



# PROFITABILITY OF MANUFACTURING COMPANIES IN NIGERIA AND STANDARD COSTING

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## Abstract

The study looked at the effect of standard cost on the cost of production for some Nigerian manufacturing businesses. The investigation is conducted using a sample of 147 respondents from around 26 manufacturing companies. The replies of the respondents to various questions that concern the value relevance of standard cost in cost control in their originations are analyzed using both descriptive and inferential statistics approaches. First, the study's findings demonstrate that, in contrast to some claims that typical cost approaches are out of style, roughly 85% of the manufacturing companies selected continue to use these methods for cost control throughout their various organizations. Once more, the analysis demonstrates that these manufacturing organizations chose to keep using standard cost because it is beneficial in lowering both raw material costs and organizational overhead costs. However, it seems out of style to apply standard cost to staff costs. It is advised that manufacturing organizations follow the example of those businesses that are reducing their costs through the application of standard costs and find a way to effectively apply it to labor costs. The researcher concluded that standard costing is extensively utilized in Nigerian manufacturing organizations and that it improves effective planning, control, and decision-making processes in the business. The deletion of unprofitable items, the provision of costing information, and cost control are all made possible by this standard costing for manufacturing enterprises.

**Keyword:** *Costs for standard items, raw materials, overhead, labor, and manufacture.*

## 1. Introduction

Standard costing is a type of performance assessment utilized to compare actual results to established standards for all areas within an organization, which are discussed with the different segment heads. When the actual results come in, the data is compared to the standard - any differences between these two values are then analyzed to find the

reason why. This deviation from the standard is referred to as a 'variance', which can be either advantageous or detrimental for the organization (Abdullahi, 2014). Keeping costs in check involves providing information about what was intended to be spent and what was actually spent, as well as any variances between them and why. Standard costing can also be used to evaluate both quantitative and qualitative values served as a benchmark for revisiting performance. It has also been termed 'the preparation and use of standard cost and measurements at points of incidence' (Okoye, 2000). Standard costing revolves around measures of efficiency that show how managers can exercise control over acquiring and using resources to produce a specific output quality.

Using standard costing is mainly due to the fact that relying solely on actual costing would not provide managers with the appropriate data they need. The purpose of standard costing is to offer cost information related to controlling costs, provide quickness and convenience when calculating production costs, help with preparing business budgets, pricing products and assessing the performance of managers via comparing actual costs with the set standard. This practice is mainly witnessed in production companies that produce items constantly and permanently (Kucksavas, 2006).

Monden (2003) suggests that standard costing is not in line with today's manufacturing environment. He believes that businesses ought to use Just in Time system, Process Reengineering, Target Costing, Life Cycle Assessment, and Total Quality Management (TQM) so they can keep up with the global competition. Such tools are said to help organizations meet their strategic objectives and make it easier for them to compete at a global level.

Despite this though, some have predicted that shorter product cycles, advanced manufacturing technologies, decreasing reliance on labor in production processes, and global competition will lead to its downfall (Kirwan, 2006). However empirical evidence indicates that a large number of firms rely on standard costing for cost control purposes by comparing actual costs with the standards set in order to pinpoint areas where cost is getting out of control which allows for management taking necessary corrective action. Moreover it aids decision making and evaluating performance (Cornick & W. and Wilson, 2008). Since its introduction in early 1990s it has been implemented by various companies all over the world - from stock valuation to cost reduction to budgeting. Standard costing has become quite popular among managers as a powerful controlling tool since it lets them implement management by exception; meaning management provides a fixed target and does not interfere unless there are deviations from targets which only then involve managerial intervention (Chang 2010).

This method is better suited for operations containing repetitive procedures; hence it makes sense for manufacturing organizations where processes involve doing similar activities over again as standards can be set in such cases. Nonetheless this cannot be applied when activities don't repeat themselves since there's no foundation upon which standards could be established (Drury: Practices of Standard Costing 2002). Globalization and technological advances have resulted in more fierce competition so companies have needed to use their manufacturing costs as one of their main weapons against such challenges. In recent times there has been an ongoing discussion regarding the effectiveness of standard costing nowadays (Drury 2009); Lucas even went as far as saying that it has become outdated so its use must not be taught anymore at universities or incorporated within textbooks (Lucas 2007). Nevertheless despite these claims traditional accounting practices are still widely being used today (Brewer 2005).

Nowadays other tools such as activity-based costing, Balanced Scorecard or Target Costing have become quite popular within business communities (Kaplan & Cooper 2008; Kaplan & Norton 2006; Ansari et al., 2007); however traditional accounting methods still dominate when it comes to implementation within businesses (Brewer 2005).

### **Statement of the Problem**

In Nigeria, the current economy is in a terrible state and numerous steps have been taken to address this concerning situation. These include Structural Adjustment Program (SAP), the Second tier Foreign Exchange Market, and a Ban on Importation. These steps have had a negative effect on consumer purchasing activity. The cost of production has risen in the manufacturing sector of the economy, resulting in higher prices of manufactured goods; with the corresponding decrease in buying power, not enough demand can be met by sellers. This is especially true for civil servants and other wage earners who can no longer get what they need with their take-home pay. As such, people are limiting themselves to purchasing necessities before luxuries. To combat this issue, it is important to maintain costs at their lowest level by optimizing both human and material resources. Some authors have claimed that standard costing may not be very beneficial for manufacturers today - it could even lead to counterproductive behavior - for instance, if given incentives for purchasing material in bulk for discounts, this could incur higher inventory holding costs that go against Just-in-Time (JIT) philosophy. Moreover, managers may find the periodic standard cost variance reports inefficient as they provide information 'after the fact' (Lucas 2007).

### **Objectives of the Study**

The main objective of the study is to examine the effect of standard costing on the profitability of manufacturing companies in Nigeria.

## **2. Literature Review**

Nweze (2010) defines standard costing as an accounting system that uses predetermined costs for each component of a product or service, such as materials and overhead. This technique is an important part of management accounting control, which also includes budgeting systems and responsibility accounting statements. According to the Institute of Chartered Accountants, standard costing is a "predetermined calculation of how much cost should be under specific working conditions". Early literature on economic growth and development highlighted the need for efficient infrastructure, which Hirschman (1958) referred to as "social over-head capital" - encompassing public services like law enforcement, education and public health, transportation, communications, power and water supply. Adeniji (2009) further states that standard costing is linked to either marginal or absorption costing techniques; with marginal costing techniques used to determine variance in relevant costs excluding fixed overhead, while absorption costing takes into account the total cost of organization's product.

### **Concept of Profitability**

Pandey (2010) defines profit as the difference between revenues and expenses over a period of time, usually in one year. This is the ultimate output for any company, and without it there can be no future. Therefore financial managers should constantly assess their efficiency in terms of profit. Other terms with similar meanings include earnings,

income, and margin. A company needs to make profits to survive and thrive long-term. While profits are important, it's not always best to assume that each management decision should just be geared towards maximizing profitability, regardless of other interests such as customers, employees, suppliers or social impact. Unfortunately 'profit' is viewed negatively because some companies do pursue it exclusively at the expense of other factors. Except for these rare cases, it is vital that sufficient profits are earned to sustain operations so it can attract investors for growth and expansion as well as contribute to social overhead for the benefit of society (Johnson & Kaplan 2012).

Ezeamama (2010) agrees that profit is the distinction between revenue and expenses over a period of time - which is known as profitability - that shows how effectively management can make profit using all resources available. Although profitability is an important tool for measuring efficiency, it doesn't serve as definitive proof. Sometimes stability in profits can point to inefficiency while a proper degree of efficiency may not always yield profits. Net profit reveals an equilibrium between what was received and given out. How efficient something operates is only one factor that affects profitability: there are many others from competition and market demands to pricing methods & company efficiency (Johnson & Kaplan 2012).

### Types of Standard Costing

- i. **Ideal Standard** This can be described as a standard set up to maximize an organization's productivity, without allowing for any negative factors that may impede the standard. These factors include lateness, absenteeism, industrial action, annual leave and maternity leave (Cooper & Kaplan 2013).
- ii. **Attainable Standard** This one is considered practicable within the organization and accounts for any negative hindrances to attaining the standard (Noreen, 2011).
- iii. **A Current Standard** reflects the prevailing working conditions of an organization or industry, and is subject to frequent changes (Theeuwes & Adriaansen, 2014).
- iv. **Basic Standards** are old standards that are not subject to changes often as they are outdated (Noreen, 2011), whereas Material Standards refer to technical and engineering specifications - such as a Bill of Materials - used with allowances for losses in production due to machinery breakdowns or lack of raw materials (Cooper & Kaplan 2013).
- v. **Labor Standards** specify the exact grades of labor required and times involved to complete a task - usually expressed in standard hours or minutes.

### The Nature of a Standard Costing System

The Nature of a Standard Costing System involves having predetermined costs in terms of price standards for materials and rate per labor; quantity standards for material quality and time per labor. This system is used predominantly in manufacturing companies (Drury 2002; Anderson & Clancy 2001).

### An Overview of a Standard Costing System

Standard costing is especially applicable in operations where activities are repetitive. This is particularly true of manufacturing organizations, where the production process often involves recurring tasks. Even in non-manufacturing contexts, where operations are also of a repetitive nature, standard costing can be used. However, it is not suitable for activities that are not recurrent in nature; there is no basis for monitoring these operations and setting standards. In businesses that make many different products and have production functions with common steps, however, standard costing systems can be applied (Drury, 2002).

Standard costs for the output in a given period are ascribed to responsibility centers managed by individuals; likewise, the actual costs for that period are also burdened on responsibility centers. The two cost figures are then compared and the difference reported as a variance (Drury, 2002).

Managers need assistance in analyzing why variances occur. Accountants may support them in this process but it is essential that they do so with the responsible manager present so they can effectively investigate. For example, the accountant may flag up excessive usage of particular materials as causing a direct material variance; however the responsibility center manager must then delve into this further to discover why such usage took place.

In some accounting circles it has been argued that it is pointless comparing actual performance with standard performance as such calculations are carried out after an event and their worthiness called into question. However Drury (2002) maintains that if people know beforehand that their output will be measured they may end up doing better than they would have otherwise.

### **The Purpose of a Standard Costing System**

Having the right information is essential for running an organization efficiently. The goal of cost and management accounting is to provide financial information to managers so they can plan activities, manage the areas they are responsible for, and see the financial impact of their decisions (Hussey & Hussey, 2009). Standard costing systems offer cost data that can be used for various purposes. This study will look into transfer pricing, product calculations, budgeting, inventory valuation and variance analysis as these fields all have ties to standards (Ask & Ax, 1997; Johansson & Samuelson, 1986).

Drury (2002) provides a broader view on the usage of a standard costing system. He explains that it can be used to set budgets and evaluate managerial performance, act as a control device by identifying activities that don't fall within plans and alerting decision-makers of any issues needing attention, forecast future costs for decision-making purposes, trace costs to products for inventory evaluation purposes and set a challenging target for individuals to strive for.

Drury's viewpoint is further explored in upcoming paragraphs. Pre-determined stand costs refer to when technical specifications are used to calculate materials and labor required (Hussey & Hussey, 2009). A survey by Lessner (2009) found that many traditional standards such as direct material, direct labor and various overheads are still popularly used while newer standards such as sales overheads, cancellation/wastage costs, development/construction costs and foreign currency were also mentioned. Additionally there are two main ways of setting standard costs: past historical records or engineering studies. Engineering studies are conducted through careful material/labour/

equipment specifications with strict observation but past performance based standards are more widely used in practice even though past efficiencies may be included (Drury 2006).

### **Critique against Standard Costing Systems**

The advantages of standards, such as simplified calculations, effective responsibility and performance control, and potential savings are well documented. This comes from the industrial revolution, when businesses had very different conditions than they do nowadays. Ask and Ax conducted a literature review on standards and found that academics have mentioned the need for new and improved ways to incorporate them into business practices. Criticisms are often directed at their use for cost control or performance measurement. Additionally, some believe that attempting to maintain minimal variance can result in higher quality products with fewer losses or costs. On the flip side, price standards can sometimes conflict with the goal of higher quality, as people may try to bend the rules in order to attain positive variances. Furthermore, when there are multiple products produced using many components and labor is more fixed than variable, it can be difficult to determine who is responsible for variance and why it exists. Finally, Drury points out that if the focus is on continuous improvement rather than maintaining a standard rate of accomplishment then registering real measurements over time and monitoring trends in performance becomes more important.

### **The Future of Standard Costing**

Cheatham and Cheatham (2006) noted that many accountants in industry and academia are unaware that updating their existing standard costing systems is easier than adopting a new system, and that these systems can provide the essential information they need. The same authors went on to explain how standard cost systems coordinate management, financial, and operations accounting, making it a control system compared to other possible replacements which are limited to cost accumulation systems.

Critics have raised questions about the usefulness of standard costing systems in modern manufacturing. The fact remains that it is still widely used due to its ability to provide cost data for multiple purposes, not just cost control. Many organizations have customized their variance reporting system to track company-specific variables. Furthermore, even when companies use an activity-based system for cost control at the unit level, standard costing remains important.

Some criticize the overemphasis on price and efficiency over quality; or point out that volume variance analysis overlooks overproduction and unnecessary inventory build-up. But it is worth noting that variance analysis does not require sticking with a particular set of variables; these can be changed when needed (Cheatham & Cheatham, 2006). For example: To implement standards based on raw material ordering and inventory levels which give insight into supplier effectiveness - any variances being undesired; combining price variances with quality variances to incentivize purchasing managers to also consider quality; and raw materials inventory variances indicating an inventory build-up due to more material purchased than used or an inventory decrease due to other conditions in line with just-in-time philosophy.

## Methodology

This chapter will discuss the methods, approaches, and designs in detail and explain why each one is relevant for the research. It will also focus on the population of the study, sampling techniques, instrumentation, and methods of analysis. It's an ex-post facto study that seeks to understand the value relevance of standard costing in controlling costs of production among manufacturing companies in Nigeria. Information from both secondary and primary sources will be collected; questionnaires were used to collect responses from relevant workers in the selected manufacturing companies. The questionnaire was developed based on ideas surrounding standard costing usage and its relevance to performance evaluation and general sub-unit appraisal within a company. It has five component parts; the first focuses on the background characteristics of a manufacturing firm (e.g., years of incorporation, sub-sector, staff strength, etc.), while section B looks at dependent variables (e.g., usage & relevance of standard costing). Section C deals with alternative advanced manufacturing technology, such as Just in Time & Activity Based Cost Management; section D looks at determinants of standard costing usage (e.g., having an ERP system); and section E assesses value relevance ratings for standard costing within Nigerian manufacturing firms.

The scale for response tends toward estimates that can be used for logistic regression (binary YES/NO), although there are also descriptive statistics questions as well as a 1-5 response scale for positive & negative items respectively (strongly agree/disagree). To help confirm validity/reliability/consistency, additional questions were added to two separate forms used with equivalent samples from the population; this helps measure effects & allowed writers to revise some questions & sequence accordingly. With an estimated average of 10 relevant staff per organization (~260 respondents total), it aims to cover those mostly in accounting departments since there is no existing data on their total staff numbers.

The famous Yamane Sample Selection Technique was adopted for this study. To calculate the sample size, the following method was used:

$$1 + \frac{e^2}{N} \dots \dots \dots (1)$$

Where n = the sample size

N = the population size

=260

e = acceptable sampling error

\* 95% confidence interval is assumed (p=0.5)

By substitution in the formula  $N = 260 / (1 + 260[0.05]^2)$ ,  $n = 260 / 1.65$ ,  $n = 158$  sample size

The implication is that a total of 158 staff from the 26 organizations constitutes our sample size.

## Model specification

The manufacturing companies' cost of production is a significant factor that may be used to assess the value relevance of standard costing (Marie & Rao, 2010). As a result, the following two hypotheses will be tested: H0: Standard

costing has no major impact on the cost of production of manufacturing firms; and H1: Standard costing has significant impact on the cost of production of manufacturing companies. The model is expressed as follows: variables that are measured using standard costing include cost of raw materials, cost of labor, and overhead expenses. In this case, total cost of production for the companies is the dependent variable. The model is explicitly presented as follows:  $y = 0 + 1x_1 + 2x_2 + 3x_3 + \dots$  (2)

### 3.Data Analysis Techniques

Both descriptive and inferential methods of analysis will be used to examine the information that will be gathered from the questionnaire responses that were personally delivered. Cross tabulation and simple percentages are examples of descriptive statistics, whereas multiple regression and ANOVA are examples of inferential statistics. Multiple regression is used to identify the variable that has the greatest influence on the dependent variables, and ANOVA is used to find differences in the respondent because it assesses the effect independent variables have on dependent variables.

### Results and Discussions

The empirical findings are explained and given appropriate interpretation in this section of the paper. The study's primary objective is to gauge how widely standard costing is used in Nigeria's industrial sector.

One of the objectives of this study is to investigate the extent of usage of standard costing among the Nigerian manufacturing businesses. First, 158 questionnaires total were given; however, only 152 respondents responded. Of the 152 questionnaires that were returned, 147 of the respondents expressly declared that standard costing is used in their organizations. This shows that standard costing is still frequently used by Nigerian manufacturing firms as a method of performance assessment. However, using the 147 respondents' responses to a few questions, we aimed to determine the amount of standard costing utilization in their varied businesses.

**Table 1. Response to the questions: How has each organization developed standard costing techniques?**

		Freque ncy	Percen t	Valid Percent	Cumulative Percent
<b>Valid</b>	<b>At the inception of the company</b>	36	24.5	26.3	<b>26.3</b>
<b>Long after the company had started operations</b>		101	68.7	73.7	<b>100.0</b>
<b>Total</b>		137	93.2	100.0	
<b>Missing 10</b>		9	6.1		
<b>System</b>		1	.7		
<b>Total</b>		10	6.8		
<b>Total</b>		<b>147</b>	<b>100.0</b>		



Table 1 revealed that 101 respondents, at 68.7%, stated that the company adopted the use of standard costing techniques after the organization had already been established. While 36 respondents, at 24.5%, report that standard costing has been in use since the beginning of their company's existence. This finding implies that standard cost is frequently utilized by these manufacturers.

**Table 2. Response to Question; What degree of development has this standard undergone**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Not well	1	.7	.7	.7
fairly developed	2	1.4	1.4	2.1
Well developed	63	42.9	43.4	45.5
Very well developed	79	53.7	54.5	100.0
Total	145	98.6	100.0	
Missing 11	2	1.4		
<b>Total</b>	<b>147</b>	<b>100.0</b>		

The aforementioned table displays the respondents' perceptions of the degree to which standard costing approaches have advanced. According to the results, 142 respondents— at 96.6%—support the idea that standard costs are adequately developed in their organizations, while only 3 respondents—at 2.1%—held this opinion.

### Assessing the value relevance of standard costing

The following tables provide the response rates to the questions on the value relevance of standard costing as it relates to total cost of production, raw material costs, labor costs, and overhead expenses of manufacturing enterprises.

**Table 3: value relevance of standard cost in reduction in cost of production**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid strongly disagree</b>	3	2.0	2.0	<b>2.0</b>
<b>disagree</b>	5	3.4	3.4	<b>5.4</b>
<b>indifferent</b>	10	6.8	6.8	<b>12.2</b>
<b>agree</b>	94	63.9	63.9	<b>76.2</b>
<b>strongly agree</b>	35	23.8	23.8	<b>100.0</b>
<b>Total</b>	<b>147</b>	<b>100.0</b>	<b>100.0</b>	

According to the above table, 129 out of 147 respondents, at roughly 87% of them, concur that standard cost application has a significant impact on manufacturing enterprises' cost of production. This result has the consequence that the majority of businesses believe their use of standard cost to cost evaluation has made a significant contribution to cost minimization across all of their organizations. This demonstrates the broad support for using standard costs in these companies' cost analyses.

**Table 4: reduces the cost of raw materials**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid strongly disagree</b>	7	4.8	4.8	<b>4.8</b>
<b>disagree</b>	30	20.4	20.5	<b>25.3</b>
<b>indifferent</b>	2	1.4	1.4	<b>26.7</b>
<b>agree</b>	34	23.1	23.3	<b>50.0</b>
<b>strongly agree</b>	73	49.7	50.0	<b>100.0</b>
<b>Total</b>	146	99.3	100.0	
<b>Missing System</b>	1	.7		
<b>Total</b>	<b>147</b>	<b>100.0</b>		

According to the response data in Table 4, 107 out of 147 respondents concur that using standard costs will lower their companies' spending on raw materials. This corresponds to almost 70% of all respondents. The outcome also suggests that standard cost is important in lowering the price of raw materials utilized in the organizations.

**Table 5: reduces the cost of labour**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b> strongly disagree	10	6.8	6.8	<b>6.8</b>
disagree	64	43.5	43.8	<b>50.7</b>
indifferent	62	42.2	42.5	<b>93.2</b>
agree	8	5.4	5.5	<b>98.6</b>
strongly agree	2	1.4	1.4	<b>100.0</b>
<b>Total</b>	146	99.3	100.0	
<b>Missing</b> System	1	.7		
<b>Total</b>	<b>147</b>	<b>100.0</b>		

Table 5's responses are clearly different from what we found in the two prior tables. The findings indicate decreased support for the use of standard cost in evaluating wages and salaries. Only 7% of respondents concur that standard cost is important for reducing labor costs. According to the respondents' viewpoints, standard cost is not crucial for lowering labor expenses in terms of wages and salaries. The majority of respondents—93%—do not concur that standard cost is important for reducing labor costs in their firms.

**Table 6: reduces overhead expenses**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b> strongly disagree	15	10.2	10.3	<b>10.3</b>
Disagree	13	8.8	8.9	<b>19.2</b>
Indifferent	3	2.0	2.1	<b>21.3</b>
Agree	59	40.1	40.4	<b>61.6</b>
strongly agree	56	38.1	38.4	<b>100.0</b>
<b>Total</b>	146	99.3	100.0	
<b>Missin</b> System	1	.7		
<b>g</b>				
<b>Total</b>	<b>147</b>	<b>100.0</b>		

The replies shown in table 5 clearly differ from what we found in the two prior tables. Less support is found in the results for the use of standard cost in evaluating wages and salaries. Only 7% of those surveyed concur that standard cost can help reduce labor costs. The respondents' viewpoints are that standard cost is not crucial in lowering labor costs in terms of wages and pay. Approximately 93% of respondents disagree that standard cost is important for reducing labor costs in their firms.

### Presentation of the regression results

**Table 7: Relationship between the cost of major inputs and the value relevance of standard cost**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.813	.299		12.757	.000
Material	.046	.001	.048	.562	.005
Labour	.244	.123	.234	1.986	.079
overheads	.098	.007	.108	.919	.001

According to table 5's findings, standard cost's effects on raw material and overhead cost reduction had a significant impact on respondents' decisions to agree that cost minimization in businesses is very important. These are the two factors that they consider when deciding whether to continue using standard costing in their businesses. Controlling salaries and wages, however, doesn't seem to be a major driver of organizations' continued use of standard costs. Its coefficient is not statistically significant, hence this is the case.

The conventional cost model is statistically significant, according to the analysis of variance findings. In other words, the model that analyzes the value relevance of standard cost in cost minimization is significant, demonstrating the joint significant influence of the three independent variables on the decision to accept the efficiency of standard cost application to cost evaluation in manufacturing firms. In other words, the price of raw materials, labor, and overheads strongly influences how well standard costing is applied in these manufacturing firms.

### 4. Conclusion and Recommendation

The cost driver idea is used in standard costing to connect product costs to manufacturing knowledge. The standard costing system provides information on how a product is manufactured, how much time is required to complete an activity, and finally how much money is spent on completing this work. Cost driven fitness links activities and

resource use for convenient practice and measurement. Both budgeting and performance evaluation can benefit from it. The difference between resources utilized and provided is provided. Information regarding cost components and process activities that have an impact on cost is elicited by cost driver fitness. It enhances the effectiveness of the production process by separating value-adding operations from those that don't provide value.

Accurate cost computation lowers the chance of distortion and provides reliable information for pricing products and services. For decision-making, cost information creditability offers useful cost information. Managers are assisted in making well-informed decisions and promoting production efficiency by the identification of problems and possibilities. In a similar line, the usefulness of cost reporting aids in planning and control. This improves work performance and boosts manufacturing efficiency. These all show that standard costing and productivity are correlated.

The organization's management should support the utilization of local raw materials, according to the study's main recommendation. Utilizing locally produced materials will reduce overall material costs, improving the effectiveness and efficiency of cost control. Greater production efficiency is encouraged by accurate cost calculation, which is a component of standard costing. Activities that do not add value to production or service delivery should also be eliminated using multiple cost drivers in the standard costing process. Timely disclosure of cost information for efficient planning and control in the production process is also encouraged. Chief Executive Officers of manufacturing companies should design suitable incentives for these actions.

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