



THE EXTENT TO WHICH STANDARD COSTS CAN BE USED TO RATIONALIZE FINANCIAL NEEDS AN APPLIED STUDY IN THE BAGHDAD SOFT DRINKS COMPANY

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Article history:	Abstract:
Received: January 26 th 2022 Accepted: February 28 th 2022 Published: April 4 th 2022	The research aims to measure the extent to which the standard costing system can be applied in rationalizing financial needs decisions in the Baghdad Soft Drink Company, As well as measuring the impact of the application of standard costs on the process of controlling the performance of the unit by controlling the various elements of production. In order to explain the research problem and achieve its objectives, the descriptive analytical approach was adopted. Like (50) questionnaires were distributed to the sample members (auditors, accountants, production line managers, and financial analysts), and the simple linear regression model scale tested the research hypotheses. As a result, the research reached the most critical conclusions: Standard costs contribute to making decisions related to financial needs and reducing indirect costs by unit.

Keywords: Standard costs, rationalization of decisions, financial needs

1. INTRODUCTION

The use of actual costs is one of the most critical problems faced by industrial companies when measuring their operational processes and thus is clearly reflected in their performance evaluation, including the need to apply standard costs for the purpose of evaluating by comparing the actual performance with the scheme, which is reflected in turn on the administration and help it to carry out its essential functions and achieve its future vision at the lowest cost And the most significant return, This goal has a direct impact on the decisions to forecast the financial needs faced by the unit, which in turn is affected by many internal environmental factors that affect decision-making, including those related to the organizational structure, methods of communication, formal and informal organization , The nature of the prevailing human relations, the capabilities of individuals, their capabilities and the extent of their training, and the availability of material, moral and technical requirements for implementation.

2. RESEARCH METHODOLOGY

1.2. Research problem

The research is based on a problem that most industrial companies suffer from, which is the use of actual costs in measuring the efficiency of the performance of industrial operations, as well as the inability to evaluate their performance accurately, hence the need to use the standard costing method, which enables it to evaluate performance by making comparisons between the actual and planned application and helping the administration to carry out its essential functions, to achieve the company's economic and social goals at the lowest cost and greater return, and this will be reflected in the rationalization of financial needs decisions.

2.2. Research Hypothesis

- There is a statistically significant relationship between applying the standard costs method and rationalizing financial needs decisions in the Baghdad Soft Drinks Company.



- There is a statistically significant relationship between the application of the standard costing method and the level of control over financial performance.

2.3. research aims

The research aims to achieve the following:

- Measuring the extent to which the standard costing system can be applied in rationalizing financial needs decisions in the Baghdad Soft Drinks Company.
- Measuring the impact of the application of standard costs on controlling the unit's performance by controlling the various production elements.

2.4. research importance

The importance of the research comes through identifying the role that standard costs play in rationalizing financial needs decisions, industrial establishments, and the control process, in addition to knowing the scientific methods, tools, and means that contribute to the absence of deviation in standard costs.

2.5. Research Methodology

This research is based on the following methods:

- The historical method: present previous studies related to the research topic.
- The deductive approach: to determine the research axes and develop hypotheses.
- The inductive method: to test the validity of the hypotheses.
- The descriptive-analytical approach: to conduct the field study and analyze the results

3. LITERATURE REVIEW

(Muhammad,2012) Standard costs and their role in controlling production costs. The study aimed to identify the role played by standard costs in controlling production costs and to know the causes of deviations. The study reached several results, the most important of which is that standard costs play a significant role in controlling production costs and that some companies do not have a standard cost system in the evident sense, but the company follows the management accounting system and the financial accounting system in setting costs. It differs from the current study because it did not address the importance of standard costs in rationalizing financial decisions.

(Faisal, 2015) the standard costing system and its role in monitoring and evaluating the performance of the oil industry companies. The study aimed to "measure and test the impact of standard costs on control and performance evaluation in industrial

establishments. The study reached results, including that applying the standard costing system has an essential role in serving the company's management and providing it with the necessary information to help it perform its functions and achieve its goals. It also provides valuable information in making decisions. Administration related to production and sale. It differs from the current study in that it dealt with the role of standard costs in monitoring and evaluating performance only without rationalizing financial decisions.

(Muhammad, 2017) The impact of standard costs on the efficiency of responsibility accounting and evaluating financial performance. The study aimed to "know the relationship between the constants of the standard costing system and the increase in the efficiency of responsibility accounting and knowing the relationship between the application of the standard costing system. Performance, as it was used in a traditional manufacturing environment, and the study recommended the necessity of submitting regular performance reports to senior management to work on taking corrective measures on time. It differs from the current study in that it dealt with the impact of the standard costing system on the efficiency of the accountability accountant and the evaluation of financial performance. However, it did not address the rationalization of financial decisions.

4. STANDARD COSTS

4.1. Concept of Standard Costs

A criterion or standard can be viewed as a set of measures needed to determine the extent of progress in actual performance. Normative costs can be defined as predetermined costs on a scientific and laboratory basis, considered a means of control and control. They represent costs that must be provided to perform performance with the highest possible adequacy. (Babekir, 2018)

It can also be defined as "estimates determined in advance for either the cost of a single unit or several units of production or services to use them as a measure to compare the actual costs of performance."

4.2. Standard Cost Ingredients

Standard costs are seen as the process of forecasting or predetermining what costs should be under the available operating conditions, and they are used as a basis for cost control and measuring performance efficiency. This means that some conditions and ingredients must be met in the standard. Technical and financial specifics related to the future, involving implementation and serving



specific objectives, and therefore the following elements must be fulfilled: (Maria, 2010)

- The standard costs should be appropriate: for their use.
- The standard costs should be reliable: a sense of fairness must be achieved.
- It should be objective: it should be free of bias, and the criterion should be understandable.
- It should be stable: the criteria should remain fixed as long as the considerations and variables set in light of them remain unchanged.
- It should be comprehensive: the standard cost program should be comprehensive for all financial areas.
- To be flexible: These standards must be for more than one activity level, especially concerning the costs associated with the volume of activity.

4.3. Standard Costing System Factors

The standard cost system includes several factors, the most important of which are (Uzoh, 2012)

- The cost accountants in the executive management and the supervisors have sufficient awareness of the importance of standard costs and the unit's capabilities.
- Defining the various cost elements clearly and accurately and their relationship to the cost unit and the volume of activity for which standards will be set.
- Determining the purposeful link between the employees' goals and the unit's goals is known as the management principle by goals.
- Reports and controls are used to identify deviations, causes, and those responsible for them per accountability.

4.4. Cost Calibration Methods

The importance of using standard costs as a tool for cost planning and control has increased to verify the optimal use of available resources and achieve the highest production efficiency for the unit. Calibration costs are as follows:

- Calibration of the cost component based on the average operating level during the entire operating cycle.
- Calibrate the cost components based on an idea or theoretical operating level.
- Using historical cost data, calibrate the cost components to the expected level for the base year.

- Calibration of cost elements based on statistical methods through statistical treatments of cost data.

4.5. The difference between the standard and actual cost

There is a close relationship between standard and actual costs. However, the difference between them is significant. Actual cost "is any sacrifices made by the unit to obtain a future benefit or the sacrifices incurred by the economic unit to obtain an asset." Standard costs "are those target costs that the unit seeks to achieve, and it is a goal sought by the operating department, and it is mostly predictive by quantitative methods." Which are compared with the actual costs to know the deviations divided into. (Sami, 2016)

- The unit seeks to develop positive (preferred) deviations when the actual costs are reduced and are less than the standard costs. In this case, the deviation must be developed.
- The unit seeks to reduce harmful (unfavourable) deviations when the actual costs exceed the estimated budget's planned target or standard costs.

5. RATIONALIZING FINANCIAL DECISIONS

5.1. Decision rationalization concept

The concept of rationality in decision-making is divided into economic rationality and administrative rationality (Mahasnah, 2005).

- According to this concept, economic rationality is the manager's process of choosing the best alternative that achieves the best results.
- Administrative rationality is the decision taken by the manager in the context of the circumstances affecting the economic unit.

5.2. The importance of making decisions

Where the decision-making process is the centrepiece of the administrative process, as it is linked to everything that falls within its components basically, any success achieved by the unit depends on the ability and efficiency of the administration to carry out the decision-making process to solve problems or decide definitively in some issues successfully. It should also avoid randomness as much as possible in decision-making and follow the scientific bases during the methodological stages of the decision-making process and the factors affecting the decision-making process in terms of difficulty and cost. This process may sometimes lead to wrong irrational decisions. (Gomaa, 2004)

5.3. Factors affecting the decision-making process



- External environment factors: It directly or indirectly influences the decision-making process, among these factors (economic, political, social, technical, values and customs).
- Internal environment factors: The decision is affected by internal environmental factors in terms of the size of the economic unit, the extent of its growth and the number of employees and dealers with it.

5.4. Types of administrative decisions

There are several types of administrative decisions taken by business units, including (Mashreji, 2007)

- Legally According to this approach, decisions are divided into four sections:(The generality of the findings, According to the composition of the decision, The effect of the decision on the individual, According the ability to decide)
- The nature of the decision: the decisions are divided according to this approach into three sections (Sahra, 2021). (Basic and routine decisions, Organizational and individual decisions, Programmed and non-programmed decisions).
- Organizational scope of the decision:(Strategic decisions, Operational decisions).

5.5. Financial Needs Decisions

Financial needs decisions are taken by the senior management and are considered among the strategic decisions that are affected by the environment of the external economic unit and its interrelationships and interaction with it. These decisions are characterized as being long-term, essential and complex and addressing new cases that have far-reaching effects on the economic unit. It takes several forms, including (Sahra, 2021)

- Decisions, according to the nature of the administrative work, are either planning related to defining the future goals, policies and programs of the economic unit, or they are control decisions to improve performance by identifying deviations, identifying their causes and making appropriate adjustments to them to strengthen the positive ones and reduce the negative impact in line with the unit's objectives.
- Decisions that link directly to accounting information and then administrative uses include: (Investment decisions in long-term assets, Decisions to replace old assets, Decisions regarding the pricing of products and services, Decisions related to sales

mix and planned profits, Internal manufacturing or purchasing decisions, Decisions to evaluate plans, Market and product decisions, Financing Decisions.

5.6. Forecasting financial needs

Forecasting financial needs provide an opportunity to manage the economic unit in order to search for sources of funding that it can refer to when needed, as well as to study the financing alternatives put before it and compare that the process of sound financial planning requires carrying out the following tasks: (Fahmy, 2007)

- Determining the size of the financial needs for the implementation of operational programs.
- Determining the amount of money that can be provided from within the unit and the amount of money that should be obtained from external funding sources.
- Determine the best sources of funding that can be resorted to when the need arises.

5.7. Methods of forecasting financial needs

The percentage of sales method and the simple linear regression method are the two main methodological methods widely used in determining financial needs. The use of either of them depends on the availability of several certain conditions, and with the loss of any of these conditions, this method will lose its value as a tool for forecasting. One of the most important conditions is that it is harmful to the availability of specific relationships between the variables included in that method, particularly the causal relationship and the relationship between stability and stability. (Sahra, 2021)

6. PRACTICAL ASPECT

6.1. Brief on Baghdad Soft Drinks Company (IBSD)

It has been a public company listed on the Iraq Stock Exchange since April 2004. The company operates in the food, beverage and tobacco sector, focusing on soft drinks. It offers various products of soft drinks and drinking water in different sizes and packages, as well as offering customized products with hotel companies and selling raw and raw materials for the manufacture of soft drinks for some private sector companies, Below are the financial indicators of the company's financial performance, based on the fourth quarter of 2021.



Table-1. Financial performance indicators for Baghdad Company 2021

Return on equity	19.3 %	Net profit growth rate	12.09%
Return on assets	17.42%	Total asset growth rate	30.30 %
Earnings per share	0.54 %	Book value growth rate	26.30 %

Table-2. Balance sheet list data for the year 2020-2021

General Balance /amounts in millions		2020	2021
1	total assets	424,959	553,700
2	total liabilities	29,370	54,089
3	Shareholder's Equity + Minority Equity	395,589	449,611
4	Total Liabilities + Equity	424,959	553,700

Table-3. Income statement and cash flow statements for the year 2020-2021

Income Statement /amounts in millions		2020	2021
1	Total profit	27,544	24,112
2	Net income	27,430	22,518
Cash flow Statement /amounts in millions		2020	2021
1	Net change from operating activities	(72,928)	25,531
2	Net change from investing activities	7,611	(12,112)
3	Net change from financing activities	0	0
4	Net change in cash	(65,317)	13,419

6.2. Presentation of results and testing of hypotheses

The main research hypotheses were tested, as the task of this paragraph focused on choosing the extent of acceptance or rejection of the study's hypotheses through the use of the arithmetic mean and standard deviation from the following:

Test hypothesis H01: that the use of standard costs does not lead to rationalization of decisions regarding the company's financial needs.

The alternative hypothesis Ha1 is that using standard costs leads to rationalizing decisions regarding the company's financial needs.

The paragraphs of this hypothesis consist of ten paragraphs on the extent of the impact of using standard costs in rationalizing financial needs decisions. The data was analyzed in Table (4), showing the statistical data obtained from the analysis.

Standard Deviation= S.D.
 Variation Coefficient= V.C.
 Degree of Approval= D.A.
 Medium =M.
 High=H.

Table-4. Arithmetic averages and standard deviations of the Hypothesis test H1

N	Paragraphs	Mean	S.D	V.C	D .A
1	Improving the company's standard costing systems.	3.62	0.72	19.4	M
2	Standard costs were used to set the company's goals and policies.	3.61	0.74	20.7	M
3	The application of standard costs made the percentage of deviations very small.	4.10	0.6	14.5	H
4	The use of standard costs gave the company more room to choose between alternatives.	3.63	0.71	19.5	M
5	The use of standard costs in determining the necessary needs for the implementation of operational programs	4.12	0.54	12.7	H
6	There are specific criteria that have previously been based on	3.88	0.52	12.8	M



	setting standard costs for the company				
7	The application of standard costs contributed to the determination of production and sales by reducing waste.	3.92	0.53	13.7	M
8	The application of standard costs provided a statement of what companies need from multiple assets.	3.99	0.53	13.3	M
9	The application of standard costs contributed to the diversification of the company's sales mix	3.89	0.65	17.3	M
10	Applying standard costs helps make pricing decisions about products and services.	4.19	0.52	12.9	H
	overall average	3.9	.39	M	

The above table indicates that the approval was moderate. If the average degrees of approval ranged between (3.61 -4.19) if Paragraph No. (10) came (Applying standard costs helps make pricing decisions about products and services), It ranked first with an arithmetic mean of (4.19) and a standard deviation of (0.52). The reason is due to the awareness of those in charge of studying the market first-hand and knowing the causes of stagnation for setting price policies appropriate to the stage and thus reflecting on the nature of the company's activity and its continuity.

As for paragraph (2), which states (Standard costs were used to set the company's goals and policies), It ranked last. With an arithmetic mean (3.61) and a standard deviation (0.74), many see that there is ambiguity in understanding the extent of the impact of standard costs on setting goals and policies.

It is clear from the Table that the arithmetic mean (3.90) is not high and does not represent a high general agreement. When a (T) test was conducted, the calculated (t) was (21.34), while the tabular (T) was (1.96), and the test function (sig) = ≥ 0.05 . Therefore, the null hypothesis must be rejected, the alternative hypothesis (Ha1) accepted, and there is agreement that the use of standard costs leads to rationalization of financial needs decisions in the Baghdad Company for Soft Drinks.

Hypothesis test H02: That the use of standard costs does not play the role of controlling financial performance and rationalizing financial needs.

The alternative hypothesis Ha2: Is that the use of standard costs plays an influential role in controlling financial performance and rationalizing financial needs

The scope of this hypothesis consists of five paragraphs that express the extent of the impact of using standard costs as a tool for controlling financial performance and rationalizing the financial needs of Baghdad Soft Drinks Company. As in Table. (5)

Table-5. Table of arithmetic averages and standard deviations for the Hypothesis test H2

N	Paragraphs	Mean	S.D	V.C	D.A
11	Standard costs are a tool for controlling the financial performance	3.98	0.55	13.6	M
12	Standard costs contributed to raising the efficiency of the company's financial performance.	3.96	0.54	13.9	M
13	The use of standard costs contributed to knowing the amount of money that could be saved internally.	4.15	0.57	13.2	H
14	The application of standard costs contributed to determining the size of the external financing needs.	4.07	0.51	13.1	H
15	Periodic evaluation and interpretation of financial performance and operational activity, and identification of the causes of negative and positive deviations.	3.95	0.67	17.6	H
	Overall average	4.02	0.41	H	

Table (5) indicates that the degree of approval was high in the paragraphs of the second field, where the average degree of approval was between (4.15-3.95), as paragraph No. (13)," The use of standard costs contributed to knowing the amount of money that

could be saved internally" It ranked first, with a mean of (4.15) and a standard deviation of (0.57). This indicates the role of standard costs in determining and estimating the amount of money that can be saved internally. At the same time, paragraph (15) came in



the last rank with an arithmetic mean (3.95) and a standard deviation (0.67).

We note that the general average was high due to the conviction of those in charge that the use of costs impacts rationalizing the decisions of the financial needs of the Baghdad Company since all paragraphs are higher than the default average (3).

Moreover, when the information about that hypothesis was subjected to statistical analysis, where the calculated (t) (23.02) was more significant than the tabular (T) (1.96), and the test function (sig) = 0.00 > 0.05.

If the null hypothesis must be rejected and the alternative hypothesis (Ha2) accepted, standard costs play an influential role in controlling financial performance and rationalizing financial needs in the Baghdad Soft Drink Company.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1. Conclusions:

Through the theoretical presentation and analysis of the results of the study, the following conclusions were reached

- Standard costs are pre-established costs based on existing studies prepared according to scientific bases and to measure planned performance.
- Standard costs contribute to making decisions related to financial needs and reducing indirect costs to the unit.
- Applying the standard costing system contributes to increasing control over the company's financial performance by preventing the irrational use of resources.
- The efficiency of the administrative levels depends on the elements of controlling the company's financial performance and determining its financial needs.
- Periodic reports are prepared regarding deviations of actual costs from the norm regarding the main cost elements and consequently the rapid correction thereof.
- The efficiency of the company's production depends on the treatment of deviations, as it helps to reduce costs and, in turn, leads to an increase in abundance in production.

7.2. Recommendations

- Awareness of industrial companies about the importance of setting cost standards in controlling production processes.
- Ensure the application of the standard costing system in industrial establishments to know the

actual performance from the planned performance.

- The production officials implemented the standard costing system to increase control over the unit's performance.
- The use of standard costs contributes to making decisions related to determining the selling prices of products, especially in industries that require determining the selling price before production.
- Submitting periodic reports to the management of the facility in order to reduce production costs and increase the quality of products in the factory.

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