

ST. MARY'S UNIVERSITY COLLEGE
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING

COSTING SYSTEM
IN ADDIS ABABA ABATTOIRS ENTERPRISE

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FEBRUARY 2012
SMUC
ADDIS ABABA

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ACRONYMS

AAAE-Addis Ababa Abattoirs Enterprise

DM-Direct material

E.C-Ethiopian calendar

FOH-Factory overhead

M.H-Machine hour

MOH-Manufacturing over head

NO-Number

POH-overhead

WIP-work in process

SUBMISSION APPROVAL SHEET

This senior essay has been submitted for examination with my approval as an advisor.

Name: _____

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DECLARATION

We, the undersigned, declare that this senior essay is our original work, prepared under the guidance of Ato Tinker Seyefu. All sources of materials used to the manuscript have been duly acknowledged.

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Place of Submission: _____

Date of Submission: _____

CHAPTER ONE

Introduction

1.1 Background of the Study

Accounting has rightly been termed as the language of the business. The function of any language is to serve as a means of communication.

Accounting enables various parties to communicate by using economic information for making sound business decision. In order to satisfy information needs of different people, different branches of accounting have developed. One of the branches of accounting is cost accounting.

Cost accounting has primarily developed to meet the needs of the management. Because cost accounting is one of the best business decisions a manager can take. As changes in technology have brought a remarkable change in the field of accounting, the role of cost accounting has also changed. So, many firms are moving from traditional cost accounting approach to more advanced costing system. (S.K M 2003)

The central theme of cost accounting, in abroad sense, is to provide information largely in the areas of cost which will be useful in controlling the operations of a business. MN A, 2004)

Nowadays organizations give attention for costing system because inmost cases having and knowing costing system is the basic thing for the achievement of organizations objectives. The costing information has wide and different advantages from the view points of both internal and external environment. Purpose of good costing system is to perform the proper allocation of expenditure and involves the collection of costs for every order, job, process, service or unit. MN A 2004)

Even though method of costing differs from industry to industry 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.

Finally, the central focus of this research is to indicate that understanding and using good cost accounting concepts together with proper application of costing system help companies to properly manage and control costs of products and services. Thus, organized and generally accepted cost methods help the company to compute unit cost of the product or service without any doubt. Hence, to archive their organizational objectives, businesses must use efficient and

1.2 Background of the Enterprise

The Amharic word Kera bears the connotation of a site where cattle or heard are slain en masse. The present site of the first modern abattoir, which is located down at Kirkos Kebele where Anbessa City Bus No.6 concludes its trips, is commonly referred to as Addisu Kera (meaning new abattoir). This connotes that there was a slaughter house preceding the present one. The previous one was located at a place close to the old palace a few decades ago, this locality (Addisu Kera Surrounding) was considered to be the suburb at the Southern tip of the capital covered by a den of sorts.

Addis Ababa Abattoir Enterprise (AAE) was established 54 years ago (Nov 3, 1949 E.C) with initial capital of birr 1,367,000 (one million three hundred sixty seven thousand) by mutual agreement made by Royal Families, Local Investors, Foreign Investors and Addis Ababa Municipality with 12%, 42.4%, 4% & 41.6% share of ownership interest respectively.

AAAE was established with the objective of establishing the institution as far away as possible from the flourishing capital. The intention was to be rid of the foul smell, the canine population and the flocking of scavenger birds. In fact, until very recently there were mountains of debris, bones and rotten residuals

left to produce a most provoking smell that evidently polluted the air and the boiling substance inside the compound was also a disgusting state of affair.

About four decades ago, an engineer named Girma Alemu (now he is retired) had invented and put into use a device to absorb the smelling vapor there by containing it. Now, preventive measures and corrective actions have been taken by the management and the concerned parties to curb the problems by removing the derbies and installing new modern and sophisticated machines.

From January 26, 1967 E.C it was completely confiscated by the Derg Regime and became under the control of Addis Ababa Municipality.

In 1991 E.C the enterprise was again reformed and reorganized by the city of Addis Ababa Administration Counsel.

Addis Ababa Abattoir Enterprise (AAAE) is a profitable public enterprise giving job opportunity for 833 permanent and 297 casual workers. Currently the enterprise has a capacity to slaughter (slay) 900 cattle, 1200 sheep & goats & 100 pigs per day during normal periods. This number increases during Easter or similar holidays.

The enterprise provides slaughter service for cattle, sheep, goats and pigs to over 800 butchers in and around Addis Ababa. Owners of butchers and other organizations that purchase live stocks bring them than 120Br. per animal including the delivery charge. Additionally the enterprise provides deboning service to Ethiopian Meat Concentrate Factory and fillet removing service to various customers.

The enterprise collects the hides and skins of the livestock slain and then sells it to the tanneries at an auction on behalf of the owners.

AAAE is not only a service giving and government tax-collecting enterprise; it also handles the slaughtering of herd of sheep and sells mutton Effective costing system.

1.3 Statement of the Problem

In the increasing complexity of modern industry, the use of cost accounting concepts and practices help the management to use the resources efficiently. In addition to this, unless businesses have this cost concepts they can not manage and control costs in the organization. For the success of any industry, there should be efficient cost controlling system. Problems in managing and controlling costs (expenditure) badly hurt the profitability of the business. So in order to tackle the problem businesses should have their own methods and techniques of costing.

Thus, the researcher of this study tried to identify the problems on the challenge of costing and cost control practice at AAAE. In addition to this below is the basic research questions answered by the study.

- What methods and techniques of costing does the enterprise apply?
- What measures and steps are being taken to use efficiently the enterprise's costing system?
- What are the consequences of using poor costing system?
- Is the costing system currently used by the enterprise appropriate?
- Is there proper keeping, recording and accumulation of cost data?
- How the managers of the company use cost information's for decision making?
- How does the enterprise assign costs to its cost centers?

1.3.1 Objective of the Study

1.3.2 General Objectives

The general objective of this study is focused on identifying factors (causes) product costing system of AAAE, especially, when costing it's by products.

1.3.3 Specific Objective

The specific objective of our paper was to:

- Identify the existing problems in the enterprise's costing system.
- Identify what type of techniques and costing system used by the enterprise.
- Assess the problem in accumulation & allocation of costs.
- Assess the way and approaches to use better costing system.
- Examine how cost information's are being used for taking actions in the enterprise.
- Identify the challenges that the enterprise encounter when controlling costs in different departments.

1.4 Significance of the study

The significances of the study are stated briefly as follows.

The study will give awareness for the managers to be able to take measures and serious actions on applying appropriate cost methods and techniques to costing for the success of their organization. Other researchers may use it as a secondary data in conducting similar researches. Finally in conducting the study the researcher will have opportunity to be experienced in their major field of study and will also be able to hold a BA degree.

1.5 Scope of the Study

The study and investigation of this paper have been made on Addis Ababa Abattoirs Enterprise and in the practice of the enterprise costing system for its products. The researcher has confined the research study at AAAE (Head office) due to time constraint and financial limitations. Because of convenience to get sufficient information and data, researcher have conducted study at AAAE to facilitate & organize t study on time.

1.6 Limitation of the Study

One of the constraints that influenced the research study was time. So time constraint restricted us to conduct full and complete research study.

1.7 Research Design

First we design our program think over about the enterprise where will it located when shall the comfort time to go to there? The concern department is found the realm of the enterprise? These were the burning issue to swim in my mind. Even we prepared the question priority.

However when we arrived at realm of the organization absolutely our angelus had eradicate. This situation creates in to our poor soul full happiness, to have been seeing our degree at the near future.

As well as the employed also used this simple& easy method. At first they prepared &gathered all information, data, & the necessary material at their little library put it with computer. After that we could afford a red carpet as equal as 15.

1.7.1 Research Method & Methodology

The study methods were used by the researchers for the proposed study in order to identify and assess the costing system and practices of the organization.

1.7.2 Population and Sample

The population, from which, representative samples have been taken, consisted of employees who work in the finances department of the organization and related to accounting professions. As equal as 15.

1.7.3 Type of data used

In order to collect the necessary information for the proposed study, primary and secondary data have been used.

- **Questionnaire:** we have distributed questionnaires to finance department and tried to address the practice and challenges concerning the costing system of the organization.
- **Interview:** the interview part was made through prepared questions and it was based on respondent's knowledge, duties and responsibilities in the enterprise. We interview head of cost accounting administration finance and production department as well as managers and workers from each department and some other concerned personal of the organization.

Secondary data have also been referred from various reference books, research papers, and other materials.

1.7.2.1 Method of Data Analysis

Here we used tables and other appropriate tools to analyses the collected data properly.

1.8 Organization of the Study

The paper was organized into four chapters. The introductory part is chapter one. Second chapter is literature review which is the general explanation about the topic and to address readers some important points about the topic. Chapter three presents the analysis and interpretation of the data collected. The last chapter wound up the research through conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2. Introduction

It is known that, an existing research idea is reflected in a research proposal which is a document that outlines how one proposes to undertake his research studies.

Therefore a review of the relevant literature must be included in the research proposal. All facts described in the literature review must be reflected in the data presentation and analysis of a research paper.

So the researchers of this paper tried to accomplish their research based on the proposed ideas and facts described in the literature review.

2.1. Accounting and its Types

A. Accounting

Accounting is often called the “language of business”. This language can be viewed as an information system that provides essential information about the financial activities of an entity to various individuals or groups for their use in making informed judgments and decisions.

To make sound decisions, these groups must have reliable information provided by the accounting system. Therefore, the objective of accounting is to record, summarize, report and interpret economic data for use by many groups with in the economic as social system. *(Fess, Warren 2011 p.1)*

B. Specialized accounting fields

The three most important accounting fields are briefly described below.

- i. **Financial Accounting:-** is mainly concerned with the recording of transactions for a business enterprise or other economic unit and the periodic preparation of various reports from such records. The reports, which may be for general purposes or for a special purpose, provide useful information for managers, owners, creditors, governmental agencies and the general public. *(Fess & Warren 2011 P.-13)*

- ii. Cost Accounting:** - the success of any organization from to smallest corner store to the largest multinational corporation requires the use of cost accounting concepts and practices. Cost accounting helps to provide key data to managers for planning and controlling activities.

Following are some important definitions of cost accounting:-

1. Cost accounting is specialized branch of accounting which involves classification, accumulation, assignment and control of cost.
2. Cost accounting is a formal system of accounting for costs in the books of account by means of which costs of products and services are ascertained and controlled.

Cost accounting provides information for management accounting and financial accounting. Cost accounting measures, analyzed, and reports financial and non financial information relating to the costs acquiring or using resources in an organization.

iii. Management Accounting:- The term “management accounting” is the modern concepts of accounts as a tool of management. It is concerned with all such accounting information that is useful to management.

Management accounting measures, analyzes and reports financial and non financial information that helps managers make decisions to fulfill the goals of an organization. Managers use management accounting information to choose, communicate and implement strategy. CIMA London has defined management accounting as “the presentation of accounting information in such a way as to assists management in the creation of policy and in the day-to-day operation of an undertaking”.

(MN. Arora, 2003- P- 5- 8.)

2.2. The Scope of cost Accounting

The most important objective of any business, trade or industry is to earn maximum profits. Profit is a necessary condition for the survival of enterprise. Profit can be maximized either by increasing the price of the product or by reducing and controlling the cost of the product or by both. To increase the price has serious limitations and, therefore, it cannot be applied except in some abnormal circumstances because increase in price may lead to lesser sales and consequently to lesser profits. Thus, the only alternative for the management is to control the cost of the product.

To control the cost of product is not a simple job. It requires various types of information related to various activities and stages of production. This information should be available to the management at any moment of time. This requirement of providing extensive information at regular intervals could not be met by the existing system of accounting, i.e., financial accounting.

Financial accounting could not pinpoint the steps to reduce and control costs. Cost accounting was evolved as a means to achieve low costs to meet the challenges of modern industry, large scale production, keen competition and complexity of the structure of production. Cost accounting is one of the branches of accounting, other main branches being financial accounting and management accounting.

(NIRMAL Gupta, 2003. P.1)

2.3. Objectives and Functions

The main objectives of cost accounting are as follows:

1. **Ascertainment of cost:** The primary objective of cost accounting is to ascertain the cost per unit of production and the cost of each element of expenditure, job process etc.
2. **To determine selling price:** another objective of cost accounting is determine selling price by providing information about the composition of total cost of the product or service.
3. **To control cost:** cost accounting involves the study different operation of manufacturing job-wise, department –wise, operation-wise .division-wise. This facilitates controlling of cost .standard costing and budgetary controls are costing techniques to control cost.
4. **To preparing financial statement:** A proper Cost accounting system provides almost instant information regarding production selling, operating costs, stock of raw materials, working progress and finished products. This helps preparation of financial statements i.e., profit and loss account and Balance Sheet.
5. **To formulate operating policy:** Cost accounting provides useful information to plan and execute operating polices. Cost accounting helps the management in taking various managerial decisions like profitable product mix, utilization of unused capacity, make or buy a component, operating at a loss or closing down the business, introduction of new product.

(NIRMAL GUPTA, 2003- P-1.4.

2.4. Advantages of cost Accounting

The advantages of cost accounting are

- ❖ It highlights profitability and un profitability activities, losses of inefficiencies in any form and helps management to make optimum utilisation of men, material and machines by eliminating idle time, under utilization of plant capacity, spoilage of materials, etc. occurring in any form, such as idle time, under-utilization of plant capacity, spoilage of materials etc.
- ❖ It facilitates the preparation of periodical, final accounts accurately with the help of perpetual inventory system of stock control, ABC analysis, level setting. etc
- ❖ It helps to form cost center and responsibility center to exercise control .It also control cost with special technique .e.g. standard costing and budgetary control.
- ❖ It helps management to take short-term decisions, e.g., adding a new product, make or buy replacement of old machinery etc. by using techniques like marginal costing, etc.and also to formulate production and pricing policies and prepare estimates of contracts and tenders.
- ❖ Cost comparison, in respect of costs of jobs, process or cost center help to control costs .such comparison may be made from period to period, of the figures of the same unit or of several units in an industry using uniform costing and inter-firm comparison method.
- ❖ The cost of idle capacity of a concern not working to full capacity can be readily worked out; which enables the management to take appropriate timely action to improve the position.
- ❖ Value of the closing stock of raw materials, work-in –progress and finished goods can be readily obtained from the cost records.

- ❖ Workers are benefited by introduction of incentive plans which results in higher productivity and higher earning for them.
- ❖ It helps to lower the cost of production and hence the prices of products or services. (S.K Chakravarty 2004 P-5,6)

2.5. Costing

C.I.M.A England has defined the costing as “the techniques and process of ascertaining costs.” Weldon defines costing as “classifying, recording and appropriate allocation of expenditure for the determination of the costs of products or services, and for the presentation of suitably arranged data for the purposes of control and guidance of the management. It includes the ascertainment of the cost of every order , job, contract, process, service or unit as may be appropriate. It deals with the cost of production, selling and distribution.” Thus costing deals with the procedure of ascertaining cost of products or services. The technique of costing involves following steps;

- 1 Collection of expenditure
- 2 Classification of expenditure according to the elements of cost
- 3 Allocation of expenditure to the cost centers or cost units
- 4 Apportionment of expenditure to the cost centers or cost units

Costing should not be confused with cost accounting. Costing can be carried out arithmetically where as cost accounting is the formal mechanism by means of which costs are ascertained. (*NIRMAL GUPTA P1.15.*)

2.6. Importance of Costing:

Costing is an essential work for the efficient management of any enterprise and gives most useful information for perpetration of financial accounts .it enable a business not only to find out what various jobs or processes have cost but also what they should have costed .it indicates where losses and wastage are occurring before the work is finished, so that the immediate action may be taken to avoid such loss or wastage. Also all expenditure are localized and

thereby controlled in the light of information provided by the cost record (*G.B.S, NARANG. V.KUMAR 4TH Ed P-3*)

2.7. Application of costing

Cost accounting is generally considered as being applicable only to manufacturing concerns. This is not so its applications are in fact much wider. All types of activities, manufacturing and non-manufacturing, in which monetary value is involved, should consider the use of cost accounting. It is only a matter of recognition by the management of the applicability of these concepts and techniques in their own fields of endeavor. (*M.N.Arora: 1995, P.4*).

2.8. Cost control

Cost control is the application of costing to control the cost. Cost control has been defined as the guidance and regulation by executive action of costs of operating on under taking within prescribed limits.

2.9. Concept of Cost /Meaning of Cost/

Understanding of cost concepts and terms helps managers to have good communication among managers and the management accountants to design and implement effective costing systems (methods) in the organization. The term “cost” has a wide variety of meanings and its scope is extremely broad and general.

- i. Accountants define cost as a resource sacrificed or forgone to achieve a specific objective.
- ii. Cost is “the amount of expenditure (actual or notional) incurred or attributable to a given thing.” (CIMA, London).
- iii. “A cost is the value of economic resource used as a result of producing or doing the things costed.” (WM Harper)
- iv. “Cost means economic sacrifice, measured in terms of standard monetary unit, incurred or potentially to be incurred, as a

consequence of a business decision to achieve a specific objective”.
(Committee on cost concepts and standards of American Accounting Association) (MN. Arora, 2003- P.15.)

2.10. Cost Vs Expense and Loss

Cost should be distinguished from expense and loss, though in practice the terms cost and expense are often used synonymously. Expenses are those costs which have been applied against revenue of a particular accounting period in accordance with the principle of matching costs of revenue. An expense is defined as “an expired cost resulting from a productive usage of an asset in producing revenue. Unconsumed or unexpired part of the cost is recorded as an asset in the balance sheet and it is converted in to an expense when cost expires while helping to earn revenues. Examples of expenses are depreciation, selling expenses, office salaries etc.

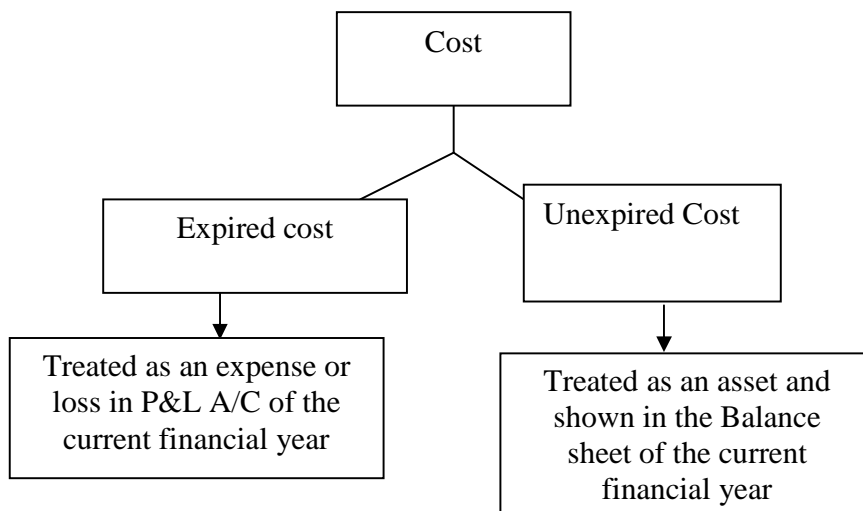


Fig. 1.1 Expired and Unexpired cost

Loss-Loss is defined as “reduction in firm’s equity, other than from withdrawals of capital for which no compensating value has been received. As loss is an expired cost resulting from the decline in the service potential of an

asset that generated no benefit to the firm. Obsolescence or destruction of stock by fire is examples of loss.

(MN. Arora, 2003- P.16)

2.11. Cost Center and Cost Unit

According to CIMA, England “Cost center means a location, person or item of equipment (or group of these) for which costs may be ascertained and used for the purpose of cost control.” Thus, cost center refers to one of the units into which the whole factory organizational has been divide for costing purpose .A cost center is necessary to control costs. A cost center may be a worker, machine, a department, a section, shop etc.

The section of cost center depend upon a number of factors, viz., organizational division of work ,fictionalization, incidence of cost, communication and availability of information, management policy ,etc. The basic objective of having a cost center is to identify costs to an activity so that the efficiency is evaluated and responsibility of performance get fixed for a follow -up action .The determination of a suitable cost center is very important for control of cost .The manager in charge of a cost center is held responsible for control of cost of this cost center .Further ,cost centers facilitate accumulation of all such costs at one place for which a common base of recovery may be used.

Cost centers may be classified as under:

(A) Personal and impersonal cost center

(B) Operation and process cost center

(C) Productive, unproductive and mixed cost center

(a) Personal and impersonal cost centre: if the cost center consists of a person or a group, of persons, it is termed as a personal cost enters. If this cost center consists of a machine, a department or a plant, it is known as impersonal cost center.

(b) Operation and process cost center: operation cost center consists of the person and/or machines' carrying out the same kind of operation .process cost center is the cost center which has a continuous sequence of operations.

(c) Productive, unproductive and mixed cost center: The cost center which is engaged in manufacturing the product directly is known as productive cost center. The cost center, which does not make any products directly but helps the productive cost centers in making the finished products, is known as unproductive cost center. Such cost centers are services like designing, drawings, repair and maintenance, administration etc. A mixed cost center is one which is engaged on productive as well as service works either at the same time or at different time.

The size and the number of cost depend upon the amount of expenditure and requirements of the management for cost control. The number of cost centers in an organization should be neither too big nor too small .A small number of cost centers will not facilitate control of cost while a large number of cost centers will be too expensive. The selection of cost center depend on the following factors

- (1) Organization of factory
- (2) Conditions of incidence of cost
- (3) Viability of information
- (4) Requirements of the costing system
- (5) Management policy for decision making

(NIRMAL GUPTA 2006, P-5, 6)

2.12. Cost Unit

It is a unit of product, service or time a combination of them in relation to which costs may be ascertained or expressed. ICMA, London defines a unit of cost as “a unit of quantity of product , service or time in relation to which costs may be ascertained or expressed .“ it should be simple. Unambiguous and

commonly used. the selection of suitable cost unit depends upon the nature of business, process of information, requirements of costing system, etc. but generally relates to the natural or logical unit of the product or service, E.g. steel or cement industry uses a single cost unit, i.e., 'tonne' whereas transportation services use a composite unit (i.e., a combination of two units) 'passenger -kilometer for passenger traffic or tonne -km' for goods transport. Other examples of composite unit are KWH for electricity supply and patient-day or patient operation for hospitals. In short, cost unit is unit of measurement of cost.

A few typical examples of cost units are given below

Industry or product	Cost unit	Industry or product	Cost unit
Transport department	passenger-km or Tonne-km	Biscuit	Kg.
Pencils	Dozen or gross	Cigarettes	1000cigaretts
Boiler house	Ib	Bread	1000 loaves
Carpets	sq .meter	Cable	Meter of km
Cement, coal, mines	tonne	Printing press	1000 copies

(S.K .Chakravarty p-13)

2.13. Cost accumulation and Cost Assignment

A costing system typically accounts for costs in two basic stages accumulation followed by assignment. Cost accumulation is the collection of cost data in some organized way means of an accounting system. For example, a publishing company that purchase rolls of paper for printing magazines collects

(accumulates) the costs of individual rolls used in any one month to obtain the total monthly cost of paper.

Cost assignment is a general term that encompasses both (1) Tracing accumulated costs that have a direct relationship to a cost object and (2) Allocating accumulated costs that have an indirect relationship to a cost object. *(Charles T. Horngren, 13TH Ed 2006-P.27)*

2.14. Classifications of cost

Classification is the process of grouping costs according to their common characteristics that is each classification serves a different purpose.

A. Classification on the bases of identifiability with cost object /Units/

- i. **Direct costs of a cost object** are related to the particular cost object and can be traced to it in an economically feasible (cost-effective) way. For example, the cost of cans or bottles is a direct cost of Pepsi-Colas. The cost of the cans or bottles can be easily traced to or identified with the drink. Alternatively, these costs can be defined as costs which are incurred for and may conveniently be identified with unit, process or department.
- ii. **Indirect costs of a cost object** These are general costs and are incurred for the benefit of a number of cost of units, processes or departments .These costs cannot be conveniently identified with a particular cost unit or cost center.

B. Classification on the bases of behavior or variability

Consider two basic types of cost-behavior patterns found in many accounting systems. A **variable** cost changes in total in proportion to changes in the related level of total activity or volume. A **fixed** cost remains unchanged in total for a given time period, despite wide changes in the related level of total activity or volume. Costs are defined as variable or fixed with respect to a specific activity and for a given time period.

(Charles T. Horngren 2006, P.30)

C. Classification based to controllability

1. Controllable Cost

Cost which may be directly regulate at a given level of management authority. Variable costs are generally controllable by department heads.

2. Uncontrollable Cost

Const which can not be influenced by the action of a specified member of an enterprise. Fixed costs are generally uncontrollable.

In long run all costs are controllable. A cost which is uncontrollable at one level of management may be controllable at another level of management.

D. Classification on the basis of Time

1. Historical Cost

Are actual costs which are ascertained after they have been incurred. These costs are not available with after the completion of the manufacturing operations.

2. Pre-determined Costs

These are future costs which are ascertained in advance of production on the basis of a specification of all the factors affecting cost.

2.14.1. Inventorial Costs

Inventor able costs are all costs of a product that are considered as assets in the balance sheet when they are incurred and that become cost of goods sold only when the product is sold. Costs of direct materials issued to production (from direct material inventory), direct manufacturing labor costs, and manufacturing overhead costs create new assets, starting as work in process and becoming finished goods. Hence manufacturing costs are included in work-in-process inventory and in finished goods inventory (they are “inventoried”) to accumulate the costs of creating these assets. The cost of

goods sold includes all manufacturing costs (direct materials, direct manufacturing labor, and manufacturing overhead costs) incurred to produce them.

For merchandising-sector, inventerabel costs are the costs of purchasing the goods that are resold in their same form. These cots comprise the costs of the goods themselves plus any incoming freight, insurance, and handling costs for those goods. For service-sector companies, the absence of inventories means there are no inventerabel costs.

2.14.2. Period Costs

Period costs are all costs in the income statement other than cost of goods sold. Period costs are treated as expenses of the accounting period in which they are incurred because they are expected to benefit revenues in that period and are not expected to benefit revenues in future periods (because there is not sufficient evidence to conclude that such future benefit exists). Expensing these costs in the period they are incurred matches expenses to revenues.

For manufacturing-sector companies. Period costs in the income statement are all non manufacturing costs (for example, design costs and distribution costs). For merchandising-sector companies, period costs in the income statement are all costs not related to the cost of goods purchase for resale. Examples of these period costs are labor costs of service-sector companies, all their costs in the income statement are period costs. (*Charles T.Hornngren 13th, p38*)

2.15. Methods of Costing

As far as methods of costing are concerned, they refer to the techniques and processes employed in the ascertainment of costs. Several methods have been designed according to the needs of different industries. The application of costing methods to be employed in one concern depends upon the type and nature of the organization. Basically there are two methods of costing:

- 1) Job costing or job order costing, and
- 2) Process costing

Before examining job costing and process costing, it is necessary to compare briefly job costing and process costing. Job costing and process-costing are best viewed as ends of a continuum.

Job costing System	_____	Process-costing
Distinct, Identifiable units of a product or service (For example, custom-mode machines and houses) (Source: Charles T. Horngren, 13 TH - P.99)		Masses of identical or similar units of a product or service (For example food or chemical process)

2.15.1. Job order – costing system: is the costing system used by entities that make or perform relatively small quantities or distinct batches of identifiable, unique products or services. For example, job order costing is applicable to printing company that publishes books, an accountant who prepares tax returns, and research firm that performs product development studies. In each instance, the organization produce tailor-made goods or services that conform to specifications designated by the purchaser of those goods or services.

The purchaser of the goods or services from a job shop can be external or internal contracting party. External parties includes individuals, other businesses, and governmental. For example, the us. Government might contract with sigma enterprises to build certain parts for a space shuttle. Internal parties include other organizational units within the producing entity. Conti construction, for instance, might contract with its custom cabinet manufacturing segment to build cabinets for all cants homes

(Barfield, Rainborn, Dalton,-P.138)

2.15.2. Objectives of Job costing

The following are the main objectives of job costing:

1. Cost of each job/order is ascertained separately. This helps in finding out the profit or loss on each individual job.
2. It enables management to detect those jobs which are more profitable and those which are unprofitable.
3. It provides a basis for determining the cost of similar jobs undertaken in future. It thus helps in future production planning.
4. It helps management in controlling costs by comparing the actual costs with the estimated costs.

2.15.3. Job Costing Procedure: The following steps are taken in jobs costing:-

- 1. Job number:** When an order has been accepted, an individual work order number must be assigned to each such job so that separate orders are identifiable at all stages of production. Assignment of job numbers also facilitates reference for costing purpose in the ledger and is conveniently short for use on various forms and documents.
- 2. Production order:** the production control department then makes out a production order there by authorizing to start work on the job. Several copies of production order are prepared, the copies often being in different colours to distinguish them more easily. These copies are passed on to the following:
 - i) All departmental foremen concerned with the job;
 - ii) Storekeeper for issuance of materials; and
 - iii) Tool room for an advance notification of tools required.

Production Order			
Name of the Customer		Job No	
Date of Commencement		Date	
Date of Completion		Bill of Materials No	
Special Instructions		Drawing attached Yes/No	
Quantity	Description	Machines to be used	Tools required
(Sing).....			
Production authorized by :			
Head of Production Control Deptt.			

Fig 1.3 Production Order for Job.

The columns provided in the production order differ widely, depending largely upon the nature of production. Sometimes orders are accompanied by the blue prints and contain a bill of materials and detailed instructions as to which tools and machinery are to be used.

3. Job cost sheet: the unique accounting document under job costing is the job cost sheet. Receipt of production order is the signal for the cost accountant to prepare a job cost sheet on which he will record the cost of materials used, and the labor and machine time taken. Each concern has to design a job cost sheet to suit its needs. A simple Performa of job cost sheet is given in Fig 1.3.

Job cost sheets are not prepared for specified periods but they are made out for each job regardless of the time taken for its completion. However, material, labour and overhead costs are posted periodically to the relevant cost sheet.

The job cost sheet constitutes a subsidiary ledger to the work-in-progress control account which is also referred to as job ledger control account. Any time balance in work-in-progress account is equal to the aggregate balances of the individual job cost sheets.

Job Cost Sheet										
Customer					Job No					
Date of Commencement					Date of completion					
Material Cost			Labour Cost				Factory Overhead (Absorbed)			
Date	Material Req.No.	Amount Rs.	Date	Hours	Rate Rs.	Amt Rs.	Dept.	Hour s	Rate Rs.	Amt .Rs.
Total			Total				Total			
Profit/Loss		Cost Summary								
Rs.		Material								Rs.
Price Quoted		Labour								
Less: Cost		Factory overhead								
-----		Administration overhead								
Profit or Loss		Selling overhead								
-----		Total cost								

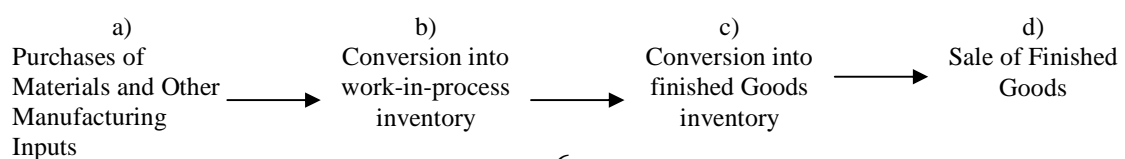
Fig. 1.4 Cost Sheet

The materials, labour and overhead to be absorbed into jobs are collected and recorded in the following way:

(MN Arora, 2003-P.343-344)

2.15.4. Explanations of Transactions

The following transaction-by-transaction analysis explains how a job-costing system serves the dual goals of product costing and department responsibility and control. These transactions track stages (a) through (d) from the purchase of materials and other manufacturing inputs, to conversion to work-in-process and finished goods, to the sale of finished goods:



Direct Materials and indirect materials: when there is purchase of materials, the subsidiary ledger for materials called materials records- keeps a continuous record of quantity received, quantity issued to jobs, and inventory balances for each type of materials.

Transaction: materials/direct and indirect/purchased on credit. The following journal entry accounts for all purchase transactions in the materials subsidiary ledger for the period.

Journal Entry

Material Control XXXX
 Accounts PayableXXXX

As direct materials are used, they are recorded as issued in the Materials records. Direct materials are also charged to individual job records, which are the subsidiary ledger accounts for the Work-in Process control account in the general ledger.

The indirect material costs, by definition, are not traced to individual job. They are instead allocated to individual jobs as part of manufacturing overhead.

Transaction: Materials sent to the manufacturing floor and used. The following journal entry accounts for all requisitions posted in the period in the materials subsidiary ledger for direct materials and indirect materials.

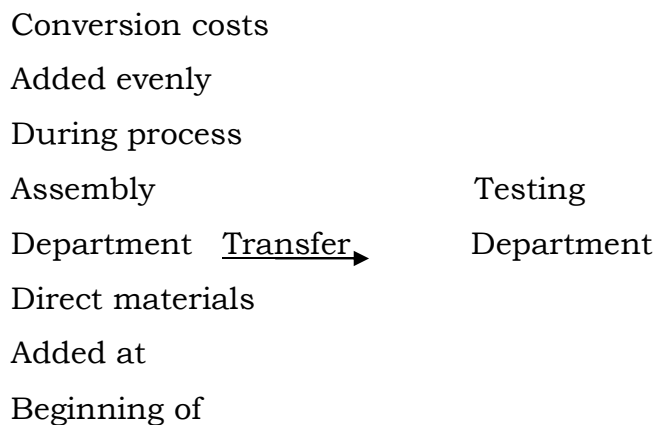
Journal Entry

Work-In-Process ControlXXXX
Manufacturing Overhead ControlXXXX
 Materials ControlXXXX

Process costing is illustrated below using the Global defense the manufacturers of complex electronic components for missiles and military equipment. All units of a particular component are identical and are mass produced. Global defense uses a process- Costing system to determine the cost of each component.

For example DG-19 is one of the components in the assembly department .All units of DG-19are identical and must meet a set of demanding performance specifications. The process-cost-category-direct-materials and a single indirect-cost–category-conversion cost. Conversion costs are all manufacturing costs other than direct material costs, including manufacturing labor, energy, plant depreciation, and so on direct materials are added at the beginning of the Assembly process. Conversion costs are added evenly during assembly.

The following graphic represents these facts:



Journal entries in process- costing systems are similar to the entries made in job-costing systems with respect to direct materials and conversion costs. The main difference is that, in process costing, there is one work-in process account for each process- in our example, work in process-assembly and work in process –testing.

Global defense purchases direct materials as needed. These materials are delivered directly to the assembly department.

2.16. Joint Products and By-products costing

2.16.1. Joint Products

A joint process is a process that simultaneously produces more than one product line. The product lines that result from a joint process and that have sales values are referred to as (1) joint products, (2) by products.

Joint Product are primary out puts of join process ;each joint product individually has substantial revenue generating ability .Join Products do not necessarily have to be totally different products. The definition has been extended to include similar products of differing quality that result from the same process. Joint Products are the primary reason management undertakes the production process that yields them .These products are also called primary products, main products, or co-products

(Barfield.Raiborn.Dalton, - P.175)

2.16.2. By-products

By-products are secondary products which are not planned in production but emerge from the manufacture of the main product .They are outputs from the same raw material and same process. By products carry lesser commercial importance as compared to main product .They have either a net realizable value or an unusable value which is relatively lower in comparison with the saleable value of the main products. By-product are also produced from the scrap or waste materials of process. By-products may be classified in to the following groups: -

- (a) Those which can be sold in their original form future processing ;
- (b) Those which require further processing to increase their realisable.

CIMA has defined by-product as “output of some value produced incidentally in manufacturing something else (main product).”

Example of By-products is as follows;

<u>Industry</u>	<u>Basic materials</u>	<u>By-products</u>
1. Sugar mills	Sugarcane	Bagasse, molasses, etc.
2. Oil refinery	Crude oil	sulphur, bitumen, chemical fertilizer.
3. Cotton	cotton	cotton seed.
4. Thermal power plant	Coal	Ash.

(S.K Chakravarty P-773-74)

2.17. Distinction between Joint Products and By-products

There are no hard and fast rules to distinguish between joint products and by-products. A product may be treated as a joint product in one business and the same product may be treated as a by-product in another business. However, the following factors should be considered to determine if a product is a joint product or a by-product.

(a) Relative sales value: If the sales values of all the products are more or less equal, they are treated as joint products. If, however, there are wide differences in the relative sales values of products, the product with the greater sales value is treated as the main product and the products of lower value are treated as by products.

(b) Objective of manufacture: If the objective of manufacturing is product A, then unwanted products B and C are treated as by-products.

(c) Policy of Management: the management may decide to treat a particular product as the main product as the main product and the other products as by-products. Alternatively, it may choose to treat all the products as joint products.

2.17.1. By-products, Scrap and Waste

By-products should not be confused with waste or scrap. Waste is used to describe a material which has no value or even negative value, if it has to be disposed of at some cost; Examples of waste are gases, smoke and other unsalable residues from the manufacturing process.

Scrap is also different from by-products in the sense that it is the leftover part of the raw materials whereas by-products are different from the material which went into the production process. Small pieces of wood left in furniture manufacture or metal sheet pieces left in utensil manufacture are examples of scrap, whereas minor chemicals, having some value, emerging from a chemical process are classified as by-product. Sale value of scrap is relatively less than that of by-products. However accounting treatment for scrap and by-products are quite similar.

2.17.2. Accounting for By-products

Various methods of accounting for by-products are as follows:

(a) Where by-products are of small total value: in such a case it is not considered practicable to apportion any part of the joint cost to by-products. The net income realized by the sale of by-products may be treated in anyone of the following two ways:

- I) It may be treated as 'miscellaneous income' and credited to costing Profit and Loss Account.
- II) It may be credited to the process account in which the by-product has arisen.

In determining the net income from by-products, the following should be deducted from the sales value of by-products: (i) any selling and distribution expenses incurred in the sale of by products and: (ii) any costs incurred in further processing of by-products to make them saleable.

(b) Where by-products are of considerable total value: Where by-products are of considerable sales value, it is proper to apportion a part of the joint cost by-products. Such apportioned cost of by-products is debited to by-product account credited to the main product account or the relevant process account. Any cost incurred in further processing of by-product is debited to by-product account. The by product account is credited with its sales value and any profit/loss arising out of this account is transferred to costing Profit and Loss Account.

The appointment of joint cost to by-products can be done by any of the four methods discussed earlier in costing of joint products. These methods are:

(i) Sales value method: (ii) Physical unit's method; (iii) Average cost method, and (iv) Points value or survey method.

(c) Where by-products require further processing: in such situations, the net realizable value of the by-product at the split off point may be arrived at by subtracting the further processing cost from the realizable value of the by-products at the split off point is small or negligible; it maybe treated as per the method (a) discussed above. On the contrary, if the net realizable value of the by-products is of considerable amount, it is treated as per method (b) discussed above, i.e. joint cost is apportioned to by-products.

(d) Where by-product is undertaking itself: In those cases where by-products are used by the company itself as a raw material for some other process, such by-products may be priced at the opportunity cost. The opportunity cost is that cost which would have been incurred had the by-product been purchased from an outside firm. For example, a company is running a sugar plant as well as a paper plant. The bagasse, a by-product of sugar plant, may be utilized in manufacture of paper as raw materials. So credit for the cost of the bagasse would be given to the sugar cost at the price which the company would have otherwise paid to buy it from an outside firm for the manufacture of paper.

(MN Arora, 2003 P.483-486)

CHAPTER THREE

3. DATA PRESENTATION, ANALYSIS AND INTERPRETATIONS

3.1. Introduction

Studying and researching something provides with the knowledge and skills that help to solve the problems and meet the changes of a fast paced decision-making based on the proposed ideas and facts environment. The objective of researching or studying something is to solve managerial and societal problems.

It is known that the purposed of any researcher is to analyze, present and Interpret the proposed study by using various research methods and techniques.

Therefore, based on research ideas on the proposal, the researchers of this study assess the costing system and practices of Addis Ababa Abattoir enterprise.

3.1.1. The Data Collection Method

In addition to this primary data such as interview, questionnaire and telephone have been used and helped more to gather the necessary data (information) for the subject being under study.

The secondary data were collected from the written documents, like magazine, the enterprise manual book, and some books that related with the study and some related literature that have helped to complete this research. But in our study we mainly used primary data. The research was conducted through both close-ended questions and open ended questions as well as through observation and one-to-one interview. The research questions and interviews were designed to focus on various aspects of the costing system and cost accounting issues in the enterprise.(We read different books, magazine to real about the organization those had direct related from the concern firm mostly

published by the enterprise. Even we got major information to the concern ones when we had been there.)

Out of a population of 50 people from each department (cost accounting, Administration, Finance and production Department) the researchers have taken 20 people as a representative sample. Out of these people the respondents were, managers, cost accountants, Finance managers, workers from production department and some other concerned personnel of the organization.

Based on the sample, the researcher distributed copies of 20 questionnaires to these people. But among these, only 15 people cooperated to fill the questionnaires.

Finally, even if there are time constraints, unwillingness among the staffs of the organization and some other problems and difficulties, the researcher of these study paper tried their best on collecting up-to-dated information on the research being performed.

3.2. Assessment of cost concepts and classification

Under this, the researchers are assessing the enterprise's cost classification. Topics included are purpose of classification, the manner of classification, list of control accounts such as direct cost, direct cost ledger, production overhead costs and its related ledgers, general and administrative expense and cost of goods sold.

Purpose

The purpose of classifying costs and expenses is to enable management to enable management to get brief information to the amount of each type of cost & expense so that it conceptually apprise the cost of various segment production output, initiate measures to control these costs, to analyze & classify the costs of products, What the cost production is to be, the actual costs and soon.

The manner of classification of costs

In the enterprise costs are classified and arranged in the manner (order) in which, they can be identified with their proper cost objects and are recognized with in each operation department of the organization.

3.3. Duties and Responsibilities of Cost Accountant in AAAE

The cost accountant should be directly responsible to the Finance Division Head and must work in close collaboration with Slaughter Service, Industry and Technical Division Heads. The section is responsible for the preparation of the cost accounts and provides the necessary reports to management indicating where loss, waste, inefficiency and possibility of saving occur.

The Cost Accounting Section is responsible for journalizing and recording standard costs of material, labor and overhead. It is also responsible for preparing variance analysis and the necessary adjusting entries emanating from the variance analysis.

The following paragraph is based on the researchers' observation & information at AAAE.

3.4. Classification of Costs in General

Before discussing about the classification of costs in AAAE, the researchers would like to present a general (brief) introduction about classification of costs in the following paragraph.

Direct Costs

Costs which are easily and economically traceable to a product or a job are considered to be direct costs. These costs are classified into direct material and direct labor.

Indirect (Overhead) costs

These are general costs and are incurred for the benefit of a number of cost units, process or department. These costs can not be conveniently identified with a particular cost unit or cost center.

3.5. Classification of costs in the Enterprise

3.5.1. Manufacturing Costs

Costs that are classified and included in the manufacturing costs by the enterprise are discussed below.

Direct Material Costs

Direct materials are the acquisition of cost of all materials that can be easily identified with the product, or job. Materials may be considered a direct charge at one time but an indirect or overhead charge on other occasions. However, the test for direct materials is that they must be accountable and traceable as they enter into the product or job.

Costs incurred for products obtained from offal (Raw stock) such as, blood, feet, part of head, tallow, trimmings, intestine, horn, tail, floor sweepings, skin and hides are direct material costs of the enterprise.

Direct Labour Costs

These costs consist of the salaries and wages of employees assigned to a particular product or production unit of the factory.

Salaries and wages of slaughters, flayers, carcass sorters, carcass loaders and unloaders; slaughtering machine operators, head and offal sorters, tallow and kidney sorters are direct labor costs of the enterprise.

Indirect Labor (Production Overhead)

The salaries and wages of employees who are not directly involved in the production of goods (e.g. the salary of the production head and the salaries and wages of the workers engaged in the boiler house and workshops are indirect labor costs and are, therefore chargeable to production overhead costs.

3.5.2. Other Production Overhead (POH)

Examples of these costs include costs of supplies, in direct materials such as lubricants, the cost of Rent for building, maintenance and repair cost depreciation of factory machinery and equipments. Electricity and water consumption.

3.5.3. General and Administrative expense

These expenses are so remotely related to production that they are excluded from cost of production and inventory valuation. Only general and administrative expense actual account will be maintained.

This account is charged at actual for all general and administrative expenses. The source documents for such expenses vary depending upon the type of expenses. The documents include payroll, payment voucher and journal voucher.

3.5.4. Office and Administrative Overhead

This is the indirect expenditure incurred in general administrative functions such as in formulating policies planning and controlling the functions directing and motivation the personnel of an organization in attainment of its objectives.

3.5.5. Selling and distribution

Selling overhead is the cost of promoting sale and retaining customers. Distribution overhead includes all expenditures incurred from the time the product is completed until it reaches its destination (customers). It refer to all expenses incurred in executing orders

3.6. Cost Accounting Procedures of AAAE

Direct cost Ledgers

The following six general ledger cards will be maintained to handle direct costs.

A) Material-Actual

These accounts are charged at actual costs for all materials issued to processing divisions. The only source document for debiting these accounts is stores issue voucher or in the case of Addis Ababa Abattoirs Organization the source document will be the daily receipt report received from Slaughter Service Division. The account is credited at a predetermined interval in closing the reciprocal account transfer of material at estimate to processing.

Example

The entry to record the receipt of inedible offal, raw tallow skins & hide would be:-

350.511.000	Material-actual	XXX.XX	
700.211.XXX	Cattle owners a/c		XXX.XX

The entry to record the settlement of cattle owners account would be:-

700.211.XXX	Cattle owners a/c	XXX.XX	
700.111. XXX	Bank a/c		XXX.XX

To close the material-actual and the reciprocal account transfer of material at estimate to processing.

530.512.0	Transfer or material at		
	Estimate to processing	XXX.XX	
530.511.XXX	Material-actual		XXX.XX

b) Transfer of Material at Estimate to Processing

This account is reciprocal to material actual accounts. It is credited at estimate when material is issued to processing units. Work in process transfer costing sheet is used as a source document for crediting this account. The account is debited at a predetermined interval in closing the reciprocal account material-actual.

c) Transfer of Material Loss or Gain

This account is either debited or credited for the difference between Material-actual and transfer of material at estimate to processing at a predetermined interval. Source document for entries to this account is a comparative cost analysis production sheet prepared at a predetermined interval. Finally at the end of each fiscal year balance on this account is transferred to cost of goods sold.

d) Labor-Actual

This account is charged at actual cost for all salaries and wages paid to production workers. The only source document for debiting this account is the monthly or the half monthly payroll sheet. Labor actual account is credited at a predetermined interval in closing the reciprocal account transfer of labor at estimate to processing.

Example

- a) When a cheque is issued in the name of the paymaster for the net amount of salaries and wages payable to employees of the enterprise the payroll fund account (114.xxx) is debited and cash at bank (111) is credited.

700.114.000	Payroll fund	XXX.XX	
700.111. XXX	Cash at bank		XXX.XX

b) Upon receipt of payroll lists signed by all employees whose names are indicated in the payroll list, the charges or expense is cleared by the following entries:-

XXX.521.000	Labor –actual	XXX.XX
XXX. 610.001	Processing overhead	
	Salaries & wages	XXX.XX
700.114.XXX	Payroll fund	XXX.XX
700.220.001	Income tax	XXX.XX
700.220.002	Pension	XXX.XX
700.220.003	Surtax	XXX.XX
700.XXX.XXX	Other personal deductions	XXX.XX

XXX denotes the cost center codes, general ledger or subsidiary ledger accounts that vary depending upon the cost center involved, the general ledger account or subsidiary ledger account.

c) In closing the labor-actual account the following entry is required.

XXX. 522.000	Transfer at estimate to	
	Processing	XXX.XX
XXX.521.00	Labor-actual	XXX.XX

d) Transfer of labor at estimate to processing

This account is a reciprocal to labor-actual account. It is credited at estimate when work in process is transferred from department to department or to finished goods. Work in process transfer costing sheet is the only source document for credit entries to this account. This account is debited at predetermined intervals in closing the reciprocal account labor actual.

e) Transfer of labor loss or gain

This account is either debited or credited for the difference between labor-actual and transfer of labor at estimate to processing at a predetermined

interval. Source document for entries to this account is a comparative cost analysis production sheet prepared at a predetermined interval. Finally at the end of each fiscal year balance on this account is transferred to cost of goods sold. Sample entries for this account are shown in paragraph.

Production overhead costs

These are costs which are not easily and economically identifiable with a product or a job. Although such costs are difficult to identify with a product or with a job many of them are easily traceable to particular “production units” or “service units” of the production division and could be charged to these units.

Production overhead ledger

This account is sub-divided into

- Production expense-actual
- Transfer of estimated expenses to production
- Transfer or production expense loss or gain

a) Production overhead expense-actual

This account is charged at actual cost for all production overhead expenses. The source documents for such expenses vary depending on the type of expense. Example:-

- Indirect labor-monthly or biweekly payroll
- Insurance, medical, light and power, transport, allowance etc. – Payment voucher.
- Fuel and lubricants, uniform, spare parts, other material etc. – Issue voucher.
- Depreciation-journal voucher

b) Transfer of estimated production overhead expense to process

This account is reciprocal to production overhead expenses actual account. It is credited at estimate when work in process is transferred from department to department or to finished goods. Work in process transfers costing sheet is the only source document for credit entries to this account. The account is debited at a predetermined interval in closing the reciprocal account production overhead actual.

c) Transfer to production overhead expense loss or gain

This account is either debited or credited for the difference between the actual overhead and the transfer account at predetermined interval. Source document for entries to this account is a comparative cost analysis production which is prepared at predetermined intervals. Finally at the end of each fiscal year balances on this account are transferred to cost of goods sold.

Costs of Good Sold

Direct and production overhead costs are summarized by production and are then transferred to this account. The account is further split into:-

- Direct material cost
- Direct labor cost
- Production overhead cost

Balance on this accounts present the final expense data to be presented on the cost of goods sold statement.

The accounts classified under this category are charged at standard cost when sales report is received from shops.

Sold goods costing sheet is the only source document used for entries to these accounts. The account is credited only once a year for final closing of books.

3.7. Cost Center

Cost is ascertained by cost centers or cost units or by both.

A cost center is defined by CIMA London as a “location person or item of equipment (or group) of these for which costs may be ascertained and used for the purpose of control.” Thus, a cost center refers to a section of the business to which costs can be charged. It may be a location (a department, a sales area). An item of equipment (a machine, a delivery person (a salesman, a machine operator) or group of these. The main purpose of ascertaining the cost of a cost center is control of cost.

From functional point of view, cost centers may be of the following two types:

- a) Production cost centers-** those cost centers where actual production work takes place.
- b) Service cost center-** these cost centers which are ancillary to and lender services to production cost centers.

3.7.1. The Cost Centers and Organizational Units at AAAE

Since AAEE is to some extent a large organization, the researchers were ambitious and interested to know the number of cost centers in the enterprise. That is because in business organizations cost centers play an important role in ascertaining and controlling costs. According to Ato Tesfaye, the Chief Cost Accountant, six organizational units have been identified as cost and processing centers. He added that these centers are directly involved in providing service and processing products for which the enterprise was established. These service or processing centers are:

Slaughtering Service

- Slaughter Service Section
- Deboning Service & cold Storage Section

By-Products Processing

- Raw Materials Preparation Section
- Processing Section
- Hides and Skins Section
- Milling Section

3.7.2. Support Services

The rest of the organizational units (technical and administrative services) provide the necessary facility to the above mentioned processing units and are, therefore, not directly involved in the provision of slaughter and other services or the processing of products. Thus, in determination of cost of service and processing of products the cost of these support service is absorbed as technical and administrative services overhead.

3.8. Cost Estimation and a Cost Figuring Sheet of the Enterprise

In the enterprise cost figuring sheet issued as to summarize the various elements of cost estimated to be directly and indirectly attributable to the provision of slaughter service or production of a certain type of product.

It is necessary to prepare cost figuring sheet for each service type of product at the beginning of each fiscal year in order to provide a guide to determination of selling price. It should be born in mind that cost figuring sheet is the basic foundation of the whole costing system as most of the other records in the costing system will either be built up from it or compared against it. It is important that the cost estimate should be as accurate as possible and should be able to reflect present cost structure and anticipated cost increases during the following fiscal year.

3.8.1. Establishing cost Figuring Sheet

Cost figuring sheet is the most essential document in establishing the cost accounting system for the organization. It forms as a base document for establishing chart of standard costs. Therefore utmost care should be exercised in completing it.

Initially the cost figuring sheet is completed for all services and by-products the first time the cost accounting system is introduced. There after, all new products introduced will be accompanied with this sheet. After the implementation of cost accounting system, sales price for all services and products will be obtained only through use of a cost figuring sheet.

At the beginning of each fiscal year cost figuring sheet will be prepared for all services & products. However, due to adverse variations between actual and standard all cost figuring sheets may require revision and may result in change of selling prices of products and level of service charge. In such cases proper consultation with responsible personnel is required.

The establishment of cost figuring sheet is the responsibility of cost accounting section. However, a committee comprising heads of:

- Finance Division
- Slaughtering Service Division
- By-products production Division
- Technical Service Division
- Planning and Programming Service

Should review the data and detailed steps taken by the cost accounting section so as to ascertain the accuracy of the cost figuring sheets. Finally, the cost figuring sheets should be approved by the General Manager.

Addis Ababa Abattoirs Organization

Cost Figuring Sheet

Of product or service Date

Particulars	Direct Material	Direct Labour	Manufact. Overhead	Total
Slaughtering Service Division				
Slaughter and Distribution Service section				
Laboring and Cold Storage Section				
Division Overhead				
Industry Division				
Raw Material Preparation Unit				
Processing Section				
Hides & Skins Section				
Milling Section				
Division Overhead				
Technical Service Division				
Transport Service				
Boiler Unit				
Division Overhead				
Administrative and General Expense				
Total cost				
Profit				
Gross Selling Price				

Prepared Checked by Approved by

3.9. Methods of Costing

As far as methods of costing are concerned, they refer to the techniques & processes employed in the ascertainment of costs. According to the needs of industries, different industries use different methods of costing. Basically there are two methods of costing.

- 1) Job costing or Job order costing, and
- 2) Process costing

Before discussing about the method of costing in AAAE, researchers would like to give a brief explanation about process costing.

Process costing is used by firms having a continuous flow of identical products, where it is not possible to distinguish one unit from another. The amount of production is determined to a large extent by supply and demand for the product rather than a specific order. Few examples of industries that use process costing system are chemical works, soap making, box-making, distillation process, paper mills, biscuit works, oil refining, textiles production, food products, canning factories, paint, meat products factory, milk dairy etc. Slaughter Service and processing of offal fall in the same category of industries that use process costing.

3.9.1. The Costing Method of AAAE

According to the information from the interview made by the researchers with the concerned bodies of the enterprise, AAAE uses process costing method and this method of costing is appropriate to the enterprise. Because the enterprise falls in the same category of industries that process their products abuse process costing.

That is, since Addis Ababa Abattoirs Organization gives slaughtering service and it processes inedible offal (Raw stock-those parts less valuable than the flesh) received from the slaughter house.

3.10. Main Products, Joint Products, and Byproducts

When a joint production process yields one product with a high total sales value, compared with total sales values of other products of the process, that product is called a main product. When a joint production process yields two or more products with high total sales values compared with the total sales values of other products, if any, those products are called joint products. The products of a joint production process that have low total sales values compared with the total sales value of the main product or of joint products are called byproducts.

Distinctions among main products, joint products, and byproducts are not so definite in practice. For example, some companies may classify kerosene obtained when refining crude oil as a by product because they believe kerosene has a low total sales value relative to the total sales values of gasoline and other products. Other companies may classify kerosene as a joint product because they believe kerosene has a high total sales value relative to the total sales value of gasoline and other products.

The same is true for Addis Ababa Abattoirs Organization. According to Ato Yoseph Diribssa Public Relation and Service Officer, the enterprise is engaged in two basic types of activities.

- The provision of slaughter service to clients.
- The production of by-products from left over offal of the slaughter service.

From inedible offal or raw stock (raw tallow, intestine, trimmings, bone etc) received from Raw Material Preparation in the slaughter house are processed into one or more main products or by products.

This process is illustrated in the following table.

Raw material	Separable products (main & by products/at split off point
Inedible Raw stock (feet & forehead skin)	Glue pure bone, neats foot oil and pure bone.
Tallow and meat bone Meal	Pure bone meals, blood meal and combined fertilizer.
Tails	Swisher
Horn	Horn tips
Horn for fertilizer	Grinded Horn tips for fertilizer

In the first raw of the above table, glue and neat foot oil have a high total sales value than pure bone which has a low total sales value, hence, glue and neat foot oil are classified as main products but pure bone is classified as by-product.

In the second raw of the above table, pure bone meal & blood meal have a high total sales value than combined fertilizers, so that pure bone meal & blood meal are classified as main products, whereas combined fertilizers are by products & so on.

List of by-products used in the Enterprise

- Tallow
- Glue
- Pure bone meal
- Blood bone meal
- Blood meal
- Combined fertilizer
- Swisher Hair
- Selected Horn
- Meat-Bone meal
- Horn Tips for Export
- Hides
- Skin

3.11 Analysis of Cost Accounting

This part analyzes cost accounting system of AAAE based on the data given in the data presentation part and to compare it with fact in the literature review. These parts will be analyzed by using table and other analysis method.

Cost accounting in manufacturing company has many objectives and it comprises major part of the accounting.

For comparison purpose of the following table the researchers showed the difference between fact and AAAE.

Table 1

Basic of comparison	AAAE point f view	Literature Description
Objective of cost accounting in manufacturing company	<ul style="list-style-type: none"> - Cost allocation and accumulation to the cost object is its main purpose. - Cost accountant provides information to finance manager to determine price. - Managers use to control and plan the cost of production. 	<ul style="list-style-type: none"> - Main objective is cost allocation and accumulation. - Provides information to both financial and Management accounting. <p>Cost accounting issued for both management process i.e. plan and control.</p>

(We obtain this information from the proceeding of the enterprise)

3.11.1 Analysis of Classification of cost in AAAE

Cost classification in AAAE manufacturing company comprise with that of the literature review.

For comparison purpose the following table will show the basis of comparison with that of literature review.

Table 2

Basis of comparison	AAAE point of view	Literature description
Based on nature of expense	Material Labor FOH	DM DL FOH
Classification by function	<ul style="list-style-type: none"> - Manufacturing - Non manufacturing • Selling and distribution • General and administrative 	<ul style="list-style-type: none"> - Manufacturing - Non Manufacturing
Classification by behavior	<ul style="list-style-type: none"> - Variable - Fixed 	<ul style="list-style-type: none"> - Variable - Fixed
Classification by traceability to product (cost object)	Indirect cost Direct cost	Indirect cost Direct cost

By showing the above table we conclude that the enterprise use good cost classification. The researchers indicated this because they wanted to compare the facts in the AAAE with the literature review.

3.11.2 Analysis of cost Allocation

Analyzing cost accumulation of the company helps the researchers compare allocation methods; the company allocates cost to its direct material, direct labor, manufacturing overhead cost to each department and allocation of manufacturing overhead in the production process.

AAAE has the same allocation method with that of literature review

Table 3

Basis of comparison	AAAE used as	Literature review
FOH Cost Allocation method	Machine hour this is one of the allocation method used by literatures	Describe many FOH allocation method
Assignment of cost	Cost is assigned directly to each department amount of use.	Directly or Indirectly to the cost department

Based on the above table we conclude that AAAE allocate each cost and each department also has fixed amount of electric power and labor hour. The company allocation system is shown in Anne two.

3.11.3 Analysis of cost Accounting system

In the second chapter we are trying to see cost accounting system. There are two major type of cot accounting system these are job order costing and process costing system. Most manufacturing company use this costing system to know there cost flow of production. As we try to see and show AAAE use process costing system because the company recognizes that it is appropriate for its kinds of product.

Table 4 show comparison of costing system in AAAE

Basis of comparison	AAAE point for view	Literature review
Type of costing system Job order costing. Its Objective is to apply each cost to each specific job orders or lot of similar goods Manufactured on a specific order for stock or customer.	- Not applicable in AAAE because its product is not produced by customer specification.	- Literatures guide to use job order costing in the enterprise who produce product by customer specification.
Processing costing	Applicable in AAAE fully. It apply this costing system because it has continuous process of production. Use same kind material for different product produced.	Literature explain process costing system to use by manufacturing firm who has similar process on there production and the product produced are homogenous.

To know more about the process costing system of AAAE and flow of costs from one department to another department and to see the final out put and total of production refer.(As well as it denoted at table 1 & table 2compare proposed &fact)

CHAPTER FOUR

4.1 SUMMARY CONCLUSION AND RECOMMENDATIONS

The introduction part is presented in the beginning or in the first chapter, the literature review part in the second chapter, and data presentation, interpretation and data analysis are included the third chapter.

Summary of findings, conclusion and recommendation are included in chapter four.

Summary of Findings

The major findings of the study are:

- Addis Ababa abattoir enterprise, which was established 54 years ago, is one of the first public enterprise which gives slaughter service to the public.
- The enterprise is engaged in two basic types of activities in that it gives service by slaughtering, cattle, sheep, goats and pigs to customers in and around the capital city. And it processes by-products (inedible offal or raw stock which is less valuable than the flesh) found or left from the slaughtered (killed) animals. In addition to these it provides deboning service for limited customers, meat processing plants on fee basis.
- From the date of its establishment, for many years the enterprise had problems caused by bad smell produced from bones and rotten residuals polluting the air. Recently by taking corrective and preventive actions and installing modern machineries, it has curbed and solved the problems.
- Since the enterprise is a sort of manufacturing business that processes its products from by-products, it applies process costing system.
- The unit costs of the products processed are determined by the cost accounting department.

- The services rendered in the organization follow the same basic principles and the processing of by-products are undertaken by similar technologies & equipment the costs of different services and by-products differ marginally due to difference in
 - Style and length of process
 - Machinery used
 - Raw material
 - Labour skill and rate of pay
 - Amount of energy and water used
- In the costing system of the enterprise, standard costs have been established for material usage, direct labour, manufacturing overhead and general and administrative expenses.
- In the works and routine operation of the organization, the cost accountant arranges & prepares information necessary for preparing the cost data.
- Different operations which require different type of materials, production skill and machinery hours are embodied in each production or service department of the organization.
- The enterprise uses cost figuring sheet which is a form that presents in summary the various elements of cost estimated to be directly and indirectly attributable to the provision of slaughter service or production of a certain type of product.
- By using information provided by an accounting information system, top management evaluates the performance of each departmental heads and to make decisions to correct a favorable trend.
- For the purpose of cost determination six organization are identified in the enterprise as follow:
 - a) Tallow and meat-Bone processing unit
 - b) Glue and neats foot oil processing unit
 - c) Horn Tips processing unit

- d) Swisher processing unit
- e) Hides and skins processing section
- f) Milling section

4.2 Conclusions

The organization is full dependent on the activities of butchery portioning round a capital city of Ethiopia. As well as the product costing control & management technique as frequent evaluation is best. He also sued over head costs to cost centers &the allocation of overhead to the product by using proper allocation basis.

The organization used direct machinery hours allocation base with the help of these basis it allocates its overhead costs to each department.

Such kind of system help to the management for better analysis of indirect costs by each department & also it is possible to use experts in each department for indirect cost controlling purpose.

The organization is used pressing cost system, more over the allocation based of the organizationally in all. With labour hour .It is difficult to express the methods utilize by allocate joint costs of individual products, sometimes the enterprise follow sales value occasionally to exercise physicals average unit cost, usually about 70% sales value come down at the earth of AAAE.

According to our observation and interview of the concerned department AAAE practiced both of them at the same way recognition time of production and time of sale. It's not clear as abele. Because both way are important and useful.

As our understand the costing system currently being used by the enterprise will be appropriate if the cost department facilities itself by latest computerized technology lather than present system.

3.12 Recommendations

Finally we will recommend the main cost of the company is excise tax a since it is computed on production cost & it should be paid within few days of production whether the product delivered, sold or not; it's one of burdens for the organization. It also has a plan to introduce more sophisticated & computerized cost controlling methods than the recent existing one, to reduce the production cost.

In thinking of us the organization want to be to increase the production cost to change old machine with a new once, to develop a system, recently the methods used by the organization is back ward and customized with out reluctant they must follow modern systematical way either computerized or civilized person.

More over to alleviate the problem of computing process costing standard, the staffs, especially in the accounting should get additional training to up grade their knowledge. The product costing, monitoring & planning system of the enterprise is efficient.

Every month department manager evaluates their subordinates. After that the department mangers evaluate the organization performance in committee. The control of direct material of the enterprise is strict. Even the product costing system of the organization is good. For future it shall be improve with all direction especially to assist by capacity of learned person.

Glossary

Tallow is a renderer from (fat liquid) of beef or mutton fat, processed from suet (hard fat around the kidney).

The white nearly tasteless solid rendered fat of cattle and sheep used chiefly in soap, candles, and lubricants. Tallow is used in animals feed, to make soap, for cooking, and as a bird food. It can be used as a raw material for the production of bodies and other oleo (yellow fatty substance: a yellow fatty substance extracted from beef fat. Use: manufacture or margarine, soap) chemicals.

Gelatin and Glue

Gelatin- a clear substance without any taste that is made from boiling animals bones and is used to make jelly, Photographic Films etc. it is made from skins or hides, connective tissues, cartilage, and bones of cattle and calves. Cooking in water converts the collagen (any of a group of fibrous proteins the occur in vertebrates as the chief constituent of connective tissue fibrils and in bones and yield gelatin and glue upon boiling with water) in these materials to gelatin.

Glue made from the same items as gelatin, but is extracted from these materials by successive heating in water under specific temperature conditions.

Pure Beef Meat & Bone Meal

Pure Beef Meat and Bone Meal (MBM) is obtained through the process of steaming bones, legs, and carcasses of healthy bovine (belonging to the genus of ruminant animals) that come mainly from slaughterhouses fit for human consumption. The fat is extracted by means of steam heating at 133C at a pressure of 3 bars for 20 minutes. Pigs, skin, hair, hooves, or horn wastes are not used in this process. It has an excellent and digestible essential amino acids profile. It has a high calcium and phosphorous content.

Blood meal is dried, powdered blood that is used as a high-nitrogen organic fertilizer. It is a by-product of the meat processing industry. Blood meal can be use dry, and mixed into the solid or mixed with water to make a liquid fertilizer. The NPK ratio (nitrogen (N), phosphorus (P), and potassium that are commonly used in fertilizers) of blood meal is most often seen as 13-0-0 or 12-1-1. Also known AS: Dried blood, powdered blood.

Meat –bone meal

Meat and bone meal (MBM) is a product of the rendering industry. It is typically about 50% protein, 35% ash, 8-12% fat, and 4-7% moisture. It is primarily used in the formulation of animal feed to improve the amino acid profile of the feed. Feeding of MBM to cattle is thought to have been responsible for the spread of BSE (Bovine spongiform encephalopathy, commonly known as mad-cow disease, is a fatal, neurodegenerative disease in cattle that causes a spongy degeneration in the brain and spinal cord. Mad cow disease). In most parts of the world, MBM is no longer allowed in feed for ruminant animals. However, in some areas, including the US, MBM is still used to feed monogastric animals (organism has a simple single-chambered stomach, whereas ruminants have a four-chambered complex stomach. Example of monogastric animals including humans, pigs, dogs, and cats. Horses and rabbits have modified monogastric digestive systems), it is widely used in the United States as a low-cost meat in dog food and cat food.

Neat's-foot oil

Fat from warm-blooded animals normally has a high melting point, becoming hard when cool but neat's-foot oil remains liquid at room temperature. This is because the relatively slender legs and feet of animals such as cattle are adapted to tolerate and maintain much lower temperatures than those of the body core using countercurrent heat exchange in the legs between warm arterial and cooler venous blood. Other body fat would become stiff at these temperatures. This characteristic of neat's-foot oil allows it to soak easily into leather. Neat's-foot oil is used on a number of leather products, although it has been replaced by synthetic products for certain applications. Items such as baseball gloves, saddles, horse harnesses and other horse tack can be softened and conditioned with neat's-foot oil.

Omasum- one of the four chambers of the stomach of cattle. Omasum is spherical and connected to the reticulum by a short tunnel. It is called the "many piles" or the "butcher's bible" in reference to the many folds or leaves that resemble pages of a book. These folds increase the surface area, which increases the area that absorbs nutrients from feed and water. Water absorption occurs in omasum. Cattle have a highly developed, large omasum.

St. Marry University College

Questionnaire

Dear Respondent

This questionnaire is prepared to assess costing system of Addis Ababa Abattoirs. The purpose of this questionnaire is to study performance analysis and evaluation in partial fulfillment of academic requirements for B.A Degree in Accounting & Finance. The study is initiated with the view to securing your honest opinions and comments towards the research study. The researchers take their opportunity to express heart felt gratitude for your unreserved and sincere cooperation to take part in the questionnaire survey. Your genuine response and comments are vital ingredients for the successful completion of the research.

Thus, you are kindly requested to read each questions and indicate your answer by putting tick mark (✓) for close ended and by giving necessary explanations for the open ended questions.

The researchers would like to appreciate for your time in responding the questions.

Notice here that:

- Information is being sought purely for academic purposes and shall be kept strictly confidential.
- Do not write your name
- Please put tick mark in the boxes or write your comment (options) in the space provided.
- If the space provided is not sufficient, you may use the back page

Personal Profile

1.1 Sex

Male Female

1.2 Age

Above 25 above 35 Above 55 Above 65

1.3 Education Qualification

Certificate Diploma Degree Master

1.4 Work experience in the business organization.

Less than five year 6-10 years
 11-20 years Above 20 years

1.5 Your position in the business

Owner Manager Sales clerk Accountant

PART ONE

Close ended questions

2.1 What type of costing method (costing system) does the enterprise apply?

Processing Job order Dual

Any other please specify _____

_____.

2.2 What kind of allocation bases the enterprise use to assign indirect costs?

(You may choose more than one option)

Machine hour Labour hour Cost space

Any other please specify _____
_____.

2.3 What methods are being used to allocate joint costs to individual products? (You may select more than one if appropriate.)

Sales value Physical units Average Unit cost

2.4 What methods can be used to account for by products?

Recognition at time of production

Recognition at time of sale

Others please specify? _____

_____.

2.5 What are the consequences of using poor costing system if any? (You may select more than one if appropriate).

Inefficiency of the enterprise being unprofitable cost centers

In capability of the enterprise to compete competently with other similar industries

In effectiveness of the enterprise being unprofitable

Inability to manage the cost of product properly

2.6 Is the costing system currently being used by the enterprise appropriate?

Yes, it is very appropriate

No, it doesn't apply the proper costing system

Yes, it will be more appropriate if the cost department facilitates it self by latest computerized technology

2.6.1 If your answer for question, # 2.6 is "yes", would you state your reasons?

_____.

2.6.2 If your answer for question, # 2.6 is No, please would you state your reasons? _____

_____.

2.7 Is there proper keeping recording accumulation of cost data in the enterprise?

Yes

No

2.7.1 If your answer for question, # 2.7 is yes, please would you state your reason?

_____.

2.7.2 If your answer for question, # 2.7 is No, please would you state your reason?

_____.

2.8 What are the challenges that the enterprise encounter when controlling costs in different departments?

- Lack of skill/Expertise
- Lack of proper implementation of cost manual
- Lack of proper assignment of job to right staff

Any other please specify _____

_____.

2.9 What are the factors that affect the cost controlling system?

- In capability to classify costs properly in the system
- Improper application of costing system
- Management's failure to train efficient and competent staff concerning costing system

Any other please specify _____

_____.

2.10 It is Obvious that a cost object is any thing for which a separate measurement of costs is needed. If so, what are the major cost objects of the enterprise?

- Products Departments Product departments
- Products and services

Other please specify _____

_____.

2.11 How does the cost department of the organization assign a direct cost and an indirect cost to particular cost object?

- It assigns a direct cost by tracing it to its appropriate cost object
- It assigns an indirect cost by allocating it to its appropriate cost object
- By using cost allocation bases such as, machine hour, labor hours

Other please specify _____
_____.

2.12 What are the factors identified by the enterprise affecting the classification of a cost as direct or indirect?

The materiality (Significant amount) of the cost in question

Available information-gathering technology

Design of operation

Any other please specify _____

2.13 For what purpose do managers use product costing information?

To make decisions and strategy (You may select more than one if appropriate)

For planning and control

For cost management

For inventory valuation

Other please specify _____

_____.

2.14 What are the factors to be considered to determine if a product is a joint product or a by-product in the organization?

Relative sales value

Policy of management

Objective of manufacture

Any other please specify _____

PART TWO

OPEN ENDED QUESTION

1.1 What are the roles and responsibilities of cost accountant in your organization? _____

_____.

1.2 What should managers do to compete effectively with other similar industries? _____

_____.

1.3 What is the use of cost –benefit approach for the management of the organization? _____

_____.

1.4 What are the main products produced in the organization? Which ones are the most saleable for the enterprise?

_____.

1.5 Could you mention please some of the by-products produced by the enterprise? From the by-products which ones are the most important (saleable) for the enterprise?

_____.

1.6 What are a joint cost and spit off point in a joint production process?

1.7 How are joint products differentiated from byproducts in the enterprise?

1.8 What methods can be used to account for spoilage?

If you have any comment on the above question, _____

Thank you again for your cooperation

PART THREE

Interview

- 3.1 What measures and steps are being taken to use efficiently the enterprise's costing system?
- 3.2 How the managers of the company use cost information for decision making?
- 3.3 How does the enterprise assign costs to its cost centers?
- 3.4 What are the fixed and variable costs of the enterprise?
- 3.5 What is the role of correct application of cost controlling system towards the right implementation and achievement of the planned objective of the organization?
- 3.6 What information does cost accounting provide?
- 3.7 If the business sells its products on credit basis, what is its maximum credit period?
- 3.8 Is there strong accounting controls and effective management of receivables in the business?

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Amendments