



**A STUDY
ON MANAGEMENT ACCOUNTING
PRACTICES IN PRODUCT COST
MEASUREMENT AND THE ROLE OF
PRODUCT COST INFORMATION IN
PRICING DECISION
AMONG SMIs**

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ABSTRACT

This study contributes to the limited literature dealing with management accounting practices among small and medium industries in Malaysia (SMIs). Specifically, the study explores the accounting practices in the areas of product cost measurement and the role of cost information in pricing decision among SMIs in the Klang Valley. The extent of conventional management accounting techniques used in those areas as well as the trend in application of management accounting innovations is also investigated. The results of the study indicate that conventional management accounting practices are still prevalent in the areas of product cost measurements and pricing decisions. Even though innovations in the form of modern management accounting techniques are taking place in the SMIs, the overall impacts are not widespread. Collectively, the combined usages of multiple modern management accounting techniques are not likely to be applied by the SMIs.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Manufacturing activities have undergone tremendous changes over the years. Burns et al. (1999) cited that changes in the general economic condition such as globalization and increase international competition had drastically changed the way manufacturing activities were carried out. Advancement in production technologies has also changed the way products were processed and subsequently altered the production's cost structure. Most significantly, changes in organization structures have also affected manufacturing activities. Increased emphasis on core competencies, downsizing and outsourcing were among the factors that have asserted enormous pressure on the way manufacturing activities were undertaken.

Consequently, such changes have altered the production cost structure, considerably. Direct labor, that used to dominate cost component, has now become relatively fixed in short-term and making up of only 15 to 20 percent of the total costs. Most of the manufacturing costs have now become relatively fixed in short-term with the only variable component is the direct material costs. Of importance is the significant increased in fixed manufacturing overhead costs that reflect the level in technological sophistication in the production process due to automation, integration of computers and flexible manufacturing processes (Baxendale, 2001)). Changing market demands and consumer preferences has also exerted enormous pressure on the way products are produced.

Apparently, the management accounting practices in most manufacturing firms are still based on the methods that were developed some 60 years ago, which was meant to cater for mass production of standard products with relatively high direct labor content.