

A STUDY ON COST AND MANAGEMENT ACCOUNTING PRACTICES BY SELECTED FIRMS AT RAJASTHAN

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ABSTRACT

In an era marked by rapid technological advancements and intense global and domestic competition, effective total cost management has become crucial for sustaining corporate profitability and maintaining competitiveness. The prevailing management philosophy emphasizes the need to master cost control before costs overwhelm firms. Understanding cost from a customer-centric perspective is essential—cost is not merely an internal measure but is perceived as the total cost to the customer. A cost leadership strategy should not entail compromising on quality, technology, or product differentiation. Even with lower costs, firms will not gain a competitive edge if customers do not perceive value in their offerings.

Cost management today must be strategically aligned with customer expectations. Customers continuously demand high-quality products and superior performance while expecting prices to decrease. This dual pressure creates a significant challenge for companies: to deliver products or services that meet high standards of quality and performance while staying within a predefined cost framework. Consequently, cost management must be viewed as a dynamic, ongoing process aimed at continuous improvement. Firms need to consistently refine their cost management strategies to adapt to changing market conditions and customer preferences.

The focus of this study is to explore cost and management practices among 30 selected firms in Rajasthan. Utilizing a questionnaire survey as the primary data collection method, the study aims to gather comprehensive insights into the cost management techniques employed by these firms. The questionnaire was developed based on a thorough review of existing literature, ensuring that the questions address relevant and critical aspects of cost management.

The study's analysis, interpretation, summary, and conclusions will be presented in the subsequent sections of the paper. This detailed examination will provide a clearer understanding of how firms in Rajasthan manage their costs and what practices are most effective. By analyzing the survey data, the study seeks to identify best practices and areas

for improvement in cost management, offering valuable insights for firms aiming to enhance their competitiveness and profitability in a challenging business environment.

The research highlights the importance of integrating cost management with customer needs and market demands. The continuous improvement approach to cost management is essential for firms to remain competitive and meet the evolving expectations of their customers. The study's findings will contribute to a better understanding of effective cost management practices and provide actionable recommendations for firms in Rajasthan to optimize their cost control strategies.

Key Words: Technological Transformation, Competitiveness, Cost Management & Cost Leadership Strategy

1. INTRODUCTION

Today, market leaders are even pursuing cost-reduction as a strategic imperative. They want to stay ahead of the market by continuously widening the gap between their cost and that of their competitors and re-deploying resources for profitable growth. Thus, the cost challenge is one of the most critical tasks facing Indian industry during the next decade in the post-WTO environment. The framework will be of activity-based cost and performance management in a value chain perspective.

The importance of cost and management accounting practices has increased more than ever. The reasons for this are the domestic and global competition getting severer by globalization, decreasing profit margins, increasing input prices due the tightening energy sources, economic crises etc. Therefore, companies operating in developing countries have also begun to implement cost and management accounting practices which were first adopted by companies functioning in developed countries. Parallel to these developments, research studies which have been conducted initially in developed countries are followed by the studies conducted in developing countries.

2. OBJECTIVES OF THE STUDY

- ❧ To Explore insights of Cost Management Techniques.
- ❧ To conduct the survey on cost and management accounting practices followed by selected firms in Rajasthan.
- ❧ To evaluate the cost accounting techniques that are being used in Selected Manufacturing Firms in Rajasthan.

3. RESEARCH METHODOLOGY

Research in common refers to a search for knowledge. Research methodology is a way to systematically solve the research problem. It may be understood as science of studying how research is done scientifically. A good research methodology has Characteristics like problem identification, problem definition, research objectives, developing the research plan, sourcing data, collection of data, analyzing data and information, presenting the findings.

3.1. SAMPLE DESIGN

The sample design which is used in the study is convenience sampling. Respondents from Rajasthan were selected on the basis of convenience.

3.2. SAMPLING TECHNIQUE

The study was carried out by conducting a survey with the help of printed questionnaire. Questionnaire which is considered as heart of survey. A well Structured questionnaire was designed in tune with obtaining necessary information from respondents.

3.3. SAMPLE SIZE

Sample size taken for the study is 30 respondents.

3.4. AREA OF ANALYSIS

The study was conducted in Hubballi–Dharwad District.

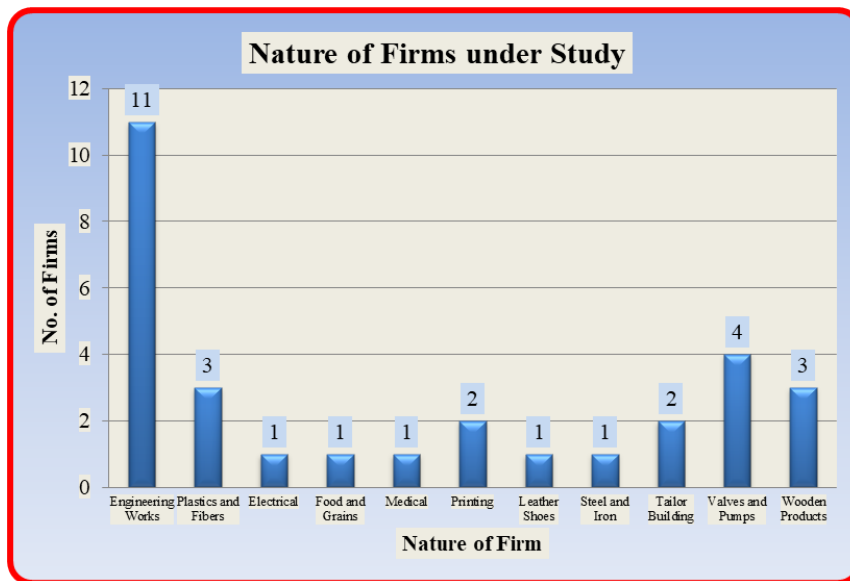
4. METHODS OF DATA ANALYSIS:

In order to analyze survey of Cost management practices by Selected Manufacturing Firms in Rajasthan, statistical tools like Average, Graphs and Diagrams were used.

4.1. DATA ANALYSIS AND INTERPRETATION

Table 4.1: Nature of Firms under Study

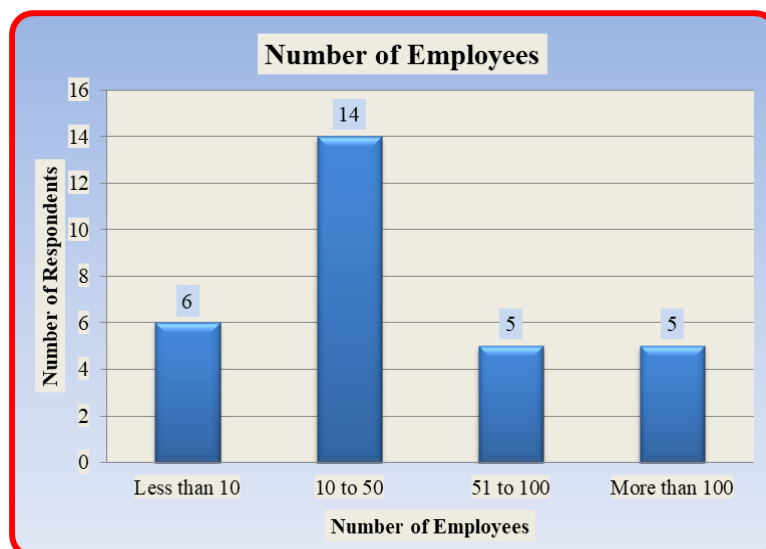
Nature of Firm	No. of Firms
Engineering Works	11
Plastics and Fibers	3
Electrical	1
Food and Grains	1
Medical	1
Printing	2
Leather Shoes	1
Steel and Iron	1
Tailor Building	2
Valves and Pumps	4
Wooden Products	3
Total	30

Figure 4.1: Nature of Firms under Study

Among 30 Selected firms in Rajasthan 11 firms belong to Engineering Works, 3 firms belong to Plastics and fibers, followed by Electrical, Food and Grains, Medical, Printing Leather Shoes, Steel and Iron, Tailors Buildings, valves and Pumps and Wooden products.

Table 4.2: Number of Employees

Number of Employees	Frequency
Less than 10	6
10 to 50	14
51 to 100	5
More than 100	5
Total	30

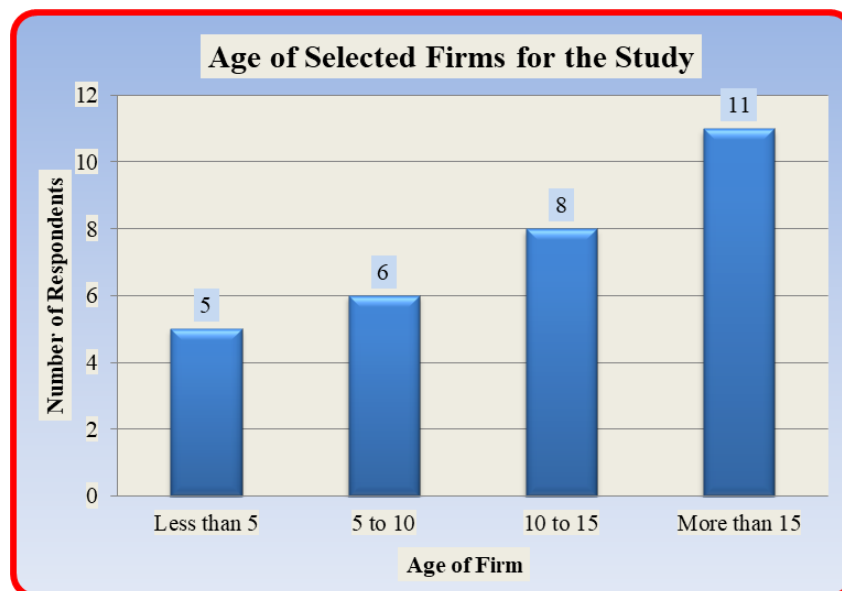
Figure 4.2: Number of Employees

From the above table and graph it is observed that among thirty selected firms in Dharwad District 47% of firms have employees in between 10 to 50, 20 % of firms have less than 10; while 17% of Firms under the study have employees in between 51 to 100 and more than 100.

Table 4.3: Age of Selected Firms for the Study

Age of Firm	Frequency
Less than 5	5
5 to 10	6
10 to 15	8
More than 15	11
Total	30

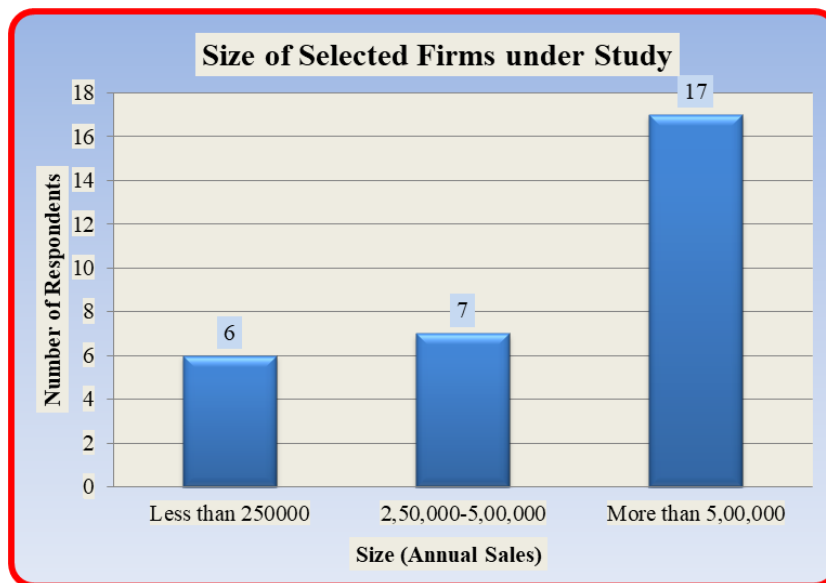
Figure 4.3: Age of Selected Firms for the Study



From the above table and graph it is observed that among thirty selected firms in Dharwad District 37% of firms are existing in the market for more than fifteen years, 27% of Firms are aged in between 10 to 15 years; 20 % of firms are aged in between 5 to 10 years and 17 % of firms are aged less than five years

Table 4.4: Size of Selected Firms under Study

Size (Annual Sales)	Frequency
Less than 250000	6
2,50,000-5,00,000	7
More than 5,00,000	17
Total	30

Figure 4.4: Size of Selected Firms under Study

From the above table and graphs it is observed that 57 % of firms under the study are having average annual sales of Rs. More than 5,00,000; 23 % of firms are having annual average sales in between Rs. 2,50,000 and Rs.5,00,000, while 20 % of the firms have average annual sales less than Rs. 2,50,000.

Table 4.5: Product Costing Method

Product Costing Methods	Frequency
Job Costing	15
Process Costing	8
ABC	6
Output Costing	10
Not Specified	–

The respondents were asked to specify the methods they implement in product costing. According to the answers, the most widely used costing method is job costing (15 firms), followed by Out Put Costing (10 firms), Process Costing (8 firms) and Activity Based Costing (6 firms).

Table 4.6: Facing Difficulties in Product / Servicing Costing

Facing Difficulties in Product / Servicing Costing	Frequency
Strongly Disagree	3
Disagree	4
Neutral	10
Agree	11
Strongly Agree	2

Respondents were also asked to point out the difficulties they encounter in product costing. Out of 30 firms 11 firms agreed that they face difficulties in product costing while 2 firms strongly agreed for the same. Reasons being complexities in their productions and lack of necessary software. Interesting 10 firms were neutral in their opinion regarding difficulties faced in product costing. While 4 firms disagreed and 3 firms were strongly disagreed for the same.

Table 4.7: Overhead Allocation Bases

Overhead Allocation Bases	Frequency
Prime Cost	8
Units Produced	9
Direct Labour Cost	10
Machine Hour	5
Direct Labour Hour	2

The most widely used overhead allocation bases are Direct Labour Cost (10 firms), units produced (9 firms, and prime cost (8 firms). While Machine hour (5 firms) and Direct Labour hour (2 firms) were least used overhead allocation rates.

Table 4.8: Application of Costing Information

Application	Frequencies
Pricing Decision	12
Customer Profitability	4
Performance Measure	5
Activity Analysis	7
Make or Buy Decision	1
Adding/Deleting Product	3

The Above table and graph shows that pricing decisions (12 firms) are the most important area where costing information is used, followed by activity analysis (7 firms) and performance measure (4 firms). Customer Profitability, Adding/Deleting Product and Make/Buy decisions were least applied by costing information.

Table 4.9: Ratio of Overhead to Total Cost

Ratio of Overhead Cost to Total Cost	Frequency
Less than 20%	6
20% to 40%	20
More than 40%	4
Total	30

From the above table and graphs it is observed that 20 firms out of 30 firms had ratio of Overhead to total cost in between 20% to 40%. Six firms had ratio of overhead to total cost less than 20% while only four firms under study had this ratio more than 40 %.

Table 4.10: Reasons for Increased interest in Cost Accounting

	Decreasing Profitability	Increasing Cost	Increasing Competition
Strongly Disagree	0	0	1
Disagree	5	5	4
Neutral	6	8	7
Agree	16	15	13
Strongly Agree	3	2	5

The above table and chart shows that decreasing profitability and Increasing Cost are primary reasons for increased importance in cost accounting. However, increasing Competition is also one of main reason for increased interest towards cost accounting.

Table 4.11: Perceived importance of management accounting practices

	Budgeting	Planning and control	Performance measurement and evaluation	Quality cost reporting
Strongly Disagree	2	1	1	3
Disagree	3	5	1	4
Neutral	6	6	8	10
Agree	12	12	15	7
Strongly Agree	7	6	5	6

From the above table and chart it is observed that Budgeting, Planning and Control and Performance Measurement were perceived more importance for management accounting practices for most firms under study.

5. KEY FINDINGS AND SUGGESTIONS

The survey conducted on cost and management accounting practices within manufacturing firms in Rajasthan provides valuable insights into the prevalent methodologies and challenges faced by these businesses. The study aims to enhance the existing body of literature on cost accounting practices, particularly within developing markets, by offering a detailed analysis of the approaches used by firms in this region.

One of the key findings of the study is that job costing is the most commonly employed costing method among the surveyed firms. Job costing, which tracks expenses associated with specific jobs or projects, allows firms to allocate costs accurately and evaluate profitability on a per-project basis. This method is particularly useful in

manufacturing environments where products are produced in batches or custom orders, providing detailed cost information that helps in financial planning and control.

The survey also highlighted significant challenges faced by firms in product costing. Many firms struggle with accurately determining the costs associated with their products, which can impact pricing decisions and profitability. These difficulties often stem from issues such as inadequate cost tracking systems, complex production processes, or fluctuating material costs. Addressing these challenges is crucial for firms to ensure accurate cost estimation and effective cost management.

In terms of overhead allocation, the study found that most firms use direct labour cost, units produced, and prime cost as the primary bases for allocating overheads. These allocation methods help firms distribute overhead expenses proportionately across different products or jobs. Direct labour cost is commonly used due to its straightforward nature and direct relationship with production activities. Units produced and prime cost allocations are also prevalent, reflecting the importance of production volume and initial cost components in overhead distribution.

The research also underscores that costing information is most frequently utilized in pricing decisions. Accurate cost data is essential for setting appropriate prices that cover costs and achieve desired profit margins. Firms rely on detailed costing information to make informed pricing decisions, ensuring that their products are competitively priced while maintaining profitability.

The study reveals that for most firms, the ratio of overhead to total cost ranges between 20% to 40%. This ratio indicates the proportion of total costs attributable to overhead expenses, which can significantly impact overall cost structures and pricing strategies. Monitoring and managing this ratio is important for firms to control overhead costs and improve cost efficiency.

The increased focus on cost accounting among firms is attributed to several factors, including decreasing profitability, rising costs, and heightened competition. These pressures have heightened the need for more accurate and detailed cost information to maintain competitiveness and financial health. Firms are increasingly recognizing the importance of robust cost accounting practices to navigate these challenges effectively.

Additionally, traditional management accounting practices such as budgeting, planning and control, and performance measurement were found to be of significant importance to the surveyed firms. These practices provide a framework for financial

planning, resource allocation, and performance evaluation, helping firms manage their operations more effectively and achieve their strategic objectives.

The emphasis on traditional practices indicates that while modern cost accounting methods are gaining traction, firms continue to rely heavily on established practices for comprehensive financial management. These traditional methods remain integral to budgeting, controlling costs, and measuring performance.

In conclusion, the survey provides a comprehensive overview of the cost and management accounting practices of manufacturing firms in Rajasthan. The findings offer valuable insights into the prevalent costing methods, challenges faced, and the significance of traditional practices. By understanding these aspects, firms can enhance their cost accounting practices, address existing challenges, and improve their overall financial management and competitiveness in the market.

6. CONCLUSION

The primary objective of this study was to identify and analyze the cost accounting techniques employed by manufacturing and service firms in Rajasthan. The research aimed to assess which costing methodologies are currently in use and evaluate their effectiveness in the specific context of these firms. Understanding the application of various cost accounting techniques is crucial for firms to manage their finances efficiently and make informed business decisions.

Cost accounting techniques must be selected based on their alignment with the firm's operational environment. Several factors influence the suitability of a costing method, including the level of technological advancement, the firm's size, the stage of the product lifecycle, and the organizational culture. For instance, a firm with advanced technology might benefit more from sophisticated costing methods like Activity-Based Costing (ABC) or Standard Costing, which can provide detailed insights into cost drivers and operational efficiency. Conversely, smaller firms or those in earlier stages of product development may find simpler methods more practical and cost-effective.

The study underscores the importance of naturalistic research in developing cost and management accounting techniques. This approach involves studying and understanding the real-world context in which these techniques are applied. By observing how firms in Rajasthan implement and benefit from different costing methods, researchers can gain insights into the practical challenges and successes associated with each technique. This

research is essential for creating a robust framework that helps firms choose and refine their costing strategies based on empirical evidence rather than theoretical assumptions.

Firms should prioritize the adoption of cost accounting techniques that have a practical basis and have been successfully implemented by their competitors. Techniques that have demonstrated effectiveness in similar business environments are more likely to provide valuable insights and drive better financial management. Observing industry trends and learning from the experiences of peers can help firms select and tailor costing methods that enhance their financial performance and competitive positioning.

In conclusion, the study highlights the need for firms to carefully evaluate and adopt cost accounting techniques that are well-suited to their specific operational contexts. By focusing on techniques that align with technological advancements, firm size, product stage, and organizational culture, and by leveraging insights from naturalistic research and competitor practices, firms can improve their cost management processes. This strategic approach to cost accounting will enable businesses in Rajasthan to optimize their financial performance and achieve greater operational efficiency.

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