



**ST. MARYS' UNIVERSITY  
SCHOOL OF GRADUTE STUDIES**

**THE ROLE OF COST ACCOUNTING FOR DECISION MAKING  
IN CASE OF REPI SOAP AND DETERGENT S.C**

**BY  
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**DECEMBER, 2019  
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## DECLARATION

I, the undersigned declare that this thesis is my original work, prepared under the guidance of my advisor, Mohamed seid (Asst. Prof.). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name

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Signature

St. Mary's University, Addis Ababa, Ethiopia, December, 2019

**ENDORSEMENT**

This thesis has been submitted to St. Mary's University College, School of Graduate studies for examination with my approval as a university advisor.

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Advisor	Signature
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St. Mary's University, Addis Ababa, Ethiopia, December, 2019

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## **ACRONYMS AND ABRIVATION**

AACCSA- Addis Ababa chamber of commerce and sectorial

DABDRT- dab development research and training

ICSI - Institute of company Secretaries of India

COSO- The committee of sponsoring organizations of the tread way commission

ICWAT - the institute of cost and works accountants of India

CIMA- chartered institute of management accountants

GAAP - generally accepted accounting principles

SDI-soap and detergent industry



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## **ABSTRACT**

*The business world is in the era of high competition. This is because of the level of complexity that we are seeing from globalization and advanced industry. That means any manager needs all the support he/she might need from anywhere possible to make a sound decision. Cost accounting is one of these tools for supporting managerial activities. Specially, as the industry transforms itself from cottage to mass production and now flexible, cost accounting role is increasing and becoming more and more crucial. The main theme of this study is to assess the role of cost accounting for decision making by taking Repi Soap and Detergent S.Cs. as a case study. This study adopted a descriptive design. The target population for this study was 43 employees of the company. Purposive sampling method was applied. The study collected primary data from the respondents using questionnaires and interview instruments. And the collected data were analyzed by using qualitative approach .From the findings the study concludes that cost accounting play a crucial role in providing information for making economic and financial decisions. These decisions are important elements for the organization.*

**Key words: cost accounting, decision making, pricing**

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Cost accounting system of an organization is the foundation of the internal financial information system. Sound managerial decision making requires a timely, relevant, and accurate measure of the resources consumed in the manufacture of that product.

Hasan(2006) said the Importance of cost accounting is increasing time after time a reason behind is believed as sever competition by globalization, decreasing profit margins , increasing input prices due to the tightening energy sources , economic crises etc.

As explained above the business world now a day is so tight and the competition is global. Those which fail to develop cost accounting practices face varies difficulties unable to add values, to lead the company and compete. Cost accounting basically expected to help the management decision making process through providing necessary information.

The history of manufacturing industry in Ethiopia is believed to begin in 1920s post Ethio-Italy war with a simple processing technology that produces agriculture-based products. The manufacturing sector contribution for the economy of the country was not significant; its contribution to the general GDP was only 1%. Today many years later the sector shows some improvements. According to the report of World Bank (2008), the manufacturing sector contribution to GDP is only 5% in 2006. And the report of 2012/2013 AACCSA and DAB DRT(2014) sows the sector holds 173 thousand employs .Which shows the sector yields important contribution to the economy but a lot of work yet to do in the Area even though it goes a bit far from its starting point . This sector is seen as the success of Ethiopia's growth, as well as its development to a large extent the product of a modern developmental state (Admasu, 2017). From the set plans of EPRDF it is expected the sector to play significant role in the economy.

soap and detergent industry (SDI) includes companies primarily engaged in making soap, synthetic organic detergents, inorganic alkaline detergents, and crude and refined glycerin from vegetable and animal fats. It is categorized under the chemical manufacturing sub-sector. The SDI contributes around 64 percent of the total chemical manufacturing sub-sector in Ethiopia.

The purpose of this study is to examine the role of cost accounting techniques for decision making being practiced by Repi soap and detergent s.c. thus this thesis discusses how cost accounting techniques use in the process of decision making in Repisaop and detergent S.Cs

## **1.2 STATEMENT OF THE PROBLEMS**

In order to prevent financial failure through wrong and ineffective decisions and instead to increase the performance of management, there are different cost accounting tools which can be used to support the decision making process. The effectiveness and appropriateness of those tools different from organization to organization. Organizations can select and apply a suitable one the one which fit to their organization according to the type and sector their organization function. Different information are required for these diverse purposes, therefore organizations have to focus on different accounting tools to support their decisions-making.

According to (Sine &Krisch, 2006) management accounting practices differ in organizations as a result of the uniqueness in their operations and environment. Cost accountants play a crucial role in providing information for making economic and financial decisions. These decisions are an important element for the organization.

Jerreling (2006) said decision-making involves the selection of the best course of action. In order to decide on the best option, management has to judge the effectiveness of various alternatives. Therefore they need some guidance that is usually provided in form of data and information. For this reason they often rely on financial and economic information gathered by management accounting. Implementing the wrong ones can affect the company in a very negative way and may sometimes also lead to its bankruptcy (Young, 2005). “The road to bankruptcy is paved with poor decisions.” So there is a need for adequate cost accounting system for the organization to perform.

Structure implemented to operate and mainly the management that oversees or controls the overall activities of the company. The management may or may not make good decision. when the management get support make good decision. “Good decisions are important and ensure the wellbeing and also the survival of an organization” (Lengauer et al.,2006). Here it comes the need for cost accounting.

Biruk (2009) stated the main problem of Ethiopian manufacturing industry is awareness on cost management practice. Cost management is a method used to realize decision made for planning,

controlling and developing competitive strategies, and it is remarkable to say that creating a balance between this factor and other magnitudes of competition like quality and time required.

The manufacturing sector expected to make a significant contribution to the growing Ethiopian economy. But from the past experience the role of this sector is very limited. According to the report of AACCSA (2012/2013) and DAB DRT(2014) the sector holds only 173 thousand employees. This sector is seen as the success of Ethiopia's growth, as well as its development to a large extent the product of a modern developmental state (Admasu, 2017). Among many others deficiencies inadequate use of cost accounting is the basic problem this sector suffers.

Richard (2000) stated that there are many reasons for the failure rate of companies in developing countries, including lack of adequate working capital, poor market selection, and rapidly changing external market conditions. However, the most significant reason for this high failure rate is the inability of these firms to make adequate use of essential business and management practices. Many firms fail to develop an initial plan, and those that do establish a plan fail to continually adjust and use it as a benchmarking tool (Aron,2014).

In many countries studies were made on cost accounting practices to evaluate the awareness and encourage its implementation; Donizetti (2016), conducted a case study to meet the need of an appropriate cost accounting system design; Kwan(2011),Competing Globally with Cost Accounting; Lengauer , Mayr &Parasote (2006)The impact of accounting information on management's decision-making process a case study on Wexiödisk; gichaaga (2014);Maduekwa (19n.d) conducted a study at the aim to determine the extent to which SMEs( small and medium enterprises) in the cape metropole uses management accounting tools; vambe (2018), cost control measures and their impact on profitability of manufacturing companies. Brinke (2002) Costing support and cost control in manufacturing A cost estimation tool applied in the sheet metal domain.

In Ethiopia in the manufacturing sector studies were made on varies issues; Yenenesh(2018),on assessment of manufacturing product costing techniques ; Selam(2016), evaluation of internal control system in oil and gas companies A case study in total Ethiopia s.c; Asefash(2018),cost management practices in manufacturing companies in case of BGI Ethiopia PLC. However, in Ethiopia cost accounting practice in manufacturing companies was not yet widely examined. Hence, this study attempt to examine and evaluate to what extent that cost accounting practices help the manufacturing firm managers in the process of decision making.



Thus, the main objective of this paper is examining and evaluating the role of cost accounting in the process of decision making. A driving force for this thesis is the prevailing fact of low awareness and poor practice of local firms about cost accounting tools. And another driving reason is the reality of researches conducted on the subject matter is very limited in Ethiopia (Biruk, 2009).

### **1.3 RESEARCH QUESTIONS**

- What are the existing cost accounting practices in Repi soap and detergent s.c?
- What are the roles of existing cost accounting techniques for the process of managerial decision making?
- How effective is cost accounting system in repi to meet company objectives?

### **1.4 OBJECTIVE OF THE STUDY**

#### **1.4.1 GENERAL OBJECTIVE OF THE STUDY**

The general objective of the study is to assess the role of cost accounting in the process of decision making in Repi soap and detergent S.Cs.

#### **1.4.2 SPECIFIC OBJECTIVES**

In line with the general objective the following specific objectives are listed out:

- To identify cost accounting techniques that implemented in the company Repisoap and detergent S.cs
- To identify the role of existing cost accounting techniques for the process of managerial decision making.
- To identify and assess the effectiveness of cost accounting in Repi to meet objective of the company.

### **1.5 SIGNIFICANCE OF THE STUDY**

The study may give a glimpse of view on challenging the widely used traditional trend of local companies. It can also be used as a guiding resource and key ingredient for further research of the study area. This paper may lead other researchers give an attention to the subject matter of the topic. And basically the study may help the company to see its deficiency and improve the practices.

## **1.6 SCOPE OF THE STUDY**

The scope of the study is to assess the role of cost accounting on decision making process in the manufacturing organization –Repi saop and detergent S.C.

The paper specifically designed to collect data from staff members of finance, management, marketing and sells, quality control, production and development and cost accounting departments. The study was delimited in the head office of the company.

## **1.7 LIMITATIONS OF THE STUDY**

The study limited to Repi soap and detergent s.cs and the findings are only from the perspective of the company; cannot be generalized. The other limitation that the researcher confronted was the confidentiality policy of the company hinders to observe further documents in detail which might increase the quality of the study. And the contact time with the concerned bodies is just few.

## **1.8 ORGANIZATION OF THE PAPER**

The study has five chapters. The first chapter discussed the background of the study, statement of the problem, research question, and objective of the study, significant of the study, scope and limitations of the study. Chapter two deals with review of related literature theoretical and empirical. Chapter three discusses research design and methodology. Chapter four discusses data presentation and analysis of data. Finally, chapter five discusses summary, conclusion and recommendations.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1 INTRODUCTION**

This chapter presents a review of literature on the concepts under study. The chapter begins with a theoretical review in section 2.2; 2.3 decision making; 2.4 cost accounting for decision making 2.5 reviews empirical studies where a number of studies done on cost accounting practices together with their findings. This is followed by a summary of the literature review section.

### **2.2. THEORETICAL LITERATURE REVIEW**

### **2.3. DEFINITION AND CONCEPTS**

Many groups and organizations have published and discussed about cost accounting and about its various types. And defined it in various ways. Each of these definitions has captured the basic concept of cost accounting using different words even though each of them varies slightly. The definitions are similar in recognizing cost accounting extensive scope, its relation to an organization goal, its relation to the managerial activities. Here below definition given by different authors and organizations.

Cost accounting aims to give management basis for decision making, improved efficiency and how to enhance the performance of the company. By using cost information, the company can allocate its resources to more profitable areas and see how and where costs originate, this is called cost allocation. Knowing how and where costs originate is only one part of the solution, another problem lies in how to allocate and track the costs to the appropriate process in the company (Vanderbeck, 2012).

Cost accounting is a specialized branch of accounting aimed at costs classification, accumulation, assignment and control. Cost accounting involves the establishment of budgets, standards costs and actual costs of operations, processes, activities or products, variance analysis and profitability (ICSI, 2013).

“Cost accounting is defined as the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived therefore for the purposes of managerial decision making Wheldon (20n.d).

Another scholar Cherrington (1998) defined cost accounting as follows Cost accounting is the process of accumulating the costs of manufacturing, and other functional processes and identifying these costs with units produced or some other object. It is a unique sub filed of management and financial accounting. Cost accounting is applied primarily to manufacturing organization that combine and process raw material to finished products.

These definitions establish that:

- Cost accounting is concerned mainly with cost data
- Classification and allocation of costs
- engaged in planning and budgeting
- pricing finished goods
- enhance management performance
- support the overall activities of the organization

According to Thakur (2011), cost accounting is the process of accounting for cost, income and expenditure relating to the production of goods and services rendered and is part of a management innovations design to reinvent both the public sector and the private sector. Cost accounting is an effective management tool to transform any bureaucratic system in both the public and private sectors to a more responsive and innovative administration (Asinghe & Alawattage, 2012).

In addition to some given above, the role of cost accounting information for decision-making is emphasized in many definitions of accounting, as outlined below.

“Accounting can be seen as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.”(Horngren,c.et al, 2002)

Also Horngren, Sundem and Stratton (Horngren,c.et al.,2002) see the main function of accounting information in its aid in the decision-making process, as the understanding of accounting information contributes to better decisions. So, by reporting and collecting accounting information, controllers can influence management’s decision-making and lead them towards decisions that are in accordance with the organization’s objectives (Jerreling, 2006).

All the above definitions of cost accounting have identified the main objectives of cost accounting is strengthening organization performance through effective decision making and systematic cost accounting formulation and implementation. in order to achieve the objectives and goals for which the organization was set up.

Cost accounting thus provides information to the management for decision of all sorts. It serves multiple purposes on account of which it is generally indistinguishable from management accounting or so-called internal accounting. Wilmot has summarized the nature of cost accounting as “the analyzing, recording, standardizing, forecasting, comparing, reporting and recommending” and the role of a cost account as that of “a historian, news agent and prophet”.

Intezari (2013) decision making ability is one of the critical abilities that managers are required to have and develop in order to lead their organizations in the business world.

In a decision making process there is rules which used as guide lines. Lepadatu (2006) in his work “the importance of the cost information in making decision” set the basic rules of making decisions:

- The estimated monetary value
- The best of the worst possibilities
- The best of the good possibilities

In any organization a decision made once may bring a fortune or cost a lot. That is why decision making becomes a careful task. Companies whose decision making process do not taken by expertise of the area fails before going so far. Such companies instead expertise of the area has developed a trend of making decisions based on feelings, rule of thumps and error and trial.

A basic requirement for the managerial accountancy is the existence of a solid information system of costs able to provide basic data. According to Lepadatu (2006) offered information must be useful for decision support, for the control and for the planning else it is valueless. The information system is cost efficient if and only if it provides: relevant, sufficiently detailed and precise information.

Offered information must be useful for decision support, for the control and for the planning. Else it is valueless. The information system is cost efficient if and only if it provides –relevant, sufficiently detailed and precise information.

The management accounting information system is responsible for providing information for the planning and budgeting process; for the implementation process; in the process of auditing, evaluating and, above all, for the decision-making process.

## **2.4 DECISION-MAKING:**

Before explaining the role of cost accounting in the process of decision making it has to be clarified what a decision making is and the responsible body to do it so. And then come to the point where the need of cost accounting in the process of decision making is.

A decision is a “choice leading to a certain desired objective” ( Holsapple, C.W., Whinston, A.B. 1996).

An individual or multiple participants that are involved in decision-making can be called decision makers (Jerreling, 2006).

Decision-making can be defined as the process whereby the decision-maker identifies and chooses alternatives based on values and preferences (Harris, 2012).

Decisions within the manufacturing functions determine which resources to use, what routines to use, i.e. what practices to employ and emphasize in order to achieve the manufacturing objectives. The set of practices, resources, routines used ultimately determine the operating characteristics of the manufacturing systemize. The manufacturing capabilities (Tan et al., 2006).

As cited by Matambele (2014) management accounting provides an organization with information with which informed strategic decisions and operations can be assisted (kidane, 2012). Therefore, the information that management accounting provides may be applied to make good and reliable decisions for a sustainable future. Shanteau (2001) argues that understanding and improving decision-making are major concerns of management. He believes that dividing a challenge into smaller parts, working independently on these parts, and combining them afterwards in the final decision-making process, improves decision-making. Decision-making forms an essential part of any organization since the majority of operations revolve around decisions which are taken by management and other key stakeholders. A good information system is necessary if adequate decisions are to be made, since decisions are based on available information (Nowduri, 2010). Information generated through management accounting can thus be regarded as a valuable source of reliable information for decision-making.

During the decision-making process, managers should gather information that allows them to see the whole picture (Black & Al-Kilani 2013). They observe that:

- When making one-off decisions, it is important to gather information which is specifically related to that issue.
- Information on relevant costs, as well as opportunity costs should be obtained.
- Forward-looking data is of great importance; however, data availability may sometimes be an issue.
- The effect of the decision on the overall activity of the company should be considered.

Based on these points, Cost Accounting may be the cornerstone for making successful and profitable decisions for businesses, which may in turn have a visible impact on the overall activity of the company according to the conclusion they reached.

Stock (2013) asserts that economists assume that decision-makers compare the costs and benefits of alternative choices and then choose options that make them as well off as they can be. She argues that economists make a basic assumption about the way people make choices: decision-makers weigh the costs and benefits associated with any choice in order to maximize the value of some objective. This may therefore improve the financial performance of an organization as costs and benefits will be effectively weighed before a decision is taken.

Proctor (2006) believes that managers of an organization will have to make decisions and Management Accounting is a source of help on these occasions. He states that some decisions have an immediate, short-term effect while others impact the organization for many years to come. Although there are many options to consider when making a decision, Management Accounting can definitely play a major role in assisting managers of an organization in making decisions sustainably and profitably.

McWatters, Zimmerman, and Morse (2008) assert that managers ought to separate planning and control so that they can make decisions that will not harm the organization. By planning and controlling the decision-making process, an organization may find it easier to reach its set goals and objectives. Hilton and Platt (2011) argue that most large organizations are decentralized and their managers make decisions for sub-units, making the decision-making process more effective and reliable and leading to the achievement of the goals set by top management.

Hence organizations may have an efficient decision-making process rather than only one central point of decision-making, which means that decisions relating to sub-units may take a long time.

Akrani (2014) indicates that modern management involves decision-making as an essential and primary function. Decision-making involves a number of logical steps and these are treated as a rational or scientific decision-making process that is lengthy and time consuming.

Cost Accounting could assist organizations by providing relevant sustainability information for their decision-making processes. In this way, the information that cost Accounting provides could be applied to make good and reliable decisions for a sustainable future. This could improve the financial performance of an organization.

## **2.5 COST ACCOUNTING FOR DECISION MAKING**

Garrison, Noreen, and Brewer (2010) argue that Cost Accounting is concerned with providing information – to people who manage and govern its operations inside an organization. They also believe that Cost Accounting emphasizes decisions affecting the future, relevance, and timeliness.

Vitez (2009) argues that financial information should be separated from Management Accounting information to ensure that only valid, timely, and relevant information is contained in management reports. Similarly Aron (2013) in his case study pointed out or mentioned as a big Problem working all together; he suggested that management accounting should separate for a better management activities. Thus, the importance of Management Accounting may lie in its providing relevant information for planning, control, and performance measurement.

Correia, Langfield-Smith, Thorne, and Hilton (2008) view cost Accounting as the techniques and processes that focus on the use of organizational resources as well as activities and tasks that support managers in creating shareholders and customer value. They believe that Management Accounting supports an organization's creation and execution of strategy, which enhances an organization's competitive advantage and supports both the strategic and the operational decision needs of managers. Management Accounting can thus prove valuable to an organization in its provision of sustainability information for decision-making on financial performance.

Proctor (2012) argues that Management Accounting is about improving the future performance of organizations and is primarily concerned with the provision of information to managers of organizations so as to help them to plan, evaluate and control activities.



Therefore, it may be important for many organizations to make use of Management Accounting tools in the provision of sustainability information that can be useful in improving financial performance and sustainability (Jerreling, 2006).

Although cost accountants have traditionally been seen as number crunchers, many organizations use them to focus on analyzing information and creating knowledge from it, rather than collecting data. This has resulted management accountants becoming decision-support specialists and facilitators of a management decision-making system (Jackson, Sawyers, & Jenkins, 2009).

Management Accounting may therefore be considered important in the provision of sustainability information for decision-making, which influences financial and non-financial performance. Management accounting refers to that part of the management process which is focused on adding value to organizations by attaining the effective use of resources by people, in dynamic and competitive contexts Matambel (2014).

Hilton (2011) stated that management accounting is the process of identifying, measuring, analyzing, interpreting and communicating information in pursuit of organization's goals.

Management accounting is integral part of management process. He also stated that management accountants are important strategic partners in an organization's domestic and international management teams. Usually, the larger the organization is, the greater is management's need for information (Yohannes, 2018).

## **2.6 COST ACCOUNTING PRACTICES AND ITS USE IN DECISION MAKING:**

Modern businesses needs frequent information about business activities to plan accurately for the future, control business results, and make a proper appraisal of the performance of persons working in an organization. The fulfillment of their goals requires details about the costs incurred and benefits (revenues) obtained which are provided by what is known as "Cost Accounting". In Comparison, financial accounting does not provide management with detailed cost and revenue, information relevant to its needs (Mintesinot, 2013).

Academics such as Dean and Voter in 1950s had recognized the need of managers to understand cost accounting for different purposes in their preliminary edition text book managerial accounting. They pointed out that timely information was essential for managers and financial statements had a historical

perspective, this recommended separation of cost accounting systems for internal and external users (Kaplan, 1987; as cited by Su, 2013).

In the history of cost accounting development, firm's structure, style and size has played a significant role. Mass production and mass distribution firms became a dominant force in the growth and development of cost accounting measures (Johnson, 1987). This point is supported by Smith(1998) said size has a major influence in determining the adoption of newly developed cost and management accounting practices adoption rates are much higher in larger firms (Joshi, 2001; Chenhall and Smith,199; as cited by Uyar, 2010).

Cokins (2001) states, over the last few decade's organizations have been increasingly offering a greater variety of products and services as well as using more types of distribution and sales channels. In addition, organizations have been servicing more and different types of clients. Introducing greater variation and diversity (i.e., heterogeneity) into an organization creates complexity, and increasingly complexity results in more overhead expenses to manage it. As a result of these phenomena, there occurred a complete change in the cost structure of company operations.

According to Cokins, Stratton, and Helbling (1993), "As businesses have become more complex, the elements of costs are replacing the direct costs of touch-laborers and purchase materials."

Su (2013) in his study refers that the changes in the macro -environment gave rise to new developments in cost accounting as a result of the enormous impact on manufacturing methods and costs ( Kranowski, 1977 ; Schwarz, 2007 ) . He adds since the 1980s , a number of new fall-fledged cost accounting systems have emerged to address this more rounded consciousness of cost accounting's role ( Hume-Schwarz , 2007 ).

MA information and practices play a key role in strategic and organizationally complex decision situations (Nielsen et al., 2015). Especially in environments characterized by uncertainty and doubt, MA can facilitate decision-making (Hopwood, 1983) that is why it's use increase at this age characterized by intense competition and globalization. Regarding long-term decision-making, MA may face challenges because of the uncertainties related to the estimation of the future business activities (Carr et al., 2010; Alkaraan& Northcott, 2006). Actually, the role of MA varies depending on whether there is uncertainty over the objectives for organizational actions or uncertainty over the consequences of an action (Burchell et al., 1980). The strength of MA is that it uses formalized categories for collecting and reporting information and thus enables people to communicate with a common language (Wouters

&Verdaasdonk, 2002). However, decision-making does not deal only with MA data to be used neutrally but politics and biases intertwine with figures and numbers (Quattrone, 2016; Denis et al., 2006).

The development of cost accounting is prompted by the rise of industrial enterprises in the fourteenth and fifteenth centuries. Accounting historians have long endorsed the view that cost accounting is a product of the industrial revolution (Johnson, 1981).

With the extension of the scale of business, mainly in manufacturing activities, an extension in cost accounting was required (Cunagin, & Stencil, 1992). Similarly a study by Su (2013) agreed to the point he said that the first faint appearance of cost accounting can be traced back to the fourteenth century (Rao, 2012; Roger & Holzer, 1990). Since then business men realized its importance to business; for the purpose of cost accounting is to serve the running of business.

Su (2013) said that the evolution of cost accounting as a single branch of knowledge can be roughly divided into three eras -the first era from the first appearance until before the industrialization, the second from the industrialization to the twentieth century, and there after the third (Antonelli, et al.2009). And he adds during the first era, the nomenclature cost accounting might not exist as a clear and well-recognized concept like it is today, the activity could be called by other names or could be anonymous (Su, 2013).

## **2.7 COST ACCOUNTING PRACTICE OF MANUFACTURING FIRMS IN ETHIOPIA**

The need for cost accounting and tools for planning, coordinating and controlling first arose during the industrial revolution (Johnson, 1987). Since the early 1980s, a number of innovative management accounting techniques have been developed such as activity based management, strategic management accounting, balanced score card and others. These new techniques are designed to support modern technologies and new management processes, such as total quality management and just in time production systems, and the search for competitive advantage to meet the challenge of global competition has been, as a result, realized(Ermias, 2013).

Lin and Yu (2002; as cited by Uyar, 2010) states that the application of management accounting in less developed countries remains unsatisfactory and studies on this area are rare in the literature. They add saying “this may be due to the relatively under-developed status of economic and business administration in less developed countries”.

This idea is supported by (Josi, 2001; waweru, 2004 and Nimtakoon, 2009). Studies show that cost accounting practice in developing countries is low especially when we come to the contemporary techniques. Identified tools largely used in these countries are those claimed to be traditional management accounting techniques. On the contrary implementation of the contemporary techniques such as GIT, ABC,...are very limited in those countries. Since Ethiopia is one of these countries the accounting practice is in poor level. A Study by Aron (2014) reveals the reality of this truth. This is may be as explained above due to the level of low scale business activities. In the history of cost accounting development, firm's structure, style and size has played a significant role. Mass production and mass distribution firms became a dominant force in the growth and development of cost accounting measures (Johnson, 1987). The case company Repi which is a subsidiary of Wilmar uses jit-for inventory purpose, standard and actual cost accounting systems.

Khajavi and Nazemi (2006) they suggested that the world-class and or high tech companies should use the newest and modern techniques. This has indirect implication for low business status countries not necessarily use latest techniques. The core point here is that the profit or benefits it yields by implementing the techniques must exhale that of cost paid. And it is not always wrong using the old tools. Many world companies use those techniques. The question must rise is its appropriateness.

Richard (2000) stated that there are many reasons for the failure rate of companies in developing countries, including lack of adequate working capital, poor market selection, and rapidly changing external market conditions. However, the most significant reason for this high failure rate is the inability of these firms to make adequate use of essential business and management practices. Many firms fail to develop an initial plan, and those that do establish a plan fail to continually adjust and use it as a benchmarking tool (Aron, 2014).

The availability of financial and non-financial information provided by MAPs permits firms to effectively face competition in the market, coping with change, surviving and thereby improves performance (Mia and Clarke, 1999; Reid and Smith, 2002). Although good MAPs may not by themselves guarantee success, an absence of them or poorly implemented practices may significantly reduce the firm's competitive advantages (Folk et al., 2002; Cited by Yohannes, 2018).

Catrill and McLaney (2005) identified four broad areas of decision making where management accounting information is required in manufacturing companies. These are: developing objectives and plans, Evaluation and control, resource allocation and determination of costs and benefits.

## **2.8 COST ACCOUNTING TOOLS IN BASIC DECISION-MAKING AREAS OF MANUFACTURING FIRMS**

### **2.8.1 DEVELOPING OBJECTIVES AND PLANS**

Managers are responsible for establishing the mission and objectives of the business and then developing strategies and plans to achieve these objectives. Management accounting information can help in gathering information that will be useful in developing appropriate objectives and strategies.

Butterfield (2016) Planning is about thinking ahead, selecting a course of action to reach desired outcomes. He adds Planning involves converting goals and objectives into the specific activities and resources that are required to meet the set goals and objectives (Drury, 2008).

It can also generate financial plans that set out the likely outcomes from adopting Particular strategies. Managers can then use these financial plans to evaluate each strategy and use this as a basis for deciding between the various strategies on offer.

#### **2.8.1.1 BUDGETING TOOLS**

Starting at the very beginning of developing objectives and planning goes to the whole process as a controlling tool.

Budget is an estimation of revenue and expenses over a specified future period of time and is usually compiled and re-evaluated on a periodic basis (Ganti, 2019).

A budget is a quantitative expression of a plan for a defined period of time meant to attain a certain objective (Anohene, 2011; Wildavsky, 2002). It expresses strategic and operating plans of business units, organizations, activities or events in measurable terms. Budgets provide a method of allocating scarce resources within an organization (Drury, 2004). They also enable the management of an organization to monitor and control operations by setting standards expected and addressing any deviations from the set standards (Hanson & Mowen, 2006; Olatunji, 2013). In addition, budgets are useful in promoting forward thinking by managers, communicating an entity's goals to employees and evaluating their performance.

Voigt (2010) accordingly, budgets can be used to motivate employees to achieve set targets, co-ordinate different departments within an entity and align them towards shared objectives.

### **2.8.1.2 PERFORMANCE MEASUREMENT TOOLS (PMTS)**

Larsson and Kinnunen (2007) describe Performance Measurement (PM) as the process of measuring the degree to which a business achieves its goals and objectives. PM has also been defined as the process of quantifying the efficiency and effectiveness of business activities or courses of action (Naude, 2007). In essence, PM evaluates how effectively and efficiently a business pursues its objectives. According to Drury (2004), PM tools are used to evaluate performance of an entity on an on-going basis. Therefore PM should be a recurring event, the results of which ought to be benchmarked against the prior period's performance to determine the emerging trend and improve performance (Naude, 2007).

Butterfield (2016) the objective of implementing management accounting in an organization is to Provide managers relevant information to allow them to effectively evaluate the organization's actual performance, to quantify the goals and objectives in budgets and medium and long term plans, to improve decision-making at both operational and strategic level, and to take corrective actions to comply with the set performance objectives.

### **2.8.2 EVALUATION AND CONTROL**

Agara (2005) opines that cost control is "a process whereby targets are set against which the daily incidence of cost is compared to ensure that cost targets are not unduly exceeded". Adeniyi (2007) specified that cost control is the standard of cost of operating an organization and it's concerned with holding costs within tolerable limit. He said this limits will regularly in a formal operational plan or budget. Cost control action will be important, if actual cost vary from planned cost by too much amount. He further explained that "is a process of setting targets and receiving feedback information in order to ensure that actual performance is in line with set target and, if not, take corrective action" (Asefash, 2018). It is more briefly explained by

Butterfield (2016) for a plan to come to life, it requires initiation and direction of numerous actions, i.e. it needs to be realized into action. Since things rarely go exactly like planned, the management must exercise control to monitor and adjust for deviations. (Walther & Skousen, 2009,) This control is the process of ensuring that the actual outcomes are in line with the plans. Performance needs to be also measured and compared to the targets on a periodic basis. (Drury, 2008)Correct execution of each of these activities culminates in the creation of business value. Whereas, conversely failure in these activities is a roadmap leading to business failure. (Walther & Skousen, 2009,)

Vampe (2018) said cost control is significant to an organization as it regulate and reduce unwanted expenses.

Management accounting information can help in reviewing the performance of the business against agreed criteria. Currently non-financial indicators are increasingly used to evaluate performance along with financial indicators. Controls need to be in place to ensure that actual performance conforms to planned performance. Actual outcomes will, therefore, be compared with plans to see whether the performance is better or worse than expected. Where there is a significant difference, some investigation should be carried out and corrective action taken where necessary.

Every business must control all its costs if it wishes to remain competitive. It also needs to control costs in total as well as the costs of a particular department or activity. Sound business management depends upon timely and rational judgments or decisions; in turn effective and rational decision-making depends upon proper planning and control functions.

Emmanuel, Otley and Merchant (1990) consider control as the primary purpose of accounting information. Management control includes both, strategic and operational matters and thus, Planning and control are not separated issues. However, decision-making falls within this wider process of management control and is thus identified as a “vital aspect of the overall control process” Jerreling (2006).

In the process of manufacturing companies, the concern of cost control management is essential in order to effectively utilize the material resources. In addition to this, cost control includes the management measures implemented to ensure that cost continues in accordance with the management plan. The significance of cost control cannot be over emphasized as an existence technique for manufacturing companies because they ensure appropriate monitoring of cost against budget and correct any financially impropriety of the company. (Horngren et al., 2012) explained that cost control is used to define the activities of manager in short-run and long-run planning and management of costs. They further proceed that planning and cost control is often inseparably related with revenue and profit planning. Agara (2005) opines that cost control is “a process whereby targets are set against which the daily incidence of cost is compared to ensure that cost targets are not unduly exceeded” (as cited by Asefash, 2018).

Adeniyi (2007) specified that cost control is the standard of cost of operating an organization and it's concerned with holding costs within tolerable limit. He said this limits will regularly in a formal

operational plan or budget. Cost control action will be important, if actual cost vary from planned cost by too much amount. He further explained that ‘‘is a process of setting targets and receiving feedback information in order to ensure that actual performance is in line with set target and, if not, take corrective action’’.

An organization wants regular information about operations to plan for the future, to control current activities and to evaluate the past performance of managers, workers and linked business units (Cooper et.al, 2009). In order to become fruitful, administration guides the activities of its employees in the operation of the business according to the pre-determined goals and objectives.

There are two forms of controls that management’s leadership takes the management and supervision of behavior and the evaluation of performance. Behavioral management involves the approach and activities of employees. While employees ‘behavior finally effects on achievement, behavioral management involves certain issues and rules not applicable to accounting control function. On the other hand, performance evaluation measures result of workers’ actions by comparing the actual results of management, identified the strengths it needs to maximize and the weaknesses it seeks to correct. The process of evaluation and remedy is known as cost (Yohannes, 2018).

A cost management system helps companies with planning and control purposes. It should "help managers decide what should be done, why it should be done, and how well it is being done" (Hansen, 2000) For example, cost measures help in planning various budgets within the organization: the production budget, the purchases budget, the marketing and administrative budget, the budgeted income statement and balance sheet, etc. Kwan (2011).

Cost accounting also helps in determining the profitability of new product lines. cost information can be used to figure out the expected revenues and costs for new products. Executives use forecasting to determine the revenue of the new product, and then calculate the costs involved in the entire process of developing and selling the product. Management would decide to produce the project by weighing the expected revenue against the associated costs. the cost management system aids in controlling the operations of the company and planning for the future(Hansen,2000; as cited by kwan, 2011).

A cost management system can identify all the costs associated with the decisions that management needs to make for the progress of the company. if the executives inside an organization are willing to invest in an effective cost management system, it will help them



tremendously. The use of cost accounting is essential in the operations of a business. With the emergence of globalization, it is even more important for a company to utilize cost accounting in an effective manner to capitalize on the trend.

### **2.8.3 ALLOCATING RESOURCES**

Resource allocation is the process of assigning and managing assets in a manner that supports an organization's strategic goals (Ganti, 2019). He further described it as follows Resource allocation includes managing tangible assets such as hardware to make the best use of softer assets such as human capital. Resource allocation involves balancing competing needs and priorities and determining the most effective course of action in order to maximize the effective use of limited resources and gain the best return on investment.

In practicing resource allocation, organizations must first establish their desired end goal, such as increased revenue, improved productivity or better brand recognition (Ganti,2019).

Cost allocation deals only with indirect costs that are allocated to a cost object. On the contrary, the assignment of direct costs to a cost driver is called cost tracing (Drury, 2000).

A cost accounting system includes in general two steps, the cost accumulation by classifying costs into categories and the assignment of costs to cost objects. The first one refers to the collection of costs by using classification criteria, like the relevance of costs or the cost behavior. Different decisions require the consideration of different types of costs(Horngren,c.et al.,2002).Hence, as a first step, it is very helpful for decision-making to categorize costs as fixed or variable, relevant or irrelevant and direct or indirect. For example, the make-or-buy decisions (Jerreling, 2006).

In general, two main methods of allocating indirect costs can be identified. The wide-spread Traditional Accounting System, which is rather old, and Activity Based Costing (ABC).Traditional Accounting System is based on the idea of arbitrary allocation, for example directs labor hours are used as a foundation to allocate costs of materials to a cost object. Thus, the proportion of total indirect resource costs that is assigned to a cost object depends on the proportion of a volume-based cost driver. Often only one cost-driver is used, like e.g. machine hours. Nevertheless, this allocation basis is often not a significant determinant of the cost” as opposed to ABC, which builds on cause-and-effect-allocations. Hence, the cost driver determines the costs considerably Drury (2000).

Applying the Traditional Accounting System there should be a reasonable and consistent relationship between the cost driver and the sum of the indirect costs. This system is usually good when the production process is rather simple and transparent. Besides, it is reasonable to apply this system when the ABC-method would be too expensive and the benefits too low. Nevertheless, this case might be rather seldom, because today the environment tends to be very complex what makes ABC usually beneficial. Horngren, c. et al. (2002) It is also notable, that companies show a tendency towards not replacing an already operating system. Hence, when using the Traditional Accounting System, organizations might refuse to switch to ABC or any other system Matambel (2014).

The function of both allocation systems can be described by using a two-step framework as proposed by Drury (2002) The first step consists of allocating the indirect costs to cost centers, which constitute places, function etc. to which indirect costs can be allocated. Examples might be types of service departments that provide services to other units. Usually ABC identifies more cost centers than traditional costing methods. In the second step costs are allocated to cost objectives with the help of cost drivers. Also in this case, ABC has more cost drivers.

#### **2.8.4 DETERMINATION OF COSTS AND BENEFITS (PRICING)**

Cost accounting systems can significantly grow a company by helping organize the value chain into various areas. Every activity, process, and function deserves appropriate levels of attention in order to achieve greater value and efficiency. “You can’t be successful in business unless you understand what it costs to make your product, then you must manage that cost diligently to consistently deliver value to customers at a price they will pay” (Hilton et al., 2006).

Many management decisions require knowledge of the costs and benefits of pursuing a particular course of action such as providing a service, producing a new product or closing down a department. The decision will involve weighing the costs incurred against the benefits. The information from management accounting can help managers by providing details of particular costs and benefits. In some cases, costs and benefits may be extremely difficult to quantify; however, some approximation is usually better than nothing at all (jerreling, 2006).

Pricing decisions can be short term and/or long term oriented. Horngren (2002) state that pricing decisions are one of the major decisions managers have to face. The outcome of pricing decisions for new products or responses to competitor prices is crucial because if the price is not able to cover the costs in the long run a company can be thrown out of business easily.

The main aim of the price is to cover all costs in the long run and if possible to create revenue. There although are other factors that influence pricing decisions like legal requirements, competitors actions and customer demands. If pricing decisions are constrained by influencing factors on the market such as dominant market leaders, the company can be defined as a price taker. The decision is therefore more based on if the company is able to accept the price. Companies who are market leaders and who offer products or services that are highly customized or differentiated can be described as price setters. In such companies cost information has a high impact on their pricing decision Durary (2000).

There are two common tools for pricing: target costing and cost-plus pricing. The latter plays a crucial role in pricing decisions. Cost-plus pricing is done by calculating an average cost and then adding up a markup (desired difference between price and costs) in order to achieve a desired return on investment (money that an investor gets in return for his/her investment).

Target costing is an effective tool to keep customer value while reducing costs. Before the product is designed a target cost is set that is based on the product's expected price and the company's required profit. The manager's task is it then to control costs in order that they do not exceed the target costs.

## **2.8 EMPIRICAL LITERATURE REVIEW**

Cost accounting and cost accounting practices have been considerable investigation by different researchers.

A study which urges the practice of cost accounting carried out by Kasa (1996) conducted a study on managerial accounting practices of Albanian manufacturing businesses and analyzed how much do Albanian manufacturing businesses use managerial accounting techniques in their decision making process? Semi structured interview and free discussions was used as research instrument and applied on a selected Target population. The findings reviled that cost accounting techniques are not widely used in Albanian manufacturing companies. The researcher concluded that in order to be competitive in this tense competitive era of globalization, managers should be aware about the managerial cost accounting techniques as soon as possible.

The USV Annals of Economics and Public Administration (2011) carried out a study on application of activity based costing in manufacturing companies in Bangladesh. And analyzed how an ABC costing system that improves operations and to better meet the needs of customers in a more cost – effective manner. A descriptive research approach was used. Through a semi-structured questionnaire the field

survey conducted and free discussion with the concerned officials of sample firms. The Findings revealed that the state of use of the sophisticated technique like Activity Based Costing in Bangladesh is not satisfactory. And concluded to keep pace with the world changing management accounting environment, Bangladeshi firms should use the tools appropriately and also should implement newly developed techniques.

A study by Tabitha and Ogunbade (2016) review and analyzed the literature on cost accounting techniques being practiced by manufacturing and service industry with in the last decade. Their findings showed that In contrast to the postulations of many academic authors that the traditional techniques have lost relevance and should be discontinued, this review shows that traditional techniques including the heavily criticized Standard Costing, Absorption costing and marginal costing were still used frequently by many companies within the last decade; side by side to the modern ones. They add to the point that the usage of the techniques depends on the situation on the ground, that is, the level of technological advancement, the size of the company, organizational culture and stage of the product. Similarly a Study finding by Donizetti (2016) agreed to the point. He conducted a case study to meet the need of an appropriate cost accounting system design. And find out that cost accounting system designed on the basis of volume and labor not appropriate for small manufacturing companies. The researcher concluded that, in simple and small manufacturing realities, more traditional allocation methodologies can be more useful, efficient and effective.

Ermias Bogale (2013) conducted an assessment study under the title Advanced Management Accounting Techniques in Manufacturing Firms in Ethiopia. The study examined the level to which advanced management accounting tools practiced in Ethiopian manufacturing firms. And it examines the relationship between some theoretical factors that influence the usage of Advanced Management Accounting Techniques (AMATs). The usage or its advancement level of management accounting techniques increased in the last five years. This implies that the manufacturing firms have awareness about these techniques. To examine the relationship of theoretical factors that affect the usage of AMATs, the paper used Pearson correlation and cross tabulation. As the result from Pearson correlation confident indicates, the usage of AMATs and advanced manufacturing technology has strong relationship. With regard to the Traditional Management Accounting Techniques firms widely use and this increased in the last five years. To keep pace with the world's changing management accounting environment, Ethiopian manufacturing firms should use the newly developed techniques.

## 2.9 SUMMARY

This chapter has presented a review of literature. The chapter has reviewed findings of various scholars in relation to cost accounting. The role of cost accounting mainly in the process of decision making has been reviewed. The previous researchers on the area of cost accounting has identified key issues which affect organizations such as costing system, budgeting, resource allocation and performance evaluation systems and so on. Most of these factors are common across the industries but a number of them are unique to the specific industries. For instance waweru et al. (2004) suggested research on contribution of this management accounting change to overall success of the firm. DiMaggio and Powell (1991) suggested that some organizations copy and imitate others to conform institutionalized practices. Richard (2000) claim inadequate use of cost accounting practices for the high failure rate of business firms in developing countries.

There is also concern of utilization of cost accounting information by management to make decision. From the review, it is clear that the debate on the practice of cost accounting is still ongoing and there is therefore a need to study the effects of cost accounting practice on managerial activities of manufacturing companies in Ethiopia.

The review has therefore identified a significant gap in research about cost accounting practices among manufacturing firms as there are very few studies related to manufacturing companies in developing countries like Ethiopia. Addressing the stated research questions of the thesis is try to close this gap and add to existing knowledge about the use of cost accounting practices by chemical industry particularly in soap and detergent companies.

## **CHAPTER THREE**

### **METHODOLOGY OF THE STUDY**

#### **3.1 INTRODUCTION**

This chapter is structured as follows research design, target population and data collection method.

#### **3.2 RESEARCH DESIGN**

Research design is the specification of techniques and process for obtaining the information required. This study adopted a descriptive survey design. According to Churchill (2011) it is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. The major purpose of descriptive research is describing, recording, analyzing and reporting conditions that exists (Kothari, 2000). The study assets collect data from the company at one point in time and determine or evaluated the role of cost accounting practices on decision making process of the company.

According to Yin (2003) there are three types of case studies, depending up on the purpose. They are explanatory case studies, exploratory case studies and descriptive case studies. Exploratory case studies are often used to define the framework of a future study. Explanatory case studies, on the other hand, seek to define how and or why an experience took place. Descriptive case study used to present answers to a series of questions based on theoretical constructs. The aim of all types case study research is to develop an understanding of the system. The objective of this study is to assess the role of cost accounting in the process of decision making in Repi saop and detergent sc. Thus, descriptive case study was chosen for this study because it answers all the questions raised. In addition to this, the case study method is chosen because it allows the conduct of a detailed analysis using multiple sources of data (Yin, 2003). It is attempted to get data from multiple sources. Case study investigation becomes successful if data is collected from multiple sources (Gerring, 2007).

### **3.2.1 RESEARCH APPROACHES**

The descriptive research design encompasses interviews and questionnaires providing information which determined the nature of the situation at the time of research. Descriptive research involves gathering data that describe events and then organizes, tabulates, depicts and describe the data collection (Glass and Hopkins, 1984).

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

### **3.3 POPULATION, SAMPLE AND SAMPLING TECHNIQUE**

Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated.

A total of forty three Repi Soap and detergent s.cs' employees were selected using purposive sampling technique. 43 respondents were participated from cost accounting, finance, production and development, human resource, sales and marketing and quality control departments. Among which 37 participants are responded properly.

### **3.4 SOURCE OF DATA**

In this study, in order to enhance the quality of data through triangulation multiple data sources were used. The required data for the analysis collected from primary and secondary sources. The selection of data is based on good understanding of the operation. Primary data were collected using the application of semi- structured questionnaire and oral interviews. The secondary data collected from written documents and reports.

There are two sources of data which are primary and secondary data that are used during the research study (Saunders, 2007). Wikinsan and Birmingham (2003) defined research instrument as,

devices used to gather information relevant to a research project. Data source for this thesis is mainly primary data which is questionnaire and interview.

### **3.5 DATA COLLECTION PROCEDURES**

In this study, data collected by the use of questionnaires, interviews and review of documents and reports. Primary data were collected with questionnaires distributed to management, department heads and supervisors of finance and production staff. Questionnaires designed in likert scale of five points employed to gather straightforward and simple information. Semi structured interview employed to gather information that needs in-depth understanding of the topic being studied. However, it may be difficult to classify and measure. Hence, it should be carefully interpreted. Both questionnaires and interviews have their own limitations. Dawson (2002) stated that to overcome the limitation of both types, semi-structured questionnaire is preferable and researchers better use the combination of both. In this study, the researcher was used both structured (closed ended) and unstructured (open end) questionnaire. The questionnaires contain structured five point Likert scale questions with some open-ended (unstructured) questions that help the respondents to supply all they know about the company's cost accounting tools and techniques.

The interview and document examination were used to substantiate the data collected using questionnaire, so that the validity of the findings could be improved. The interviews were conducted with two management members of the company. It is used to cross check the reliability of the response to the questionnaire. It is also used to gather additional information about cost reduction and control practices of the company. Sreejesh, Mohaoatra and Anusree (2014) indicated that depending up on the amount of guidance extended by the interviewer, individual in-depth interviews can be divided in to unstructured interview, structured interview and semi-structured interview. This study employed semi-structured interview.

Secondary data were collected from observation of documents, records and reports. Walliman (2011) stated that secondary data can use associating with primary data that may have collected. Because secondary data are useful in order to triangulate the findings and put the data into a larger context.

Questionnaires were distributed to participants in the departments of Repi soap and detergent S.C, contacting personally. Through this process the response rate was high except those who were not at work. And Structured Interviews were held face to face with the financial and general managers of the company.



### **3.5.1 INTERVIEW**

Muskat (2012) defines an interview as an objective conversation between two or more people with the aim of providing feedback regarding a particular subject. Face to face interviews, although they are time consuming, they are the most effective way of collecting high quality data compared to the other methods of data collection as they offer a higher level of flexibility. In an interview the researcher has a room to correct misunderstandings and also there is an opportunity to encourage participants to respond (Muskat, 2012). In this study two management members among sample population interviewed.

### **3.5.2 DATA PRESENTATION**

The steps taken for the presentation of the data were as follows. First, the responses from the questionnaires are tabulated and then shown in a graphical setup. The fact that the charts were used makes it easy to understand the variance and the meaning of the data. Second the interview is put in a written manner as a question and response.

### **3.6 DATA ANALYSIS**

According to Walton (2013), data analysis is a systematic process which involves the application of statistical and logical methods to describe, evaluate and illustrate data so that appropriate conclusions will be given. The researcher organized and presented the data using tables and percentages were calculated to show the various responses of the respondents for each question. Qualitative approach was used. Modal responses were used by the researcher to come up with conclusions as they gave a true picture of events taking place at Repi soap and detergent S.Cs

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.1. INTRODUCTION

This chapter focuses on the data presentation, Analysis and Interpretation. The gathered data is presented using tables and graphs. The presented data is then analyzed and conclusions are made.

Table 4.1 response rate

Total questionnaires	43
Completed and returned questionnaires	37
Response rate	86 percent

#### 4.2 RESPONDENTS PROFILE

##### 4.2.1 EDUCATION LEVEL

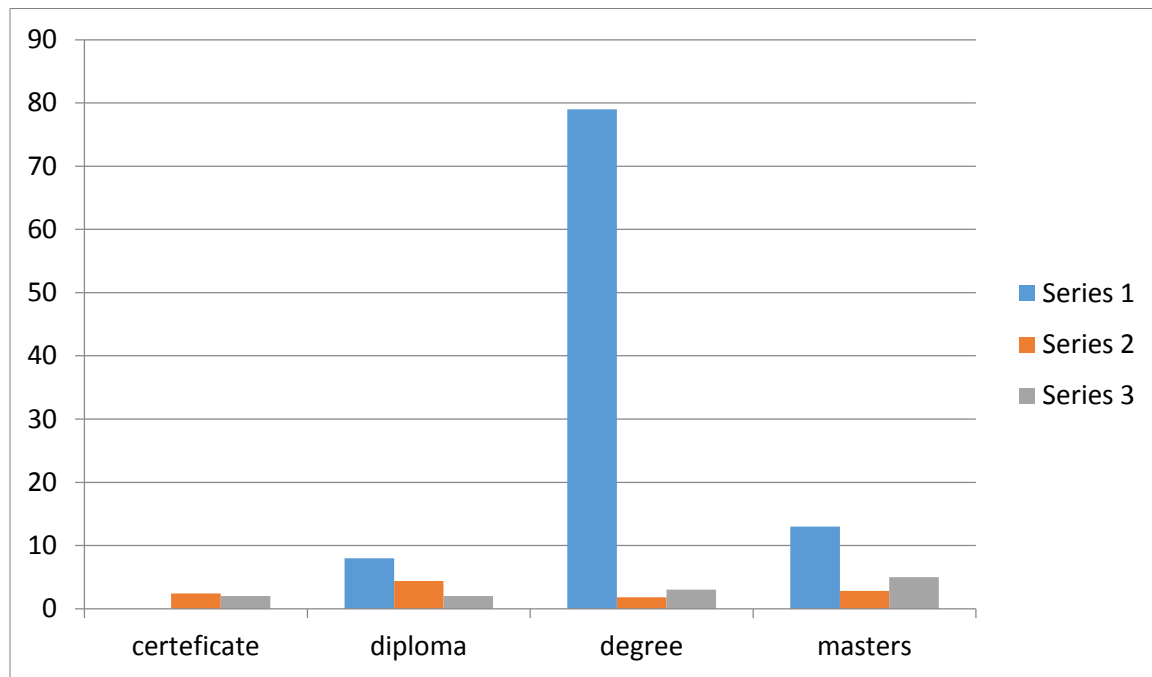


Figure 1- participants education level

participants education level

Source: (survey result, 2019)

From the fig 1 above about 8% diploma, 79%-degree holders and the remaining 12% are educated at masters level. This indicates the company has well educated employees and it helps them to know the important cost accounting practices.

### 4.3.2 WORK EXPERIENCE

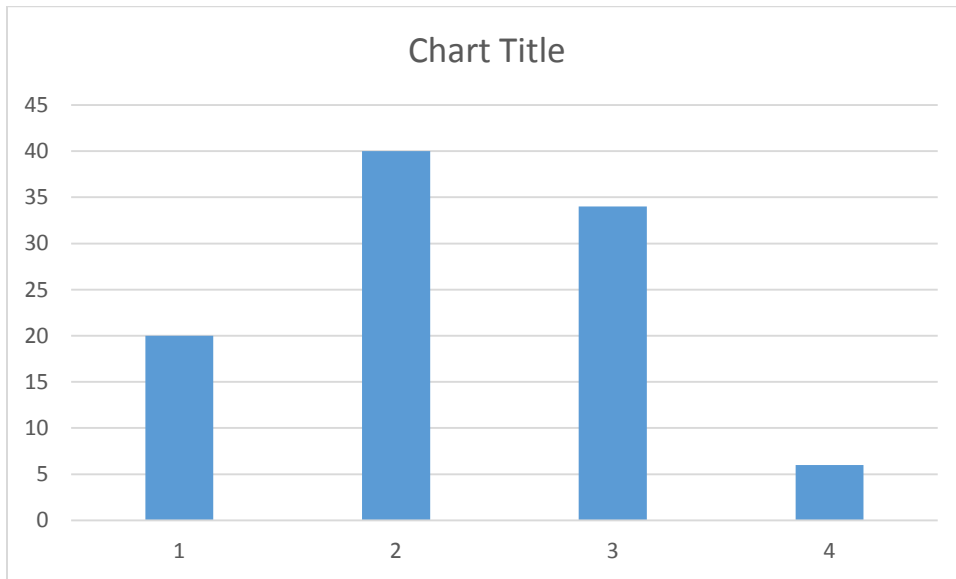


Figure 2-participants work experience

Source: (survey result, 2019)

The graph above figure 2 shows us that majority of the respondents are between the range of 1-5 which is 40%, the range between 5-10 follows (34%), and then less than a year (20%) and finally those with work experience more than 10 years(6%).

Based on the profile of respondents presented in fig 4.1 and fig 4.2The researcher believes relevant data was gathered. For their education level and work experience is fair enough to understand the questionnaires and respond properly.

## Objectives of the company

Table 4.2: cost accounting use/help to meet objective of the company

No	statements		SA	A	N	DA	SD	T
1	The company increasing its market share	F	26	11				
		%	70	30				
2	The company succeeding in making profit and wealth maximization	F	23		3			
		%	62	30	8			

Source: (survey result, 2019)

In the Table 4.2 above two closely related questionnaires are presented and it is analyzed as follows:

In the first question 26(70%) strongly agree and 11(30%) agree hence a total of 37 which is all respondents agreed that the market share of their company is increasing. And on the next related questionnaire 23(62%) strongly agree, 11(30 %) agree and 3(8%) not sure. Therefore a total of 34 (92%) respondents agreed that the company is succeeding in making profit and wealth maximization. This is also proved by one of the interviewee he mentioned that they have cost accounting support to do it so.

Profit making and wealth maximization through increasing market share is the major objective of any business company. From the table the respondents agreed that accounting information influence management's decision making and lead them towards decisions that are in accordance with the organization's objectives. Wealth maximization is the main goal or objective of any business organization according to Lucey (1993). McWatters, Zimmerman, and Morse (2008) on the other hand assert that managers ought to separate planning and control so that they can make decisions that will not harm the organization. By planning and controlling the decision-making process, an organization may find it easier to reach its set goals and objectives. An organization wants regular information about operations to plan for the future, to control current activities and to evaluate the past performance of

managers, workers and linked business units (Cooper et.al, 2009). In order to become fruitful, administration guides the activities of its employees in the operation of the business according to the pre-determined goals and objectives.

## 4.2 PLANING AND CONTROLLING SYSTEM

Table 4.3: *The cost accounting contribution in planning and controlling managerial activities*

No	statements		SA	A	N	DA	SD	T
1	gathered information enable budgeting	F	11	21		5		
		%	30	57		13		
2	Performance Measurement & activity analysis are helping to run activities as planned	F	11	15	7	4		
		%	30	40	19	11		
3	there is optimum utilization of resources in the company	F	5	21	2	9		
		%	14	57	5	24		
4	the management control strategic and operational matters effectively	F	18	13	6			
		%	49	35	16			
5	the management take corrective action whenever necessary	F		9		17	11	
		%		24		46	30	
6	the management enable to control all costs	F	8	20		9		

		%	22	54		24		
7	the company entertaining fine strategic planning and execution	F	13	21	3			
		%	35	57	8			
8	good employee motivation	F	6	22	6	3		
		%	16	60	16	8		

Source: (survey result, 2019)

From table 4.3 above 11(30%) strongly agree, 21(57%) agree and 5(13%) not sure. Hence a total of 32 (87%) agreed that information provided to the management helps budgeting; only insignificant numbers doubt this. Akrani (2014) the information that cost Accounting provides could be applied to make good and reliable decisions for a sustainable future. This could improve the financial performance of an organization.

The other important point is about resource utilization. 5(14%) strongly agree, 21(57%) agree, 2(5%) not sure and 9(24%) disagree. It shows as there is wastes to some extent but in this case as well large number 26(70%) among the population agreed that resource utilization of the company is effective or there is optimum utilization of resources.

Concerning of strategic and operational matters 18(49%) strongly agree, 13(35%) agree and 6(16 %) not sure or uncertain. Therefore a total of 31( 84%) agreed that the management control strategic and operational matters effectively. cost accounting provides an organization with information which informed strategic decisions and operations can be assisted Kidane ( 2012).

In case of corrective action 9(24%) agree, 17(46%) disagree and 11(30%) strongly disagree. Therefore a total of 28(76%) said corrective action is not a trend of the management in the company. but the presents of 9(24%) even though which is insignificant numbers it is an indicator of such actions done rarely or it happens sometimes. Corrective actions are taken whenever actual performance varies from the standards outside of the tolerable range. Repetition of corrective action does not show good management or quality decision but rather it is the evidence or indicator of poor decision.

Employees motivation is another important issue raised from the given table 4.3, 6(16%) strongly agree, 22(60 %) agree, 6(16%) not sure and 3(8%) disagree. hence a total of 28( 76%) agreed that

employees motivation is at good level. To do things as a plan employees motivation is one of the basic weapon that interview members mentioned and they declared they do have it.

Precisely we have seen that the company is budgeting properly hence impact employees for employees motivation is directly related to budgeting. Voigt (2010) agreed to this point he said budgeting increase employees' motivation and create co-operation among departments. Interviewees' response also agreed to the point.

### 4.3 PRICING (HOW COSTY THE PRODUCTS WRT COMPETITORS AND MARKETING)

*Table 4.4 how helpful or good the cost accounting tools and techniques at pricing and marketing activities of the company*

No	Statements		SA	A	N	DA	SD	T
1	the company provides quality products	F	19	12	6			
		%	51	33	16			
2	computing well in the market	F	16	16	5			
		%	43	43	14			
3	fair price with respect to other competitors and customer satisfaction	F	18	13	6			
		%	49	35	16			
4	cover all costs in the long run and creating revenue	F	14	13	3	7		
		%	38	35	9	18		

5	enhance an organization competitive advantage	F	13	20	4			
		%	35	54	11			
6	respond to competitors action	F	7	6		15	9	
		%	19	16		41	24	
7	meet customers need	F	11	16		10		
		%	30	43		27		

Source: (survey result, 2019)

Table 4.4 above presented as: 19(51%) strongly agree, 12(33%) agree and 6(16 %) uncertain. Therefore a total of 31(84%) believe that the company provides quality products. The interview members also trusted their company for quality products. The reason they mentioned is regular supervision of the production system and good customer feedback.

Quality control Deals with the operational techniques for detecting, recording and taking measures to eradicate quality problems (Alem, 2009). From the interview sources the company has supervision to check whether activities are according to the set standards. Considering customer's preference and competitors activities concerning of new production lines and quality of products make improvements to keep pace with the market and satisfy customers need.

And when we come to the competitive advantage 13(35%) strongly agree, 20(54%) agree and the remaining 4(11%) not sure. Hence large number of respondents which is a total of 33(89%) agreed that the use of cost accounting enhance the competitive advantage of the company. Which is supported by Kasa (1996), cost accounting gives companies chance of competitive advantage. Butterfield (2016) to increase sells and competitive advantage pricing is not always work it is only one factor. He says selling ability should be considers.

While a total of 13(35%) agreed as the company respond to competitors action of which 7(19) strongly agree and 6(16 %) agree, a total of 24(65%) disagreed. Which means the large number 24(65%) evidenced the company is not that alert to competitors action concerning of pricing. And on the other



hand it is competing well. This shows us that the company is price Setter Company. in such companies cost information has a high impact on their pricing decision Sugary (2000). Therefore the influence of cost accounting is very clear here too. The General Manager takes it as it is their week side. The company has no trend to scan the market for pricing. But for the reason they work to minimize cost of production, the price may not be expensive.

At the point of customers need 11(30 %) strongly agree, 16(43%) agree and the remaining 10(27%) disagree. hence a total of 27(73%) agreed that their company meets customers need. In most cases customers need are fair prices and quality products.

From the respondents answers we understand the pricing techniques of the company enable to cover all costs and create revenue. This is the main aim of pricing Horngren c.et al (2002).

One of the secrets to business success is pricing your products properly. Price your products correctly and that can enhance how much you sell, creating the foundation for a business that will prosper. Get your pricing strategy wrong and you may create problems that your business may never be able to overcome. "It's probably the toughest thing there is to do," says Charles Toftoy.

#### 4.4 FACILITATE DECISION MAKING PROCESS

Table 4.5: weather those implemented cost accounting tools facilitate decision making process

N o	statements		SA	A	N	DA	SD	T
1	delegation of responsibility	F	12	16	9			
		%	32	43	25			
2	provide relevant data to the management timely	F	21	16				
		%	57	43				
3	help to meet goal of the organization	F	14	23				

		%	38	62				
4	enhance decision making quality	F	19	18				
		%	51	49				

Source (survey result, 2019)

From the given table 4.5 above it is seen that 19(51%) strongly agree and 18(49%) agree hence a total of 37 which is all respondents believe that cost accounting enhance decision making quality. They are supported by Vanderbeck (2012) he said cost accounting aims to give management basis for decision making, improved efficiency and how to enhance the performance of the company.

The financial manager in interview adds to the point he mentioned as activities are easier due to these techniques and tools in place. For preparing reports monthly and even sometimes as required all necessary information's are provided by different channels which increase decision making quality. Another important points forwarded by the general manager is that the effects of those tools are visible in the overall activities of the company. Which give them a chance to control activities and employees effectively and to enhance employees' motivation.

Efficiency and effectiveness of any implemented tools and techniques of an organization measured basically in its contribution to meet goal of the organization. In the table above 14(38 %) strongly agree and 23(62%) agree hence a total of 37(100%) agreed that the cost accounting tools help to meet goal of the organization. Both interviewees also witnessed as this is true for their company.

These all cannot be succeeded without the management get relevant data in time. In the table it is seen that the respondents trust on the company's information system and cost accounting. All respondents agreed that cost accounting provides relevant data to the management timely.

Interviewee members also confirmed that information are provided from concerned bodies timely. as they admitted in each of their managerial activities for planning, controlling and pricing they have all the necessary relevant information timely.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1. SUMMARY**

This part of the study aims to summarize the findings that have emerged from the data analysis presented in chapter four.

Regarding to the use of cost accounting, the company increases market share and success in making profit and wealth maximization to meet its objectives. About planning and controlling system, most respondents agree that the company gathered information to enable budgeting, use activity analysis to run activities as planned, use resources effectively and create good employees' motivation. On the other hand, the company's management control strategic and operational matters effectively and entertaining fine strategic planning and execution that helps to control costs. But the management has a trend of taking corrective actions .

From how helpful the cost accounting tools and techniques at pricing and marketing activities, the company uses to provide quality products, to compute well in the market, to create fair price for customer satisfaction, to create more revenue by reducing costs, to enhance the competitiveness of the company for responding the competitors action and to meet the customers need. But the market research or competitors' cost accounting information for selling price purpose is weak and incentives are given only for some departments particularly marketing and sales.

Regarding to facilitating decision making process, majority of the respondents agree that cost accounting tools facilitate decision making process by delegation of responsibility provide relevant data to the management timely, meet the goals of organization and enhance decision making quality.

## 5.2 CONCLUSIONS

According to Ali (2010), cost accounting is the process of recording, analyzing, classifying, summarizing and allocating cost associated with a process and then developing various course of action to control the costs. Its goal is to advice the management on how to optimize business practice and process based on cost efficiency and capability. It also provides the detailed cost information that management needs to control current operations and plan for the future. The broad objective of this research was to assess the role of cost accounting in the process of decision making in Repi soap and detergent S.Cs. Investigating the company's planning and controlling system, cost accounting tools and techniques at pricing and market activities and facilitate decision making process at Repi soap and detergent S.Cs were the specific objective derived from the broad objective. From this study, the following major findings have been drawing:

- ✓ The company increases its market share and success in making profit and wealth maximization to meet its objectives.
- ✓ In the company, gathered information enables for budgeting and pm and activity analysis help to run activities as planned.
- ✓ There is optimum utilization of resources in the company and its management controls strategic and operation effectively. In the company, there is good employees' motivation, controlling costs and fine strategic planning and excision.
- ✓ The company uses cost accounting tools and techniques to provide quality products, to compute well in the market, to create fair price for customer satisfaction and to create more revenue by reducing costs.
- ✓ It also uses to enhance the competitiveness of the company for responding the competitor's action and to meet the customers need. But the market research or competitors' cost accounting information for selling price purpose is weak and incentives are given only for some departments particularly marketing and sales.
- ✓ Majority of the respondents agree that cost accounting tools facilitate decision making process by delegation of responsibility provide relevant data to the management timely, meet the goals of organization and enhance decision making quality.

### 5.3 RECOMMENDATION

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

- ✓ This is a case study. The researcher does not have enough sample size to come up with an all-inclusive principle or conclusion. Thus, the researcher doesn't have a guarantee that the recommendation applies to other companies.
- ✓ Incentives are proved to have improved the motivation of employees. Although some of the company's departments incentivize their respective employees, particularly the marketing and sales department, there are others who do not. The recommendation is that they start using this highly efficient tool and implement it for every employee and department.
- ✓ From the findings it is recognized that the company does not usually consume competitor's cost accounting information for pricing. Using such information is advisable for a better competitive advantage.
- ✓ Although there is optimum utilization of resources in the company and its management controls strategic and operation effectively, the management does not take corrective action properly. So the company should give correction whenever necessary.
- ✓ The company should use cost accounting information for selling price and gives incentives for all departments since the market research or competitors' cost accounting information for selling price purpose is weak and incentives are given only for some departments particularly marketing and sales.

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## **APPENDEX**

### **Questionnaires guide**

#### **Introduction to questionnaire**

Dear respondents:

My name is Betsegaw wondimu, MBA student in department of Accounting and Finance at St. Mary's University. The aim of this questionnaire is to examine the role of cost accounting in the process of decision making in Repi soap and detergent S.C. The information you provide in response to the items in the questionnaire will be used as a part of the data needed for the study. I would like to assure you that the information you provide will be used only for the purpose of achieving academic award. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study. Your honest and thoughtful response is invaluable.

Thank You for your cooperation

Best regards,

Betsegaw wondimu,

MBA student at St. Mary's university

Department of Accounting and Finance

October, 2019

#### **General Instruction**

This questionnaire contains two sections and four pages that will be expected to take approximately 15-20 minutes to complete. Please provide your response to the questions based on the instructions under each section. If you have comments or if you want to provide further explanation, please use the space provided at the end of the questionnaire.

Please note:

Writing your name is not required

Section one: Demographic variables of the respondents

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

1. What is your educational status?

Certificate [ ]   Diploma [ ]   Degree [ ]   Masters [ ]   Others [ ]

2. Work experience

<1 year [ ]            1-5 [ ]            5-10 [ ]            more than 10 years [ ]

**Section two: Questions related to the study**

The purpose of this section is to obtain information about the contribution of cost accounting practice in decision making process in your organization.

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

2.1 Questions about the cost accounting practice

## Objectives of the company

Table 4.2: cost accounting use/help to meet objective of the company

No	statements		SA	A	N	DA	SD	T
1	The company increasing its market share	F	26	11				
		%	70	30				
2	The company succeeding in making profit and wealth maximization	F	23		3			
		%	62	30	8			

## 4.2 Planning and controlling system

No	statements	1	2	3	4	5
1	gathered information enable budgeting					
2	PM& activity analysis are helping to run activities as planned					
3	there is optimum utilization of resources in the company					
4	the management control strategic and operational matters effectively					
5	the management take corrective action whenever necessary					
6	the management able to control all costs					
7	the company entertaining fine strategic planning and execution					
8	good employee motivation					

*Table 4.4 how helpful or good the cost accounting tools and techniques at pricing and marketing activities of the company*

No	Statements					
1	the company provides quality products					
2	computing well in the market					
3	fair price with respect to other competitors and customer satisfaction					
4	cover all costs in the long run and creating revenue					
5	enhance an organization competitive advantage					
6	respond to competitors action					
7	meet customers need					

## 4.4 FACILITATE DECISION MAKING PROCESS

Table 4.5: weather those implemented cost accounting tools facilitate decision making process

No	statements	1	2	3	4	5
1	delegation of responsibility					
2	provide relevant data to the management timely					
3	help to meet goal of the organization					
4	enhance decision making quality					

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

.....

.....

.....

.....

## **Interview questions**

Interview is held with two members of management board; financial manager and general manager. It focuses on the issues which needs more clarifications, detail and answers in depth. The questions raised in the interview were:

1. What is the culture or trend of the company towards responding to competitors action?
2. How do you measure performance?
3. Do you think the cost accounting tools enhance decision making quality?
4. How cost accounting support internal decision making?