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Cost Management Practices in Manufacturing and Allied Industries: A Review On Research Status of Home and Abroad

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Abstract - LPG has brought tremendous changes in the operations of business activities at global and national context. Cost and management accounting has gained significant importance over a period of time the underlying reasons behind gaining importance for cost and management accounting discipline is due to heightened competition at global and national markets, decreased profit margins, increased input costs, scarcity of natural resources and traces of economic crisis affecting business operations.

Objectives: The purpose of the present study is to look over the existing empirical works pertaining to cost management practices adopted by manufacturing firms and other allied industries operating at global and national level. In the present work authors have made a humble attempt to identify the major cost elements involved in manufacturing industries and also to give bird eye view of cost management practices.

Research Methodology: The present study is purely conceptual in nature and empirical research works have been collected related to theme of the cost management practices and necessary data has been collected from articles published in repute journals, e-resources, conference proceedings, peer-reviewed journals, books are the major sources used for collecting information.

Key Findings: from the present study it is observed that increased cost, heightened competition, change in accounting practices are the basic reasons behind increased demand for cost management in manufacturing sector, cost management practices gives information which helps the management to make good decisions. Finally the study concludes that cost management practices are highly beneficial for organization prosperity in long run still there is more scope to conduct the research works in future.

Key words: Liberalization, privatization and Globalization (LPG), Cost management, job costing, costing information, manufacturing firms.

I. INTRODUCTION

In the present scenario manufacturing and production houses are facing cut-throat competition besides rapid technological innovations has brought new changes in operations of business, hence total cost management is central to sustain corporate profitability and competitiveness. The success mantra of any business units lies in reducing costs before these conquer firms. Costing is emerged as important discipline since Ist and IInd world war. Social acceptance of costing is increased with the growth of defense expenditure. Cost accounting is a process majorly concerned with incomes recording and expenditure incurred, ends with preparation of final cost sheet it is a formal mechanism where cost of products and services are traced and controlled at each level of activity. Cost accounting is quantitative approach of collecting, classifying, summarizing and interpretation of information pertaining to product costing, operational planning and control that helps accountants and managers to make sound

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business decisions which improves efficiency and effectiveness in operations of business.

Market leaders at global and national level believe cost reduction as a strategic imperative and aims to sustain in business for long run by widening gap that exists between their costing practices and with their competitors strategic costs and renovate resource usage for growth and profitability. The cost management has become major challenge facing by industries and production units of developed as well as developing economies even after post WTO business environment. Firms operating in developing nations have started to execute cost management practices which were earlier confined to well develop economies, simultaneously research works are also emerging from developing economies in this regard. Lin and Yu (2002) opines execution of cost and management techniques in developed countries remain less studies on this area are less

II. REVIEW OF LITERATURE

Joshi (2001) in his research work concludes that Indian manufacturing companies highly depends on traditional costing and management accounting techniques like budgeting, ROI and variable costing. However usage of modern techniques such as share holder value analysis, product life cycle costing, activity based costing back flush costing, value chain analysis, balance score card and benchmarking techniques are highly used in larger firms. **Kennedy and Afflek graves (2001)** had examined the link between activity based costing and value creation to shareholders wealth using **Rappaport (1986)** frame work and event study methodology they observed that selection of management accounting system using such as ABC costing for UK sample firms have significant impact on firm value. **Cagwin and Bouwman (2002)** in their investigation 210 internal auditors have observed that firms with diverse product portfolios with more over head cost, when the firms executed the activity based costing and other strategic initiatives like Just in time (JIT) and total quality management (TQM) enhanced in their financial performance, ROI etc. **Narasimhan and Thampy (2002)** has developed activity based costing system for determining service cost for different customer groups with a case study of two large Indian private bank branches and examined use of cost accounting information in branch network restructuring activities, benchmarking , business process out sourcing and value added activities. **Asaolu and Nassar (2007)** in their research work examined certain level of activity many cost items are fixed in nature and then actually increased or decreased by certain level of amount. The other cost group is related to semi variable cost which comprises of fixed and variable costs, semi variable cost is not changing with output level so it was found to be difficult to evaluate (**Larry and Christopher 2009). Van Ttriest and Elshahat (2007)** opines cost accounting information used in Egypt is at basic level and used the cost information related to pricing decisions and also for operational performance of companies. They also identified that absence of sophisticated costing techniques are seem to be absent in Egypt industrial units. **Syverson (2011)** opines cost reduction results in profit maximization. Management of firms should adopt various tools and techniques in order to control the cost also describe the importance of firm revenue and its influence on expenses and costs. **Dury (2012)** opines implementation of standard costing systems and standard cost for actual output should be determined and managers at responsible centers are accountable for firm operations and actual costs for same period of operations are charged on responsibility centers hence, it becomes easy to identify the deviation between actual and standard costs. **Jalee (2012)** opines target costing mechanism exploiting cost information and only focuses on better price leader and it eliminates wastage of time on design and re-engineering of product it examine all costs related to product life cycle. The elements comprises of purchase, supply, operating costs and maintenance. **Akeem (2017)** value analysis is a systematic examination of value chain components which aim at minimizing cost of production process and achieving quality that fulfill the desires of customers. **Azeez and Adelabu (2012)** made an attempt to examine the relationship that exist between cost management and profitability authors have used descriptive research design in their work primary data has been collected through questionnaire and data collected using simple random sampling from 230 select staff of five companies data pertaining to procurement, ware housing, production and administrative activities and statistical tools like chi-square test, correlation and spearman rank correlation are used, the results of the study revealed that positive correlation exist between cost management and profitability is highly significant. **Akeem (2017)** objective of his study was to examine the impact of cost control and cost reduction techniques on operational performance of industries and primary data has been collected through questionnaire and regression analysis was used and results of the study revealed that cost control has positive influence on organizational performance.

III. RESEARCH GAP

Every firm wants to sustain in competitive business environment for a longer period of time firms operating in global context have started executing cost and management accounting practices to improve their operational efficiencies by reducing cost on the other hand, developing economies are not able use sophisticated tools and techniques which help to minimize cost of operations**. Lin and Yu (2002)** opines execution of cost and management accounting techniques are found to be less in under developed and developing nations studies in this area had limited literature, because of economic status and administrative activities of business units may be the reason for less research works. Hence, the area of study remains open for conducting research in developing nations.

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IV. Objectives of the Study

1. To comprehend the existing empirical works related to costing practices adopted in manufacturing industries at global and national level.
2. To understand the major cost elements involved in production process.
3. To give a bird eye view of cost management practices.

V. Research Methodology

The present study is purely conceptual in nature and existing empirical works get reviewed under specific industries, authors have collected data from global and national context, research articles published in repute journals, peer-reviewed publications to comprehend the empirical works related to cost management practices adopted by manufacturing industries and other industries etc. Content analysis is used and articles are selected based on key word search like cost element, manufacturing industries etc and articles should in available in English language has been included in the study.

Cost elements in manufacturing sectors:

Basically manufacturing units classifies costs into manufacturing and non-manufacturing costs, direct labor, material and overhead costs are treated under manufacturing costs while, selling and distribution costs , administrative and office are treated under non-manufacturing costs.

Cost management practices from global and national context:

Management policies and practices affect the performance of any business units. Every business unit will undertake numerous activities results in increased cost of production hence, it becomes crucial factor for any firm to have a control over its cost of operations because every company have set of standards and measured with actual results thus bringing out the difference between actual and standard helps business units to determine the cost and eliminate wastes through cost control practices. There are expenses incurred during the stages of production process and controlling those costs to ensure smooth flow of production also helps to use resources in efficient manner in order to achieve the objective i.e, reducing cost. **Ghanshyam and Radhe (2016)** opine research scholars have not explained the importance of management practices on firm performance. **Syverson (2011)** argues cost can be minimized by maximizing profits. Management needs to adopt various tools and techniques to minimize the production costs. The revenue of any firm is influenced by costs and expenses associated with process. Cost control is a measure which that determines usefulness of activities. Several production activities add up costs so every firm should possess cost check. The difference between standard and expected costs helps the firm to adopt effective cost control measures. The motive of every business is to maximize profit in this process firms incur various costs and effective administration of these cost result in achieving business goals. **Adebayo et.al (2014)** defines budgeting is a mechanism to control the cost in manufacturing firms **(Bedilu,2015)** Budgeting is an important plan and controlling tool which effect firm performance. Budgeting decision is a process of combined decision making where organization members are involved and each member involved in preparation and revision of budgets if required.

VI. Principle Findings of the Study

1. From the empirical literature review it is observed that manufacturing firms uses different tools and techniques to minimize cost of business operations. Cost control and reduction is a method of identifying and minimizing costs thereby firms increase the profits.
2. Manufacturing units uses different methods of techniques such as budgetary control, target costing, standard costing and activity based costing, quality cost control, value engineering, value analysis etc.
3. Target costing is managerial technique that concentrates on financial, customer and manufacturing aspects which starts with designing of product and ends with distribution to end users. Quality control is another important tool where managers and accountants are committed towards reduction in costs.
4. Value analysis is an important tool for management which aims at saving costs of manufacturing; value engineering is critical examination and continuous evaluation of methods and functions of a manufacturing company, aims at improving the quality level and reducing costs so that it will be win-win situation for firm as well as customers.
5. Responsibility accounting facilitates cost control system to attain set-forth goals and it acts like a control tool the management of company collects required information from responsibility centers.

VII. Shortcomings of the Study

1. The present study is purely based on review of select empirical works and more comprehensively reviews have been done, extensive literature survey is possible for any researchers is possible when the literature is abundantly available.
2. No statistical tools have been used in the present study.

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3. Only few empirical works are available in this domain since India is developing nation many works are not carried in this domain.

VIII. RECOMMENDATIONS

- Managers of any firm require information related to cost and accounting practices so that they can make sound decisions.
- The present study is devoted to understand the nature of costing and management accounting practices adopted by manufacturing and other industries from empirical literature survey.
- Cost management is a complex and tedious job, managers and accountants of modern enterprises cannot rely on other firms in Industry and copy the best business practices adopted by such firms, also it is very much important to execute in company in conjunction with needs of cost control.
- In order to overcome the cost management issues firm's should take effective measures to improve the quality and value of production process at each stage which results in long-term prosperity and development of firms.

IX. CONCLUSION

The purpose of the study is to understand the cost management practices adopted by firms in manufacturing and other industries and the major determinants are direct material, labor cost and manufacturing costs are categorized under manufacturing heads. Cost control and reduction in manufacturing units can be viewed from utilization of material, labor, elimination of wastes and cost supervision incurred in production process, since the aim of every company is maximize the profits and reduce the cost. Cost management of firm facilitates to achieve set forth objectives by company. Cost accounting information is prerequisite to make any financial and operative decisions cost management practices gives information which help the management to make good decisions. Finally the authors concludes that cost management practices are highly beneficial for organization prosperity in long run still there is more scope to conduct the research works in future.

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