primary objectives, like that of the job order cost system, are to compute the unit cost of the products completed and the cost to be assigned to the ending work in process inventory (Vanderbeck,2010).

In this costing system is used for manufacturing processes which produce 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 units produced for general sale and not for any specific customers. Average cost over lager number of nearly identical product companies that use process costing system are as follows (Cherrington, 1998 p 278). Characteristic of process costing system: - (charrington, 1998 p 314).

The products manufactured are homogenous the cost are 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 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. Direct material is usually added aid one time either out the beginning at the middle or at the end of the production process. Conversion cost direct labor MOH cost) there costs are usually added evenly or uniformly throughout the production process.

2.1.6.3. Building Blocks of Costing System

Cost assignment is a general term for assigning costs, whether direct or indirect, to a cost object. Cost tracing is a specific term for assigning direct costs; cost allocation refers to assigning indirect costs. A cost pool is a grouping of individual indirect cost items. Cost pools can range from broad (such as all manufacturing-plant costs) to narrow (such as the costs of operating metal-cutting machines). Cost pools are often organized in conjunction with cost-allocation

bases. A cost-allocation base (e.g., number of machine-hours or number of labor-hours) is a systematic way to link an indirect cost or group of indirect costs to cost objects.

2.1.7. Techniques of costing

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

2.1.7.1. Activity-based costing (ABC)

It is a cost accounting system that focuses on an organization's activities and collects costs on the basis of the underlying nature and extent of those activities. Multiple predetermined overhead rates are then calculated using the various cost drivers of organizational activities. ABC focuses on attaching costs to products and services based on the activities conducted to produce, perform, distribute, and support those products and services. The three fundamental components of activity-based costing are: - recognizing that costs are incurred at different organizational levels, accumulating costs into related cost pools, and using multiple cost drivers to assign costs to products and services. (Michael & Cecily, 2011)

2.1.8. Role of cost accountants

Cost accountants collect, assimilate, collate and analyze all financial information related to an organization. Their main role is to ensure that managerial decisions are within cost prescriptions. Cost accountants in today's highly competitive and dynamic business environment need to understand the various functions or links such as customer service, marketing, distribution, etc., in the value chain of a business. This understanding of the various links in the value chain of a business is particularly important when the business concerned is involved in international trade. This has resulted in cost accountants moving away from traditional manufacturing cost approaches to more inclusive approaches. This move towards more inclusive approaches has resulted in cost accountants factoring cost of value chain activities such as engineering, sales, distribution, service, etc., into product costing. In this context an individual who is well versed in the numerous definitions relating to costs and comprehends the shifting definitions of costs

ranging from short run to long run can be extremely invaluable in identifying information which is critical for decision making. The importance of management and costs accounting has grown exponentially in the recent past. The reason for this can be attributed to a number of factors such as increased competition both locally and internationally which has been exacerbated by globalization, growing input costs on account of changing macroeconomic conditions, declining profit margins, etc. In order to mitigate these recent challenges, companies in the developing world have started implementing management and costs accounting practices which are widely used by companies in the developed world (Kariyawasam, 2018).

2.1.9. Activity of a firm

2.1.9.1. Definition of a firm

According to Layne 1984 a 'firm' is made up of human beings who are organized towards economic objectives. A firm acquires scarce resources from the environment, and utilizes such resources for production. By 'production' is meant the transformation of inputs into an output (or outputs) of a distinct, different form; some value should be attached to this output (or outputs) by a particular society. For production to take place there must also be availability of resources which include raw materials and labor; finance and capital goods.

2.1.9.2. Stage of production

The production or conversion process can be viewed in three stages: Work not started (raw materials), Work in process, and finished work.

Costs are associated with each processing stage. In the first stage of processing, the cost incurred reflects the prices paid for raw materials and/or supplies. As work progresses through the second stage, accrual-based accounting requires that labor and overhead costs related to the conversion of raw materials or supplies be accumulated and attached to the goods. The total costs incurred in stages 1 and 2 equal the total production cost of finished goods in stage 3.

A manufacturer must account for raw materials, work in process, and finished goods to maintain control over the production process. An accrual accounting system is essential for such organizations so that the total production costs can be accumulated as the goods flow through the manufacturing process. (Jesse, et al., 2011)

2.1.9.3. Non Departmentalized Factory

When the factory is operated as a single department producing a single product in a continuous output, the process cost system is relatively simple. The costs of operating the factory are summarized at the end of each accounting period. Then the total costs incurred are divided by the quantity of units produced to calculate the cost of each unit manufactured during the period (Vanderbeck, 2010)

2.1.9.4. Departmentalized Factory

Generally, a company has several production and service departments. Products accumulate costs as they pass through each successive production department. Departments record costs according to the following procedure: The costs of materials, labor, and factory overhead directly identifiable with a department, are charged to the department; The costs of the factory service departments, such as maintenance and human resources, are allocated to the production departments; and The costs added by prior production departments are carried over to successive production departments. The unit cost within a department is calculated by dividing the total costs by the number of units produced during the period.

2.1.9.5 Work process inventory

If there is no work in process at the end of an accounting period, calculating the unit cost using a process cost system is a simple procedure: merely divide the total production cost incurred for the period by the number of units produced. Departments, however, often have ending work in process.

The calculation of the degree of completion of unfinished work in process presents one of the biggest challenges in process costing.

Normally, a factory will have units in varying stages of completion such as: Units started in a prior period and completed during the current period, Units started and finished during the current period, Units started during the current period but not finished by the end of the period. Because some materials, labor, and overhead may have been applied to each of the unfinished units, such charges cannot be ignored in computing the unit costs. Consideration must be given not only to the number of items finished during the period but also the units in process at the beginning and at the end of the period.

To make an accurate measurement, the stage of completion of the units still in process must be considered. Stage of completion represents the fraction or percentage of materials, labor, and overhead costs of a completed unit that has been applied to goods that have not been completed by the end of the month. The department manager estimates the stage of completion. The possibility of error is minimized because the manager usually has the expertise to make reliable estimates. In the event that the product is of a highly technical nature, the engineering staff can assist in determining the percentage of completion. At the end of the month, the department manager submits a production report showing the following: -Number of units in the beginning work in process. Number of units completed and Number of units in the ending work in process and their estimated stage of completion.

2.1.9.6. Cost driver

A cost driver is a variable, such as the level of activity or volume that causally affects costs over a given time span. For direct costs there is a readily measured cause and effect relationship between the change in either the level of activity or volume (kilograms of DM used) and a change in the total costs. For other production costs, such as the cost of plant security, which benefits all distinct cost objects, the measure of benefit may be the computer space required to store surveillance records of distinct areas in the plant. The larger the storage space, the higher the assumed benefit for the distinct cost object.

The cost driver of a variable cost is the level of activity or volume whose change causes proportionate changes in the variable cost. For example, the number of vehicles assembled is the cost driver of the total cost of steering wheels. If setup workers are paid an hourly wage, the number of setup hours is the cost driver of total (variable) setup costs. Costs that are fixed in the short run have no cost driver in the short run but may have a cost driver in the long run. Costing systems that identify the cost of each activity such as testing, design, or setup are called activity-based costing systems.

2.1.10. Defining and accounting spoilage, rework and scrap

AS (Horngren et al 2016) explained; the terms spoilage, rework, and scrap are not interchangeable. For a financial accountant, the costs must be classified differently because under ASPE/IFRS different transactions give rise to each type of cost. Some amount of spoilage, rework, or scrap is an inherent part of many production processes.

Spoilage refers to output that fails to attain either a specified performance level or standard of composition. Rework is the conversion of production rejects into reusable products of the same or lower quality.

Scrap is a residual material that results from manufacturing a product. Scrap has minimal total sales value compared with the total sales value of the product. In some situations, the firm may have to pay to have the scrap removed. In this case, it is usually referred to as waste or refuse. To minimize cost, managers want to determine the costs of spoilage and distinguish between the costs of normal and abnormal spoilage.

Normal spoilage arises under efficient operating conditions as a result of predictable rates of failure in a production process. Normal spoilage may be a locked-in cost, which managers accept when they invest in equipment with a specific failure rate. These costs are not considered controllable or avoidable. IFRS permits the costs of normal spoilage to be included in the costs of goods manufactured (COGM). The cost is transferred to cost of goods sold when the good units are sold. The normal spoilage rate should be computed using the total good units completed as the base, not the total actual units started (into production/process), because total units started also includes any abnormal spoilage in addition to normal spoilage.

Abnormal spoilage is spoilage that is unexpected under efficient operating conditions but is regarded as controllable and avoidable. The cost of abnormal spoilage can extend well beyond the immediate cost of the offending product. Abnormal spoilage costs are written off as losses of the accounting period in which detection of the spoiled units occurs. For the most informative internal feedback, the Loss from Abnormal Spoilage account should appear in a detailed statement of comprehensive income as a separate line item and not be buried as an indistinguishable part of the COGM.

An inspection point is the stage of the production process at which products are examined to determine whether they are acceptable or spoiled. In process costing, spoilage is typically assumed to occur immediately before the point at which inspection takes place.

2.2. Empirical Studies

This topic of the research covers topics about the findings of different researchers about cost accounting practices in different countries.

Kamilah (2017) in her study implementation of management accounting practice & its relationship with performance in SME enterprises ,examines the extent to usage of management accounting practice among SMEs in developing country and to find if there are any significant relationships between management accounting practice and performance using survey 160 usable questionnaire mailed to accountant or financial executives the study develops woman variables to explore the relationship between management accounting practice and performance, management accounting practice usage was obtained using 5-point Liker scale from 1:Never to 5: Very frequently and management accounting practice performance measures was obtained using perceptual measure of performance in order to gauge data on performance. The results indicate that the uptake for basic management accounting practice was higher (costing, budgeting, and performance measurement system) than for more sophisticated practices (decision and support system and strategic management accounting) Despite the revolution in management accounting practice, research has shown that basic or traditional MAPS are still dominant in most today's firms. The study further concluded that there are significance associations between on management accounting practice adopters (costing system, budgeting system, Performance measurement system and strategic management accounting) and

performance & provides support for a claim that management accounting practice plays significant roles in enhancing firm performance.

Isa&Thye (2006) examined the usage of management accounting practices in manufacturing firms in Malaysia. They also studied the relationship between product variety, complexity of production process, level of competition, company size, overhead expenses and usage of advanced management accounting practices. Management accountants in 500 manufacturing firms were randomly selected from the 2004/2005 federation of Malaysian manufacturer's directory. A total of 75 usable responses were received, that represented a response rate of 15%. Respondents comprised of senior level managers, including chief Executive Officers, General Managers and management Accountants. In this study, the measures for traditional management accounting techniques (TMAT) and advanced management accounting techniques (AMAT) were adopted from Waldronand Everet (2004). The TMAT were represented by four Techniques full costing, standard costing, job order costing and process costing. The TMAT comprised thirteen techniques Activity-Based Costing, Activity-Based Management, Target Costing, Kaizen Costing; Value added Accounting, Cost of Quality, Economic Value Added, Life Cycle Costing, Target Cost Planning, cost Modeling, Strategic Management Accounting, through put Accounting and Back Flush Costing.

Alahdal et al (2016) conducted a study aimed to explain the role of cost accounting systems in the process of pricing decision-making in Yemeni industrial companies of Taiz City. The researcher has used both descriptive and analytical methods which suit the nature of the present study which is mostly based on field work and the theoretical underpinnings. A group of previous studies related to the subject of the study have been utilized in the construction of study tools (questionnaires) which have been distributed in the industrial companies in the Tail city, Yemen. The study targeted accounting costs, accountants, auditors and managers of financial departments in industrial companies. Data analysis through the Statistical Package for Social Sciences (SPSS) was the use of scientific statistical methods, frequencies and percentages, SMA, Standard deviation, t-test, Cranach's alpha test. The results indicated that the cost of the accounting system applied in industrial companies provides quality accounting information; there is an impact of this information on the pricing decision-making; there are areas in which pricing decisions much depend on the information provided by the cost accounting systems. This

study can contribute to the literature by providing an analysis of the role of cost information in pricing decisions within industrial companies in the Taiz city, Yemen.

Rao et al (2015) carried out an empirical study to explore cost and management accounting practices utilized by manufacturing companies operating in AP, India. The sample of the study consists of 61 companies, containing both small and medium-sized enterprises, and large companies. The major findings of the study are as follows: the most widely used product costing method is job costing; the complexity in production poses as the highest ranking difficulty in product costing; the most widely used three overhead allocation bases are prime costs, units produced, and direct labor cost; pricing decisions is the most important area where costing information is used; overall mean of the ratio of overhead to total cost is 34.15 percent for all industries; and the most important three management accounting practices are budgeting, planning and control, and cost-volume-profit analysis. Furthermore, decreasing profitability, increasing costs and competition, and economic crises are the factors, which increase the perceived importance of cost accounting. The findings indicate that companies perceive traditional management accounting tools still important. However, new management accounting practices such as strategic planning, and profitability analysis are perceived less important than traditional ones. Therefore, companies need to improve themselves in this aspect.

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

Fekadu (2018) in his study conducted assessment of management accounting practice and its effect on firm's performance. A mixed research approach was used to answer the research questions that emerge through the review of related literature relevant for the study. The study statistically analyzed data obtained from the survey questionnaire. In order to establish the statistical significance of the independent variables on the dependent variable (performance) regression analysis was employed. The study result indicates that costing practice is the most highly used management accounting practice followed by budgeting practice by Ethiopian cement companies. The study suggest that respondent companies should evaluate performance using non-financial measures of performance evaluation such as Non-financial measure(s) related to customers, Non-financial measure(s) related to operation and innovation and Non-financial measure(s) related to employees in addition to their financial measure of performance, the researcher also recommends that various information for decision making practice should be implemented and get serious attention.

2.3. Summary and knowledge gap

Summary and knowledge gap will reveal as follows:

Cost management is one of the most significant issues in company performance and company financial management. Cost control has a positive impact on organizational performance and also the style of management has a positive impact on organizational performance.

Decision-making can be improved through the integration of cost accounting principles for appropriate costing of products and services through the provision of accurate cost accounting information. Cost reduction strategy should be embarked with emphasis on selling and distribution overhead cost and office and administrative overhead cost. Enterprises could utilize cost management systems in order to survive and to reach their goals. Organization goals such as competitive pricing and profitability cannot be reliably achieved unless industry participants possess a full understanding of their company’s cost structure.

There are substantive efforts have been done in measuring the effects or the relationship of management accounting practice and performance. The prior studies examined individual cost accounting practice area (such as cost accounting system, budgeting system and performance evaluation) based on financial or subjective criteria.

Despite the growing adaptation and importance of cost accounting system, the effect of cost accounting system on performance is still misunderstood for two main reasons, there is inadequate understanding of cost accounting system available for them to better influence their performance, and secondly their information need is best served by current practice that put in place.

As far as the knowledge of the researcher is concerned, there are researches made in Ethiopia on cost accounting practice focused mainly on its effect on decision making such as (Mintesinot H,2013; Tewodros T, 2009).

Moreover, in the above the researchers put different conclusions regarding the cost accounting system in different countries. In addition to this the researchers focus in country perspective rather than specific area and their studies also focus on single company. Therefore, on the basis of the above studies the present researcher would attempt to find out some gaps which are not addressed by the prior researchers. The study would fill the gap by comparatively analyze the cost accounting system of Sumeya flour factory and Aberos flour factory. In addition, this study tries to fill the time gap of the previous literature by using recent data.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Introduction

This Chapter gives the general information about research design and approach would employ this study, Population and sample, data source, type, and data collection instrument would employ to gather relevant information regarding the comparative cost accounting system of Sumeya and Aberos flour factory, sampling design would employ to select the sample size from the population, and lastly data analysis and presentation techniques would employed.

3.1. Description of study area.

This study would conducted on Worabe town.worabe is a town in south Central Ethiopia located south, nations, nationalities, and peoples region silte zone. The study would conduct on worabe town specifically on Sumeya and Aberos flour factory to comparatively analyses the cost accounting system of both companies.

3.2. Research design and approach

3.2.1. Research design

Briefly research design was a map for carrying the research for which the problem existing was going to be solved or it is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004).

There are three research designs, such as: explanatory, exploratory and descriptive. Exploratory is detective work by curiosity and it is advisable for researcher use to find venture in to new territories in search of information. Explanatory is effective in terms of identifying, co variation between variables. Descriptive research studies are those studies which are concerned with describing Characteristics of a particular individual, or of a group. In descriptive studies, the researcher must be able to define clearly, what he wants to measure and must find adequate

methods for measuring it along with a clear-cut definition of population' he wants to study. (C.R COTHARI,1990) The researcher would use descriptive study because it helps the researcher to explain nature of existing problem. The researcher would have selected this method to describe, summarize and present the data. The data would present on descriptive bases by using tables and percentage that facilitate to interpretation which focused on result that are relevant to the study.

3.2.2 Research approach

To achieve the objective of this research the appropriate method would adopt. Basically, there are three type of research approaches qualitative, quantitative and mixed approach (Cress well 2003). Quantitative research is the one in which the investigator primarily uses positivist claims for constructing knowledge. Positivists believe that reality is stable and can be observed and described from an objective viewpoint i.e., without interfering with the phenomena being studied (Philips, 1990). Qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior. Research in such a situation is a function of researcher's insights and impressions. Such an approach to research generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis (cress well 2003). Finally, the mixed approaches mean the composition of both quantitative and qualitative approach (C.R COTHARI, 1990). Quantitative approach is towards research is that the collection and analysis of information is conducted utilizing mathematically based methods. Qualitative approach is emphasis upon exploring and understanding the meaning of individuals and groups to describe issues from investigating them. Mixed approach is the researchers combine elements of qualitative and quantitative approaches. The researcher would use mixed approach, because, it covers the weakness of one by others, and it enables the researcher to measure and arrange data and more detained or rich data in the form of comprehensive evidence to achieve the objective of the study.

3.3. Data type, source, and collection method

3.3.1. Data type

The researcher would use primary of data. The primary source of data would have collected through close ended questionnaire to get possible responses from different groups; from those: customer service officer and based on their departments position and occupation.

3.3.2. Source of data

The study would conduct by collecting data from primary source. Primary data would have collected from the staffs through questionnaires.

3.3.3. Method of data collection

In organizing the study so as to meet the objectives of the study primary data would use. The researcher would collect primary data through questionnaire. A questionnaire processing a number of questions with close ended types of question that are relevant and exhaustive as to the subject of the study would designed in such ways that the respondent fill easily.

Questionnaire; as listed on the above the researcher would use questionnaire for this study. This type of data collection method is quite popular, particularly in case of big inquiries. The question would give to respondent who are expected to read and understand the question and write down the reply. This method of data collection is low cost, free from bias, the respondents have adequate time to give the answer and the respondents who are not easily approachable can also be reached conveniently.

3.4. Population and sample design

3.4.1. Target population

The part of the general population left after its refinement is termed target population, which is defined as the group of individuals or participants with the specific attributes of interest and

relevance (Creswell, 2003). The target population of this study was the employees of both flour factories. Total 40 individuals from Sumeya and 55 from Aberos flour factory.

3.4.2. Sample size and sampling techniques

There are two types of sampling techniques; probability or representative sampling and non-probability or judgmental sampling. The sampling technique would use in this study is a non-probability sampling. The non-probability sampling method is a sampling technique does not give equal chance that each elements of the population would be included in the sample. Non probability sampling can adequate if the researcher has no desire to generalize his findings beyond the sample. This study would use judgmental (purposive) sampling. As stated by Saunders et al (2009), judgmental sampling is often used when the researcher select the sample based up on his judgment about some appropriate characteristics required from the sample members. In order to get a necessary data from respondents, the researcher would have used judgmental sampling techniques. From total 40 individuals in number among this 6 would take from Sumeya and 8 would taken from the Aberos flour factory among 55 individuals that have sufficient knowledge about cost accounting system of the factories.

3.5. Method of data analysis

After necessary data would collect from the primary sources the data would analyzed by using descriptive statistics. The researcher would use descriptive data analysis method that is used to analyze the responses of the respondents. The most important activities of data analysis would have started by classify the collecting data in to more meaning full and relevant information. Therefore, in this study the data would analyze through descriptive method. In descriptive method, the study results comply in the form of table, percentage and ratio.

CHAPTER FOUR

4. Data presentation interpretation and analysis

The primary objective of this chapter was to find out the appropriate responses for the basic questions raised under the statement of the problem from the data gathered through questionnaires distributed to sumeya flour factory and Aberos flour factory. Here the data was presented in tables and analyzed by percentage in order to give full information about the study.

Table 4.1. Demographic background of the respondent

		Sumeya flour factory		Aberos flour factory	
Gender	Description	Number of respondent	Percent%	Number of respondent	Percent%
	Male	4	66.7%	6	75%
	Female	2	33.3%	2	25%
	Total	6	100%	8	100%
Age	20-30	3	50%	4	50%
	31-40	2	33.3%	2	25%
	41-50	1	16.7%	2	25%
	>50				
	Total	6	100%	8	100%
Educational	Diploma	4	66.7%	6	75%

Status	Degree	2	33.3%	2	25%
	Master				
	Total	6	100%	8	100%
work experience	1-3 year	2	33.3%	4	50%
	4-6 year	3	50%	4	50%
	7-10year	1	16.7%		
	Above 10 year				
	Total	6	100%	8	100%

Respondents Source: Primary data completed from questionnaires 2020.

As the above item explains that 4(66.7%) of the employees of Sumeya flour factory are Male and 2(33.3%) of the employees are Female and 6(75%) of the Aberos flour factory employees are Male and the remaining 2 (25%) is Female. This shows that the greater distribution of the employees was males in both sumeya and Aberos flour factory. In relation to age 3(50%) of the respondents in Sumeya flour factory are 20-30 age, 2 (33.3%) of the respondents are 31-40 age, and 1(16.7%) of the respondents are 41-50 age. This shows that the dominant of the respondents is young and on the age of productivity.

The above table 4.1 shows that 4(50%) of the respondents in Aberos Flour Factory are 20-30 age, 2 (25%) of the respondents are 31-40 age,2(25%) of the respondents are 41-50 age. This shows that the largest of the employees are young.

With regard to education qualification level, according to table 4.1 presented, 4(66.7%) of the employees of Sumeya flour factory have Diploma holders, 2(33.3%) holds BA degree and 6(75%) of the employees of the Aberos Flour Factory have Diploma 2(25%) was BA degree in

Factory. This shows that the highest percentages of employees are diploma holders in both companies.

As the above item indicated 2(33.3%) of the employees 1-3 years' work experienced, 3(50%) of the employees had 4-6 years' work experienced, 1(16.7%) of the employees had 7-10 years' work experienced in Sumeya flour factory. Based on the data majority of the respondents have an experience of below year and in Aberos flour factory 4(50%) of the employees had 1-3 years work experienced 4(50%) had 4-6 years work experienced. This shows the majority of employees have an experience of below year work experienced in Aberos flour factory.

Table 4.2 cost of accounting information for management decision making in Sumeya Flour Factory and Aberos Flour Factory

	Factory	1		2		3		4		5	
		F	%	F	%	F	%	F	%	F	%
The accounting department prepares interim production reports to management.	Sumeya	3	50%	2	33.3 %	-		1	16.7 %	-	
	Aberos	2	25%	4	50%	2	25%	-	-	-	-
The company use just in time cost management.	Sumeya	4	66.7 %	1	16.7 %	1	16.7 %	-		-	
	Aberos	-		4	50%	-		2	25%	2	25 %
The management department submits the proper documents to the cost accounting to the management department for	Sumeya	3	50%	2	33.3 %	1	16.7 %				

record at the time of delivery.	Aberos	4	50%	2	25%	2	25%	-		-	
The cost accounting information systems have possibilities of integration with suppliers‟ and customers‟ value Analysis of competitors‟ strengths and weaknesses.	Sumeya	3	50%	2	33.3 %	-		1	16.7 %	-	
	Aberos	2	25%	2	25%	4	50%	-		-	
The cost accounting information system use just in time cost management	Sumeya	2	33.3 %	1	16.7 %	3	50%	-		-	
	Aberos	2	25%	4	50%	2	25%	-		-	

Respondents Source: Primary data completed from questionnaires 2020.

This issue is concerned that accounting department prepares interim production reports to management. 50%, 33.3% and 16.7% of the respondents strongly Agree, Agree and disagree respectively in sumeya flour factory and 25%,50%and 25% of the respondent strongly Agree, Agree and Neutral respectively in Aberos flour factory. So both sumeya and Aberos flour factory accounting departments prepare interim production reports to management. 66.7%, 16.7%, 16.7% of the respondents strongly Agree, Agree and Neutral respectively in sumeya flour factory and 50%, 25%, 25% agree, disagree and strongly disagree respectively in Aberos flour factoryuse just in time cost management. This indicates that sumeya flour factory better than Aberos flour factory by using just in time cost management.

The management department submits the proper documents to the cost accounting to the management department for record at the time of delivery more of the respondents 50% says Strongly Agree 33.3% Agree and the remaining 16.7% Neutral in Sumeya flour factory and 50% Strongly agree, 25% Agree and the remaining 25% Neutral in Aberos flour factory. So both sumeya and Aberos flour factory management department submits the proper documents to the cost accounting to the management department for record at the time of delivery.

The majority of the respondents, to the extent 3(50%) strongly agree, 2(33.3%) of responded Agree that the cost accounting information systems have possibilities of integration with

suppliers‟ and customers‟ value Analysis of competitors‟ strengths with this and also the remaining 16.7% Disagree in sumeya flour factory and 25% strongly agree, 25% Agree and 50% Neutral in Aberos flour factory. Both sumeya and Aberos flour factory there is cost accounting information systems have possibilities of integration with suppliers‟ and customers‟ value Analysis of competitors‟ strengths and weakness.

As it is shown in the table 2(33.3%) responded strongly agree, 1(16.7%) responded Agree that the company cost accounting information system use just in time cost management and the remaining 3(50%) Neutral in sumeya flour factory and 2(25%), 4(50%), and 2(25%) responded Strongly Agree, Agree and Neutral in Aberos Flour factory. Most of the respondents in both companies described that the cost accounting information system use just in time cost management.

Table 4.3 managing product costing system material cost, manufacture overhead cost and labor cost.

		1		2		3		4		5	
		F	%	F	%	F	%	F	%	F	%
Your company use manufacturing overhead cost	Sumeya	3	50%	1	16.7%	2	33.3%				
	Aberos	2	25%	4	50%	2	25%			-	
Your company record their production cost separately on a cost sheet	Sumeya	2	33.3%	2	33.3%	1	16.7%	1	16.7%		
	Aberos	2	25%	2	25%	4	50%	-		-	
The company has proper purchasing procedures.	Sumeya	3	50%	1	16.7%	2	33.3%				
	Aberos	2	25%	4	50%			2	25%	-	
Your companies use multiple cost managing system overhead	Sumeya			2	33.3%	3	50%	1	16.7%		
	Aberos	-		2	25%	2	25%	2	25%	2	25

											%
Your companies use cost of quality	Sumeya	3	50%	2	33.3%	1	16.7%				
	Aberos	4	50%	2	25%			2	25%		
The company use just in time cost management	Sumeya	3	50%	3	50%						
	Aberos	4	50%	2	25%	2	25%			-	
The company use proper predetermine for allocating management overhead costs	Sumeya			1	16.7%			2	33.3%	3	50 %
	Aberos			4	50%	2	25%	2	25%		
The production costs accumulated in department basis.	Sumeya	2	33.3%	3	50%	1	16.7%				
	Aberos	2	25%	2	25%	3	37.5%	1	12.5%	-	
The production department use material requisition form to receive raw materials from the store.	Sumeya	4	66.7%	2	33.3%						
	Aberos			2	25%	2	25%	3	37.5 %	1	12. 5%

Respondents Source: Primary data completed from questionnaires 2020.

As it is described in table 4.3.the company use manufacturing overhead cost is 50%, 16.7% and 33.3% of the respondent responded strongly Agree, Agree and neutral respectively in sumeya flour factory and 25%, 50%,25% of the respondent strongly Agree, agree, and neutral respectively in Aberos flour factory. This indicate Aberos flour factory better than Sumeya flour factory regarding use manufacture overhead cost.33.3%,33.3%,16.7% and 16.7% respondent responded strongly Agree, Agree, Neutral and disagree respectively in sumeya flour factory and 25%,25%,50% strongly agree, agree and neutral respectively in Aberos flour factory regarding the company record their production cost separately on a cost sheet. This implies both companies record their production cost separately on a cost sheet.

As it is shown in table 4.3 respondents were asked the company has proper purchasing procedures more of the respondents 50% said Strongly Agree, 16.7% Agree and the remaining 33.3% Neutral in sumeya flour factory and 25% strongly agree 50% Agree remaining 25% disagree in Aberos flour factor. Aberos flour factory is better than sumeya flour factory in proper purchasing procedures. Both the company not used enough multiple cost managing system overhead. Regarding to use quality cost 50% of employees responded Strongly Agree,33.3% responded Agree and the remaining 16.7% Neutral in sumeya flour factory and 50%,25%, and 25% respondents responded Strongly Agree, Agree and disagree in Aberos flour factory. This implies that Sumeya is better than Aberos flour factory by using quality cost. Regarding to use just in time cost management both of them are used just in time cost management. In relation to use proper predetermine for allocating management overhead costs is 16.7% agreed,33.3% disagreed and 50% Strongly disagree in Sumeya and 50%,25%, and 25% responded Agree, Neutral and Disagree in Aberos company. This shows Aberos flour factory is better than sumeya flour factory by using proper predetermine for allocating management overhead costs. Regarding to the production costs accumulated in department basis is 33.3%,50% and 16.7% responded Strongly Agree, Agree and Neutral respectively in Sumeya flour factory and 25%,25%37.5% and 12.5% Strongly Agree, Agree, Neutral and Disagree in Aberos flour factory. Sumeya flour factory is better accumulation of product costs in department basis than Aberos flour factory. As indicated in the above table 4.3 regarding to the production department use material requisition form to receive raw materials from the store is 66.7%, 33.3%, Strongly agree and agree in Sumeya flour factory and 25%, 25%, 37.5% and 12.5% agree, Neutral, disagree and Strongly disagree respectively in Aberos flour factory. This indicated that sumeya flour factory is better use of material requisition form to receive raw material from the store than Aberos flour factory.

Table 4.4 cost allocation to cost object in Sumeya Flour Factory and Aberos flour factory.

	1			2		3		4		5	
	F		%	F	%	F	%	F	%	F	%
The company's current	Sumeya	2	33.3%	3	50%					1	16.7%

costing system is proper record and analysis.	Aberos	2	25%	2	25%	-		2	25%	2	25%
Your company's current costing system enables the department to assign fair production cost to products.	Sumeya			3	50%	1	16.7%	2	33.3%		
	Aberos	4	50%			2	25%	2	25%		
Your company Evaluate cost accounting system using Economic value added or residual income.	Sumeya					1	16.7%	3	50%	2	33.3%
	Aberos	3	37.5%					4	50%	1	12.5%
The cost allocating department uses more than one pool for accumulating indirect costs.	Sumeya	1	16.7%					2	33.3%	3	50%
	Aberos			4	50%	3	37.5%	2	12.5%		
The current costing system is convenient for cost effective production cost assignment.	Sumeya	2	33.3%	3	50%	1	16.7%				
	Aberos	2	25%	2	25%			2	25%	2	25%

Respondents Source: Primary data completed from questionnaires 2020.

As it is described in table 4.4, the company's current costing system is proper record and analysis is 33.3% responded Strongly agree, 50% responded agree and 16.7% of the respondent strongly disagree, in sumeya flour factory and 25%,25%,25%, and 25% of the respondent strongly Agree, agree, Disagree and strongly disagree respectively in Aberos flour factory. So Sumeya flour

factory better than Aberos flour factory. Regarding to current costing system enables the department to assign fair production cost to product is 50%,16.7%, and 33.3% respondent Agree, Neutral and disagree respectively in sumeya flour factory and 50%,25%, and 25% of the respondent said strongly agree, neutral and disagree respectively in Aberos flour factory. This indicate sumeya and Aberos flour factory current costing system enables the department to assign fair production cost to the product .

The company evaluates cost accounting system using economic value added or residual income, the respondents 16.7% said Neutral 50% disagree and the remaining 33.3% Strongly disagree in sumeya flour factory and 37.5% Strongly agree 50% disagree and remaining 12.5% Strongly disagree in Aberos flour factory. Both sumeya and Aberos flour factory, there is less evaluation of cost accounting system using economic value added or residual income. As it is shown in the above table 4.4, 50% of the respondents disagreed that the cost allocating department uses more than one pool for accumulating indirect costs and 17.5% responded strongly agree and 33.3% respondents said disagree in sumeya flour factory and 50%, 37.5, and 12.5% of the respondents Agree, Neutral and disagree in Aberos flour factory.

Table 4.5 Questions related to cost accounting method

	1			2		3		4		5	
Your company's cost accounting method is suitable in computing cost of factor of production.	Sumeya	3	50%	2	33.3 %	1	16. 7%				
	Aberos			2	25 %	3	37. 5%	2	25 %	1	12. 5%
Your companies used process costing system.	Sumeya	2	33.3 %	3	50%	-		1	16.7 %		
	Aberos			2	25	-	-	6	75%	-	

					%						
Your companies used job order costing system.	Sumeya					-	-	3	50%	3	50 %
	Aberos	4	50%	2	25%			2	25 %	-	-
Your companies used both process and job order costing system.	Sumeya	-	-			2	33. 3%	4	66.7 %	-	-
	Wolkite	4	50%	2	25 %			2	25%	-	-

Respondents Source: Primary data completed from questionnaires 2020.

According to above Table 4.5 expresses the company cost accounting methods suitable in computing cost of factor of production is 50% responded Strongly Agree, 33.3% responded agree and the remaining 16.7% of the respondent said Neutral respectively in sumeya flour factory and 25%, 37.5%, 25%, and 12.5 % of the respondent responded agree, neutral, disagree, and strongly disagree in Aberos flour factory. So the sumeya flour factory is better than Aberos flour factory regarding to cost accounting methods suitable in computing cost of factor of production. This issue is concerned that your companies used process costing system.33.3%, 50% and 16.7% of respondent said strongly agree, agree and disagree in the sumeya flour factory. But in Aberos flour factory 25% and 75% agree and disagree respectively. Aberos flour factory does not use process costing system while sumeya flour factory uses process costing system. In Sumeya flour factory 50% and 50% of respondents responded disagree and Strongly disagree respectively for using job order costing system. And respondents in Aberos flour factory 50%, 25% and 25% of respondents responded strongly agree, agree and disagree respectively. This shows that in Aberos flour factory job order costing system is more used than sumeya flour factory. According to above Table 4.5 expresses your companies used both process and job order costing system.33.3% and 66.7% of respondents said Neutral and disagree respectively in Sumeya and in Aberos flour factory the respondents responded 50%, 25% and 25% Strongly

agree, agree and disagree respectively. This implies that both process costing and job order costing system is used more in Aberos flour factory.

CHAPTER FIVE

5. Conclusion and Recommendation

5.1. Introduction

This chapter conclusion obtained from the findings of the research study. Recommendations are also provided making use of research findings and suggestions for further studies.

5.2. Conclusion

In conducting the research under consideration an attempt was made to analyze the cost accounting system in case of Sumeya and Aberos flour factories.

The primary data were collected from questionnaire held with the finance manager and workers selected by judgment sampling method. Then the conclusions reached are the following.

The accounting department prepares interim production reports to management are found at good level in both Sumeya flour factory and Aberos flour factory.

Both company uses just in time cost management. It uses cost plus pricing approach to price their product by computing the material cost. Labor cost, overhead cost and administrative expenses and to this adds up the desired profit percentage. This pricing approach used to fix the desired profit percentage of the company. The preparation of financial statement also used to know its net income and net loss.

Management requires relevant information for making routine and special decision and the cost information delivered by the finance department are necessary in making decisions. The accounting department is expected to provide information to all levels of management. The reports could be useful only when they are provided at the time needed by managers, understandable by users, prepared in the way users needed to be and complete. However, the result of the study shows reports are prepared in better and reliable manner but up to date information are not always provided that helps mangers making decisions up on their request

when they are in need of making various decisions The timeliness and relevance of the report are not satisfactory.

Basically, both Sumeya flour factory and Aberos flour factory uses the management department submits the proper documents to the cost accounting to the management department for record at the time of delivery. 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.

Aberos flour factory use job order costing system for some of its products that are manufactured in identical lots of groups or that are produced according to customer order specifications. They use these costing systems helps the company for its different products to accumulate costs that used for different purpose based on their nature of production. This is used to control the company's flow of production costs easily.

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

5.3. Recommendation

On the basis of the findings of this study, the researcher has drawn the following recommendations

- In least developing countries like Ethiopia there is problem in cost accounting system. In order to compute the cost of products efficiently and effectively and run the business by controlling costs and increase its profitability modern costing method should be implemented.
- The timeliness and relevance of the report of the companies not satisfactory. It is better to use modern accounting software to satisfy the needs of the company both for financial accounting and other managerial decision purposes and provided at the time needed by managers, understandable by users, prepared in the way users needed to be and complete.

- Both companies production department should use material requisition form to receive raw materials from the store this ensures to know the amounts of raw materials used and to set appropriate prices for finished products.
- Most of the productive department employees found at a position are not qualified as their position require, even though they acquired the position by long experience. As a result, poor labor productivity will occur which in turn affect cost. Therefore, the company should plan to replace employees in the long run.
- The employees do not adequate skills; the management of the companies should give appropriate training and communicate all employs working in the factory. The training may include how employees use proper procedure to operate machine, how properly manage raw materials and finished, products how to keep materials in right place, and how to manage customers.
- In order to produce the necessary report accounting information for the users, cost section should have adequate number of employees and well structured. Accounting manual and policy which is intentionally designed for cost accounting should be prepared and used.

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Appendix

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondents;

This study is conducting under the title "Comparative analysis of cost accounting system in Sumeya flour factory and Aberos flour factory''. The information is required for conducting senior essay in accounting & finance as partial fulfillment for obtaining bachelor degree in accounting & finance. Dear respondent, I would like to express my gratitude in advance for your cooperation. You will show the answer in completing the questionnaires below

INSTRUCTION;

In all cases, where answers to options are available, please tick (√) in the appropriate box.

For questions that demand your opinion, please try to honestly describe your responses on the space provided.

Don't write your name

I. Personal Information

Job position_____☐_____☐_____

1. Gender: A. Male ☐ B. Female ☐

2. Work experience ye A, 1-3 years B, 4-6 years C, 7-10 years

D, above 10 years

3.Age: A. 20-30 B. 31-40 C.41-50 D.abve 50

4. Educational status: A Diploma B. Degree C. Masters

D. PhD and above E. If any other……

A. Question about the cost of accounting information for management decision making.

No	Item	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	The accounting department prepares interim production reports to management.					
2	The company use just in time cost					
3	The management department submits the proper documents to the cost accounting to the management department for record at the time of delivery.					
4	The cost accounting information systems have possibilities of integration with suppliers‟ and customers‟ value Analysis of competitors‟ strengths and weaknesses.					
5	The cost accounting information system use just in time cost management					

B. Question about managing product costing system material cost, manufacture overhead cost and labor cost

No	Item	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Your company use manufacturing overhead cost					
2	Your company record their production cost separately on a cost					
3	The company has proper purchasing procedures.					
4	Your companies use multiple cost managing system overhead					
5	Your companies use cost of quality					
6	The company use just in time cost management					
7	The company use proper predetermine for allocating management overhead costs					
8	The production costs accumulated in department basis.					
9	The production department use material requisition form to receive raw materials from the store.					

C. Question related with cost allocation to cost object

No	Item	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	The company's current costing system is proper record and analysis.					
2	Your company's current costing system enables the department to assign fair production cost to products.					
3	Your company Evaluate cost accounting system using Economic value added or residual income.					
4	The cost allocating department uses more than one pool for accumulating indirect costs.					
5	The current costing system is convenient for cost effective production cost assignment.					

D. Questions related to cost accounting method

No	Item	Strongly agree	Agree	Neutral	Disagree	Strongly disagree

1	Your company's cost accounting method is suitable in computing cost of factor of production.					
2	Your companies used process costing system.					
3	Your companies used job order costing system.					
4	Your companies used both process and job order costing system.					