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FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

TOPIC: EFFECT OF STANDARD COSTING ON COST REDUCTION OF A MANUFACTURING FIRMS. CASE OF ASSOCIATED FOODS ZIMBABWE.

RESEARCH PROJECT

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Approval Form

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TOPIC RESEARCHED : EFFECT OF STANDARD COSTING ON COST REDUCTION OF A MANUFACTURING FIRM. CASE OF ASSOCIATED FOODS ZIMBABWE.

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DEDICATION

I offer this project as a tribute to my father and mother Mr and Mrs Dapira, who provided me with constant assistance and inspiration throughout my academic pursuit, along with my beloved siblings Darlington and Tanaka. I could not have succeeded without your motivation and unwavering backing throughout my study.

ABSTRACT

This research was carried out to analyse the effect of standard costing on cost reduction of Associated Foods Zimbabwe (AFZ) a manufacturing firm. They has been an increased discrepancies in cost variances in the manufacturing firms. The objectives of the study were to determine the factors which are considered in standard costing, to conduct a trend analysis of costs for a period of 5 years at AFZ, and to establish the relationship between standard costing and costs of AFZ. It was assumed that the standard costing practices and cost reduction are consistently being used in production and also that standard costing impacts the effectiveness of AFZ. The research followed a positivism research paradigm and a casual research design was employed. The research used a case study approach in the data collection. The targeted population has a total number of 32 participants from the accounts and finance department of the company. Questionnaires were used to collect primary data which were issued to fill. Secondary data was also used and was obtained from production feedbacks and financial reports on the company's website. SPSS version 28 and Microsoft Excel 2016 were used for data analysis and also ANOVA was used for quantitative statistics. The findings of the research showed that factors affecting standard costing practices are grounded in the understanding of standard costs / quantities, actual costs / quantities and variances. The use of standard costing resulted in the reduction of operating costs in the past 5 years and also the use technique of standard costing has led to exposure of hidden costs of production. However, the author recommended that manufacturing companies should make use of this technique and the policy makers should encourage adoption, provide training and support research and development of standard costing. It was concluded that it is of great importance for a manufacturing firm to know this technique and understanding variances.

Keywords: Standard costing; cost reduction; cost control; costs.

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LIST OF ABBREVIATIONS

ABC ……………Activity Based Costing

AFZ…………….Associated Foods Zimbabwe

ANOVA………..Analysis of Variances

FMCG………..Fast Moving Consumer Goods

QPDs………..Quarterly Payment Days

SAZ………….Standard Association of Zimbabwe

SPSS…………Statistical packages for social scientists

ZIMRA………Zimbabwe Revenue Authority

INTRODUCTION

1.0 Introduction

This chapter focuses on introducing the study. The chapter shows the background of the study, the research problem statement, the objectives, questions and hypothesis. The chapter also contain some introductory information for the study.

1.1 Background of the study

Standard costing is an accounting practice where the expected amounts are substituted for the actual amounts in the books of accounts. Therefore, implying an investigation of variances which occur as a result. In basic terms, standard costing is a system of management accounting which uses predetermined costs for direct materials, direct labour, and other overheads. Organisations, especially manufacturing organisations across the globe have taken a keen interest in standard costing as it appears to have better management of costs than the traditional historic costing which reports post-analysis of events. The standard costing has been noted to have an active role in management which allows the organisation to predetermine costs, establish standards and monitor actively through a variance analysis approach.

It is claimed that the effectiveness of management has significant role in how long modern companies in Zimbabwe and even globally will survive in this twenty-first century. While there are many methods to gauge management effectiveness, such as through cost reduction or profitability, this can only be done putting in place the right polices to reduce costs. In manufacturing firms, standard costing is one method for reducing production costs.

Industrial companies aim to ensure their survival and increase profits while considering their capacity to invest. However, the traditional method of assigning costs to fixed costs is no longer effective due to the rapid advancements in technology and industry.

Therefore, manufacturing companies need to adopt modern strategies and policies that align with these developments on both a local and global scale.

There is evidence of both parallels and variations in the adoption of standard cost technique. According to Marie et al, (2010), in Dubai, manufacturing and service businesses favour average prior productivity as the primary benchmark for cost management, with 47% and 50% of each choosing this benchmark, respectively. In terms of differences, 77% of manufacturing companies employed standard cost versus 39% of service-based companies. Additionally, according to a survey response from thirteen key companies, twelve of them acknowledged using conventional variance analysis (Badem et al. 2013, p 81). In U.K, Dubai, and Malaysia, the industrial sector frequently uses the standard cost inventory costing feature, but the budget feature, but the budget future is crucial for the service sector (Marie et al. 2010)

Globally, research has found that there are numerous advantages which accrue towards organisations because of the use of standard costs. Manufacturing companies can analyse their costs by comparing the actual costs incurred with the standard costs. This enables them to pinpoint areas where costs are exceeding expectations and implement measures to decrease such costs. Standard costing can also help firms identify sources of waste and inefficiency in their production processes and implement measures to improve efficiency and reduce waste.

1.2 Statement of the problem

Associated Foods Zimbabwe's cost of production has been seen increasing every day and the profit of the organisation as a whole has been seen deteriorating which has raised alarms in the production department. Hence, there is need to understand the contribution which the standard costing system has towards the operating and manufacturing costs at Associated Foods Zimbabwe (AFZ). There is limited knowledge towards the extent to which the costing system is aiding the reduction of costs and ultimately the increase of profits. The study seeks to explore whether AFZ should explore other available costing systems. The aim of the study is to understanding the use of standard costing has benefited AFZ in cost reduction.

1.3 Research objectives

The researcher came up with the objective that follows:

1. To determine the factors which are considered in standard costing.

2. To conduct a trend analysis of costs of the AFZ for a period of 5 years.

3. To establish the relationship between standard costing and costs of AFZ.

1.4 Research questions

The following are the research questions that the researcher came up with:

1. What are the factors considered in standard costing?
2. What is the trend of the costs at AFZ in the last 5 years?
3. What is the relationship between standard costing and costs of AFZ?

1.5 Research hypothesis

The researcher came up with hypothesis statement that follows:

H_0: There is no relationship between standard costing and cost reduction at AFZ

H_1: There is a positive relationship between standard costing and cost reduction at AFZ

1.6 Significance of the study

A number of stakeholders will to benefit from this study and these are Associated Foods Zimbabwe (AFZ), Accounts departments of different manufacturing firms, Bindura University of Science Education (BUSE) and the researcher as well.

1.6.1 to the researcher

It was of great importance to the researcher as it is also the requirements in partial fulfilment of the degree in Bachelor of honours in Accountancy in which the researcher is studying. The research helped in increasing her understanding towards research skills so as to acquire knowledge about the relationship between the standard costing and cost reduction.

1.6.2 to Associated Foods Zimbabwe

The research recommends AFZ the most and effective way of using standard costing with regards to cost reduction, also observe proper techniques of standard costing. The recommendation also helps in giving insights of areas that needs attention for the

essence of the introduction and use of the standard costing to be effective. The organization at large will be able to correct and solve the arising problems.

Also the accounts department of AFZ will make use of the research outcomes to improve as well as promote the cost reduction practices within their organisation so as to increase their focus on other discovered factors which contributes to cost and profitability. The research will make up a database of knowledge that helps to identify areas of concern within the organisation.

1.6.3 to Bindura University of Science Education

The research outcomes are of great benefit to the institution as they will form a source of database for different stakeholders within the institution such as students and lecturers. This research will also help in the further researches to be done but the university under the effect of standard costing in cost reduction.

1.7 Justification of the study

The study is of great importance because it sheds light on a strategic aspect of management of manufacturing firms. It is important for firms to understand the behaviour of costs in their organisations because the costs represent an element which can be controlled by the management in order to realize profits and sustainability of business. Thus, there is an important aspect in this study which is of concern to the financial wellbeing of manufacturing organisations which cannot be ignored. There is need to understand if it is of strategic value to use the standard costing system and if it has a positive impact on the cost reduction of manufacturing organisations.

1.8 Delimitation of the study

The researcher delimited the study to a time frame of 5 years from 2018 to 2022 for the trend analysis and data collection of the study. In the research the researcher focused on the effect of standard costing on cost reduction. The researcher delimited the focus of the study to AFZ, a manufacturing company in Zimbabwe which specializes in food stuffs manufacturing which has three locations in Zimbabwe one being the head office in Harare and also two being the production sites in Harare and Vumba. The delimitation to a case study was done because the researcher had access to information in this organisation at the time of the study.

1.9 Limitations of the study

The researcher encountered limitations in the study in collecting data for the study therefore she used a case study to obtain data. It was challenging to meet the respondents in order to establish the research instruments. The researcher circumvented the hurdle by resorting to online methods of delivering the research instruments, communicating and collecting the research instruments.

1.10 Assumptions of the study

During the study the following was assumed by the researcher:

- The researcher assumed that the standard costing practices and cost reduction are consistently being used in production at AFZ.
- The researcher also assumed that standard costing impacts the effectiveness of AFZ.
- The author assumed that the resources and instruments necessary for the research were reliable and valid.
- The researcher also assumed that for the research to be successful necessary condition such sufficient knowledge and information about cost management for all respondents to the questionnaire should be in place.

1.11 Definition of terms

Standard costing: an accounting system which allocates predetermined amounts to costs regarding their behaviour and likelihood to replicate the same behaviour over time. A uniform expense per unit is recorded for items of costs which occur in the organisation, these can be traced between the actual occurrences and these predetermined outflows leading to variance analysis.

Costs: these are outflows of financial benefits/resources from the company especially in the form of money or other financial instruments with the intention of creating value which is sold as company revenue.

Cost reduction: According to Gaurav, Jain and Nateriya (2013), cost reduction is the process of looking for, identifying and eliminating unnecessary expenditures from a firm in order to increase profit without degrading product quality.

Cost Control

This is keeping expenses within a certain range, management may govern and oversee the performance of a manufacturing company, according to www.wallstreetmojo.com (06/02/23:07:00).

Cost Accounting

This is a form of managerial accounting that aims to capture a company's total cost of production by assessing its variable and fixed costs.

1.12 Chapter summary

The chapter focused on introducing the study. The chapter shows the interest of the researcher to understand how standard costing is contributing towards the reduction of costs within organisations. The chapter also showed the objectives, research questions and hypothesis of the study. The following chapter shows the literature review for the study.

LITERATURE REVIEW

2.0 Introduction

This chapter focuses on exploring the literature surrounding the study. The chapter reviews the theories upon which the study finds its basis. The chapter also explores the related empirical studies which have been undertaken in similar studies in an effort to understand the study area.

2.1 Conceptual framework
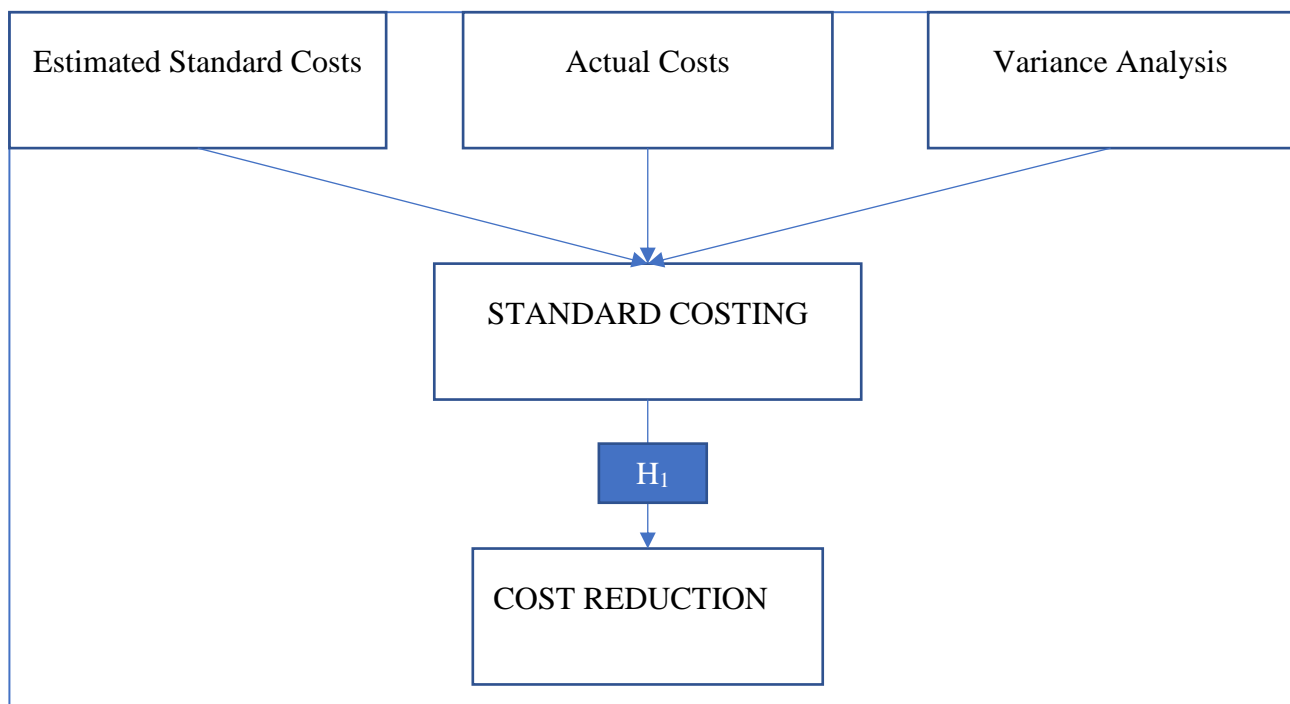
Figure 1: *Conceptual framework*

 (Source: Primary data, by the researcher, 2023)

The conceptual framework above shows the intention of the researcher in the study. From the diagram above, the researcher intends to understand standard costing, through understanding aspects of estimates, actual costs and variance analysis. From this

understanding of standard costing, the researcher then intends to find out how the standard costing practice impacts the cost reduction in an organisation.

2.2 Theoretical framework

Upon the introduction and the use of standard costing the main aim would be for cost reduction in order to increase profitability on activities on activities being carried out within an organisation this is on the word of Boser (2015). The researcher focused on the Cost theory in the study.

2.2.1 Cost theory

The theory postulates that there are mainly two kinds of costs associated in production of goods (Drury, 2020). The costs are namely fixed and variable costs. These costs can be predetermined through estimates and actual charges. Variable costs refer to the costs which are tied to products, thus, an increase in the production levels leads to an increase in the variable cost element (Freeman, 2020). Fixed costs on the other hand, are costs which remain constant despite changes in production levels. These are not directly linked to products but are rather incurred wholesomely following a constant factor. An example of the fixed costs is rent, which is often fixed for a certain area despite levels of production or activity going on.

The theory further states that, in the short-run the fixed elements of costs remain fixed at a certain amount allowing for easy predictability of the standard cost to be incurred in fixed assets. The behaviour of the costs therefore follow is such that with an increase in production volumes, there is a decrease in costs per unit due to the stagnant fixed cost element (Anders, 2022). On the other hand, the variable costs have a tendency to remain constant per unit with increases in production volumes and as such an increase in the production levels does not alter the per unit variable cost element but only the total variable cost element. A combination of both the elements of costs, fixed and variable give the total production cost of a product.

The cost theory is most relevant to the researcher in this study because it sheds light on the nature of expenses upon which standard costing is to be done (Dubbe, 2020). The availability of information regarding the nature of a cost leads to the understanding of what estimate to put to a cost, how to measure its behaviour and how to explain

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variances when assessing budgeted amounts against actual amounts in the standard costing system.

2.2.2 Benchmarking Theory

Benchmarking is a process of comparing a firm's performance against other firms or industry standards to identify areas for improvement and achieve better performance. In the context of standard costing, benchmarking can be used to determine whether the standard costs being used are appropriate and whether actual costs are in line with industry standards.

According to Horngren et al. (2019), benchmarking can help identify areas of potential cost reduction and improve decision-making in setting standard costs. Standard costing provides a basis for benchmarking by comparing actual costs against standard costs to identify variances. Zimmerman and Yahya-Zadeh (2011) suggest that benchmarking can also be used to identify best practices and improve operational efficiency. By comparing performance to industry leaders, manufacturing firms can identify areas where they can improve and develop strategies to reduce costs without compromising on quality.

Overall, benchmarking theory is highly relevant to the use of standard costing in manufacturing firms to help identify areas for cost reduction and operational improvement.

2.2.3 Resource based theory

Resource-based theory is a theoretical framework that proposes a company's success is solely dependent on the availability and effective utilisation of the company's resources. The theory argues that the unique combination of tangible and intangible assets at an organization's disposal can enable it to gain a competitive advantage over its competitors (Barney, 1991).

Standard costing is a popular accounting technique utilised by many organisations to manage their costs and expenses. The technique involves setting predetermined cost standards for materials, labour, and overhead costs based on past data and industry benchmarks (Dugdale & Jones, 2008).

The resource-based view (RBV) offers a unique perspective on the use of standard costing in organisations. By analysing a company's resources and capabilities, managers can determine and allocate resources towards areas where the firm has a competitive advantage. For instance, standard costing can assist managers in controlling costs related to production, which can reinforce a company's competitive advantage by helping it offer its products or services at a lower price than their rivals. The resource-based view offers an analytical framework through which managers can evaluate the effectiveness of standard costing and determine how resources and capabilities can be leveraged to drive the profitability of an organisation.

2.3.1 Standard costing technique

Standard costing is a well-established and widely used method of cost accounting that helps manufacturing firms in cost reduction. According to Horngren et al. (2014), standard costing is a method that entails creating pre-established projections of the cost of manufacturing a product or offering a service, which are grounded on past records and anticipated future expenses. These estimates are used to establish cost standards for materials, labour, and overhead, which serve as benchmarks against which actual costs are measured.

Ama (2001) defines standard costs as predetermined costs, target costs, or carefully planned expenses that management endeavours to achieve for the purpose of attaining maximum efficiency in the production process. According to this same author, standard costs are cost estimates that pertain to a single unit of cost, and any deviation from these estimates serves as a performance measurement since standard costs are meant to represent the expected cost. Essentially, standard costs are pre-established expenses, and variances refer to the differences between standard costs and actual costs.

Standard costing is an accounting method that involves replacing anticipated costs with actual costs in financial records, and then analysing the variances between the two (Drury, 2020). Standard costing provides a simpler option compared to cost layering approaches such as FIFO and LIFO, which involve keeping detailed records of historical costs for inventory items held in stock. With standard costing, predetermined costs are set for materials, labour, and overhead, eliminating the need for ongoing tracking of historical costs. This simplifies the accounting process and allows for easier evaluation of actual costs and performance.

Standard costing is a method that entails providing expected (standard) costs for various activities carried out within an organization. The primary rationale for employing standard costs is that determining actual costs can be time-consuming for some applications. Hence, standard costs are utilized as an approximation of the actual costs, which can significantly enhance accounting efficiency (Freeman, 2020).

Because standard costs tend to differ slightly from actual costs, costs are calculated periodically for variances that account for differences due to factors such as changes in wage rates and material costs (McNair, Mosconi & Norris, 2018). Accountants can periodically change standard costs to better match actual costs.

Standard costing is based on the idea that it provides a reference point for comparing actual costs, allowing for variances to be identified and analysed (Bhimani, 2012). This enables organizations to pinpoint areas where costs are higher than anticipated and take corrective measures to reduce them. Additionally, standard costing is believed to foster cost control and cost awareness among employees by emphasizing the importance of meeting targets and lowering costs (Drury, 2012). There are different types of standard costing, including:

2.3.2 Types of Standard Costing:

Ideal Standard: Perfect operational circumstances serve as the foundation for ideal standard. This indicates that there are no waste products or scrap, breakdowns, stoppages or idle periods, there are no inefficiencies. For instance Japan businesses employ ideal standards to identify areas that might yield significant cost savings in their pursuit of flawless quality (Steyn, 2017). Ideal standards may have negative motivating effect because staff members may believe they are unattainable.

Attainable Standard: Standard that can be met must be operated in conditions that are effective but not ideal (Hu et al, 2017). The standard shall incorporate realistic tolerances for fatigue, machine malfunctions, typical material losses, etc. the most typical kind of standards are those that can be achieved. These standards offer a reasonable yet tough goal, which encourage staff to work more.

Current Standard: Standards in use on the present are those that are based on contemporary working situations (Hu et al, 2017). They are helpful when the environment is anomalous and any other standard would yield useless data, the

drawback is that they do not make an effort to inspire workers to enhance the circumstances of their present jobs, which may leave them feeling unsupported.

Material Standard: The raw materials, subassemblies, piece parts, finishing materials and other components that make up a product are determined by technical and engineering requirements, typically in the form of a bill of materials (Badem, et al, 2013). An allowance for typical and inevitable manufacturing losses, such as machining losses, evaporation and an expected level of breakages and rejects is typically included in the standard quantities required.

Labour Standards: it would be hard to define standards and labour hours without a comprehensive operation and process definition. When a part is not yet in production, the work measurement approach is sometimes paired with elemental analysis based on work study forecasts. The particular grades of labour to be utilised, as well as the time involved, must be specified in the labour regulations. Standard hours are used to describe the length of planned workdays. The definition of the standard hour/minute idea by Lucey, (2018) is that it refers to the amount of work that can be accomplished in an hour or minute while performing at a standard level. A prediction of the pertinent wage rate for the suitable future may be created after the times a grade of labour is determined

2.3.2 Advantages of standard costing

Budgeting

Solomons (2014) found that budgets typically utilize standard costs because it is impractical to include the precise actual cost of an item at the time the budget is established. As budgets are primarily used for comparison with actual results over subsequent periods, the standards used in them remain present in financial reports throughout the budgeting period. This similarity to standard costing has also been noted by Merriam (2019) in their research.

Inventory costing.

According to McClelland (2015), standard costing is a useful method for inventory costing. If a perpetual inventory system is in place, it is simple to produce a report that displays the final inventory quantities and multiply them by the standard cost of each item. This calculation provides an approximate valuation of the ending inventory. While

it may not reflect the exact storage costs, it provides a close approximation. However, if actual costs are frequently changing, regular updates to standard costs may be necessary (Lessner, 2019). It is advisable to prioritize the most expensive inventory components for frequent cost reviews and occasionally review the costs of lower value items.

Overhead application

Lekvall and Wahlbin (2019) suggest that a standard overhead application rate can be used instead of aggregating actual costs into cost pools for inventory allocation, if the latter process takes too much time. This approach involves updating the rate every few months to ensure that it remains close to actual costs. This highlights how standard costing can reduce the burden of constantly updating costs to keep up with changes in the environment, by standardizing costs and accepting tolerable variances that can be used to address overheads in changing environments.

Price formulation.

Standard costing is a huge advantage to companies that create customized products as well as standard products (Kirwan, 2016). When a company does customized products, standard costs are used to compile projected costs against customer needs and add margins. According to McCosh (2016), the standard costing system can be very intricate, especially when the sales department utilizes a database of part costs that vary with the unit quantity of customer orders. The system can also respond to changes in the company's production costs. This is because it may be necessary to use cheaper and longer production runs.

2.3.3 Disadvantages of standard costing

Cost-plus contracts.

Johnson (2018) notes that if a company has a cost-plus contract with a customer, where the customer pays for the costs and profits incurred, actual costs must be used in accordance with the terms of the agreement. Thus, standard calculations cannot be utilized in such scenarios since they rely on estimates. This suggests that the utility of standard costing practices is restricted to certain industries and business models.

Drives inappropriate activities.

According to Kaplan (2021), the use of variances in the standard cost system may lead managers to take actions that result in favourable variances, but are not necessarily the best course of action for the company. For instance, managers may opt to purchase raw materials in bulk to improve purchase price distribution, which can lead to higher inventory investment. Similarly, they may plan longer production runs to increase labour efficiency variability, when it may be more beneficial to produce in smaller quantities and accept lower labour efficiency instead (Hussey, 2019). Both of these actions may result in favourable variances, but they could have negative impacts on the company's overall efficiency and profitability. The use of standard costing in such scenarios often results in misappropriation or errors in inventory valuation, which goes against the prudence concept of accounting and may lead to material misstatement of profits or losses from inventories.

Fast-paced environment.

Johansson and Samuelson (2018) state that the standard cost system operates under the assumption that costs do not significantly change in the short term, therefore, relying on the standard for months or even a year is feasible before updating the costs. However, their research findings indicate that in environments where products have a short lifespan or where continuous improvement reduces costs, standard pricing can become outdated in a month or two, rendering it ineffective.

Slow feedback.

Johnson (2018) explains that the standard costing system involves a complex process of distributed calculations carried out by accounting staff at the end of each reporting period. However, the delay in reporting variances can make it challenging for accountants to address variances as they occur, leading to a slow feedback system that can slow down decision-making. Furthermore, if the production department is committed to reporting problems and resolving them promptly, reporting discrepancies at the end of the reporting period may be too late to be useful (Foster & Horngren, 2018).

Hofstede (2020) notes that variance calculations accompanying a standard costing report typically provide information at a unit level, but it is not possible to obtain data on differences at a lower level, such as a specific work cell, batch, or unit. This is

because such calculations are usually aggregated for the entire production department of a company.

2.3.4 Standard cost variance

Kaplan and Norton (2019) explained that in cost accounting, variance refers to the deviation between the actual cost incurred and the benchmark cost used to measure it. This measure can also be applied to gauge the disparity between actual and forecasted sales, thus allowing an examination of both revenue and cost performance using variance analysis. Variance can be classified into two primary categories: rate variation and volume variance which may both deviate from the standard expected cost. These two fundamental variances are explained below:

Rate variance

Kaplan and Norton (2019) explain that the difference between the actual and expected price, when multiplied by the quantity of goods purchased, is commonly referred to as price variance or pricing variance. Similarly, the difference between actual direct labour costs and the average direct labour cost is typically known as rate variance, especially in labour cost analysis. Additionally, when analysing the purchase of materials, rate variance is also referred to as either purchase price variance or material price variance.

Volume variance

Howell and Soucy (2017) define volume variance as the difference between the actual quantity sold or consumed and the estimated amount multiplied by the standard price or unit price. When this difference is associated with the sale of goods, it is referred to as sales variance, while material yield variance is used when it is linked to material usage. Variance that is directly related to labour is known as labour efficiency variance, and if it relates to overhead, it is called overhead cost-effective variance. As explained by Kaplan and Norton (2019), variances are calculated based on either the change in cost or the change in quantity relative to the anticipated amount. Rate and volume variances are the two primary categories of variances that cost accountants must report for direct materials, direct labour, and overhead costs. These discrepancies can also be reported as sales variances.

2.3.5 Factors affecting assigning of standard costs

When assigning standard cost they are some factors to be considered in order to make it a success no a failure. The following factors are suggestions made by (Kaplan & Norton, 2019) regarding the factors which affect standard costs in organisations:

Equipment millage

As a machine approaches the end of its useful life, it may create a larger percentage of scrap than previously.

Instrument setup speed

If the setup process for a production run takes a significant amount of time, the associated expenses are divided among the units produced during that run. Implementing a plan to decrease setup time could lead to significant cost savings.

Change in work efficiency

If the production process changes. The implementation of new automated machinery impacts the quantity of manual labour needed in the production process.

Changes in labour costs

To ensure that proposed pay increases or union agreements are considered, it is important to include them in the new criteria when determining employee compensation. This might require aligning the effective date of the new standard with the anticipated date of the cost increase.

Learning curve

As production personnel produce more products, the efficiency of the process increases. Therefore, standard labour costs should decrease (albeit at a decreasing rate) as production increases.

Purchase conditions

Purchasing departments may significantly change the prices of purchased components due to changes in suppliers, changes in contract terms, or purchases of different quantities.

2.3.6 Understanding costs

According to Drury (2018), for an organization to achieve its goals, it must give up resources which are expressed as costs. As defined by accountants, cost represents resources that are foregone to achieve a particular goal, and is typically measured by the monetary value that must be spent to acquire goods and services. Essentially, cost represents the amount of expenditure incurred in association with a specific thing or activity, and usually refers to the money spent to acquire that thing.

2.3.6.1 Categories of Costs

Fixed cost: Drury (2018) explains that fixed costs are expenses that do not vary with changes in activity levels. They remain constant within a particular set of activities and do not change even with an increase in production. Fixed costs represent one extreme of cost behaviour, as they do not change over time. The fixed cost jump occurs when a particular activity range's upper limit is exceeded.

Asaolu and Nassar (2017) further defined fixed costs as expenses that are often unaffected by changes in production volume. Examples of these types of costs are the managing director's pay (paid monthly or yearly), the rent for a single building, and the straight line method of depreciation for a single equipment.

Variable Costs: These are costs that vary or alter depending on the degree of activity. The expenditure incurred rise in proportion to the level of activity. The quantity of units created is used to gauge activity level. According to Asaolu and Nassar (2017), a variable cost is a cost that typically varies with the volume of production. A variable cost per unit is the same amount that is constant for each unit produced, indicating that the resources utilised and their prices are constant for each new unit generated.

Direct costs: Betts (2014) defines a direct cost as an expense that can be linked directly to a specific product or service unit, and it must be attributed to that particular unit. Similarly, Drury (2020) states that a direct cost is one that can be linked directly or traced to a cost target, such as a unit of inventory or a specific product, and it should be attributed to that particular cost target.

Indirect costs: This is the reverse of direct costs. This expense cannot be connected or attributed to a specific product or service unit (Kaplan, 2020). Overheads are created by adding up all indirect costs. The additional expense needed to complete more of the task

is known as the marginal cost. To create incremental costs, all additional expenses are added.

2.3.6.2 Control

Betts (2014) asserts that successful management control requires the delegation of responsibility to capable managers and supervisors for specific functions or activities within an organization. These individuals must be furnished with timely operating statements that provide detailed information on both budgeted and actual expenses, as well as any discrepancies in order to make necessary recommendations for improvement.

2.3.6.3 Cost Control and Cost Reduction

Lockey (2022) states that standard costing and budgetary control are two primary methods used for cost control and reduction, which is a continuous process involving the analysis of the causes of variations. Cost control is focused on managing the ongoing expenses of a business and involves calculating unit costs, measuring and correcting employee performance, and ensuring that the enterprise's goals are achieved efficiently and effectively. This process is concerned with the marginal cost component and aims to keep costs within reasonable bounds. Standard costs or cost targets are typically established in formal operational plans to aid in achieving these goals.

Hammelburger (2020) explains that cost reduction is a process aimed at reducing the per-unit cost of a product or service while maintaining the same level of quality. This process involves identifying and implementing new and improved strategies to lower the manufacturing cost of a unit. Unlike cost control, which aims to keep actual costs within target levels, cost reduction seeks to lower the targets themselves.

The objective of cost reduction is to evaluate the feasibility of reducing expenses associated with overhead, materials, labour, and other costs. According to the Institute of Cost and Management Accountants of London, cost reduction is defined as achieving a consistent and genuine reduction in the unit cost of manufactured goods while ensuring that these products remain suitable for their intended purposes.

2.3.6.4 Cost Control technique

This refers to the many methods that various organisations employ to control costs. The cost and management sections are in charge of implementation when the procedures were created by the accounting department. It includes material control, standard pricing and budgetary management (Lucey, 2009).

Akeem (2017) defines cost control as establishing and maintaining performance standards to reduce unnecessary spending, with a focus on marginal costs and keeping expenses within reasonable limits. Additionally, Clement (2015) notes that cost control involves managing spending through regular comparison of actual expenditures to budgeted standards, enabling detection and correction of unfavourable trends.

According to Bragg (2010), cost control offers financial manager and management accountants a straightforward, realistic and a balanced tactics that are targeted and implemented nationally for cutting costs by most organisations in areas including production, procurement, human resources, research and development and consultancy. Research, experience, confidential database and consultants from the Institute of Management Accountants are the foundations for these procedures.

According to Compton (2009), the method in which a cost control system is implemented and the organisational structure of the implementers determine its effectiveness. The author also said that the right timing of planning strategies should be developed. Furthermore, Edwards (2008) agreed with the above author that the effectiveness of a cost control mechanism is dependent on the firm's overall commitment and the project team's expertise. Using specialist project management tools, such as the critical path analysis. Planning allows the production team to take into account the availability of human capital, other ongoing projects, the time rationing plan and linkages between these projects.

2.3.6.5 Budgetary Control

According to Lucey (2009), a budget is a formal expression of anticipated revenue and spending for a specific future period. The Institute of Cost and Management Accountants defines a budget as a planned financial or quantitative statement for a specific timeframe that outlines the activities to be undertaken during that period to

achieve specific objectives. The main focus of budgetary control, as explained by Drury (2018), is the efficient use of resources to achieve specific goals or objectives outlined in a plan.

Budgetary control involves using budgets as a means of planning and managing costs. A budget is created to outline what needs to be achieved and how it will be accomplished. The system involves coordinating departments, assigning responsibilities, comparing actual performance to budgets, and implementing corrective actions to achieve maximum profitability. The ultimate goal of budgetary control is to ensure that actual results do not deviate significantly from planned progress towards achieving specific objectives.

ACCA (2021) defines budgetary control as the basis for the preparation of a budget as it relates to administrative responsibility for the requirements of a policy, and for individual action or review to ensure the objectives of that policy. From this definition we can see that budgetary control is carried out through various budgets.

2.4 Relationship between cost reduction and standard costing

Wing (2020) pointed out that there are two important basic financial management tools, including budgets and analysis of variance. However, variance reports are not always useful for managers. The main difficulty in performing an analysis of variance is that costs must be recognized as variable or fixed. In practice, many costs do not work that way. This leads to reporting limitations and inappropriate administrative behaviour. The author, (Wing, 2020) suggests that financial managers should develop models that reflect how costs actually change and report variances through improved cost models costs. If a system is based on the wrong model, it can be used or scrapped. But their use leads to poor management decisions.

Focusing on management by purpose was suggested as a cutting-edge and efficient approach to cost reduction by Lucey (2021). It is utilised to give cost systems pertinent to cost performance assessments and cost evolution studies in a positive and constructive approach. Therefore, all methods of cost control should be developed and put into practice in a way that complements employee behaviour. The cost control system won't boost performance and promote organisational effectiveness till then.

Cokins (2022) states that companies must have accurate cost modelling techniques to control costs and determine acceptable profit margins. However, as competition intensifies, the emergence of new products must overtake product obsolescence or obsolescence. By reducing the adverse cost difference from the standard cost of the product and applying an evolutionary process to control costs, the manufacturing of the product can be realized.

2.6 EMPIRICAL FRAMEWORK

2.6.1. Standard costing and cost control in Nigerian Oil and Gas Industry. Akenbor and Agwor (2022). Nigeria

This study aimed to explore the relationship between standard costing and cost control in the Nigerian oil and gas industry. The researchers conducted a review of existing literature and developed hypotheses to guide their investigation. The study population consisted of petroleum marketing companies listed in the Nigerian Stock Exchange Fact book of 2020. Primary data was gathered through a questionnaire administered using a 5-point Likert scale, while secondary data was obtained from the Nigerian Stock Exchange Fact book of 2019. The study found a significant relationship between standard costing and cost control, with firms that practice standard costing being more effective in managing material, labour, and overhead costs. Based on these findings, the study recommended that oil and gas firms in Nigeria should adopt standard costing in their accounting systems to improve their resource utilization and cost control.

2.6.2. The application of Standard Costing as a tool for achieving significant Cost Reduction in a Large-Scale Manufacturing Firm. Amoako-Tuffour, (2022). Ghana.

This longitudinal study aimed to investigate the effect of standard costing on cost reduction in a large-scale manufacturing firm over a period of five years. Data were collected through a reviews and questionnaires administered to manufacturing firms in Ghana. The data was collected with the use of survey were a number of manufacturing firms were randomly selected to create sample size of 55 firms. The results showed that the implementation of standard costing significantly reduces costs in various areas, including material costs, labour costs, and overhead costs, and the cost savings

increased over time in a manufacturing firm. The study also found that standard costing helped the company to identify areas where costs could be reduced particularly in relation to material waste reduction and improved production efficiency.

2.6.3. The impact of standard costs as a cost control tool in the automobile industry. Aberdeen, (2022). South Africa.

In this study the author discovered that operating without any cost management measures would lead to bankruptcy as this was the response from the respondents. The applicability of standard costing methodologies varied across cost functions, according to respondents, with a substantia preference for standard cost variance analysis in variable cost functions over fixed cost functions. Additionally, there were conflicting reactions to the adoption tactics for conventional cost techniques. While a number of respondents claimed that their companies used a complementary strategy combing normal costing and balanced scorecards, others did no support variance analysis with any specific extra management tool.

2.6.4 Use of standard costing in controlling and managing costs during economic disruptions like the covid-19 pandemic. Cokins, (2022).

The author stated that companies must accurate cost modelling techniques to control costs and determine adequate profit margins. However, as competition intensifies the emergence of new product must overtake product obsolescence or obsolescence. By reducing the adverse cost difference from the standard cost of the product and applying an evolutionary process to control costs, the manufacturing of the product can be realised.

2.6.5. The Impact of Standard Costing on Cost Reduction in the retail industry. Almeida, (2022). Nigeria

This study aimed to investigate the impact of standard costing on cost reduction in the retail industry in Nigeria. A case study approach was used, and data were collected through interviews and questionnaires issued to the retail managers, and financial controllers, as well as a review of the company's financial statements. Both qualitative and quantitative approaches were used. The findings that were concluded from the study showed that the use of standard costing leads to improved inventory control, lower overhead costs, and enhanced operating efficiency, resulting in the significant cost

reductions within the retail sector. The study also recommended that standard costing should be introduced without hesitation to the retail companies as it is an effective tool for cost reduction.

2.6.6. Impact of Standard cost on cost of production in the manufacturing firms. Ologbenla (2021). Nigeria.

Based on the study's findings, it appears that standard costing techniques are still commonly used among manufacturing firms in Nigeria, with about 85% of the sampled firms still utilising it for cost control purposes. This approach is reportedly effective in minimising the cost of raw materials and overhead expenses, but not as commonly used for personnel cost. The was conveyed using a sample of 147 participants from 26 manufacturing firms, also both descriptive and inferential techniques were used in the analysis of the responses. The study recommended that manufacturing firms should look towards emulating these effective cost control strategies and seek to apply standard costing techniques for labour cost control as well.

2.6.7. The Influence of Standard Costing on Cost Reduction in a High-Tech Manufacturing Firm. Wang, (2020). China

This empirical study aimed to investigate the influence of standard costing on cost reduction in a high-tech manufacturing firm. Data were collected through a survey of employees involved in cost management, as well as a review of the company's financial statements. The results showed that the implementation of standard costing led to significant cost reductions in various areas, including material costs, labour costs, and overhead costs. The study also found that standard costing helped the company to identify areas where costs could be reduced and to make informed decisions about pricing and product mix. Overall, the findings of this study suggest that standard costing can be an effective tool for cost reduction in high-tech manufacturing firms.

2.6.8. The Impact of Standard Costing on Cost Reduction in a Small and Medium-Sized Manufacturing Firms. Kim, (2019). Vietnam.

This field study aimed to examine the impact of standard costing on cost reduction in a small and medium-sized manufacturing firm. Data were collected through questionnaires and interviews with managers and accountants, as well a review of

the company's financial statements of the selected sample in with a survey of 41 firms in Vietnam was used. The results showed that the implementation of standard costing led to significant cost reductions particularly through increased efficiency and better cost control in various areas. The study also found that standard costing helped the company to identify areas where costs could be reduced and to make informed decisions about pricing and product mix. Therefore, the findings of this study suggests that standard costing can be an effective tool for cost reduction in small and medium-sized manufacturing firms.

2.6.9. Effect of standard costing on profitability of manufacturing firms. Iliemena and Amedu, (2019) Case of Edo State, Nigeria.

The study focused on standard costing affecting the profitability of a few industrial firms. The results indicated that standard costing significantly improves cost reduction and increases the gross profit. Moreover, the study demonstrated that standard pricing, significantly reduces typical losses in manufacturing operations. It has been determined that standard costing significantly increases profitability of manufacturing firms in Nigeria. The implication is that standard costing functions well as a cost control technique and that components of manufacturing costs, such as material, labour and overheads can be strategically controlled with a standard costing system to achieve organisational profitability through cost reduction.

2.6.10. The impact of cost control on profit maximisation of manufacturing companies. Mahad. (2019). Case of Mogadishu, Somalia.

The study indicated that cost control is of great importance to an organisation and it was evidenced by the investigation carried out in manufacturing firms. 79.2% of the population agreed to understand cost control as an aid in regulating and eliminating unwanted expenses. Again, the researcher found that 83.4% of the respondents of the selected sample understand the requirements needed to ensure that cost control have a very significant influence on the maximisation of profit. On the other hand, the solution showed that weak cost control tools are being used resulting in the increase in the labour costs.

2.6.11. An investigation into the impact of cost reduction techniques. Gondo, (2019). Case of Karoi District Hospital. Zimbabwe

The study discovered that cost-cutting measures improves performance because they prevent wasteful spending and cut expenditures that are not essential, which enables organisations to lower their overall costs. In this previous research the researcher used questionnaires and also the interviews to carry out the investigations. A purposive sampling technique was used to select the respondents. The researcher recommended that the organisation implement various communication channels for cost-reduction strategies I order to lessen the issues it is encountering. The employees will be able to access all the information on the suggested cost-reduction measures independently of the organisational structure. Another idea is the impact of reduced funding on the chance of surviving.

2.6.12. Cost reduction strategies and the growth of selected manufacturing companies. Eshua, (2019). Nigeria.

This study used information from 40 manufacturing businesses listed on the Nigerian stock market between 2012 and 2016 to examine whether there is a correlation between cost-cutting measures and the expansion of manufacturing companies in Nigeria. The study used secondary data that was taken from the chosen firms' annual reports. Growth (changes in turnover) was chosen as the dependent variable, with changes in direct material costs, labour expenses and administrative overheads taken into account as independent factors. The outcome shows a substantial positive correlation between growth of manufacturing enterprises, change in total assets and changes in material cost. However, it was shown that there is no causal link between changes in administrative costs and the expansion of manufacturing firms.

2.7 Research gap

The researcher identified a research gap in the study where the past studies have addressed mainly the advantages, disadvantages and changes occurring in the cost accounting field which affect costing methods. There are few studies which have endeavoured to investigate the extent to which cost reduction is achieved through standard costing practices in organisations. The relevance of a costing system can be determined by its contribution towards the cost effectiveness of an organisation, and

this has not been investigated much in the literature. Therefore, the researcher endeavours to investigate how standard costing leads to cost reduction within an organisation in a financial and non-financial aspect in the aim of increasing profits and shareholder wealth.

2.8 Chapter summary

This chapter focused on exploring the area of the study. The researcher adopted the Cost Theory as the foundation of the research and other two theories. The researcher further endeavoured into empirical literature to learn definitions and previous studies concerning the study area. The following chapter shows the approach the researcher is to take in gathering the data for the study, the research methodology.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter focuses on outlining the research methodology which was adopted by the researcher. The chapter shows the theoretical justification of the research methodology, through the research design, as well as the practical attributes of the methodology like the sampling, research instruments, data collection and presentation. The chapter shows the logical approaches in the collection of the information for the research.

3.1 Research design

The study follows a positivism research paradigm. The motivation for positivism was the intention to determine whether there is any connection between the study's variables. Past studies have also used the same approach in understanding the study of similar nature, Endri et al (2021). Utilising numerical representations, formulas and other mathematically based methods of data interpretation, statistical and mathematical analysis was utilised to determine correlation between variables. The research felt obligated to comprehend the statistical numerically since the study concentrated on standard costing and cost reduction, which are numerically and quantitative figures from management accounting.

A causal research design was employed in the study. Understanding how common costing methods effect cost reduction was the goal of the causal study design. The research strategy was intended from the outset to look into the root of a link between variables since the researcher wondered whether there was a causal relationship between standard costing and expenses in the description of the research topic. When looking for a link between two variable where one variable has an influence on another, Creswell (2020) advised researchers to use a causal study design.

In this study, the researcher employed an inductive strategy. When a researcher bases his or her investigation on a preconceived phenomenon, they are said to be using an inductive research technique (Creswell, 2020). In order to discover if the underlying assumptions in the hypothesis were true, the researcher in the study created objectives and hypotheses that guided the study's methodology. As a result, information from the data was assessed towards this phenomenon.

The researcher used case study approach in the collection of data for the study. The researcher focused on Associated Foods Zimbabwe (AFZ). The researcher narrowed the focus of the study towards the Harare main branch of the company.

3.2 Target population

The researcher targeted the accounting and finance department at the AFZ Harare main branch. The reason for the deliberate targeting of the finance department is because of the nature of the research. The terminology and the questions in the research require people with understanding of management accounting and these are found in the accounting and finance department of the company. The researcher thus targeted the employees and management operating within the accounting and finance department of AFZ at the time of the study.

There was a total of 32 employees working within the finance and accounting department at the time of the study. This formed the target population of the study.

3.3 Sampling

The researcher chose to use a census of the population in the study. There was no sampling, the researcher targeted all the personnel operating within the finance and accounting department at the time of the study. The justification for choosing an entire population was because of the small number that the population had. A total of 32 people all located at the same facility was an easy target for the researcher and thus, the researcher chose to use a census approach in the collection of data.

3.4 Research instruments

The researcher chose to mix both primary and secondary data in the study. The researcher, in choosing primary data, sought to use the questionnaire in getting responses from the respondents regarding the general issues which were in the

objectives of the study. The researcher used the questionnaire to gain opinionated responses regarding the implementation, effectiveness and favourability of standard costing within the organisation.

A questionnaire is a research tool used to gather data by asking individuals to respond to standardized questions in a structured manner (Bruce et al, 2012). It can be administered in paper-based or electronic form and can be used in various research settings such as academic research, market research, and social research (Babbie, 2016).

Merits of Questionnaires

- Cost effectiveness: Questionnaires were a cost-effective way of collecting data as they require minimal resources and personnel.
- Standardisation: Questionnaires can be standardised, ensuring that all participants receive the same questions and prompting the same responses. This helped to reduce bias in the data collected.
- Anonymity: Participants can respond anonymously to questionnaires, which may encourage them to be more truthful and open in their responses.
- Compared to other research methods, questionnaires were able to be assessed more objectively and scientifically.
- As the respondents received their questionnaires at the same time as the researcher, it saved time and money for both parties.

Demerits of Questionnaires

- If a questionnaire is not given to a respondent face-to-face, there is a risk that the response rate will be poor (Kothari, 2013).
- Limited understanding: Questionnaires rely on participants' understanding of the questions being asked, which can result in misinterpretation or inaccurate responses.
- Limited scope: Questionnaires are typically limited to collecting quantitative data, which may not provide a deep understanding of the research topic.
- Once the questionnaire is given to the respondent, the researcher had very little control over it, which might be problematic because they have no control over how the respondent fills out the form.

On the other hand, the author in her research made use of secondary data which was in the form of financial data regarding the costs of AFZ. This information was sought after by the researcher to enable the smooth conduction of the trend analysis and see if the implementation of the standard costing has led to a downward trend of the costs or not. This secondary data was the statistical data which was used to test the relationships between the variables of the study as well as the study hypothesis.

3.5 Data collection procedures

The researcher collected the primary information from the Human Resources of the company. The researcher delivered the research instruments at the Human Resources department of the company and obtained them after a fortnight from the same place.

The secondary data was collected through the company's website. AFZ posted financial statements which showed a breakdown of the costs which were used by the researcher in the statistical calculations and data analysis.

3.6 Data analysis procedure

SPSS version 28 and Microsoft Excel 2016 were used in the data analysis and presentation. Quantitative statistics was analysed using ANOVA to separate means, regression and correlation analysis for the relationships of the variables of standard costing and cost reduction.

3.7 Reliability

The reliability of the study was measured using the Cronbach's Alpha. The reliability of the study is ensuring that there is consistency of the test values and thus the Cronbach's Alpha was used in the calculations to determine this.

3.8 Validity

The validity of the study was measured using the Shapiro-Wilk test and the heteroscedasticity test in testing the normality of the respondents.

3.9 Ethical considerations

The study took into account ethical considerations when collecting, analyzing, and storing data. This means that the researchers ensured that their methods of data collection were ethical, that they analyzed the data in an ethical manner, and that they

stored the data securely and responsibly in order to protect the privacy and confidentiality of any individuals or organizations involved in the study.

3.9.1 Anonymity

To protect the privacy and confidentiality of the participants, the study requested that they refrain from disclosing their identities. This is a common practice in research studies, particularly when sensitive information is being collected or when participants may feel uncomfortable sharing personal details. By allowing respondents to remain anonymous, the study can maintain the trust and cooperation of the participants, while also ensuring that their privacy is protected. This approach can help to encourage honest and open responses from participants, which can improve the accuracy and validity of the research findings.

3.9.2 Confidentiality

Information for the study was handled with confidence. The information was kept secure in a lockable facility.

3.9.3 Disposal of research material

The study has established a plan for the disposal of the questionnaires used in data collection. According to this plan, the questionnaires will be securely stored for a period of time after the completion of the study. This is a standard retention period for research data, as it allows for the possibility of follow-up studies or further analysis, while also protecting the privacy of the participants. After the retention period has elapsed, the questionnaires will be disposed of in a manner that ensures the confidentiality and privacy of the participants. This disposal process may involve shredding or incineration, depending on the nature of the data and the requirements of the study's ethical guidelines. By carefully managing the disposal of research data, the study can ensure that it meets ethical standards and protects the privacy and confidentiality of the participants.

3.10 Chapter summary

This chapter concentrated on laying out the research methods that the study employed. The researcher listed the numerous study components that were significant. The presentation, analysis and discussion of data are to be presented in the next chapter.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter shows information regarding the data presentation, analysis and discussion which the study did. The chapter shows how the researcher pursued the research objectives of the study and what findings the study stumbled upon. The chapter also

explores the link between the findings of the study and the empirical evidence which was found in chapter two of this study, in a manner of discussion. In this discussion, the study compares and contrasts the findings of the study with the previous findings in order to determine trends, similarities and differences regarding the study objectives.

4.1 Response rate

The following information shows the response rate which was obtained by the study.

Table4.1: Response rate

INSTRUMENT	ISSUED	RETURNED	PERCENTAGE
Questionnaire	32	27	84%

(Primary source of data)

From the above table, 84% of the targeted respondents managed to return the questionnaire. This is a significantly high response rate as proposed by Creswell (2020) who advocated for a response rate to be above 50% in order for the information to be adequate for the study. Thus, the researcher carried forward the study.

4.2 Demographic information

The following information shows the demographic characteristics of the respondents.

4.2.1 Age range

The figure below shows the distribution of the age of the respondents.
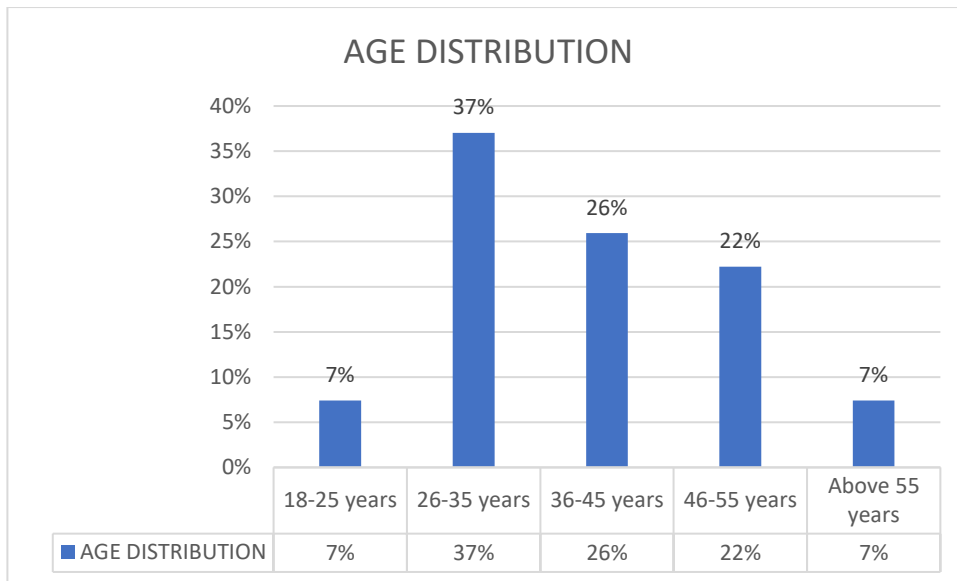
Figure 2: Age distribution *(primary source of data)*

From the above figure, the age was distributed in a normal distribution with the majority of the respondents concentrated in the centre. The figure shows that the 26-35 years age range consisted of 37% of the respondents. The mix in the age ranges of respondents indicates that opinions are being obtained from different ages. This increases the reliability of the responses.

4.2.2 Highest qualification

The figure below shows the information regarding the highest qualifications of the respondents.
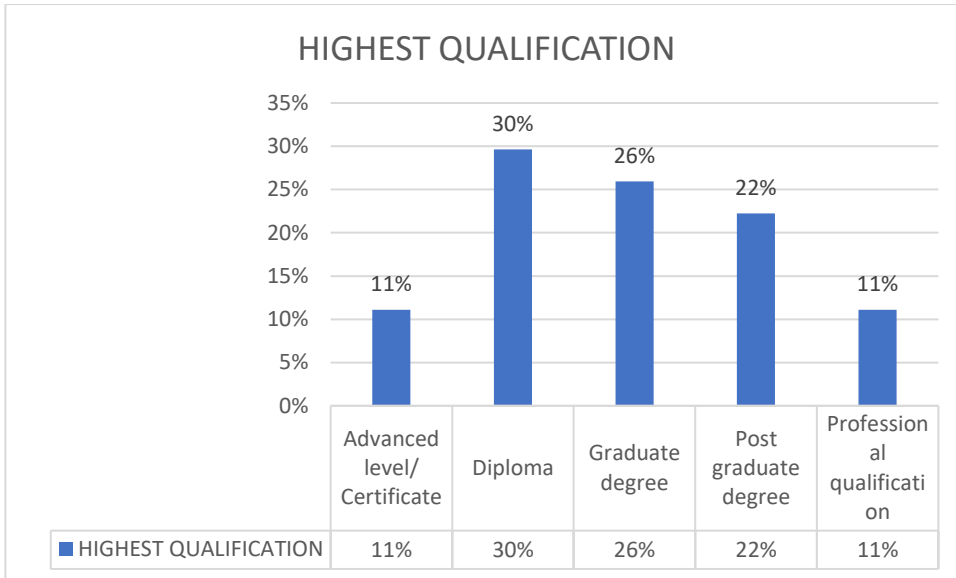
Figure 3: Highest qualification (primary source of data)

The figure above shows that all respondents have some sort of educational background. This implies that the respondents were competent enough to understand the requirements of the research instruments.

4.2.3 Years of experience

The figure below shows the years of experience of the respondents.
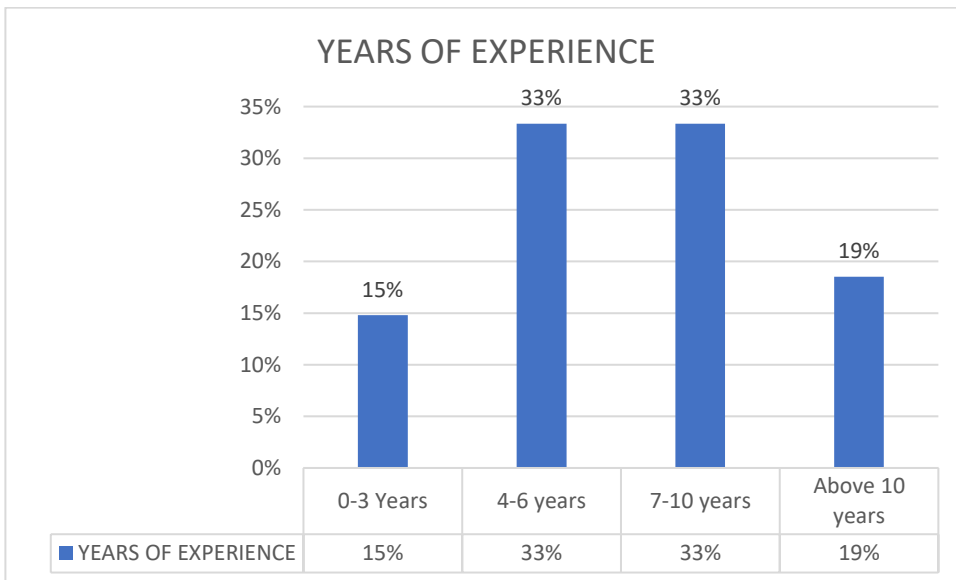
Figure 4: Years of experience (primary source of data)

From the above figure, show the years of experience in the particular job of account and finance department. The information given shows that personnel in this department if

highly experienced having two third of the department with 4 to 10 year of experience. This indicates that the job is being carried out with professionals in terms of exposure and have knowledge in costs behaviour and being the right personnel to answer our questions of the trend analysis of costs for the past five years at AFZ. A less number of 15% of the personnel have 0-3 years of experience which aids in the reliability and accuracy of the results.

4.3 Factors considered in standard costing

The following information outlines the findings of the study towards the first objective of the study which was to establish the factors considered in standard costing.

Table 4.2: Descriptive Statistics for factors considered in standard costing

	N	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
-It is important to know the standard cost and quantity of materials when using standard costing.	27	4.0741	.78082	.610	-.134	.448	-1.303	.872
-It is crucial to know the actual costs and quantities of production in standard costing.	27	3.9630	.80773	.652	.070	.448	-1.445	.872
-Classification of costs into direct costs and overheads is important in standard costing.	27	4.1852	.87868	.772	-.387	.448	-1.630	.872
-It is essential to determine the contribution per unit when using standard costing.	27	3.9259	.78082	.610	.134	.448	-1.303	.872
-Variance analysis is important when using standard costing.	27	4.0741	.78082	.610	-.134	.448	-1.303	.872
Valid N (listwise)	27							

(Data source: Primary)

The table shows that the mean scores for each factor range from 3.9259 to 4.1852, indicating that the respondents generally consider all factors to be important in standard costing. The standard deviations range from 0.78082 to 0.87868, indicating that there is some variability in the responses for each factor. The skewness values range from -0.387 to 0.134, indicating that the distributions are generally close to symmetric. The kurtosis values range from -1.630 to -1.303, indicating that the distributions are platykurtic (i.e., flatter than a normal distribution).

From the figure above, the study found that when organisations are considering standard costing, they mainly consider the following factors. It is important to know the standard cost of inputs and processes in the organisation (mean=4.07; standard deviation=0.78), it is important to understand the actual costs and quantities which occurred during a given period (mean=3.96; standard deviation=0.81). Similar results were obtained by Akenbor and Agwor (2022) when he investigated factors which are important for cost control in Oil and Gas industries in Nigeria through standard costing. This indicates that the study agrees with empirical evidence which points towards the need of strong knowledge on standard and actual costs and quantities.

Furthermore, the study found that classification of costs within the organisation when using standard costing is very important, (mean=4.19; standard deviation=0.88). The classification of the costs was found to be the distinction between direct and indirect costs. Ologbenla (2021) also found that it is important for organisations to understand the distinction between direct and indirect costing. This leads to understanding the standard costs of processes and products, understanding profit/loss better and singling out costs based on their behaviour as direct or indirect. This is also in line with the findings of the study that it is important to know the contribution per unit as well as the variance (difference between budgeted outcome and actual outcome) carried by Wang (2020). Understanding these differences leads to knowing how to assign and reassign standard costs to the individual cost elements in the organisation. This agrees with the findings by Mahad (2019) where he found that is increasingly important for organisations to understand the contribution per unit and the variance if the organisation is implementing standard costing. Therefore, the study agrees with empirical evidence on the importance of understanding the contribution and the variances in standard costing.

4.4 Trend analysis of costs of the AFZ for a period of 5 years

The following passages and figures relate to the investigation made into the trend analysis of costs for the period of 5 years from 2018 to 2022 at AFZ.

4.4.1 Cost and profit behaviour in the past 5 years

The following figures show the findings of the researcher regarding the behaviour of costs in the past 5 years.

Table 4.3: Trend analysis of costs from 2018-2022 showing profit percentages and ratios for production.

YEAR	2018	2019	2020	2021	2022	Correlation to revenue
REVENUE (USD$)	2,103,450.00	3,020,801.00	1,909,423.00	3,572,412.00	4,309,213.00	1
PRODUCTION COSTS	547,342.00	633,092.00	430,090.00	973,241.00	1,030,213.00	0.957253
OPERATING COSTS	585,878.00	1,382,819.00	500,702.00	986,867.00	1,177,400.00	0.75
PROFIT	970,230.00	1,004,890.00	978,631.00	1,612,304.00	2,101,600.00	0.916336
PERCENTAGE RATIO FOR PROFIT: PRODUCTION COSTS	56%	63%	44%	60%	49%	
PERCENTAGE RATIO FOR PRODUCTION COST: REVENUE	26%	21%	23%	27%	24%	

Source of data: Secondary

From the above table, it can be noted that there is an upward trend for all the cost and revenue elements at AFZ since the introduction of standard costing practices in 2018. The production cost to revenue ratios is within the same range hovering at around 24% on average. The profit to production cost ratio is also within a uniform range, at around

39

50%. As found by Amoako-Tuffour (2022), there is an increase in the profit performance of the organisation following the adoption of the standard costing model. The findings in the study point towards there being a positive correlation between the revenues of the company and the production costs. This indicates that there is a strong positive relationship between the standard costing practices and the revenues of the company. In this line of thought, the study found that there is an upward trend in the cost behaviour as well as the revenue and profit behaviour of the organisation. The figure below presents the trends of the costs, revenues and profits for AFZ from 2018 to 2022.

COST AND REVENUE TREND ANALYSIS

	2018	2019	2020	2021	2022
REVENUE (USD$)	2,103,450.00	3,020,801.00	1,909,423.00	3,572,412.00	4,309,213.00
PRODUCTION COSTS	547,342.00	633,092.00	430,090.00	973,241.00	1,030,213.00
OPERATING COSTS	585,878.00	1,382,819.00	500,702.00	986,867.00	1,177,400.00
PROFIT	970,230.00	1,004,890.00	978,631.00	1,612,304.00	2,101,600.00
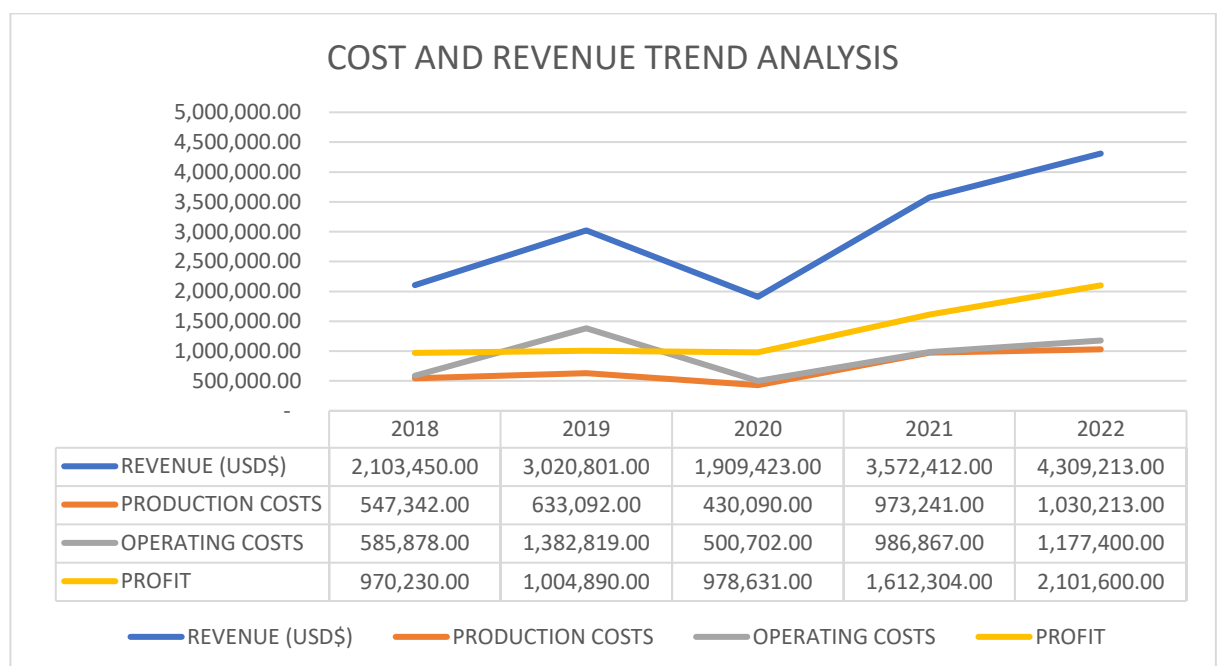
Figure 5: trend analysis for revenues costs and profits for AFZ from 2018 to 2022. *(Secondary source)*

From the above figure, there is diagrammatic representation of the trend performance of the costs at AFZ. The figure shows that there is an upward trend in the performance of the costs, revenues and profits. There was a dip in performance in 2020, this can be attributed to external factors like the covid-19 pandemic mainly as supported by the study of Cokins (2022).

In trying to further understand the trend, the study obtained the following responses from the questionnaire respondents. These responses were regarding the behaviour of costs, revenues and profits in the past 5 years since the implementation of the standard costing practice at AFZ.

Table 4.4: Descriptive statistics for trend analysis and cost behaviour from 2018-2022

	N	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
There has been a reduction of costs for the organisation through the use of standard costing.	27	3.8889	.84732	.718	.223	.448	-1.588	.872
There is more knowledge on costs (direct costs and overheads) for budgeting and planning purposes because of the use of standard costing.	27	4.3333	.83205	.692	-.721	.448	-1.156	.872
Costs have become known, and thus, targeted cost elements can be isolated and focused on in order to be managed (increased or reduced).	27	3.8519	.86397	.746	.304	.448	-1.621	.872
Standard costing has helped remove irrelevant/excess costs for the business.	27	4.1852	.73574	.541	-.312	.448	-1.017	.872
Costs have become relatively low in proportion to sales for the organisation in the past 5 years.	27	4.0000	.87706	.769	.000	.448	-1.742	.872
Valid N (listwise)	27							

(Source of data: Primary)

From the above table, it can be noted that the respondents to the questionnaire have largely agreed to the reduced operating costs within the organisation due to the use of standard costing in the organisation. This agrees with the assertions of Gondo (2019) who found that the adoption of standard costing leads to reduced costs. This is because

of the increased ability to manage and identify variances within the organisation. This enables management to identify, respond and correct issues which are emanating from variances. The respondents in the study agreed that the use of standard costs increases the management's understanding of the costs within the organisation, irrelative costs have been eradicated leading to increased efficiency. These findings agree with empirical literature from Wang (2020) who found that standard costing increases understanding of costs by management and enriches the management's knowledge of variances, problems and expectations from the business.

4.5 Relationship between standard costing and costs of AFZ.

In trying to understand the third objective of the study, which sought to establish the relationship between standard costing and costs of AFZ, the study found the following.

Table 4.5: Descriptive statistics for relationship between standard costing and costs of AFZ.

	N	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
The use of standard costing exposes hidden costs in an organisation.	27	4.0741	.82862	.687	-.144	.448	-1.530	.872
The use of standard costing leads to increased profits for the company.	27	4.2222	.75107	.564	-.399	.448	-1.064	.872
The use of standard costing increases monitoring of production variances, budgeting and production benchmarking.	27	4.1111	.75107	.564	-.189	.448	-1.131	.872
The use of standard costing gives management useful information feedback for effective decision making.	27	4.0741	.82862	.687	-.144	.448	-1.530	.872
The use of standard costing increases efficient resource allocation in the organisation.	27	3.6667	.73380	.538	.631	.448	-.817	.872
Valid N (listwise)	27							

Source of data: Primary

From the above table, it can be seen that the respondents to the questionnaire agreed that standard costing has an effect of lowering operational costs of AFZ. The study

aligns its findings to those of Kim (2019) who found that the adoption of standard costing has an effect of lowering the cost per unit and increasing the contribution per unit. From this current study, it was found that standard costing enables more efficient and effective allocation and reallocation of resources in order to reduce variances and increase contribution per unit. It was also found that the use of standard costing led to the increased of profits overall since the organisation was able to cut down on costs. Thus, ceteris paribus, the study found that implementing standard costing leads to lowering of operational costs for organisations. This agrees with the findings from Ologbenla (2021) and Eshua (2019) who found that the standard costing system has significant advantages in its ability to lead to cost cutting by explicitly communicating cost behaviours for each cost centre of the business.

4.6 Chapter summary

This chapter discussed the findings of the study. The chapter also made allusion, comparison and contrast to the empirical evidence which was studied under chapter two of the study. The chapter communicates what the study found from the field. The chapter found mainly that standard costing leads to lowered operational costs within the organisation. The following chapter is the last chapter of the study. The following chapter talks about the conclusion, summary and recommendation of the study.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter marks the end of the research. The chapter focuses on giving a summary of the findings of the study. The chapter shows the conclusions which the study came to in light of the results of the study. The conclusions are based on the objectives of the study. The chapter also shows the recommendations which the study came up with. The recommendations are given to the various stakeholders of the study.

5.1 Summary of findings

1. The study found that the factors affecting standard costing practices are grounded in understanding of standard costs/quantities, actual costs/quantities and variances. Standard costing bases its competence on understanding the variances occurring from the budgeted amounts and the actual amounts. This leads to management understanding the implications which the standard costing method has on management. Standard costing increases the ability of management to understand cost behaviours within the production process.

2. Standard costing can be an effective tool for cost reduction if companies focus on accurately determining standard costs and quantities of materials, tracking actual costs and quantities of production and comparing them to standard costs, accurately classifying costs into direct costs and overheads, determining the contribution per unit, and using variance analysis to identify variances.

3. The use of standard costing has seen a reduction in AFZ's operating costs in the past 5 years. The trend is a downward trend for production costs since the implementation of standard costing. There has been an increase in the management's knowledge of direct costs and overheads of the organisation because of the implementation of standard costing. The standard costing

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practices have increased the understanding of cost behaviours in the organisation.

4. The use of standard costing has led to the exposure of hidden costs within the production process. The standard costing practices in the organisation has improved the allocation of resources for the organisation. Through standard costing, the management of the organisations have acted more efficiently towards monitoring and evaluating costs which run over and above the budgeted amounts.

5.2 Conclusions

The study came up with the following conclusions:

5.2.1 Factors which are considered in standard costing

The study found that the factors which are of concern in standard costing to management can be identified as the standard costs, standard quantities, actual costs, actual quantities, and variance analysis. The study concludes that knowing the standard cost per unit in an organisation is an important aspect of standard costing. The conclusion is based on the understanding that knowing the standard cost is the basis of standard costing and leads to understanding budgeting, forecasting and variance analysis when comparing the standard costs with the actual costs incurred in the production period.

The study concluded that understanding the variances is another important factor in standard costing. Understanding variances leads to knowing what elements are changing in the production process. This leads to knowing where wastage is occurring, where there is lack, where efficiency is being achieved and where to focus company resources. Thus, the conclusion made is that, through knowing variances from standard costing, the management of manufacturing organisations gain a wealth of information for decision-making and problem identification.

5.2.2 Trend analysis of costs for the AFZ for a period of 5 years

The study concluded that there is a downward trend of costs for AFZ in the last 5 years. The downward trend can be caused by a lot of factors, however the study concluded that the adoption and continued implementation of standard costing by AFZ has contributed towards the reduction of costs. The conclusion was based on the fact that

through standard costing, the costs of the organisation became more clearer and variances became more elaborate. The use of standard costing practices led to the increased understanding of the variances and cost behaviours which led to more focused and targeted management of costs.

5.2.3 The relationship between standard costing and cost behaviour at AFZ

The study concludes that there is an adverse relationship between standard costing practices and cost behaviour. This means that an increase in the efforts towards the application of standard costs leads to a decrease in the operating costs for the organisation. This concludes that if companies want to lower costs, they should increase their standard costing practices.

5.3 Recommendations

The study came up with the following recommendations:

5.3.1 Recommendations to practice

The study recommends that manufacturing companies should make use of standard costing practices. The recommendation is based on the findings of the study which showed that the use of standard costing reduces operational costs and enhances the perspective of management over the behaviours of costs. The study recommends that manufacturing companies, especially the management at AFZ, should aim to develop clear understanding of the standard costs, actual costs and variances. The deeper understanding of the behaviours of costs will lead to clearer budgets, easier exception management, and addressing excessive variances.

5.3.2 Recommendations to policy

- Encourage the adoption of standard costing: Policy makers can encourage manufacturing firms to adopt standard costing as a cost reduction tool by highlighting its benefits and offering incentives such as tax breaks or other financial support. Encouraging the adoption of standard costing can help firms to better control costs and identify areas for improvement.
- Provide training and support: Policy makers can provide training and support to manufacturing firms to help them implement standard costing effectively. This could include workshops, seminars, and online resources, as well as access to

expert advice and support. Providing training and support can help firms to maximize the benefits of standard costing and improve their cost management practices.

- Promote research and development: Policy makers can promote research and development in the area of standard costing to help identify new tools and techniques for cost reduction. This could include funding for academic research, as well as partnerships between industry and academia. Promoting research and development can help firms to stay at the forefront of cost management practices and improve their long-term sustainability.

5.4 Areas of further study (recommendations to theory)

The study recommends that future studies should focus on expanding the scope of the study beyond AFZ. The future studies should focus on taking the whole Fast-moving consumer goods (FMCG) sector of industry and investigate if standard costing is the best cost management method to implement in companies.

The study also proposes future studies to conduct comparative analyses on various costing methods like the standard costing and activity-based costing (ABC) in order to determine which method best fits organisations.

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APPENDIX 1: REQUEST TO COLLECT DATA AT AFZ

BINDURA UNIVERSITY OF SCIENCE EDUCATION

Private Bag 1020
BINDURA, Zimbabwe
Tel: 0271 – 7531-6, 7615
Fax: 263 –271 – 7534

DEPARTMENT OF ACCOUNTANCY

15 May 2023

Associated Foods
P O Box
Harare

RE: REQUEST FOR DATA COLLECTION

Please may you assist our student Dapira Apolonia B193381B carry her research in your organization on her topic on, **"Effect of standard costing on cost reduction".** She is our final year student at Bindura University of Science Education in the Department of Accountancy.

Your assistance to our student will be greatly appreciated.

Regards

Dr T. Famba (Chairperson)

Questionnaire

Introduction

I am a student at Bindura University of Science Education (BUSE) pursuing a degree in Accountancy. I am carrying out this research in partial fulfilment of the degree requirements. You have been selected to assist me in achieving this milestone by responding to this questionnaire. My aim is to investigate the effect of standard costing on cost reduction of a manufacturing firm in Zimbabwe.

You are reminded that your identity is not needed in this study. The information you provide is treated as confidential. This information is for academic purposes only. Participation in the answering of this questionnaire is not mandatory and there are no financial rewards for answering this questionnaire.

Please provide your answers in the spaces provided below/across every question/phrase. Please answer as truthfully as you can.

For questions with a range of responses, be guided by the key below:

SD= Strongly disagree; D=Disagree; N=Neutral; A=Agree; SA=Strongly agree

Section A: Demographic information

1. Gender

What is your gender?

Male	Female

2. Age

What is your age range?

18-25 years	26-35 years	36-45 years	46-55 years	Above 55 years

3. Highest qualification

What is your highest educational/professional qualification?

Advanced level/ Certificate	
Diploma	
Graduate degree	
Post graduate degree	
Professional qualification	

4. Department in company

Which department do you work for in the company?

Finance department	
Manufacturing department	
Safety, Health and Environment department	
Function manager (Finance Manager for example)	
Other (Internal audit for example)	

5. Year of Experience

How long have you worked for the company?

0-3 years	4-6 years	7-10 years	Above 10 years

Section B: Factors considered in standard costing

Question/Phrase	SD	D	N	A	SA
It is important to know the standard cost and quantity of materials when using standard costing					
It is crucial to know the actual costs and quantities of production in standard costing					

Question/Phrase	SD	D	N	A	SA
Classification of costs into direct costs and overheads is important in standard costing					
It is essential to determine the contribution per unit when using standard costing					
Variance analysis is important when using standard costing					

Section C: Cost behaviour for the past 5 years

Question/Phrase	SD	D	N	A	SA
There has been a reduction of costs for the organisation through the use of standard costing					
There is more knowledge on costs (direct costs and overheads) for budgeting and planning purposes because of the use of standard costing					
Costs have become known, and thus, targeted cost elements can be isolated and focused on in order to be managed (increased or reduced)					
Standard costing has helped remove irrelevant/excess costs for the business.					
Costs have become relatively low in proportion to sales for the organisation in the past 5 years					

Section D: Relationship between standard costing and cost behaviour of AFZ

Question/Phrase	SD	D	N	A	SA
The use of standard costing exposes hidden costs in an organisation					
The use of standard costing leads to increased profits for the company					
The use of standard costing increases monitoring of production variances, budgeting and production benchmarking					

The use of standard costing gives management useful information feedback for effective decision making				
The use of standard costing increases efficient resource allocation in the organisation				

Section E: Other information

If there is other information which you feel can assist the study, please provide it in the following spaces provided:

_____

_____

_____

_____

_____

_____

_____

End of questionnaire. Thank you.