

**THE IMPACT OF COST CONTROL IN NEPALESE LISTED
MANUFACTURING COMPANIES PROFITABILITY**

A Thesis Proposal

By

Santosh Adhikari

Central Department of Management

Roll. No.: 569/15

T.U. Regd. No.: 7-1-1327-2007

Submitted in Partial Fulfillment of the Requirements for the Degree of

Master of Business Studies (MBS)

in the

Faculty of Management

Tribhuvan University

Kathmandu, Nepal

July, 2017

1. Background of the Study

The dynamic nature of our times has put so much challenge on business that challenges threats survival and performance of business. For reduce challenges of business and survive business strength must be increased. Business strength outpaced its competitors depends largely on the quality and strength of its management. Cost control is the one of the most important tool of internal strength of organization. Efficient management can control cost by using various cost control tools. Cost is a most important concept in our everyday lives. Human being talks about cost almost each minute of the day. All our daily expenses are been resolved in terms of cost. In our offices we take of cost of materials, cost of labor, overhead cost, cost saving and many others. In manufacturing companies' portion of production cost is more than others. They use more materials and production overheads. For control that, management of companies need to focus more on production cost control.

Business forms in Nepal are losing their competitiveness lost. Nepal is entered WTO, Nepalese market have to be liberalized to products and services of other countries. Due to this Nepalese product and services will have to compete with the product and services of other countries made of high sophisticated technologies with lower price. So, it has been must for Nepalese enterprises to made nearing preparation for cost reduction in time.

In Nepal manufacturing industries competition is also increasing. In Nepal various manufacturing industries are operated. Cost per unit of Nepalese manufacturing company is more than foreign multinational manufacturing company, so cost control on Nepalese manufacturing company is very important. It helps to increase profit per unit and total profit.

Cost control means recognizing and implementation of some system so that the increasing cost of production and operation could be control. Cost control may define as exercise to reduce cost as possible to predetermine target. Cost control systems are directed towards specific efforts to control costs by improving systems. Cost control can be made in different areas of organization like production and operation, administration, distribution. Controlled cost can provide competitive advantages for organization

Cost is a monetary valuation of efforts, materials, resources time and utilities consumed, risk incurred and opportunity foregone in production and delivery of a goods or services. Cost control is the achievement of predetermine target of costs whereas cost reduction is the achievement of the real and permanent reduction in cost.

Control is function that makes sure that actual work is done to fulfill the original intention. It is a widely accepted should be within the budget. Cost control is thought of as management efforts to attain cost goals within a particulars environment. Cost control is not a specific program. Rather, it is a routine activity to be frequently carried out. Cost must be controlled otherwise; there will be wastage, misappropriation and embezzlement. Cost control relies having on accounting techniques some of the key cost control techniques are responsibility accounting, budgeting, standard costing, and budgetary control, Internal and External control, Marginal control, etc.

Brumbaugh (2008) had opined that corporate bodies should observe the cost and the profit will take care of itself. The implication of cost should be control rather than to engage on unscientific cost reduction that may translate to lowering the quality of product. Management is generally forced to adopt various methodologies and techniques in order to regulate (control) rather than reduce cost. Cost increases as various production activities are enlisted upon the need to keep cost in check arises because standards for production will be set and actual production will be thereby bringing about variances that can only be reduced or eliminated through effective cost control.

Sikka (2003) had opined that Cost control system consists of methods and procedures that help to regulate the cost of operating and ensure that cost do not go over certain level. As profitability amongst others is the essence of any business, there will be the need to incur reasonable costs and management is to ensure careful and efficient use of resources so as to achieve the set standards and maintaining the performance according to standard because, as management motive to increase productivity for more profit, there will be increasing cost and collection of cost will be made by each area of responsibilities. This study aims at discussing how cost control could be effectively

administered in order to regulate expenses so as to bring about increased returns in terms of profitability and not diminishing it.

However, Okafor (1983) argued that profit is the ultimate measure of the overall performance. When management has planned, organized and control its human and material resources properly, corporate activities achieve a level of effectiveness, which grows up in profit. Probably profits are acid test of individual firms' performance.

Cost control helps firms to improve its profitability. Jhingan et al (2004) opined that cost control has a regulatory effect. For better performance and better results certain means of control have been evolved. Such cost instruments are budgetary control and standard costing. Cost reductions are analyzed via variance analysis.

The two most important functions of cost accounting are cost control and cost reduction. Cost control is technique which provides necessary information to the management that actual cost and budgeted cost are aligned or not. Cost reductions is a technique used to save the product without compromising its quality. Cost reductions are analyzed via variance analysis.

Cost control and reductions helps to improve its profitability and competitiveness. It suggest cost control tools their usages and impact. Cost control aim is to suggest how cost should be control and improve profitability, for better performance and better result certain tool of control have been evolved. Such cost instruments are budgetary control and standard costing.

Cost control is the practice of identifying and minimizing business expenses to increase profits, and it starts with budgeting and ends with corrective action. A business owner compares actual results to the budget expectations, and if cost is more than budget expectations management takes actions. Cost control is a systematic review of resources. Company use cost control to achieve its primary objective of profitability, so it can also be referred to as cost management.

Cost reduction is a management activity which is aim at minimizing the cost of production of their goods or rendering their service to customers without reducing their quality standard. If organization able to practice this successfully, all things being equal,

will experience an increase in profit and maximize shareholders wealth. In competitive market reduction in cost is very important.

Management and control of activities help set enterprise strategies, determine an accurate product and service cost, improve business processes eliminate waste, identify cost drivers and plan operations and leading to remarkable profit.

Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. Profitability is the primary goal of all business ventures. Without profitability, the business will not survive in the long run.

Profit maximization is the most important objectives of firm. Profit is the ultimate measure of overall performance. Management need to plan, organize and control its human and materials resources properly for maximize profit. Profit is the aggregate result of the firm's behavior, management activities and efficient usage of all resources. Profit also relates sales volume price and competitors strategies, etc.

To control costs does not mean only the reduction of specific expenses, it is practice of controlling per unit cost to increase profit. Cost control programs may require a bulk amount of research and development budget but once a new techniques is introduced, it gives competitive advantages for the long period.

As per above discussion, the researcher have trying to write thesis in impact of cost control and cost reduction on profitability of Nepalese manufacturing industry. The researcher will try to find cost center of Nepalese manufacturing industry and its incurred cost, possibility of control and reduction of cost and its impact on profitability.

2. Statement of the Problem

In recent years, the cost of goods in Nepal has been very expensive in comparison of other countries. In manufacturing industry, there is problem of poor technology and management which leads to high cost and low quality. Another problem facing some or most of the adaptation of improper plan to control cost of production.

Nepal has been considered to be the country with limited level of investment climate. The main problem of Nepalese manufacturing organization is occurrence of high cost of production, due to this many organizations are closed and many are sick.

For the smooth operation of business activities and earn adequate profit, every business has followed distinct policy in order to determine cost control system. If we go through manufacturing companies in Nepal, we can find most of the companies no giving adequate attention to cost control system. The use of effective cost control system is needed to manage the situation of current manufacturing industry in Nepal.

This study will conform with the view of discovering weather organization especially manufacturing companies adopts certain cost control measures in their products production as well as marketing of products, which ultimately have an impact on their profitability. In this aspect of control, it will incorporate cost control processes and a cost control program, initiated to take the goal of bringing down the margin of business costs from a current level.

To solve current problems, management of company should give more consideration for the cost control system. Therefore, this study will investigate the impact of cost control on listed NMI's. Similarly this study will try to find out the solution of following questions:

1. What is the relationship between cost control and profitability of listed NMI's?
2. What cost control instruments are mostly used in listed NMI's, for cutting down expenses, thereby attaining maximum profitability?
3. Is there any challenges and prospectus of employing modern cost control techniques in listed NMI's?

3. Purposes of the Study

The major purpose of this study will investigate, analyze and interpret the impact of cost control on profitability of listed NMI's.

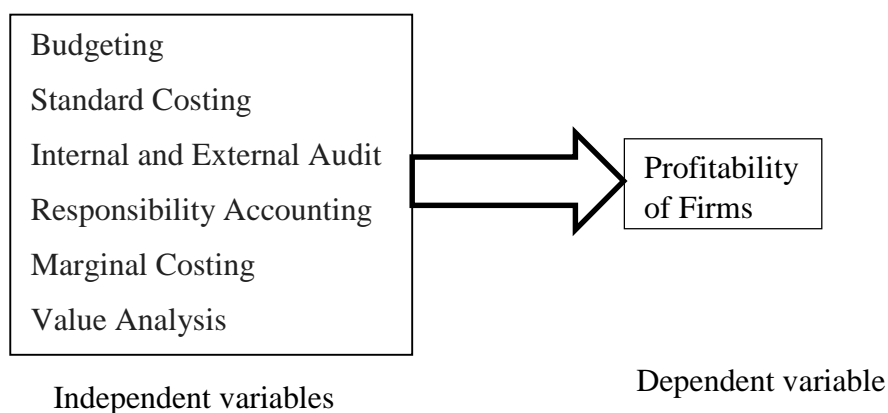
The specific objectives of the study are listed as follows:

1. To examine relationship between cost control and profitability of listed NMI's.

2. To know cost control instruments are mostly used by listed NMI's, for cutting down expenses, thereby attaining maximum profitability.
3. To identify the challenges and prospectus of employing modern cost control techniques in listed NMI's.

4. Conceptual Framework

Conceptual framework is way of finding conclusion. It determine required data, methodology and data analysis tool. It represent the whole characteristics of research. It shows relationship between dependent and independent variables. Effect of Independent variables and dependent variables are presented in the following diagram.



5. Significance of the Study

The manufacturing sector of Nepal is emerging and increasing than it was in the past. In current days, Nepal is confronting several issues with respect to industrial sector. In other words, this sector is facing many problems and is expanding in slow motion. This type of research will be conduct first time in Nepal. In this connection, this study can be helpful to the manufacturing companies to review and develop their cost control systems. Furthermore, this study will be beneficiary to decision makers to make decisions about cost control instrument, their uses and minimization of cost. This study also will be useful to the concerned academicians, researchers, students, investors, government officials, and others stakeholders of respective industries.

6. Limitations of the Study

Every study is conducted under some constraints and limitations. Similarly, this study cannot be exception and free from limitations. The accuracy of the study will largely depend upon the data provided by the sample companies. Some limitations of this research study are outlined as follows:

1. The research is going to conduct by taking few manufacturing companies listed in NEPSE as sample.
2. The accuracy of the result will totally base on the data provided to the researcher by the responses of companies' managers.
3. The findings of this study may not represent to others settings.
4. This research is going to conduct using primary data only.

7. Review of Literature

7.1 An Overview of Cost Control

Nowadays managements of companies are becoming increasingly cost conscious and are constantly searching for new ways of controlling cost and eliminating wastages. One of the objectives of cost accounting is to achieve cost control. It is not enough if costs are worked out and presented regularly to the management, the effectiveness of cost accounting is judged primarily from the extent to which it has been able to bring about a control over the manufacturing and other costs (Sikka 2003).

CIMA in its terminologies of cost accountancy defined cost control “as the guidance and regulation by executive action of the costs of operating an undertaking, particularly where such action is guided by cost accounting.”

Anthony, et al (2005) regards cost control as cost management or cost containment and defined it as a broad set of cost accounting methods and management techniques with the goal of improving business cost efficiency, by reducing costs or at least restricting their rate of growth. Businesses use cost control methods to monitor, evaluate and ultimately enhance the efficiency of specific areas, such as departments, divisions or product lines within their operations. In his words, Lockyer (2002) regards cost control as a practice of

comparing the cost of a business activity with the original cost in order to ascertain if the cost is as planned.

7.2 Impact of Cost Structure on Profitability

Harris and Hazard (1992) opined from accounting point of view, that a critical element common in all firms, is the profile of cost structure. Cost structure, also called operating leverage, is measured in terms of proportions of fixed cost and variable costs present in the cost volume profit (CVP) equation of a firm. A firm which has a large proportion of fixed costs to total costs is said to have a high fixed cost structure; and conversely, a firm with a small proportion is referred to as having a low fixed cost structure. An understanding of the influence of cost structure on profits is a crucial element in management decision making. They further discussed that in order to measure the effect of cost structure on profitability, a technique known as sensitivity analysis can be employed. In CVP context, if a small change in factor, such as cost of production, causes a large change in profit, then it can be said that profit is sensitive to cost of production.

7.3 Review of Related Studies

Akeem (2017) investigated “Effect of cost control and cost reduction techniques in organization performance” using 50 samples from Chemster Paint Industry with the objectives to examine and evaluate the application of cost control and cost reduction on organization performance and recommend techniques of cost control and cost reduction. The research employed Inferential Statistics (t-test and regression analysis) and the finding shows that cost control and reduction techniques exert significant impact on organization performance. Finding of the research recommend that to make it success, cost control and cost reduction scheme must be properly administered in an organization by setting realistic standard cost, Control should be operated in every section or department of organization specially production department, Organization must be motivated to its workers to achieve the desired goals and objectives and Challenges of effective cost control and cost reduction could be solved by direct observation and supervision by management by taking note of the key non-performance indicators in any section having challenges and as a result, findings ways of improving on it. Finally

research conclude that the cost control and cost reduction have a positive impact on organization performance.

Abdullah S.R. et al (2015) investigated "Effects of standard costing on the profitability of telecommunication companies(Study of MTM in Nigeria) using sample MTM Telecommunication company with the objectives to examine the effects of standard costing on the profitability of MTN Telecommunication companies to discovering it the application of standard costing techniques have any effect on profitability to explore the relationship between standard costing and the profitability of telecommunication companies and determining whether standard costing techniques and principles are being adopted and practiced by Nigerian MTM telecommunication company. The research employed descriptive survey method and finding of the study shows that accounting records are kept and are significantly necessary in the management of the company. That the company employs standard costing in their product and decisions are made with the standard costing information obtained in the company the accounting reports are prepared and presented to the company's management and effective application of standard costing has effect on the profitability of the company. Finding of the research recommend that company must be properly administrated standard cosign in organization. Finally research conclude that the standard costing is widely used in Nigerian telecommunication companies and that standard costing enhances adequate planning control and decision making process in the company. That standard costing aids telecommunication companies in the elimination of unprofitable products provisions of costing information and cost control.

Olalekan and Tajudeen (2015) investigated "Cost control and its impact on the survival of Nigerian firms: A case study of NBL Plc." Using 30 sample of NBC Plc.' Staffs with the objectives to examine the importance of cost control, various cost control methods used and their importance on the survival of Nigerian forms. Study result discovered that NBC Plc has been able to achieve goods results largely by devising and successfully implementing innovative marketing and cost saving strategies and the study shows various cost control measures that improves production, which leads to increase

efficiency and profitability and also cost control in the firm has greatly helped in boosting profitability. The researchers recommend that mechanics for conducting value analysis should be put in place on a permanent basis, major cost incurred in NBC Plc should be controlled, a good budgeting process would effectively control cost, therefore NBC Plc can improve its budgeting process by adopting zero-based budgeting system. The company also should employ JIT techniques to achieve its goal of being cost management. Finally the researcher conclude cost control in the firms has greatly impact on profitability and survival of firms.

Gichuk (2014) investigated “Effect of cost management strategies on the financial performance of manufacturing companies listed on the Nairobi securities exchange” using two sample companies as sample listed Nairobi securities exchange. The research employed descriptive statistics such as mean, standard deviation, correlation, multi-variant regression and the like, with the objectives to establish the cost management strategies used and their effect on the financial performance of manufacturing companies on Kenya. The research finding shows that all the sampled institutions employed cost management strategies within their organization to a large extent, managed cost of stock has a positive impact on the financial performance of manufacturing companies, their exist relationship between the cost of labor and financial performance and effective management of overheads have a positive impact on financial performance. The researchers recommend that company policy makers and transactions advisors should be keen on making cost management policies to be applied and preparing control systems to avoid critical financial losses and company policies regarding to financial performance of companies should incorporate various cost management strategies. The research conclude that a relationship exist between the cost management strategies and the financial performance.

8. Research Methodology

The purpose of this chapter is to describe intended approaches of answering the research questions stated above. Research methodology is a systematic way to solve the research problem. It may be understood as a science of studying how research is done

scientifically. Research methodology is instrument to find out accurate, reliable, valid, and suitable result. To achieve the stated objectives of the study, the relevant methodologies will have been employing. This research will Qualitative as well as Quantitative study as it will have based on statistical data obtained through distribution of structured questionnaire. Data will have collected from all the department of organization and level of management of sample organization. The research findings will have obtained through using both descriptive as well as inferential methods.

8.1 Research Design

A research design is an overall plan for the activities to be undertaken during the course of a research study. To obtain the research objectives, this study will follow descriptive as well as analytical research design. Primary data will have used in order to achieve stated objectives.

8.2 Population and Sample

The total number of listed manufacturing companies in Nepal Stock Exchange is 18. All 18 companies are population of this study, out of them only 5 companies are selected as sample viz. Himalayan distillery Ltd., Uniliver Nepal Ltd., Nepal Lube oil Ltd., Bottlers Nepal Ltd. and Nepal bitumen and barrel udyog. Among various sampling methods, convenience sampling method will have employed. The selected samples perfectly represents 27.78% of total population.

8.3 Sources of Data

The main source of data for this study will primary. The information will have collected through unit visit. It, therefore means that primary data will have collected. A structure questionnaire with multiple choice answers will be prepare before the visit, and distributed during the visit to the unit under study. Results of this study will have based on primary data collection through questionnaire.

Secondary data also will have collected during the study. These will have taken from articles and journals, textbooks, seminars magazines, newspapers, NSE's handbook, organizations website and internets.

8.4 Data Collection Procedures

For the collection of necessary data, questionnaires will distribute to the respondents of the sample companies. The questionnaires will have designed to deal with the impact of cost control on organization's profitability, techniques of cost control used, problems to implement techniques of cost control, etc. Most of the questions will multiple answers and one question will open ended. Questionnaires will have administrated to different level of management. Answers received from thereon, will have changed into numerical data.

8.5 Data Processing Procedures

First of all collected data will have changed into numerical data. Then data will have entered into spreadsheet to work out the frequencies, percentage, mean, standard deviation, correlation and regression. For this purpose, collected data will have processed using computer programs like MS excel and statistical software SPSS 20 as per the necessity.

8.6 Data Analysis Tools and Techniques

The purpose of analyzing data is to obtain usable and useful information. In data analysis process raw data will edited, coded, classified and tabulated to draw conclusion. Organizing, summarizing and presenting data in a table and chart will required for further process of analysis. This research will have employed both descriptive and inferential methods of data analysis.

9. Chapter Plan

This study is organized in such a way that the stated objectives can easily be fulfilled. There are five chapters in this study.

Chapter I Introduction

This is introductory chapter and basically deals about the background of the study, focus of the study, statement of the problem and research questions, purpose of the study, significance of the study, limitations of the study and organization of the study.

Chapter II Literature Review

This chapter Review of literature which refers reviewing the research or other related published or unpublished literature, articles published in different economic journal, bulletin, dissertation papers, magazines, newspapers and websites in the related area's study, so that all possible relevant past studies, their conclusion findings and recommendation can be known through review of literature. This chapter focuses on conceptual framework, review of major relevant previous works and other related materials and research gap.

Chapter III Research Methodology

This chapter concerned with research methodology employed in the study. This chapter has dealt with the research design, population and sample, sources of data, data collection procedures and data analysis tools and techniques.

Chapter IV Results

This chapter deals with presentation and analysis of data. Different techniques are used to analyze the data which explores the findings of study as well.

Chapter V Conclusions

This chapter for the summary of major finding, conclusion, recommendation and suggestion for further improvement. It contains the profound review of available literature related to the area of the study. It is directed towards the review of conceptual framework and review of major related studies.

Reference and appendix have also been incorporated at the end of the study.

REFERENCES

- Abdullahj, S.R., et al (2015). Effects of Standard Costing on the Profitability of Telecommunication Companies (Study of MTN Nigeria). *International Journal of Management and Commerce Innovations*, 3(1), 292-297.
- Akeem, L. B. (2017). Effect of cost control and cost reduction techniques in organization performance. *International Business and management*, 14(3), 19-26.
- Anthony, R. (2007). *Management Control System* (12th Edition). New York:Mc Graw Hill.
- Anthony, et al. (2005). *Management Control Systems*. Chicago: Irwin Publishers.
- Gichuk, C.W. (2014). *Effect of cost management strategies on the financial performance of manufacturing companies listed on the Nairobi securities exchange*. A research project submitted in partial fulfillment of requirements for the award of the degree of Master of Science in finance, university of Nairobi.
- Lockyer. K. (2002). *Factory and Production*. London: DP Publishers.
- Okafor, F.O. (1983). *Investment Decisions*. Evaluation of project and securities. Enugu: Gostak printing and publishing company Co. Ltd.
- Olalekan, L.I. & Tajudeen, N.F. (2015). Cost control and its impact on the survival of Nigerian firms: A case study of NBL Plc. *International Journal of Management, Accountancy and Economics*, 2(4), 312-323.
- Sikka, T.K. (2003). *Fundamental of Cost Accounting* (5th Edition). New Delhi: Viva Books (P) Ltd.
- Siyanbola,T.T. & Raji,G.M. (2003). The impact of cost control on manufacturing industries' profitability. *International Journal of Management and Social Science Research*, 2(4), 1-7.