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THE IMPACT OF STANDARD COSTING ON THE PROFITABILITY OF LISTED CONSUMER GOODS FIRMS IN NIGERIA

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ABSTRACT
This study aimed to determine to what extent standard costing improves the profitability of consumer goods companies in Nigeria. This was achieved by investigating and analysing the relationship between the cost of raw materials, the cost of labour, and the cost of manufacturing overhead on the profit after tax of listed consumer goods firms in Nigeria. Data availability has led to the selection of fifteen (15) consumer goods companies retrieved from the financial statements of these firms. Secondary data have been collected over a ten (10) years period, from 2012 to 2021. Panel estimation methods (pooled OLS, fixed effect estimation, and random effect) and a post estimation test were used to examine the compiled data. The results showed that profitability of firms in the consumer goods industry in Nigeria was significantly correlated with its manufacturing overhead costs, but negatively correlated with its raw material costs and labour cost. The research indicated that cautious consideration of raw material costs and the maintenance of effective standard costing across all labour costs were essential to attain the desired results
KEYWORDS: *Standard cost, raw material cost, labour cost, manufacturing overhead, Profit after tax, consumer goods firms in Nigeria.*

1. INTRODUCTION

Standard costing is a significant part of cost accounting. The costs of direct materials, direct labour and production overheads are usually associated with this. Many manufacturers assign an expected or standard cost rather than assigning the actual costs of material, direct labour and production overheads to a product. According to Adeniji (2009), standard costs are an essential part of management accounting control procedures which include budgeting systems and responsibility accounts. The standard costing technique can, according to him, be viewed from the point of view of marginal costs or absorption cost techniques.

Manufacturers, of course, must also bear the cost themselves. As a result, the costs are generally significantly different from one standard to another and those differences are referred to as variance. The relevant data are compared with the standards when a real performance occurs; where there is a difference in actual and standards, an analysis will be made to determine the reasons for it. Such variance, maybe 'favourable' or 'Adverse' for the organization (Abdullah & Mansour, 2015).

For the purpose of control, standard cost and related deviations are an important management tool. Where there is a deviation, management are aware of the differences in production costs as compared with planned and expected costs that warrant careful attention. This standard covers standard costing and resulting variance analysis mechanisms as applied in firms.

According to Pandey 2010, Profit is the difference in revenues and expenditures over a period of time, generally one year at most. It is the total output of a company and if it does not achieve an appropriate level of profitability, its future will be lost. The effectiveness of a company in terms of profit therefore should be constantly assessed by the financial manager. The earnings, income and margin are those terms which have the same meaning.

Profitability is therefore, having the ability to make profit from any business activity of an enterprise, organisation or undertaking. This shows how managers can effectively make use of all available resources on the market to make profit.

Just a satisfactory balance between values that are acquired and those derived is revealed by the Net Profit figure. In addition to a change in operational efficiency, there are many other factors affecting the profitability of an enterprise that can be explained by its degree of competition which it encounters, market rivalry, demand strength, state of demand, advertising campaigns and substitutes; how efficient is the costing methods of the company.

The consumer goods industry constitutes one of the biggest subdivisions in the world. Consumer goods are mostly low priced products that do not have a long life, and they are bought often by consumers. For retailers, who are trying to compensate by selling large volumes, the profit margins on these products tend to be small. In the world, there are several well-known consumer goods companies such as Unilever, The coca-cola company, and Johnson & Johnson. A wide range of products are available in the consumer goods industry, which includes a number of major categories such as food, beverages, health and home care products. Consumer goods products tend to be similar in terms of price, and for this reason there may be fierce pricing competition among retailers within the categories. To increase their profitability, companies use various marketing and business methods in order to obtain loyalty for the products enabling them to set higher prices.

The consumer goods industry is seen as one of the fastest growing sectors in the country with its key drivers as large market size, youthful population and urbanization. The literature on the performance of companies is incomplete and the debate on this issue is ongoing (Mirza and Javed, 2013). In the case of emerging economies, such as Nigeria, for example, this gap is more pronounced because a large part of their research relies on data from developed countries (Duraj and Moci 2015), among others. The purpose of this study will be to empirically investigate the impact of standard costing on the profitability of consumer goods firms in Nigeria.

Nigeria's consumer goods sector has considerable scope to expand. The level of poverty continues to rise, with the cost of food and essential goods accounting for a substantial part of consumers' budgets. Therefore, the consumer goods food sector has a very large market for its own use and there is great potential to expand penetration rates in other categories.

As a result of the inadequacies of the traditional cost-systems presently in used in the consumer goods firms in Nigeria, in which total costs on the final product are carried through methods that neglect innovation, manufacturing companies and the consumer goods market go through difficult challenges if they are to attain profitability, maintain the continuity, and the level of high-quality production. Hence, this study examines the impact of standard costing on the profitability of consumer goods firms in Nigeria.

2. LITERATURE REVIEW

A subject that has received a great deal of attention, comments and concerns from both financial experts, academics, the general public as well as business entities' and governing bodies is standard costing as it relates with profitability of firms. Yet it still proved difficult for a lot of companies to select the best performers, given that they can have an enormous level of profitability but also find themselves struggling with problems in coping with shortcomings which arise from the common costing system adopted by most firms

Conceptual Issues

According to Nweze (2010), Standard costs are defined as a system of accounts which, in the case of each type of product or service provided, uses predetermined expenses related to cost design, materials and overhead. The system of standard costing consequently represents an essential phase of management accounting control method which will also include budgeting structure and responsibility accounting report.

Standard cost, as defined by the Institute of Chartered Accountants in its official terminology, refers to a predetermined calculation on how much costs should be incurred under specific operational environments. It is built up from an assessment of the price of cost aspect and interrelates technical specifications and the quantification of materials, labour and other costs to price and/or wages projected to be in practice in the course of the period which the standard cost is anticipated to be used.

Adeniji (2009) states that standard costing characterizes an essential part of management accounting control techniques which additionally consist of budgeting structure and responsibility accounting report. Standard costing technique according to him, may additionally be either seen from the point of view of marginal costing approach or absorption costing technique. The variance shall be determined for the total applicable value of product, including fixed overhead costs, by linking a standard cost method with a marginal cost method. However, the variance evaluation is to be carried out based on overall product cost in an organization if it is seen with regard to absorption costs.

According to Pandey (2010) profit is defined as the difference arising from revenues and expenses of a business over a length of time, (usually within one accounting year). Profit is the major output of a company and such company will have no future if it fails to make enough profit. Hence, the financial officer has to always evaluate the efficiency of the agency in terms of profit. Terms with comparable meanings includes earnings, income and margin. A corporation must earn earnings to survive and develop over a lengthy period of time. Profits are essential, notwithstanding it will be inappropriate to assume that each motion initiated by the management of an agency have to be targeted towards profit maximizing, notwithstanding the difficulty experienced by business clients, company's personnel, sellers or public concerns. Unluckily the word 'profit' is regarded as a term of misuse when you consider that some firms usually desire to maximize earnings at the expense of company's staff, business clients and the general public. With the exception of such uncommon circumstances, it is a reality that enough income ought to be earned to maintain the operations of the enterprise to be able to gain money from the investors for expansion and boom and to make a contribution in the direction of the social expenditures for the well-being of the general public.

Ezeamama (2010) consents that earnings is the difference between revenues and fees over a length of time. Consequently, profitability is being able to make gains from all commercial enterprise and activities of the company, organization, or an enterprise. It suggests how successfully the management can make profit by using all the funds accessible in the market. Nevertheless, the term 'profitability' is a key aspect of efficiency and is viewed as a measure of efficiency and guide of administration to better efficiency. Nonetheless, profitability is a necessary yardstick for measuring the efficiency of an organization, the extent of profitability can't be seen as the last proof for efficiency. Occasionally, acceptable profits can mark inefficiency and on the other hand, an applicable level of efficiency can be accompanied with the aid of a non-availability of profit. The value of net profit genuinely displays a high-quality balance between the values obtained and values given. The change in operational efficiency is merely one of the elements on which the profitability of an agency generally depends; moreover, there are many different elements without efficiency which influences profitability ranging from the level of opposition that a company faces, market competition, the strength of demand , the nature of the demand, the marketing campaign, substitutes, Costing strategies to the efficiency of the company

Empirical Evidence

An investigation was carried out by Ayodele and Alabi (2014), to establish the impact of cost control techniques on building project completions for both government and privately owned developers, taking account of quality, time and costs. The study conducted interviews for selected Architects, Quantity Surveyors, Builders, Contractors and Civil Engineers. Observations also came to light at the construction sites of public and individual developers. The study has been carried out in southwestern Nigeria, and the data collected is being analysed on a percentage basis. The results of these interviews and observations showed that the public procurement contracts were used for a Bill of Quantities as well as other cost control methods, while no private developer was using any such techniques. The results also show that government site projects have very good quality, while private developer sites are of low quality. The government site had completed about 2.25% and 6.74% of its projects respectively within record time, while no record of agreed time had been met on the part of private developers.

Abdullah, Oni, Ahmeb, and Shakur (2015) look at the effects of Standard Costing techniques on MTN Company's profitability in order to determine if their use had any impact on its profitability. The following findings have been obtained indicating that accounting records are maintained and very important for company management. The standard cost information obtained in the company was used by the company for the purposes of selecting its products and making decisions. That financial statements are prepared and presented to the management of the company and that prompt actions are taken on the information given in the report. This effective use of standard costs is having an effect on the company's profitability. That the company has had significant benefit through the use of standard costing particularly in ensuring improved profit.

Raghavan (2019) carried out a divergent analysis on two cost management strategies. There are standard costs and activity-based costs. In other to calculate product cost, the study adopted the lean principles by reinventing a manufacturing environment, taking into consideration things like overhead costs and throughput. It was observed from the result that all other expenditures had an effect on the final price, however, the analysis found that overhead was the most affected. A total and complete allocation was managed and adjusted by the lean main implementation. According to the results of this study, a part of the total expenses may be credited to the time it takes to complete the process cycle. Consequently, the primary goal of a lean implementation is to cut down on the system's cycle time, thereby lowering its overall cost. Increased inventory turns, Just-in-time delivery and the successful implementation of kaizen procedures are all key to the lean philosophy, which aims to maximize production while at the same time reducing waste and cycle time.

According to Iliemena (2019), scholars researched on how adopting standard costing practices affected the bottom lines of a sample of manufacturing firms in the Nigerian state of Edo. This resulted from an analysis of standard costing's role in lowering costs, limiting waste, and increasing profits. After reviewing the relevant literature, three hypotheses were established and tested. Companies in certain Benin City industries were chosen to participate in the research. Primary sources were used to gather data for this investigation. According to the results, standard costing has a strong useful impact on cost savings. Further research showed that adopting conventional costing techniques helped in increasing profits.

The use of conventional costing methods and supply chain management by hotels to determine their performance led to the research carried out by Ekergil & Göde's (2020). It takes four years of data for a five-star hotel to reach this level of excellence. The study first calculated and then updated over-all energy usage and cost of energy, as well as fixed and changing expenses, for the hotel's four-year data, which indicates the active period of the hotel. This data collection includes customer and room information that may be used to calculate nightly performance. The second section of the report focuses on the amount of power used, the overall cost of using electricity, and the breakdown of that cost into variable and fixed components. Room-by-room and customer-by-customer analysis of performance is possible. Since this is the case, we may examine how the hotel as a whole is affected by the performance evaluations of its many departments.

Standard cost's effect on production costs in Nigerian factories was investigated by Ologbenla (2021). The study is based on responses gotten from 147 people at 26 different manufacturing companies. Analysis of the replies of the respondents to different questions about the value significance of standard costing especially in cost management in their respective originations is performed using both inferential and descriptive statistical methods. Firstly, the findings reveal that, contrary to popular belief, traditional cost approaches are still widely used by the majority of the manufacturing enterprises in the sample used by the study for the purpose of cost management. Additionally, the research showed that the standard cost method was so successful at cutting down on raw material and administrative expenses that these manufacturing companies decided to stick with it.

Theoretical Underpinned

This research presents the spine of the Kaizen pricing Theory. Yashuhiro Monden developed Kaizen Costing Theory in 2001 to serve as a monetary analogue to the unique Kaizen method (Industrial and Financial Systems, 2001). The process of consistent refinement is what this phrase refers to. Kaizen Costing is based on the precept of chronic improvement by using small, manageable changes made over time. According to Modarress, Ansari and Lockwood 2005, Kaizen Costing ensures products are competitive through meeting or going beyond customers hopes for quality, functionality, and price. To achieve this objective, it may additionally be indispensable to systematically get rid of all procedures from manufacturing that grant no cost to the product (Rof, 2012).

Given the scant nature of the existing literature, it is the purpose of this research to examine the impact of standard costing and profitability among Nigerian consumer goods firms. This research differs from others since it covers a longer time period (from 2012 to 2021) and uses different metrics to assess financial success (profit after taxes) than are often used in similar studies.

3. METHODOLOGY

The study's population consist of all the twenty-seven (27) consumer goods firms registered on the stock exchange market of Nigeria as at 31st December, 2020. The study made use of a sample of fifteen (15) registered consumer

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goods firms that was selected from the total of twenty-seven (27) firms after applying the filter sampling criteria. The criteria which was derived by using a purposive sampling technique to filter out consumer goods firms that do not satisfy the following inclusion criteria for selection

(a) Availability of audited annual reports throughout the sample period.
(b) Retaining of name without change throughout the study period. This is because same data cannot be used for two different names within the same study period.

Consequently, twelve (12) firms which do not fall into these criteria are expected to be eliminated leaving a total of fifteen (15) firms. The remaining 15 firms that met the criteria would be used as the sample size of the study. The source of data for this study was basically secondary sources. This is due to the fact that the research approach to be adopted for this study is quantitative in nature. The main sources of secondary data for this study comprised of the statement of comprehensive income as well as the statements of financial position of companies in the consumer goods sector in Nigeria which will be extracted from the annual reports of their relevant financial years.

The study made use of Panel data analysis as the fitting statistical instrument and approach based on Godwin, Amos, and Sunday (2019). Panel data regression was used to examine the influence of independent variables on the dependent variable in this investigation. The model is as follows:

$$PAT = f(CRM, LCO, MOC) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

$$PAT_{it} = \alpha_i + \beta_1 CRM_{it} + \beta_2 LCO_{it} + \beta_3 MOC_{it} + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Where,

PAT = Profit after tax (measure of profitability)
α_i = Intercept, a sample-wide constant
CRM_{it} = Cost of raw material of firm *i* at time *t*
LCO_{it} = Labour cost of firm *i* at time *t*
MOC_{it} = Manufacturing overhead cost of firm *i* at time *t*
ε_{it} = Error Term where *i* is cross sectional and *t* is time identifier
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Coefficients for the respective independent variables

4. RESULTS AND DISCUSSIONS

To assess how standard costing affect the profitability of consumer goods firms in Nigeria, this section begins with descriptive statistics; this is followed by the correlation matrix and discussion of the various robustness tests conducted in order to improve the validity of the results. The outcomes of these tests are reported as;

Table 4.1 Summary of descriptive statistics

	Min	Max	Mean	Std. Dev	Obs
PAT	8.09	11.8	10.39687	0.9031363	150
CRM	6.97	15.97	10.82687	2.183269	150
LCO	5.02	8.36	6.233867	0.7706197	150
MOC	4.84	8.55	7.154467	0.905922	150

Source: Stata Output (2022)

The table 4.1 shows the detail account of the descriptive statistics for the depended and independent variables respectively.

The mean values of all the variables as shown in the table ranges from minimum of 4.84 for manufacturing overhead cost to a maximum of 11.8 for profit after tax. The standard deviation also stood at a minimum of 0.7706197 for labour cost and a maximum of 2.183269 for cost of raw materials. The average profitability as proxied by PAT for listed consumer goods firms during the study period is about 10.39687 with standard deviation of 0.9031363. This implies that there exists a high significant variation among the values of profitability across the registered consumer goods companies in Nigeria during the period. In respect of cost of raw materials of the firm, its average value shows 10.82687 with a standard deviation of 2.183269. This implies that there is high variation among the values of cost of raw materials due to its standard deviation.

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The mean value of labour cost is 6.233867 with a standard deviation of 0.7706197. This shows that there is high variation across the sample of listed consumer goods firms in Nigeria. Hence, the moderately deviated labour cost may significantly impact on the profitability of registered consumer goods firms in Nigeria as this will be reflected in our regression result. The average value of firm manufacturing overhead cost has become 7.154467 with a standard deviation of 0.905922. Therefore, there exists a high variation among the value of manufacturing overhead cost across the sample consumer goods firms included in this study.

Table 4.2 Correlation matrix table

	PAT	CRM	LCO	MOC
PAT	1.0000			
CRM	-0.0778	1.0000		
LCO	0.0007	0.0513	1.0000	
MOC	0.9947	-0.0759	-0.0081	0.1000

Source: Stata Output (2022)

The significance level of this result is indicated in the table. The coefficient of correlations between cost of raw materials and profitability of listed consumer goods firms is -0.00778. This implies that cost of raw materials is negatively related to profitability up to the tune of 7.78%. The result therefore revealed that cost of raw materials used by the firms during the period under study does not any positive effect on their profitability.
The analysis of labour cost revealed that its relationship with profitability is positive but insignificant at 0.0007, which explains about 0.07% of their correlation. This result is an indication that firms with high labour cost will report a slight impact PAT.
Analysis of firm manufacturing overhead cost shows that the variable is positively correlated with profitability of listed consumer goods firms in Nigeria to the tune of 99.47%. This implies that manufacturing overhead cost has a high impact on the profitability of firms of listed consumer goods in Nigeria.

Table 4.3 Pooled Least Square (PLS), Fixed Effect (FE) and Random Effect (RE) Specification

	Dependent Variables PAT		
Independent Variable	**Pooled OLS**	**Fixed Effect**	**Random Effect**
Constant	0.000 (3.250486)	0.000 (3.336231)	0.000 (3.25342)
CRM	0.744 (-0.0011514)	0.660 (-0.016518)	0.736 (-0.0011875)
LCO	0.295 (0.0104435)	0.431 (0.0088591)	0.305 (0.0102856)
MOC	0.000 (0.09915125)	0.000 (0.9816655)	0.000 (0.9912946)
No of observations	150	150	150
R-squared	0.9895	0.9345	0.9345
Adjusted R^2	0.9893	0.9845	0.9895
F-statistics	4600.68	628.23	12268.79
Prob (F-statistics)	0.0000	0.0000	0.0000

Source: Stata Output (2002)
The pooled OLS result revealed that there is significant and positive impact of manufacturing overhead cost on profit after tax. While on the other hand, a negative impact can be inferred from the interactions between both independent variables (cost of raw material and labour cost) and profit after tax. This implies that manufacturing overhead cost significantly impacts on profit after tax at 1% significance level.

The R-squared value of 0.9895 which is a coefficient of determination reveals that profitability predictors have a collective impact of 98.95% on profitability, while the f-stat value of 4600.68 reveals that the model used to

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measure profitability is properly fit for analysis and well combined as revealed by the p-value of 0.0000 which is statistically significant at 1% significance level. The adjusted R-squared value revealed that on adjustment, there is still a traceable collective effect of 98.93%.

Table 4.3 also shows the results of fixed effects model. Here, manufacturing overhead cost is significant at 1% significance level, while cost of raw material and labour cost are not significant. The R^2 and Adjusted R^2 are 93.45% and 98.45% respectively. R^2 means that independent variables explain about 93.45% variations in the profitability in this panel from year to year. While Adjusted R^2 shows that independent variables explain 98.45% variations in the whole panel.

A result of random effect model is provided in table 4.3. Variables such as cost of raw materials and labour cost are insignificant in this model while manufacturing overhead cost is significant at 1% level of significance. The R^2 of this model is 93.45%, while the Adjusted R^2 of the panel is 98.95%. R^2 of both fixed and random effects model are the same. However, Adjusted R^2 of random effects model is slightly greater than that of the fixed effects model.

The results of both the fixed and random effect models are significant at 1% level of significance. As a result, it is hard to choose which model is appropriate. To handle this problem, the study conducted Hausman's specification test in order to decide the appropriate one from the two possible options. The result of this test is provided in the Table 4.4

Table 4.4 Hausman specification test

Variables	**(b) Fixed**	**(B) Random**	**(b-B) Difference**
CRM	-0.0016518	-0.0011875	-0.0004643
LCO	0.0088591	0.0102856	-0.0014265
MOC	0.9816655	0.9912946	-0.0096291
Chi2	0.28		
Prob chi2	0.9636		

Source: Stata Output (2002)

The outcome of Table 4.4 above suggests that the most appropriate model is Random Effect model. The result obtained from the Hausman specification test conducted indicates, that ($p > 0.05$) which is (0.9636) and as such the random effect model should be used in favour of the fixed effect model. Therefore, Hausman specification test proved that random effects model is the more appropriate for this study.

Table 4.5 Lagrangian Multipler Test for Random Effect

	Var	**sd=sqrt(var)**
E	0.8156552	0.9031363
U	0.0087661	0.0936276
Chi2	0.10	
Prob chi2	0.3753	

Source: Stata Output (2002)

The result in Table 4.5 which shows the Lagrangian Multipier test for random effect indicates that random effect model is not significant. This is because the prob Chi2 of 0.3753 is greater than 0.05. Therefore the test concludes that random effect model is not the optimal model to be employed in this study, for this reason, the Panel Correction Standard Errors (PCSEs) will be adopted as the most appropriate model for the study. The table below shows the result of the Panel Correction Standard Errors (PCSEs)

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Table 4.6 Panel Correction Standard Errors (PCSEs)

PAT	Panel Correction Standard Errors Coefficient	T-value	P-value
Constant	3.250486	61.08	0.000
CRM	-0.0011514	-0.42	0.673
LCO	0.0104435	1.38	0.167
MOC	0.09915125	164.58	0.000
No of observations	150		
R-squared	0.9895		
Wald Chi^2	37639.65		
Prob (Chi^2)			0.0000

Source: Stata Output (2002)

The result from the Panel Correction Standard Errors (PCSEs) revealed that there is significant and positive impact of manufacturing overhead cost on profit after tax. This implies that manufacturing overhead cost significantly impacts on profit after tax at 1% significance level. While on the other hand, a negative impact can be inferred from the interactions between both independent variables (cost of raw material and labour cost) and profit after tax.

The R-squared value of 0.9895 which is a coefficient of determination reveals that profitability predictors have a collective impact of 98.95% on profitability, while the Wald Chi^2 value of 37639.65 reveals that the model used to measure profitability is properly fit for analysis and well combined as revealed by the p-value of 0.0000 which is statistically significant at 1% significance level.

The findings showed that the raw material cost had a negative correlation with the profitability of consumer goods firms in Nigeria. The positive correlation suggested that manufacturing firms should maintain the cost of all manufacturing overhead expenses. This result is in congruence with the opinions expressed by Abdullahj, Oni, Ahmeb, and Shakur (2015), as well as those found by Iliemena and Amedu (2019). Manufacturing overhead cost was supposed to be an essential role in keeping consumer goods prices at a constant level. In addition, there was a negative correlation between cost of raw materials and profitability. The results are in contrast with the findings of Ologbenla (2021) and Raghavan (2019), among others, who argue that there is a positive and substantial association between a company's performance and the cost of raw materials. Lastly, it was also found that labor costs does not significantly impact the success of consumer goods firms in Nigeria. This negative correlation contradicts the empirical results of Raghavan's (1995) and Ologbenla's (2021).

5. CONCLUSION AND RECOMMENDATIONS

The impact of standard costing on the profitability of consumer goods firms was examined in this research. This was done using a panel analysis using a pooled least squares result, fixed effect, and random effect models. The results of the Hausman test indicated that the random effect model yielded the most accurate findings. However, Lagrangian Multipier test for random effect indicates that random effect model is not significant, hence the Panel Correction Standard Errors (PCSEs) regression was adopted as the most appropriate model for the study. According to the findings, the manufacturing overhead cost was positively correlated with the profitability of consumer goods firms in Nigeria, whereas the cost of raw materials and labour cost were significantly inversely correlated. The research indicated that cautious consideration of raw material costs and the maintenance of effective standard costing across all labour costs were essential to attain the desired results. All consumer goods firms in Nigeria were urged to use the study's suggested procedures and standard costing principles in order to cut down on wasteful labour and raw material costs and to improve the firms' ability to make sound decisions

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