



RESEARCH ARTICLE

A STUDY OF COST AND MANAGEMENT ACCOUNTING PRACTICES IN SRI LANKA'S MANUFACTURING INDUSTRY

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ABSTRACT

The main aim of this study was to analyse cost management and account management practices of public quoted manufacturing companies in Sri Lanka. Research method used in this study was an applied research method, whilst the research strategy employed was a survey research strategy. Sample for the study consisted of 70 public quoted manufacturing companies in Sri Lanka. Findings from the study revealed that the main costing method used by public quoted manufacturing companies in Sri Lanka is activity based costing, followed by process costing and job costing. Findings from the study also revealed that cost information is mainly used by public quoted manufacturing companies for pricing related decisions, followed by customer profitability related decisions, and performance measurement; that the increasing interest and use of cost accounting in these companies is on account of the decline in firm profitability, increasing cost, intense competition, and high customer and supplier bargaining power; and that these manufacturing companies give high importance to traditional management accounting practices such as planning and control, budgeting, target costing, and cost-volume-profit analysis.

INTRODUCTION

Cost management is a broad subject which includes both management accounting and cost accounting systems. The main aim of cost accounting is to fulfil costing objectives relating to management and financial accounting. In complying with financial accounting objectives, costs are measured and assigned in cost management according to generally accepted accounting principles, whilst within the organization cost accounting generates information pertaining to the product and service offering of the organization, its processes, activities, customer and other information which is of interest to the management. Cost accountants in today's highly competitive and dynamic business environment need to understand the various functions or links such as customer service, marketing, distribution, etc., in the value chain of a business. This understanding of the various links in the value chain of a business is particularly important when the business concerned is involved in international trade. This has resulted in cost accountants moving away from traditional manufacturing cost approaches to more inclusive approaches. This move towards more inclusive approaches has resulted in cost accountants factoring cost of value chain activities such as engineering, sales, distribution, service, etc., into product costing. In this context an individual who is well versed in the numerous definitions relating to costs and comprehends the shifting definitions of costs ranging from short run to long run can be

extremely invaluable in identifying information which is critical for decision making. The importance of management and costs accounting has grown exponentially in the recent past. The reason for this can be attributed to a number of factors such as increased competition both locally and internationally which has been exacerbated by globalization, growing input costs on account of changing macroeconomic conditions, declining profit margins, etc. In order to mitigate these recent challenges, companies in the developing world have started implementing management and costs accounting practices which are widely used by companies in the developed world. In addition to the adoption of these cost and management accounting practices, empirical research in this regard has highlighted the importance of cost and management accounting practices in today's highly competitive and dynamic business environment. This in turn has resulted in costs and management accounting practices gaining prominence in both private and public sector businesses in the developing world.

Objectives of the study

The main aim of this study is analyse the manner in which cost and management accounting practices are used in manufacturing companies in Sri Lanka. This paper will also contribute to existing literature pertaining to this phenomenon, particularly relating to the use of cost and management accounting practices in Sri Lanka, where there is dearth of research on this phenomenon. The main objectives of this study are as follows; Analyse the current product costing methods used by public quoted manufacturing companies in Sri Lanka,

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- Analyse how costing information is used by public quoted manufacturing companies in Sri Lanka,
- Identify the factors which have contributed to the increased use of cost accounting practices in Sri Lankan public quoted manufacturing companies
- Assess the weightage given to management accounting practices in public quoted manufacturing companies in Sri Lanka

MATERIALS AND METHODS

The research method employed in this study was an applied research method, whilst the research strategy employed was a survey research strategy. The main data collection instrument used in the study was an interview questionnaire conducted with the Chief Financial Officers of 70 public quoted manufacturing companies in Sri Lanka. The questionnaire consisted of open-ended questions, closed ended questions and multiple choice questions. The population and sample of the study are shown in Table 1. Data obtained from the study sample was analysed using simple statistical methods such as mean, median, standard Deviation, and t-test.

Table 1: Population and sample of study

Industry classification	Population	Sample
Apparel manufacturers	39	33
Beverage, food and tobacco	21	18
Chemical and pharmaceutical	12	10
Footwear	07	6
Construction and engineering	04	3
Total	83	70

Source: Colombo Stock Exchange, 2015

RESULTS

Product costing

Sample respondents were requested to specify the methods and techniques used by them in product costing. As shown in Table 2, the costing method used by a majority of companies is activity-based costing (32 companies), followed by process costing (22 companies), and job costing (16 companies).

Table 2: Product costing methods used by public quoted manufacturing companies in Sri Lanka

Industry classification	Activity based costing	Process costing	Job costing	Total
Apparel manufacturers	19	8	6	33
Beverage, food and tobacco	6	8	4	18
Chemical and pharmaceutical	3	2	5	10
Footwear	3	2	1	6
Construction and engineering	1	2	0	3
Total	32	22	16	70

Source: Data from the Study Sample

As shown in this table activity based costing is the main costing method of a majority of apparel manufacturing companies and footwear manufacturing companies, process costing is the main costing method used by beverage, food and tobacco manufacturing companies, and construction and engineering companies in Sri Lanka, whilst job costing is the main costing method used by chemical and pharmaceutical manufacturing companies.

Use of costing information

One key part of this study was to identify the manner in which costing information is used by public quoted manufacturing companies in Sri Lanka. Table 3 describes the manner in which costing information is used by public quoted manufacturing companies in Sri Lanka.

Table 3: Use of costing information by public quoted manufacturing companies in Sri Lanka

Use of costing information	Mean	Standard Deviation	t-test
Pricing related decisions	4.31	1.311	4.414
Customer profitability related decisions	4.05	1.251	4.056
Performance measurement	4.01	1.525	3.941
Activity Analysis	3.98	0.95	3.781
Decisions relating to product extensions and reductions	3.41	1.01	0.265
Decisions relating to product mix	3.32	1.14	0.197

Source: Data from the Study Sample

As shown in this table, costing information is mainly used by these companies for pricing related decisions (mean = 4.31), followed by customer profitability related decisions (mean = 4.05), performance measurement (mean = 4.01), and activity analysis (mean = 3.98). Note, findings from this study are comparable with the findings from research conducted by Van Triest and Elshahat (2007), and Rao *et al.* (2015) which also found that pricing related decisions, customer profitability related decisions, and performance measurement were the main areas in which costing information was used by manufacturing companies in India (Table 4). However, whilst this study and the Van Triest and Elshahat (2007) study found that activity analysis was another key area in which costing information was used by manufacturing companies, Rao *et al.* (2007) in their study identified decisions relating to product mix as another key area in which costing information is used by manufacturing companies.

Table 4: Comparison of findings from study with findings from other studies

Use of costing information	Study (Mean)	Van Triest and Elshahat study (Mean)	Rao, Basheer and Beg study (Mean)
Pricing related decisions	4.31	4.16	4.47
Customer profitability related decisions	4.05	4.07	4.20
Performance measurement	4.01	4.04	4.13
Activity Analysis	3.98	4.07	2.38
Decisions relating to product extensions and reductions	3.41	3.46	2.93
Decisions relating to product mix	3.32	3.55	3.30

Source: Survey data; Van Triest and Elshahat, 2007; Rao *et al.*, 2015

Reasons for the increased use of cost accounting in Sri Lankan public quoted manufacturing companies

Another key objective of this study was to analyse the reasons for the increased use of cost accounting in public quoted manufacturing companies in Sri Lanka. The main reasons for these companies increasing use and interest in cost accounting is shown in Table 4. As shown in this table, reduced profits is the main reason for public quoted companies in Sri Lanka increasing use and interest in cost accounting, followed by increasing costs, intense competition, increased customer bargaining power, and increased supplier bargaining power.

Table 5. Main reasons for public quoted manufacturing companies in Sri Lanka increasing use of cost accounting

Main reasons for the use and interest in cost accounting	Mean	Standard Deviation	t-test
Declining profits	4.34	0.65	16.1
Increasing costs	4.23	0.71	13.41
Increasing industry rivalry	4.14	0.45	11.05
Increasing customer bargaining power	4.03	0.87	8.07
Increasing supplier bargaining power	3.98	1.08	6.15

Source: Data from the Study Sample

Table 6: Weightage given to various management accounting practices by public quoted manufacturing companies in Sri Lanka

Management accounting practice	Mean	Standard Deviation	t-test
Planning and control	4.18	0.72	9.199
Budgeting	4.15	0.76	7.512
Target costing	4.13	0.82	6.712
Cost-volume-profit analysis	4.07	0.91	5.737
Responsibility accounting	4.05	1.13	3.999
Performance measurement and evaluation	4.01	1.05	3.712

Source: Data from the Study Sample

Weightage given to management accounting practices by public quoted manufacturing companies in Sri Lanka

Assessing the weightage given to various management accounting practices by public quoted manufacturing companies in Sri Lanka is shown in Table 6. As shown in this table, high weightage is given by public quoted manufacturing companies to planning and control, budgeting, target costing, cost-volume-profit analysis, responsibility accounting, performance measurement and evaluation, strategic planning, standard costing, and transfer pricing. As shown in this table, traditional management accounting practices such as planning and control, budgeting, target costing, and cost-volume-profit analysis are still considered extremely important by public quoted manufacturing companies in Sri Lanka. However, as shown in this table, the importance given to strategic planning, standard costing, and transfer pricing is extremely low.

DISCUSSION

This study analysed the use of cost accounting and management accounting practices in public quoted

manufacturing companies in Sri Lanka. Key findings from the study revealed the following;

- The main costing method used by public quoted manufacturing companies in Sri Lanka is activity based costing, followed by process costing and job costing;
- Activity based costing is used by a majority of apparel manufacturing and footwear manufacturing companies, process costing is mainly used by beverage, food and tobacco manufacturing companies, and construction and engineering manufacturing companies, whilst job costing is used by a majority of chemical and pharmaceutical public quoted manufacturing companies in Sri Lanka;
- Cost information is mainly used by public quoted manufacturing companies for pricing related decision making, followed by customer profitability related decision making, and performance measurement;
- Use of costing information for product related decisions i.e. product mix related decisions, decisions pertaining to increasing/reducing the product range of public quoted manufacturing companies in Sri Lanka is low;
- Public quoted manufacturing companies increasing interest and use of cost accounting can be attributed to the decline in firm profitability, increasing cost, intense competition, and high customer and supplier bargaining power;
- Public quoted manufacturing companies in Sri Lanka give high importance to traditional management accounting practices such as planning and control, budgeting, target costing, and cost-volume-profit analysis.

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