

A survey of factors influencing the choice of product costing systems in UK organizations

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Abstract

This paper reports on the findings of a postal questionnaire that examines the extent to which potential contextual factors influence the characteristics of product costing systems. Prior research has mostly used the adoption or non-adoption of ABC systems to capture the characteristics of product costing systems. This research has generally been inconclusive and has been unable to establish strong links between ABC adoption and those contextual factors that have been identified in the literature that are conducive to the adoption of ABC systems. Instead of using only the adoption or non-adoption of ABC systems as a measure of product cost system design this research uses four different proxy measures of cost system sophistication to capture the characteristics of the product costing systems. This allows for a more robust test of the relations among the predictor variables and cost system sophistication. Results indicate that higher levels of cost system sophistication are positively associated with the importance of cost information, extent of use of other innovative management accounting techniques, intensity of the competitive environment, size, extent of the use of JIT/lean production techniques and the type of business sector. No association was found between the level of cost system sophistication and cost structure, product diversity and quality of information technology.

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1. Introduction

To explain the diversity of management accounting practices researchers have adopted contingency theory to demonstrate how specific aspects of an accounting system are associated with various contextual variables. A considerable amount of contingency-based research has been undertaken relating to management accounting control systems (Chenhall, 2003). Little attention, however, has been given to identifying the factors that explain the content of product costing systems. This is surprising considering the vast amount of publicity given to developing more sophisticated product costing systems (Cooper, 1988a; Cooper, 1988b; Cooper and Kaplan, 1992; Kaplan and Cooper, 1998). The need to improve the sophistication of product costing systems has been driven by changes in manufacturing technology, global competition, information costs and customers' demands for greater product diversity. These changes prompted criticisms of the ability of traditional management accounting systems to report sufficiently accurate product costs and ABC systems were promoted as the solution to overcome the distortions in the product costs reported by traditional costing systems (Cooper, 1988b; Kaplan, 1994).

The survey evidence suggests that the ABC adoption rate has been fairly low, being approximately 15% of the companies surveyed by UK studies (Innes et al., 2000; Drury and Tayles, 2000). This low rate of adoption has prompted several writers to question the usefulness of ABC in generating more accurate product costs (Noreen, 1991; Datar and Gupta, 1994; Yahya-Zadeh, 1997; Maher and Marais, 1998) and the costly design, implementation and operation of such systems (Cobb et al., 1992). Research has only been recently undertaken into examining the contingencies influencing the nature of product costing systems. Virtually all of this research has concentrated on the factors influencing the adoption or non-adoption of ABC systems. This research has generally been inconclusive and has been unable to establish strong links between the adoption of ABC and those contextual factors that have been identified in the literature that are conducive to the adoption of ABC systems. Two possible reasons may account for this situation. First, there may be no relations between the constructs of interest and thus any significant findings may have been spurious and not reproducible. Second, the methods adopted by previous research may have fatal flaws relating to poor measures, measurement error, bias etc. The lack of consistent findings from previous research suggests that there is a need for continuing empirical research on this topic.

Besides using the measure adopted by previous research (i.e. the adoption or non-adoption of ABC systems) this study also uses alternative proxy measures for identifying the characteristics of product costing systems. The paper examines the extent to which different contextual factors influence the choice of product costing systems using these alternative proxy measures. Thus, the distinguishing feature of the research is that provides the potential for testing the robustness of the contextual factors based on using different proxy measures to identify the characteristics of product costing systems.

The paper consists of nine sections. The next section considers how the characteristics of product costing systems can be classified in terms of their level of sophistication. Section 3 summarizes the previous studies relating to this research and the following section provides a justification for the further research. The research hypotheses are presented in Section 5 and the research design and methods used to measure the variables tested in the research are presented in Sections 6 and 7. Section 8 presents the research findings and the final section contains a discussion of the limitations of the research and the potential for future areas of research.

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