

## Effect of Cost Determinants on Profitability-A Case Study

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### Abstract

Every business is working for profit. The aim of business is to increase profitability and minimize the cost with an objective of increasing share holder value. The current research is an empirical study of Kombolcha Textile Share Company concerning the effect of cost determinants on the profitability of the organization. This study finds the relationship between cost determinants and profitability. Convenience random sampling method is adopted to carry out the study in detail. From the total population, 64 employees are selected and questionnaires were distributed to all the responsible personnel to know their opinions on each statement. The collected statistical data was analyzed by using SPSS. It suggests that those cost determinants either basics or related determinants should be controlled under the systematic manner to reduce their effect on the profitability. Thus from the questionnaires, the study shows small differences on each cost determinants have stress on the profitability of the company.

**Key Words:** Profitability, Profit, Prime cost, Material cost, Labor cost, Overhead cost.

### Introduction

Any business is started with an objective of earning profit. Due to the competition that exists all over the world companies are focusing more on cost minimization rather profit maximization. High profitability of the company earns high earning to the share holders. To maximize the share holder's wealth, companies focusing on optimization of its available resources. Cost and profitability are mainly focused on nature of products and services offered. The current study attempts to measure the cost determinants in relation with the profitability in each financial year. The study is to know the basic cost determinants and to suggest improvements throughout the company by cost valuation methods, product pricing and utmost customer satisfactions. From the Management's point of view "What product should have cost" is more important than "What did it cost?" i.e., profitability is compared with the actual costs to find out the differences between the two i.e. the actual costs versus planned costs. Variances obtained from this are analyzed to determine the efficiency of operations and to take necessary remedial action for evaluating the cost variables. Management is always concerned to plan costs, before they are actually incurred, exercise cost control. Ethiopian textile industry is one of the fast growing industries in terms of revenues and profits. These industries are always focused on the issues of cost reduction and profit maximization. Companies are facing difficulty in identifying cost determinants. Price adopted by firms must be able to cover all cost in the long run as well to leave a profit margin to reward management. Product price has direct relationship with many operations of the firm. Pricing decisions affect demand and in turn affects the revenue of the firm. Similarly, a firm makes profit has propensity of attracting more capital from public by enhancing their confidence on companies performance. So, management performance is usually measured by the amount of revenue generated to satisfy share holders of the organization. It is apparent that management has big responsibility before them in setting and adopting most appropriate pricing policy and profit planning for their firms, since price is not set arbitrarily therefore management must focus on all important factors before assessing the cost of product.

### Statement of the Problem

Well functioning financial system is significantly important for the growth of any company and economy. The system enables investors to focus more on profit maximization with limited resources. Manufacturing industries contributes highest GDP in Ethiopian economy. Among all the manufacturing industries textile industry plays an important role. These industries are available in all formats like small scale enterprises, private limited, Public limited, and share companies. So it is necessary to identify the exact financial performance of the company by analyzing their profitability trends and solvency position. Textile industry starts providing best inputs to the farmers in order to get best raw-material

to these industries. It gives assurance to the market that it provides best product. This enables company to ensure the best quality of output to the market. High cost of production is due to high cost of input factors. It should be minimized with the help of new methods. Each company is different and different cost structures will allow different degrees of implementing short term and long term strategies. Since small price changes have a substantial effect on profitability, it needs structured approach to understand how price and volume of a product affects profitability. On the other hand Competitive analysis is an important aspect to take into account before deciding what strategy is to implement. A thoughtful look at competition may show unexplored market or better segmentation. Businesses that manufacture products have several additional cost factors to consider compared with retailers and distributors. Kombolcha Textile Share Company is one of the leading textile manufacturer in Ethiopia focused on domestic and exports markets. The company is facing serious financial crisis for the last three decades due to fierce competition in export market, most of the products are exported at low price by other exporters, decreased profitability resulting from increased costs, high production cost reduction and profit optimization.

### **Objectives of the Study**

- (i) To assess various cost determinants that influence managerial decisions.
- (ii) To find the effect of cost decisions on firm's profitability.
- (iii) To identify the suitable steps in order to minimize the cost of production.

### **Significance of the study**

The study tries to show the controlling mechanism, to analyze the basic problems of cost management and manage for the betterment of the company. It helps to acknowledge the cost determinants used as an input to manage and to practice for real change. The study helps to increase profitability of the company. This research will help as an initial point for further studies on the similar issues.

### **Scope of the study**

It is very important if the study is broader to assess the cost determinants of textile companies that are available in Ethiopia. The study is to analyze the cost factors that affect the profitability of the organizations. The other factors that affect the performance of the organizations, like the monetary policy of the government are out of the scope. Since no single research can appropriately cover all areas of the topic. The researcher tends that thrust of this research is limited within the scope of cost determinants on KTSC main line products. They are influenced by the choice of their costing models and profit planning. It will focus primarily on Kombolcha textile Share Company in Ethiopia, Amhara region, Kombolcha. However, due to budget and time constraints this study is limited its scope to the assessment and effect of cost determinants on the produced products.

### **Limitations of the study**

The study is limited to the Kombolcha textile share company, Governmental entity in Ethiopia. This may not represent the true picture of the total textile companies throughout Ethiopia. Data collected for the study is limited to the only on the selected organization. The questionnaires are distributed only for the employees who are working in KTSC and customers don't participate in the study.

### **Literature Review**

The word profit and profitability are the most important things in every business. It is the difference between income and expenditure, ratio between incomes with investment. It is also observed the primary objective every business runs for. Finally every business works for profit maximization and wealth maximization of the shareholders. Aragon-Sanchez (2003) for training and development for employees involved huge amount of costs. If an employee and worker is provided training leads to reduction of cost of production by minimizing all the operational costs. It is observed that T&D are very much important. Asaolu and Nassar (2007) studied the changes in cost of production or no changes in cost of production due to the changes in the level of output. Level of activity is always increases leads to decrease in cost of production and vice-versa. Nimalathasan (2009) also said that profit is the first objective of every business that describes the success of the organization and long term survival. Pandey (2010) analyzed that profit is the difference between revenue and expenditure for a given time. Profit is a time bound activity and no scope for changes during the specified period of time. It is the primary responsibility of the management to check the efficiency of the company in terms of

profit. Ezeamama (2010) a part from explaining profits, he also explained the word profitability. It is a sign of measuring the efficiency of the organization. It is a benchmark to measure the efficiency of the company. Sometimes profitability cannot only used to measure the companies successes. Wiagustini, (2010) profitability is the company's capability to maximize its profits with the mount of investment made during a specified period of time. It can be measured from its own capital and also various funds invested to get profit. Becker-Blease (2010) as the size of the company can influence profit and profitability. It can be measured in different ways such as its assets, employees, operations, market share, products dealing with, capital investment and many more. Singapurwoko (2011) companies expecting high growth needs to invest huge amount of funds to support its activities. To meet these needs companies can finance both external source and internal source namely debt, equity, retained earnings. Firms leverage is one of the primary strategies that can influence the company's profitability. Harward and Upton, (2012) profitability is the firm's ability to earn profits. It shows how efficiently the management can earn profit by employing all its resources. Babalola (2013) besides the size of the firm plays an important role in its profit it also influenced by the firms relations with outside the world. Larger firms have greater influence on stakeholders. Kaguri (2013) pecking order refers to a hierarchy of financing starting from retained earnings, debt financing and external financing. This theory believe that high profit oriented companies use less debt than equity. It is identified that debt is the cheapest source of finance compared to other sources of finance. Al-Jafari and Alchami (2014) these people identified the factors influencing profitability of Syrian banks by using generalized method of moments (GMM) technique. They observed that liquidity ratio, credit risk, bank size and organizational efficiency affect greatly the profitability of Syrian banks. Pratheepan (2014) checked the factors influencing profitability of the firm's in 55 Sri Lankan manufacturing companies by adopting static panel models. It finds that size of the organization has a positive relationship with the profitability of the firm. Tangibility has an inverse relationship with profitability. Syafrida Hani (2014) current assets and current liabilities affects the firms liquidity, these includes cash in hand, cash at bank, stock, prepaid expenses, debtors and outstanding payment, creditors, short term loans. This expressed as cash turnover, operating cash flow, size of the company, growth rate, operating cash flow, dent equity ratio. Frederick N (2015) cost and profits are inversely proportional with each other. For instance if the exchange value has been devaluated that has an adverse affect of cost of imports. High labour charges will also have an excess cost of production. Technology improvement can only be influence the profit of the firm. Sugiono, Arief and Edi Untung (2016) leverage is the ratio that analyze the spending of money from debt and capital components as well ability of the company to pay its debts. Kartikasari and Merianti (2016) size of the companies is always determined by the sales, total assets, employees, capital employed and market capitalization. Big companies generally gather capital very easily from outside the market. Investors always prefer to invest in high return yielding companies. Brigham & Houston (2017) different theories will describe the future of companies like that signaling theory is one that describes company's action in estimating company's future prospects and support the companies to assess investors. This theory will provide information signals to investors about company's future. Positive signals will always be captured for prospective and negative signals will always be used for decision making. Sihombing (2018) identified that cost will also influenced by the firm's ability to meet its short term obligations and reflects on firm's short term financial strength and solvency. This ratio measures the firm's relation with current assets with current liabilities. Garrison (2018) cost of company needs different cost classifications and definitions of costs. So identify and assessing the need and importance of the cost makes the companies to minimize its cost by taking effective decisions. Ponduri SB (2019) in addition to geographic segmentation, the company market segmentation is based on the facility of infrastructures like water, electricity, telecommunication, cultures, values, religion and urban areas. St. George Brewery exploits all the 4Ps of marketing mix elements to achieve its target market. Ponduri SB, Puligilla Prashanth Kumar (2021) observed and recorded in the interview sessions every hospital management confirmed that there are social and philanthropic functions carried out by private hospitals viz., free medical service for poor people, blood donations activities to the Red Cross, helping HIV affected people by supporting money this will also helps them to minimize the cost in terms of payment of taxes. Ponduri SB, Puligilla Prashanth Kumar (2023) suggested that develop short and long-term strategic plans for cooperatives and strengthen monitoring and evaluation practices of their performances and continuing to improve the auditing system, including building the capacity of the auditor.

### **Research Methodology**

The study uses convenience method of sampling design. Research is mainly focused on the two data sources i.e., primary and secondary sources of data. Primary source was mainly collected from the target population of the organization by

using a questionnaire. The secondary data was collected from internal audit reports of finance department from 2011 to 2015 for five years. Statistical Packages for social Science (SPSS) is used for the data analysis purpose.

**Results and Discussion**

**Table 1: Demographic information**

|                   | Article                      | Quantity | Percentage |
|-------------------|------------------------------|----------|------------|
| Gender            | Male                         | 47       | 73.4       |
|                   | Female                       | 17       | 26.6       |
| Age               | 18-27                        | 33       | 51.6       |
|                   | 27-36                        | 12       | 18.8       |
|                   | 37-46                        | 6        | 9.4        |
|                   | 47 and above                 | 13       | 20.3       |
| Educational Level | Certificate and below        | 9        | 14.1       |
|                   | Diploma                      | 14       | 21.9       |
|                   | First Degree                 | 38       | 59.4       |
|                   | Second degree and Above      | 3        | 4.7        |
| Work experience   | Below two                    | 25       | 39.1       |
|                   | Between 2 and 5 inclusively  | 18       | 28.1       |
|                   | Between 5 and 10 inclusively | 7        | 10.9       |
|                   | Above 10 years               | 14       | 21.9       |
| Income level      | Below 2000 birr              | 4        | 6.25       |
|                   | Between 2001- 3000 birr      | 4        | 6.25       |
|                   | Between 3001- 4000 birr      | 13       | 20.3       |
|                   | More than 4000               | 43       | 67.2       |
| Marital Status    | Single                       | 33       | 51.6       |
|                   | Married                      | 24       | 37.5       |
|                   | Divorce                      | 7        | 10.9       |

From the above table 1, most of the respondents are male i.e. 73.4% and 26.6% female. The company has younger workers below 36 years are 70.4% and the company can use this resource well to be productive and profitable. Employees working below two years of experience are 39.1%, between two and five years 29.1% between five and ten years are 10.9%, more than ten years 21.9%. So the company should work to absorb professional not to leave the company. 87.5% of the respondents are paid more than 3000birr per month and remaining are in between 2000 and 3000, company has paying higher salaries to qualified workers, and there is a systematic way of pushing the worker to learn and upgrade themselves. With regard to marital status single 51.6%, married 37.5% and divorced 10.9%. Cash management is the stewardship or proper use of an entity’s cash resources. It serves as the means to keep an organization functioning by making the best use of cash or liquid resources of the organization. From table 2 company has good cash management system to pay its debts strongly disagree 6.3%, disagree 7.8%, neutral 37.5%, agree 37.5%, and strongly agree 10.9%. So the study shows the company should have the assignment to work on the awareness creation of the employees who are neutral to the respondents.

**Table 2: Company has good cash management system to pay its debt**

|       |                 | Frequency | Percent      | Valid Percent | Cumulative Percent |
|-------|-----------------|-----------|--------------|---------------|--------------------|
| Valid | Strong Disagree | 4         | 6.3          | 6.3           | 6.3                |
|       | Disagree        | 5         | 7.8          | 7.8           | 14.1               |
|       | Neutral         | 24        | 37.5         | 37.5          | 51.6               |
|       | Agree           | 24        | 37.5         | 37.5          | 89.1               |
|       | Strongly Agree  | 7         | 10.9         | 10.9          | 100.0              |
|       | <b>Total</b>    | <b>64</b> | <b>100.0</b> | <b>100.0</b>  |                    |

Company is paying its bills on time 48.4% agree and 10.9% strongly agrees, in a cumulative of 59.3% agrees on it.

**Table 3: The Company's customers pay their bills properly**

|       |                 | Frequency | Percent   | Valid Percent | Cumulative Percent |
|-------|-----------------|-----------|-----------|---------------|--------------------|
| Valid | Strong Disagree | 1         | 1.6       | 1.6           | 1.6                |
|       | Disagree        | 6         | 9.4       | 9.4           | 10.9               |
|       | Neutral         | 19        | 29.7      | 29.7          | 40.6               |
|       | Agree           | 31        | 48.4      | 48.4          | 89.1               |
|       | Strongly Agree  | 7         | 10.9      | 10.9          | 100.0              |
|       | <b>Total</b>    |           | <b>64</b> | <b>100.0</b>  | <b>100.0</b>       |

Strongly disagree 3.1%, Disagree 9.4%, neutral 40.6%, agree 32.8% and strongly agree 14.1% from the research study the result shows cost centers are more important to bring more profit than others to achieve this every employee creates awareness control the cost in manufacturing process. This helps the organization objective of cost minimization and profit maximization.

**Table 4: The cost of production exceeds the budget that is planned by the company**

|       |                 | Frequency | Percent   | Valid Percent | Cumulative Percent |
|-------|-----------------|-----------|-----------|---------------|--------------------|
| Valid | Strong Disagree | 5         | 7.8       | 7.8           | 7.8                |
|       | Disagree        | 7         | 10.9      | 10.9          | 18.7               |
|       | Neutral         | 19        | 29.7      | 29.7          | 48.4               |
|       | Agree           | 28        | 43.8      | 43.8          | 92.2               |
|       | Strongly Agree  | 5         | 7.8       | 7.8           | 100.0              |
|       | <b>Total</b>    |           | <b>64</b> | <b>100.0</b>  | <b>100.0</b>       |

Cost of production exceeds the budgeted cost of production. Strongly agree 7.8%, disagree 10.9%, neutral 29.7%, agree 43.8% and strongly agree 7.8%. Some of the reasons to increase actual cost the budgeted cost are long process flow, poor inputs, more scrap, rejection is high. These should be controlled by employing suitable system of manufacturing.

**Table 5: There is a relation between labor productivity and profitability of the company**

|       |                 | Frequency | Percent   | Valid Percent | Cumulative Percent |
|-------|-----------------|-----------|-----------|---------------|--------------------|
| Valid | Strong Disagree | 8         | 12.5      | 12.5          | 12.5               |
|       | Disagree        | 5         | 7.8       | 7.8           | 20.3               |
|       | Neutral         | 10        | 15.6      | 15.6          | 35.9               |
|       | Agree           | 24        | 37.5      | 37.5          | 73.4               |
|       | Strongly Agree  | 17        | 26.6      | 26.6          | 100.0              |
|       | <b>Total</b>    |           | <b>64</b> | <b>100.0</b>  | <b>100.0</b>       |

Profitability of the company is always depends on productivity of the labor. Respondents gave 37.5% agree, 26.6% strongly agree, 15.6% neutral, 7.8% disagree and 12.5% strongly disagree. So there is a positive relation between labor productivity and profitability means productivity has a direct impact on the profitability.

**Table 6: There is a relationship between raw material quality and profitability of the company**

|       |                 | Frequency | Percent   | Valid Percent | Cumulative Percent |
|-------|-----------------|-----------|-----------|---------------|--------------------|
| Valid | Strong Disagree | 10        | 15.6      | 15.6          | 15.6               |
|       | Disagree        | 13        | 20.3      | 20.3          | 35.9               |
|       | Neutral         | 10        | 15.6      | 15.6          | 51.5               |
|       | Agree           | 19        | 29.7      | 29.7          | 81.2               |
|       | Strongly Agree  | 12        | 18.8      | 18.8          | 100                |
|       | <b>Total</b>    |           | <b>64</b> | <b>100.0</b>  | <b>100.0</b>       |

Input factors have direct effect on the production and profitability of the company. 29.7% agreed, strongly agreed 18.8% in total 48.5% of the respondents supports there is a relationship between raw material quality and profitability. Few of the respondents have not agreed for the same. It is due to lack of knowledge and education. Customers are backbone for every business. The success and failure of any business depends on its satisfied customers. Responses from the sample represents that 18.8% strongly agree, 29.7% agree, 15.6% neutral and 20.3% disagree and 15.6% strongly disagree. Customers know that they are the strength to any organization for sustain in the future.

**Table 7: Customers are informed to expect as a reliable and economical source of their goods**

|       |                 | Frequency | Percent      | Valid Percent | Cumulative Percent |
|-------|-----------------|-----------|--------------|---------------|--------------------|
| Valid | Strong Disagree | 3         | 4.7          | 4.7           | 4.7                |
|       | Disagree        | 5         | 7.8          | 7.8           | 12.5               |
|       | Neutral         | 25        | 39.1         | 39.1          | 51.6               |
|       | Agree           | 23        | 35.9         | 35.9          | 87.5               |
|       | Strongly Agree  | 8         | 12.5         | 12.5          | 100.0              |
|       | <b>Total</b>    | <b>64</b> | <b>100.0</b> | <b>100.0</b>  |                    |

**Table 8: respondents reply for the following questions (%)**

| Questions  | SD  | D    | N    | A    | SA   |
|--|-----|------|------|------|------|
| Company has the ability to pay increased wages and other benefits                      | 7.8 | 23.4 | 28.1 | 26.6 | 14.1 |
| Company is financially able to provide long term employment for its work force.        | 4.7 | 7.8  | 28.1 | 42.2 | 17.2 |
| Company is financially able to provide long term loans to its work force               | 4.7 | 12.5 | 32.8 | 35.9 | 14.1 |
| Important to pay tax and follow other regulation, controlling activities               | 3.1 | 6.3  | 17.2 | 40.6 | 32.8 |
| Company can manage its capital for the development of the products in the organization | 0   | 1.6  | 25   | 54.7 | 18.8 |

Company has the capacity to meet the increased wages and benefit costs. 7.8% respondents strongly disagreed, 23.4% disagreed, 28.1% are neutral, 26.6% agreed and 14.1% strongly agreed. Company is financially able to provide long term employment for its work force and also boost the confidence levels of the workers to continue in the future. 4.7% respondents strongly disagreed, 7.8% disagreed, 28.1% are neutral, 42.2% agreed and 17.2% strongly agreed. 4.7% respondents strongly disagreed, 12.5% disagreed, 32.8% are neutral, 35.9% agreed and 14.1% strongly agreed for company's ability to provide long term loans to its workers to solve their problems for short term and the company should create awareness for those neutral to the regulation. Respondents state that it is important to pay tax and follow other regulation (control the activities of organizations) and helps to increase government income to take over social responsibilities of the country. 3.1% respondents strongly disagreed, 6.3% disagreed, 17.2% are neutral, 40.6% agreed and 32.8% strongly agreed. 0% respondents strongly disagreed, 1.6% disagreed, 25% are neutral, 54.7% agreed and 18.8% strongly agreed for company has to manage its capital for the development of the products in the organization.

**Table 9: Results of respondents reply to the following questions (%)**

| Questions   | SD  | D    | N    | A    | SA   |
|---|-----|------|------|------|------|
| Improved job design, training, employee's participation, teamwork and commitment.             | 6.3 | 12.5 | 21.9 | 40.6 | 18.7 |
| Reducing cost by eliminating unnecessary activities   | 4.7 | 9.4  | 29.7 | 40.6 | 15.6 |
| Marketing department is always doing more promising task to produce the planned type articles | 7.8 | 14.1 | 35.9 | 29.7 | 12.5 |
| Company employees are attending their work as per the plan                                    | 7.8 | 7.8  | 23.4 | 40.6 | 20.4 |
| Products produced meet the expected quality.  | 3.1 | 9.4  | 29.7 | 46.9 | 10.9 |
| Manufacturing process is done without ideal time on whole day.                                | 4.7 | 18.8 | 28.1 | 40.6 | 7.8  |

|  |     |      |      |      |      |
|--|-----|------|------|------|------|
| Customer needs are more places in the employees and I am working for it. | 1.6 | 9.4  | 23.4 | 45.3 | 20.3 |
| Product delivery time is met by the company without dalliance            | 3.1 | 14.1 | 26.5 | 39.1 | 17.2 |
| Know that Costing systems implemented make the company to be profitable. | 3.1 | 10.9 | 26.6 | 43.8 | 15.6 |
| Company financial system is managed in more systematical manner.         | 7.8 | 9.4  | 34.3 | 42.2 | 6.3  |

Improved job design, training, employee's participation, teamwork and commitment are very much essential for cost minimization and profit maximization. Respondents said strongly disagree 6.3%, disagree 12.5%, neutral 21.9%, agree 40.6%, and strongly agree 18.8%. Majority of the employees supported that there is improved job design, training, employee's participation, teamwork and commitment. Organization always focuses on unnecessary activities that lead to high cost and trying to eliminate those activities. Strongly disagree 4.7%, disagree 9.4%, neutral 29.7%, agree 40.6%, strongly agree 15.6%. So working on those activities shall bring more decrement on the cost of production. Marketing department is the revenue generating department for any kind of organization. Marketing department is always stucked to produce planned type of articles, strongly disagree 7.8%, disagree 14.1%, neutral 35.9% agree 29.5%, strongly agree 12.5%. Company employees are attending their work as per the plan, the respondents know that the employees are attending more time on their work and some more method of initiating system shall implement. Respondents replied for the same as strongly disagreed 7.8%, disagreed 7.8%, neutral 23.4%, 40.6% agreed and 20.3% strongly agreed. The respondent's support all the products produced to meets the expected quality. This question has small negative support but should be more than the customer expectation. Respondents replied for the same as strongly disagreed 3.1%, disagreed 9.4%, neutral 29.7%, 46.9% agreed and 10.9% strongly agreed. Respondents support the manufacturing process is done without ideal time for the whole day. Responses shows 4.7% strongly disagreed, disagreed 18.8%, neutral 28.1%, agreed 40.6% and strongly agreed 7.8%. It means that there is still some ideal time or there is no cost reduction, then the company shall take the responsibility to correct. The respondents support that they are aware of customer needs and have more place in the employees to fulfill it. Replies from respondents are strongly disagreed 1.6%, disagreed 9.4%, neutral 23.4%, agreed 45.3%, and strongly agreed 4.7%. Respondents support the product delivery time is met by the company without dalliance, better to work on the delivery to be more accurate. Respondent's from the primary data shows that strongly disagreed 3.1%, disagreed 14.1%, neutral 26.6%, agreed 39.1%, and strongly agreed 17.2%. Respondents support I know that Costing systems implemented make the company to be profitable, here the company ABC costing system implemented is more suitable for the data shown as strongly disagreed 3.1%, disagreed 10.9%, neutral 26.6%, agreed 43.8%, and strongly agreed 15.6%. The respondent's support the company financial system is managed in more systematical manner. Employees see the financial report on time and its systems. Strongly disagreed 7.8%, disagreed 9.4%, neutral 34.4%, agreed 42.2%, and strongly agreed 6.3%.

**Table 10: SPSS result of respondents (%)**

| Questions   | SD  | D    | N    | A    | SA   |
|---|-----|------|------|------|------|
| Cost of raw material occupies majority production cost            | 3.1 | 9.4  | 31.3 | 46.8 | 9.4  |
| Cotton raw material prices are fluctuating                        | 3.1 | 3.1  | 23.4 | 51.6 | 18.8 |
| Material price changes have adverse affect on cost of production. | 0   | 10.9 | 26.6 | 39.1 | 23.4 |
| Company forced to buy raw materials at a high market price        | 1.6 | 14.1 | 26.6 | 35.9 | 21.8 |
| Company flows rate contract to buy all its required inputs        | 7.8 | 4.7  | 29.7 | 39.1 | 18.7 |

In any business raw material cost has more than 50% cost and it is same with this company. Strongly disagreed 3.1%, disagreed 9.4%, neutral 31.3%, agreed 46.9%, and strongly agreed 9.4%. Prices of raw materials are fluctuating in different time periods. Strongly disagreed 3.1%, disagreed 3.1%, neutral 23.4%, agreed 51.6%, and strongly agreed 18.8%. Increasing cost of input factors has an adverse effect on cost of production. Strongly disagreed 0%, disagreed 10.9%, neutral 26.6%, agreed 39.1%, and strongly agreed 23.4%. Sometimes due to high demand for materials, company forced to buy materials at higher prices. Strongly disagreed 1.6%, disagreed 14.1%, neutral 26.6%, agreed 35.9%, and

strongly agreed 21.9%. In order to avoid fluctuation in cost of materials, non-availability of materials company going for rate contract with all its suppliers. Strongly disagreed 7.8%, disagreed 4.7%, neutral 29.7%, agreed 39.1%, and strongly agreed 18.8%. It shows that company is adopting all measures to minimize the cost of production.

**Table 11: SPSS result of respondents from Question 29 to 32 (%)**

| Questions   | SD   | D   | N    | A    | SA   |
|---|------|-----|------|------|------|
| Company procures consumables, spares on its requirements    | 4.7  | 6.3 | 18.7 | 50.0 | 20.3 |
| For some of the spares monopoly market situation exists.    | 10.9 | 7.8 | 25   | 42.2 | 14.1 |
| Company uses low cost should be procured with high quantity | 4.7  | 9.4 | 31.3 | 40.5 | 14.1 |
| More output can only minimize the cost of production        | 1.6  | 9.4 | 34.4 | 37.4 | 17.2 |

Spares and other input materials are procured by the company on the basis of requirements. Very less stock is available in stores to make use of cash in an effective manner. Strongly disagreed 4.7%, disagreed 6.3%, neutral 18.8%, agreed 50.0%, and strongly agreed 20.3%. For some of rare spares market acts as monopoly. In such cases company should negotiate with its suppliers to reduce cost or delivery of the goods with desired quality and quantity to the door steps of the company. Strongly disagreed 10.9%, disagreed 7.8%, neutral 25%, agreed 42.2%, and strongly agreed 14.1%. Depending upon the use and cost of the material company should adopt different techniques of material procurements like ABC analysis, JIT techniques, VED analysis. Strongly disagreed 4.7%, disagreed 9.4%, neutral 31.3%, agreed 40.6%, and strongly agreed 14.1%. Company should adopt cost reduction methods, by identifying different cost centers, methods of allocating and apportioning fixed overheads to various cost centers, reapportioning fixed overheads from service centers to production centers so that the costs can then be absorbed. It should also adopt techniques like Activity-Based Costing (ABC). Response shows that strongly disagreed 1.6%, disagreed 9.4%, neutral 34.4%, agreed 37.5%, and strongly agreed 17.2%.

**Table 12: SPSS result of respondents (%)**

| Questions  | SD   | D    | N    | A    | SA   |
|--|------|------|------|------|------|
| Cost of employee increase its overall cost of production.    | 15.6 | 18.8 | 20.3 | 32.8 | 12.5 |
| Wage & salaries are proportionate to their department profit | 6.3  | 26.6 | 15.6 | 43.7 | 7.8  |
| Employees responsible for cost minimization & profit max.    | 3.1  | 7.8  | 15.6 | 48.5 | 25.0 |
| Relationship between overheads and profitability             | 6.3  | 14.1 | 14.1 | 43.6 | 21.9 |

An increment in employee costs has an adverse affect on cost of production. There are two employee cost like direct and indirect costs. Indirect costs should be given much emphasis to minimize. Strongly disagreed 15.6%, disagreed 18.8%, neutral 20.3%, agreed 32.8%, and strongly agreed 12.5%. Company should declare an open policy that salaries and wages of employees and workers are based on the profit of the individual department but not on the overall profit of the organization. Strongly disagreed 6.3%, disagreed 26.6%, neutral 15.6%, agreed 43.8%, and strongly agreed 7.8%. For example if a department is performing well the employee's of the department should be given an increment and others should kept as it is. This creates an internal competition among the employees and workers. But before implementing such polices the company should create awareness among the employees and workers of the organization. Responses shows that strongly disagreed 3.1%, disagreed 7.8%, neutral 15.6%, agreed 48.4%, and strongly agreed 25%. It is observed from companies financial statements there is high indirect costs than direct costs. Direct costs are mandatory but indirect costs are only supporting the direct costs. But the company is paying for indirect costs than direct costs. There is a need for improving textile production to reduce the cost of each unit. As per the cost output relationship the cost of each product is minimized if the production is high. So one way of minimizing the cost of production is company should focus on more output. Responses shows that strongly disagreed 6.3%, disagreed 14.1%, neutral 14.1%, agreed 43.8%, and strongly agreed 21.9%.



### **Secondary data**

For preparation of financial statement company is applying Generally Accepted Accounting Principles (GAAP) & accrual basis accounting system. From Kombolcha textile share company financial reports from 2017 to 2022 it uses periodic inventory system that helps to control inventories. The data shows that inventory has its own cost like entertainment cost during counting the whole companies inventory (labor cost) plus the production employees and all the manufacturing machineries which is ideal during counting. And on the other hand,

### **Formula used to expresses inventory**

Cost of goods sold = Cost of production + opening inventory - closing inventory

To compare some points the study tries to show by taking the sales constant, if the beginning inventory is more than the ending inventory is more, the manufacturing cost increases or the ending inventory is small, the cost of goods becomes boost then gross profit goes down i.e. Gross profit = Sales - COGS

Taking opening inventory and sales

Closing inventory increases, manufacturing cost decreases and the cost of goods also decreases then the gross profit becomes increased

About receivables/Debtors

It means finished goods sold without getting cash by expecting the future.

The advantages: cost of inventory decreases, stock of finished goods also decreases and this helps to strengthen work in progress and then leads to recognize revenue.

Administrative cost is more than cost of production.

In the year 2022, the company has net profit after taxation by 9,466,789, this is because the company was getting material at low cost, and replacement of old machines with new machines and the productivity of the company boost.

### **Summary**

The study finds that, the cost determinants have the biggest impact on the profitability of the organization. The management should create awareness among the employees and workers about cost minimization techniques. They should also focus on optimum utilization of resource available with the firm. Most of the respondents have given their answer on the positive relationships between cost and profitability, the study shows most of the losses are registered on the prime cost. In addition to this, a proper cost accounting system assists management in the planning and control of the business operations as well as in analyzing product profitability. There are several other advantages of a well defined costing system in an organization like generating information for decision making, supplying information to the management for internal control, detailed analysis of costs like fixed costs, variable costs, controllable costs, labor costs, material costs, overheads etc.

### **Conclusion**

The objective of the study is to determine whether cost determinants have an effect on the profitability of the organizations or not. Based on the analysis of the study, surveys of 64 questionnaires were distributed to the selected employees of Kombolcha textile Share Company to evaluate the cost determinants with relation to profitability. So the study conclude that the company basically should work on the raw material, labor and overheads costs in terms of quality and quantity because it is one of the important elements of cost and it has been observed that in the total cost structure of a product, especially raw material cost covers about 65 to 75% of the total input cost. The substantial proportion of raw material cost in the total cost demands more and more attention to the management towards gaining more profit and to make the company profitable. On the other hand Ethiopia is working to become World trade organization in 2025, many international companies from China and India are coming to Ethiopia and starting its own production units. The tax protection will not occur just like now to be competitive in the world market, so exercising good cost controlling system is expected from every company. From the various types of indirect costs of the company incurred in administrative expenses, Sales and Distribution expenses, Carriage outwards, advertising, indirect labor costs, commissions, rents, interests, discounts and many others. The company should focus on to minimize the indirect costs. It should always be less than direct costs. There is a need for Improving Textile Production so as to reduce the cost of production for each unit. As per the cost output relationship the cost of each product is minimized if the production is high. So one way of minimizing the cost of production is company should focus on more output.

### **Recommendations**

Based on the findings of the study, the following suggestions are forwarded. Moreover, the suggestions are generally based on the primary data (Questionnaires & interviews), secondary data (company's financial reports) and the review of literature.

The company should note that a significant number of respondents have positive or supportive answers for most of the questions, by having this opportunity, company should work on the deficit of its gaps. Since company followed on the export lead strategy and the government attention is given fully on the textile sectors, the company shall find long term solution to win this challenging international market. The government should also give subsidies to the exporter companies since the export market price is more sensitive and very cheap compared to the manufacturing cost to win more competition to create strength and exercise for the future. Since most the attention is given to the manufacturing process, The Company should focus on to minimize the indirect costs.

### **Scope for further research**

The study explored the cost determinants and profitability on Kombolcha Textile Share Company, the study recommends that similar study should be done on another textile companies for comparison purpose and to allow for a good generalization of findings.

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