"STANDARD COSTING PRACTICES OF KENYAN MANUFACTURING FIRMS"

by

E. RAMOSEHLANA MAPETLA

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ABSTRACT

This study is about standard costing. An important goal of cost accounting is cost control. Without cost control, waste, errors, and inefficiencies may result which dissipate the company's potential net earnings. This also means waste and loss of our scarce natural resources, which is undesirable.

An essential requisite of effective cost control is a norm against which management can measure the results of actual operations. Where little or nothing exists by way of standards of reference, the prompt pinpointing of variations in performance by reason or source becomes almost impossible. This is the major limitation of historical cost accounting; and standard costs have been developed to overcome this limitation. It is much more important to know what a product should cost and the excesses over this cost than what it has cost. Variances between standard costs and actual costs are analyzed as to cause in order that future operations might approach or meet the standards. A standard costing system has as its object to ensure that steps will be taken to eliminate the faults and wastes, and increase efficiency in performance.
The indispensability of standard costing for rigorous cost control has long been recognized in developed economies. In the researcher's opinion, the need for the adoption of this technique in less developed countries, where there is an even greater scarcity of resources, is even more. No study has been conducted in Kenya on the use of standard costing and, therefore, little is known about whether or not this useful technique is used.

The purpose of this study was to examine the extent to which standard costing is used in Kenya. The extent here was measured in two ways: First in terms of the numbers of firms that use against those that do not use the technique. Secondly, specific critical areas in standard costing were selected for study in determining how far the technique had been adopted by those companies that use the technique in Kenya.

One major hypothesis and two corollary hypotheses were investigated. The main hypothesis was that: Standard costing is not used to a great extent in Kenya.
Corollary hypotheses were that:

(i) where it is used, the gap between theory and practice will be wider than in developed countries.

(ii) the use of standard costs is not extended to inventory valuation.

In the researcher's view, lack of stiff competition, lack of expertise, and lack of funds justified the hypothesis and its corollary hypotheses.

The study was based on those manufacturing companies located in Nairobi, Mombasa, Eldoret, and Thika, and employing 100 or more people. For the first part of the study, mainly letters and, to some extent, telephone and personal contact were used to collect the data. The second part employed the questionnaire mainly and some personal interviews.

The main hypothesis and its corollaries were upheld. The evidence also supported the justifications. However, lack of funds was conditionally upheld. The principal conclusions from this study may therefore be stated as follows:
1 - That lack of competition, and lack of expertise provide some explanation as to why standard costing is not used to a great extent in Kenya.

2 - That the use of standard costing is an increasing function of economic advancement. With the growth of the industrial sector, tighter business conditions, and higher educational standards, more and more manufacturing firms will use the technique.

3 - That the adoption of standard costs is necessary for rigorous cost control and the efficient allocation of (scarce) resources. It is necessary, therefore, that a conscious effort is made to expedite the adoption of standard costing.