# COST CONTROL TECHNIQUES AND PROFITABILITY IN A MANUFACTURING FIRMS IN WESTERN UGANDA: A CASE STUDY OF GOURMET BURGER KITCHEN G.B.K GROUP OF COMPANIES LIMITED IN MBARARA MUNICIPALITY

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1163-05014-05835

A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE AWARD OF DEGREE IN BUSINESS ADMINISTRATION (ACCOUNTING AND FINANCE) OF KAMPALA INTERNATIONAL UNIVERSITY

AUGUST, 2019

# DECLARATION

Bamwesigye Ronald do declare to the best of my knowledge that this research report entitled :ost control techniques and profitability in manufacturing firms a case study of G.B.K group of :ompanies limited in Mbarara municipality is my original work and it has never been submitted ›y any institution or university for any academic award.

**Signature..................................** **Date...14:08:2019..........................**

## APPROVAL

This special research report has been submitted to the Faculty of Economics and Management with the approval from the academic supervisor.

**Signature**................................

**Date** 22/8/2019

**DR. KIRABO K. B. JOSEPH**

**Supervisor**

# DEDICATION

dedicate this book to the Almighty God for the gift of life without which this book would not ıave been a success. This project report is also dedicated to my parents, who taught us that the ›est kind of knowledge to have is that which is learned for its own sake. It is also dedicated, to ıll my friends and supportive classmates of year 2019.

## ACKNOWLEDGEMENT

I would like to take this opportunity to express my deep regards towards all those who offered valuable guidance in my hour of need. In this regard I would like to express my gratitude to the College of Economics and Management of Kampala International University for its valuable co-operation.

My thanks and appreciation to Dr. Kirabo K. B. Joseph for persevering with me as my supervisor through the limited time it took me to complete this research proposal.

Special thanks goes to the management of G.B.K Group of Companies who spared their ample time for me during this study.

I express my appreciations to my parents my Dad Bakyenga John, My Mother Ms. Kyoshaba Adeodata and, to my friends Aaron Lwanga, Muganzi Patience, Tumwesige Nicholas and Mugabo John and all the people who have contributed to the successful completion of this report.

## TABLE OF CONTENTS

## LIST OF TABLES

## LIST OF FIGURES

# LIST OF ACRONYMS

| | |
|---|---|
| ABC | Activity-Based costing |
| CCT | Cost Control Technique |
| CIMA | Institute of Cost and Management Accountants |
| CVP | Cost Volume Profit |
| FIFO | First in First Out |
| G.A.A.P | General accepted accounting principles |
| G.B.K | Gourmet Burger kitchen |
| MANOVA | Multivariate analysis variance |
| NBS | National Bureau of Standards |
| PSFU | Private Sector Foundation Uganda |
| UIA | Uganda Investment Authority |
| UMA | Uganda Manufactures Association |
| V.M | Voluntary milking |
| VAT | Value Added Tax |

## ABSTRACT

*This study sought Cost Control Techniques and Profitability in a manufacturing firm in Western Uganda: a case study of gourmet burger kitchen G.B.K Group of Companies Limited in Mbarara Municipality. This study intends to establish the effect of cost controls on profitability of manufacturing firms in G.B.K Group of Companies Limited in Mbarara Municipality, with the following specific objectives. (i) To determine the effect of budget control on profitability of manufacturing firms in G.B.K Group of Companies Limited. (ii) To examine the effect of cost allocation on profitability of manufacturing firms in G.B.K Group of Companies Limited. (iii) To establish the effect of cost monitoring and control on profitability of manufacturing firms in G.B.K Group of Companies Limited. The researcher used both a cross-sectional research design and survey design which included both qualitative and quantitative method of data collection, the quantitative method was used to collect numerical data in form of numbers representing particular facts or measurements which helped the researcher to obtain information from respondents in depth. From the Findings Data analysis that was done using SPSS's descriptive statistics it was found out that Male were the majority respondents as represented by 69 (or 69%) as regards to gender. Furthermore the findings indicated that budget control significantly affects the profitability of manufacturing firm of G.B.K Group of Companies Limited, this effect therefore implies that budget control contribute to the profitability of manufacturing firm of G.B.K Group of Companies Limited. The study further went on and made conclusions that according to the findings budget control has a positive significant effect on profitability of manufacturing firm of G.B.K Group of Companies Limited. Therefore budgetary control has a considerably high influence on the profitability of the manufacturing organizations, hence there is need for improving the budgetary controls to enhance profitability. Lastly the study recommended that the budget control was found operating though with limited capacity, there is need to enhance the budgetary controls through improving the mechanism for budgeting as the mechanism for enhancing profitability. The process of budget control in manufacturing companies should be very comprehensive covering all departments and sections as this will enable management to effectively implement budgetary controls.*

# CHAPTER ONE

# INTRODUCTION

## 1.0 Introduction

This chapter described the background to the study, statement of the problem, purpose of the study, research objectives, and research questions, Research hypothesis, scope of the study as well as the significance of the study and operational definition of key terms.

## 1.1 Background to the study

The background of the study consisted of the historical background, theoretical background, conceptual background and contextual background.

### 1.1.1 Historical Perspective

The history of cost control dates back to the 20th century where cost reporting was designed to meet the information needs of the property managed institutions like banks. With the introduction of revolutionary industrialization, complex companies became sophisticated and cost management practices were eminent. Model emphasized stewardship, decision making, and performance evaluation was emerged. This information was designed to support managerial decision making and cost management in companies (Deconan, 2013).

In the latter half of the 21st century large, sophisticated and large companies would hold large proportions and shares of company profits and costs on behalf of other individuals. Cost management industry in general has undergone some major changes over the last two decades (Marcus, 2015). These changes took place in several phases. During the phase from the early 2014s until about 2015, assets under cost controls sky-rocketed due to the high liquidity in the global financial markets caused by abundant credit and ever-increasing personal asset valuations (for example house prices). This phase also witnessed the formation of hedge funds (asset managers who typically have a smaller number of clients and who can take very risky positions and bets that may yield substantial returns). These funds continue to play a major role in the financial markets, mainly because of their ability to take advantage of arbitrage opportunities (Barney, 2011).

Cost control across the globe is fundamental as organizations strive to attain a competitive edge, Shrank (2001) opined that to determine the strategic impact of cost cutting, management across the globe is fundamental if the organization has to weigh the net effects of the proposed change on all areas of the business. For example, reducing variable costs related directly to manufacturing a product, such as materials and transportation costs, could be the key to greater incremental profits. However, management must also consider whether saving money on production is jeopardizing other strategic interests like quality or time to market. If a cheaper material or transportation system negatively impacts other strategic variables, the nominal cost savings may not benefit the company in the bigger picture, i.e. it may lose sales. In such scenario manager requires the discipline not to place short term savings over long term interests. They further opined that one trend in cost control has been toward narrowing the focus of corporate responsibility centers, thereby shifting some of the cost control function to day-to-day managers who have the most knowledge or influence over how their areas spend money (Marcus, 2015).

The African design of countries provides a means for which cost control for the profitability of the organizations. Cashin (1998) posited that responsibility accounting is a system designed to accumulate and report costs by individual levels of responsibility, each supervisory area is charged only with the cost for which it is responsible and over which it has control. The responsibility accounting system should also provide costs for establishing policies and for making daily decision. Most cost accounting systems were originally designed to accumulate and distribute costs for product or inventory cost and for general cost control. The accounts were set up to gather products costs and period costs in accordance with the needs of the income statement and balance sheet.

Under the double-effect of the pressure coming from the competition and the world financial crisis, the enterprises feel the need to understand better their costs in order to determine with maximum precision the selling prices and the limits that can be achieved for each product. It's not only about prevision, there should also be considered the necessary ways in order to achieve the goals. That's how we can explain the development of the today's managerial control and of its favourite instrument, the analytic accounting of which no enterprise in Africa could be spared, ınd this is because behind the demand and offer of all price-competition there lies, indirectly, the :ost-competition.

n the absence of a central government apparatus and regulatory bodies, there is no formal tax ›olicy in Uganda, cost control is not effective. Businesses are not regulated or taxed, though an nformal system of taxation has developed. Industries operate informally, even when they are ıighly profitable. Uganda has been characterized by high public expenditures by Governments, leficit financing through money printing, uncontrolled money supply and inflationary trends. The value of the Somali Shilling (SOS) is quite difficult to determine given the fluctuation of exchange rates from region to region within the Somali territory. The inflation rate is estimated :o remain in the range of 300%. Vander stede (2001) contend that Crisis periods have their own characteristics. The first and the most important is the fact that they produce big changes. These changes don't appear when an economy works at full speed ahead, when new jobs are available and wages grow from year to year, because when we are dealing with a positive economical dynamic it is hard to believe that there is a motivation for important measures.

### 1.1.2 Theoretical Perspective

The study was guided by the transaction cost theory developed by Commons (1931). The idea that transactions form the basis of an economic thinking was introduced by the institutional economist (Commons 1931). He said that: These individual actions are really trans-actions instead of either individual behavior or the "exchange" of commodities. It is this shift from commodities and individuals to transactions and working rules of collective action that marks the transition from the classical and hedonic schools to the institutional schools of economic thinking. The shift is a change in the ultimate unit of economic investigation. The term "transaction cost" is frequently thought to have been coined by Ronald Coase, 1970 who used it to develop a theoretical framework for predicting when certain economic tasks would be performed by firms, and when they would be performed on the market.

Transaction cost reasoning became most widely known through transaction Cost Economics (Williamson, 1981) today, transaction cost economics is used to explain a number of different behaviors. According to Williamson, the determinants of transaction costs are frequency, pecificity, uncertainty, limited rationality, and opportunistic behavior. The transaction cost ıeory explains that an effective established system as transaction in an organization enables the ıanagement of costs. The transaction cost theory provides that profitability is dependent on a ystem set in the organization such as cost controls that support the organization's occupations nd working environment.

### .1.3 Conceptual Perspective

n this study the Independent variable was conceptualized as control techniques and the lependent variable was profitability in manufacturing firms.

Vosselman (2005) defined cost control techniques as a set of cost accounting methods and nanagement techniques with the goal of improving business cost efficiency, by reducing costs or ıt least restricting their rate of growth. Businesses use cost control methods to monitor, evaluate ınd ultimately enhance the efficiency of specific areas, such as departments, divisions or product .ines within their operations. Cost control as a practice of comparing the cost of a business ıctivity with the original cost in order to ascertain if the cost is as planned. In this study cost control is conceptualized as cost analysis, cost allocation and Cost monitoring and control in the organizations. However cost control techniques are termed as Budget control, Cost allocation and Cost monitoring & control.

Kakuru (2005) defined profitability as the difference between the revenue generated by corporate firm and expenses incurred during the operation of the business. He further classified that various costs incurred by these firms some of which are fixed costs like rent while other are variable costs which can easily change for example electricity expenses and the corporate firms can easily achieve increased sales.

### 1.1.4 Contextual Perspective

The success of a company largely depends on the profit that it can realize. The profit is determined by the costs that are made and the extent in which these costs are. Therefore, it is essential for a company to know the costs and being able to control them. Therefore, the manufacturing companies in Uganda are suffering from less profitability due to improper cost control (Powell, 2017). According to the United Nations Development Programme (UNDP) Uganda, Uganda's economy consists of both traditional and modern production, with a gradual shift to more modern industrial techniques. According to the Central Bank of Uganda, about 80% of the population is nomadic or semi-nomadic pastoralists, who keep goats, sheep, camels and cattle and all these manufacture deal in the manufacturing of agricultural products (Central Bank of Uganda Annual Report, 2017). Unrealization of profit targets, in ability of cost recovery, poor sales volume and less competitiveness are the major signs of poor profitability. Incase this problem (poor profitability) remain unchanged it may cause liquidation of many companies, bankruptcy and insolvency which negatively reflect to the entire wellbeing of the economy of Uganda set to investigate the cost control but did not fully execute the parameters of budgets, monitoring and cost evaluations. Based on the problem mentioned, the researcher examined whether cost control can influence the profitability of manufacturing firms.

## 1.2 Statement of the problem

The prevailing state of low profitability of manufacturing firms in Uganda presents largely negative consequences such as collapse of the manufacturing firms due to low profits which leads to unemployment, loss of government revenue through taxation that (World Bank Report, 2016). The low level of profits generated is a frequent phenomenon among manufacturing firms in Uganda. A number of manufacturing firms have failed and closed after incurring a lot of losses and these failed manufacturing firms include fish-canning and meat-processing plants. As a result of these failed small scale enterprises, it has resulted into different negative consequences such as increased rate of unemployment, and low level of taxes collected. Low levels of profitability could be a result of a number of factors including limited funds as evidenced by the few existing manufacturing firms in Uganda, high taxes imposed on these manufacturing firms, increased corruption in the country and this leads to mismanagement of the existing little financial resources, poor planning among the manufacturing firms. Though a number of factors are responsible for the low levels of profitability of manufacturing firms, it is important to find out how cost control affects the profitability of manufacturing firms. Therefore this study was set to establish the effect of cost control on profitability of the manufacturing firms in G.B.K Group of Companies Limited in Mbarara Municipality.

## 1.3 Purpose of the study

The purpose of the study was to establish the effect of cost controls on profitability of manufacturing firms in G.B.K Group of Companies Limited in Mbarara Municipality.

## 1.4 Specific Objectives of the study

(i) To determine the effect of budget control on profitability of manufacturing firms in G.B.K Group of Companies Limited.

(ii) To examine the effect of cost allocation on profitability of manufacturing firms in G.B.K Group of Companies Limited.

(iii) To establish the effect of cost monitoring and control on profitability of manufacturing firms in G.B.K Group of Companies Limited.

## 1.5 Research Questions

(i) What is the effect of budget control on profitability of manufacturing firms in G.B.K Group of Companies Limited?

(ii) What is the effect of cost allocation on profitability of manufacturing firms in G.B.K Group of Companies Limited?

(iii) What is the effect of cost monitoring and control on profitability of manufacturing firms in G.B.K Group of Companies Limited?

## 1.6 Research Hypotheses

**Ho$_1$:** There is no significant effect of budget control on profitability of manufacturing firms in G.B.K Group of Companies Limited.

**Ho$_2$:** There is no significant effect of cost allocation on profitability of manufacturing firms in G.B.K Group of Companies Limited?

**Ho$_3$:** There is no significant effect of cost monitoring and control on profitability of manufacturing firms in G.B.K Group of Companies Limited.

## 1.7 Scope of the Study

### 1.7.1 Geographical Scope

The study was conducted in G.B.K Group of Companies Limited, Mbarara municipality, Mbarara district, south western Uganda. G.B.K. GB (Juojia Biuozhun (means national standard in Chinese, while K stands for Extension). G.B.K Dairy

Products (U) Ltd started operations in 1996, It processed 5000L per day in plastic pouches (3 months' shelf life), in 1998 pouches were replaced by Tetra Paks (3 & 8 months' shelf life). Currently, G.B.K processes 50,000L per day of which 45.0001. is U.H.T branded Classic in 500 and 250 ml and 5,000L branded Classic yoghurt in 500, 250 and 1 50 ml. In 2009, G.B.K ventured into Mineral water processing at a capacity of

45,000L per day using Reverse Osmosis, Ozoriation and UV treatment in 600 and 1 .5 ml branded G.B.K Water. In 2010, G.B.K ventured into Natural juices in Tetra Paks branded Victoria Juices at a capacity of 20,000L per day in 500 and 250 ml. G.B.K has realized significant growth since its inception with more projects in the offing in a 20-year projection, thus efforts are under way for all companies to trade under G.B.K Group of Companies.

### 1.7.2 Content Scope

The study focused on cost control especially on aspects cost analysis, cost allocations and, cost control and monitoring including assessing their effect on the profitability of the manufacturing companies in the place selected for the study.

### 1.7.3 Time Scope

The study covered a period of 5 months that is February to July 2019 in order to capture current and past data regarding the sales performance of G.B.K Group of Companies Limited.

## 1.8 Significance of the study

The study findings may help G.B.K Group of Companies Limited, management to be keen with cost control in planning profits and this shall increase revenues to the firm.

The study may help in identifying factors that affect cost control techniques in G.H.K Group of Companies Limited, this shall help the management to find solution and this shall result into increased sale

The study may add on the existing literature and this may help future researchers who may wish to take a study in related field

**1.9 Operational definition of Key terms**

**Cost control**; is the mechanisms employed by an organization or firm intended to monitor, expedite and evaluate the expenditure requirements in a given production or organization undertaking.

**Budgetary control**; refers to the designing of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy, or to provide a basis for its revision.

**Cost allocation**; refers to the process of identifying, aggregating and signing costs to cost objects.

**Cost monitoring**; refers to the process of planning and controlling of costs in an organisation

Profitability is the measure of the value, earnings or differences between the company's operations costs and the sales revenue from the operations.

**Profitability**; refers to the difference between the revenue generated and expenses incurred during the business activity.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

This chapter reviewed relevant sources of literature that deliberate on cost controls and profitability of organization. It comprises four main sections which are theoretical review, conceptual framework, related studies and research gaps.

## 2.1 Theoretical Review

### Clark's Dynamic Theory of Profit (1991)

Clark's Dynamic Theory of Profit (1991), suggest that profit is a residue, the difference between price and costs, due to the reductions in the cost effected by changes in the economy such as population increase (this reduces wages), increased capital supply (this reduces the interest rate charged and hence the cost of capital comes down), innovations (reduces costs), higher inventory (windfall profits occur when the cost of production remains the same but the price shoots up perhaps due to inflation or higher demand), forms of organisation (reduces costs), technological improvements (reduces the costs). This theory is also known as windfall theory of profits. This theory treats profits as a residue in price after deducting costs, hence it is a residual theory of profits. The static economy is one in which the things do not change significantly or remains unchanged. Such as, the population and capital remain stationary, goods continue to be homogeneous, production process remains unchanged, and the factors of production enjoy freedom but does not move because the marginal product in each industry remains the same. Also, there is no uncertainty and risk. On the contrary, the dynamic economy is characterized by the generic changes such as an increase in population, improvement in production techniques, change and increase in the consumer demands, changes in the organizational forms, increase in capital. The major function of an entrepreneur is to work in a dynamic economy to take the advantage of these changes and promote his business, reduce costs, and expand sales (Horngren, 2005).

Clark believed that those entrepreneurs who successfully take the advantage of these changes in the dynamic economy make the pure profit, which is in addition to the normal profit. Pure profits are short lived because, in the long run, the competitors imitate the changes initiated by the leader. As a result, the demand for the factors of production increases, thereby increasing the factor prices and the overall cost of production. On the other hand, with an increase in the output, the price of a product declines for a given level of demand as a result of which the pure profits disappears (Kellerman, 2010).

Thus, according to Clark, the profit is an elusive amount which can be grasped, but cannot be held by an entrepreneur as it slips through the fingers and bestows itself to all the society members. Clark's dynamic theory of profit should not be misinterpreted as, the profits in the dynamic economy remain for a short period of time and then disappears forever. But, however, generic changes take place frequently, and the manager or entrepreneur through his foresight must capitalize on it and continue to make a profit in excess of the normal profit (Shrank, 2001).

**Transaction Cost Theory**

This study was based on the transaction cost theory, in the transitional cost theory, technology is designed to lower transaction costs and must take into consideration that the introduction of this technology 'reduces the costs of exchange and increases gains for both parties, if the resources it consumes are less that the transaction costs incurred (Ciborra, 1993). It follows that the evaluation of the effects on the economic system must be considered in the context within which transactions occur. Markets, hierarchies, and teams are alternative solutions enforced to mitigate the effects of the complex set of factors that contribute to the emergence of transaction costs. Alternative frameworks need to be considered when studying the design of in order to reduce transaction costs. The automated systems provide an effect on the cost management for the banks given that major focus is for cost reduction mechanisms.

Reen's (2013), analysis on the book Teams, Market and Systems is a significant contribution to this debate. Following TCT, the work discusses how it is possible to formulate alternative solutions to enforce the different transactional mechanisms of teams, markets, and hierarchies. What characterizes the originality of this contribution is its depth and extensive analysis of alternative transactional mechanisms, in addition to depicting the proposed solutions in terms of levelopment driven by TCT. Additionally, a framework is proposed that guides the decisions steps to be followed when assessing the cost-benefits associated with these alternative choices. Similarly Kellerman (2010) suggested that solutions designed to lower transaction costs should follow the efficiency criterion when designed: cost-benefit analysis is proposed as the optimal approach to aid such design.

Kotole (2011), discussed the impact on the market and hierarchies, arguing that ICT facilitates the transactional process, supporting information flow and management during the various phases of transactions. It was theorized that the use of TCT supports market structures where without the presence of a hierarchical solution would be required. In the same way, Tim (2011) argued that the use reduces information asymmetry and resultantly increases the conditions under which the market mechanism is an efficient allocative structure.

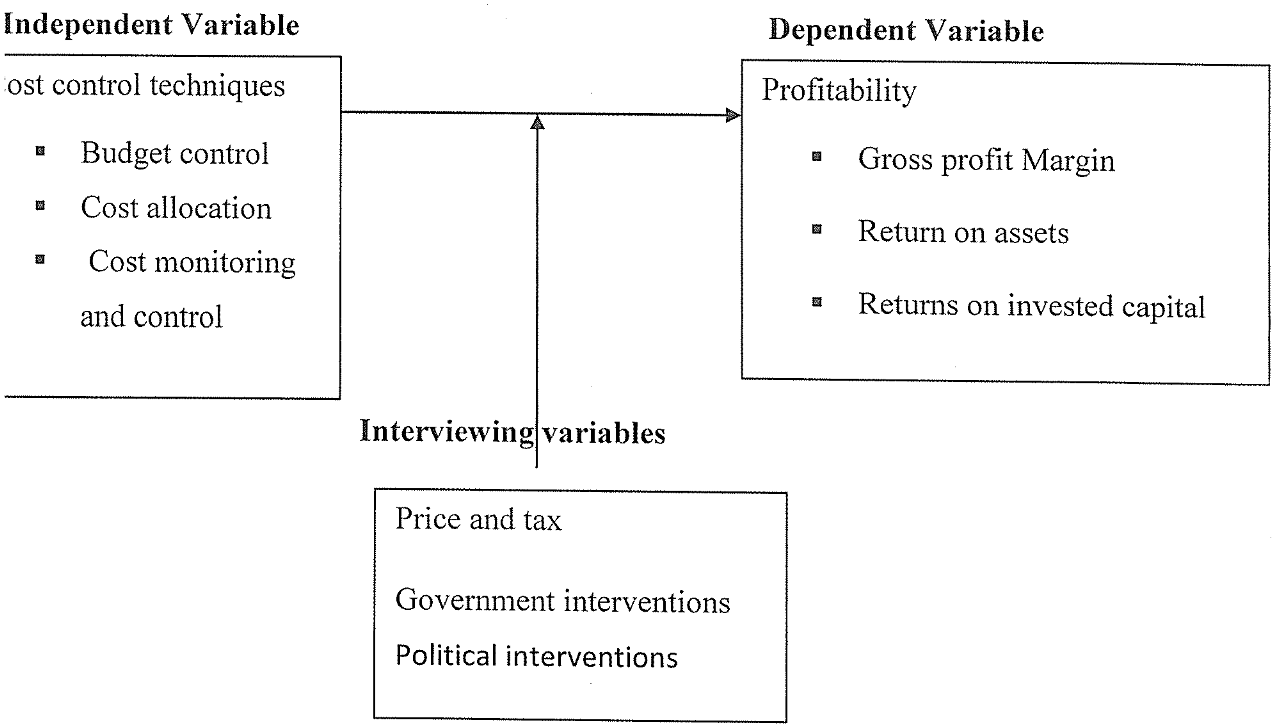
Hamilton (2010) argues that lower transaction costs because technology allows information to be communicated in real-time and at much lower costs, thereby reducing the costs that are required in order to find a particular good that is focus of the transaction. These authors also suggest that TCT enables an easier matching between buyers and sellers once goods have been located, and lowers the cost of brokerage. The study posits technology and TCT as enabling the design and deliberate strategic deployment of linkages and networks among cooperating firms intending to achieve joint strategic goals to gain competitive advantage Modigliani and Miller (2013).

**Compensation Theory of Profit**

Compensation Theory of Profit was developed by Alfred Marshall (1924), holds that the profit is the supply price of entrepreneurship or business power where business power is the supply of capital plus supply of the ability to maintain business plus supply of organizational ability for production. According to this theory there exists a normal rate of profit which is a return on capital that must be paid to the owners of capital as a reward for saving and investment of their funds rather than to consume all their income or hoard them. In a static economy where no unanticipated changes in demand or cost conditions occur, in long-run equilibrium the firms would be earning only normal rate of profit on their capital and entrepreneurial talent. This theory treats profit as a cost element and that profit is the price for the 'function' of capital, hence it is a functional theory of profit. Under these conditions economic profits would not accrue to the firms. Frictional theory of profit explains that shocks or disturbances occasionally occur in an economy as a result of unanticipated changes in product demand or cost conditions which cause disequilibrium conditions. It is these disequilibrium conditions that bring into existence positive or negative economic profits for some firms. On the other hand, when firms are making losses (i.e. negative profits), some firms will leave the industry. This will cause price of the product to rise so that losses are eliminated and the remaining firms make only normal profits. When economic profits are made in the short run, more firms will enter the industry in the long run until all economic profits are driven down to zero (Kulter, 2007).

## 2.2 Conceptual Review

**Figure 2.1: Conceptual framework**




**Source: Vosselman, (2005).**

The conceptual framework in figure 2.1 shows how the independent variable "cost control techniques" can have an influence on the dependent variable "profitability" while the intervening variables influence both such as "price, and tax". The independent variable is cost controls which have been conceptualized into budget control, cost allocation and cost monitoring and control. The dependent variable is profitability which has been conceptualized as gross profit margin, returns on equity and returns on invested capital. The presence of positive cost control has a positive effect on the profitability of the organizations and the prevalence of negative cost controls reduces to the profitability of the manufacturing organizations. Cost allocation refers to the process of giving relief to shared service organization's cost centers that render a product or service. Cost monitoring; this comes from activities designed to limit the agents' (from the principals' point of view) harmful actions. Profitability; refers to an income accruing to the equity holders in the same sense as wages accrue to labour, rent to the owners of rentable assets and interest to the money lenders.

According to Vosselman (2005) defined cost control techniques as a set of cost accounting methods and management techniques with the goal of improving business cost efficiency, by reducing costs or at least restricting their rate of growth. Businesses use cost control methods to monitor, evaluate and ultimately enhance the efficiency of specific areas, such as departments, divisions or product lines within their operations. Cost control as a practice of comparing the cost of a business activity with the original cost in order to ascertain if the cost is as planned. In this study cost control is conceptualized as cost analysis, cost allocation and Cost monitoring and control in the organizations.

Cost analysis is a systematic approach to estimating the strengths and weaknesses of alternatives (for example in transactions, activities, and functional business requirements or projects investments); it is used to determine options that provide the best. It is the act of breaking down a cost summary into its constituents and studying and reporting on each factor. It is the comparison of costs (as of standard with actual or for a given period with another) for the purpose of disclosing and reporting on conditions subject to improvement.

Cost allocation: Cost allocation is a process of providing relief to shared service organization's cost centers that provide a product or service. In turn, the associated expense is assigned to internal clients' cost centers that consume the products and services. For Cost monitoring and control arise from activities designed to limit the agents' (from the principals' point of view) harmful actions. Bonding expenditures result from the agents' actions to assure the principals that they will not take certain actions.

Dwivedi (2005) defined profitability as an income accruing to the equity holders in the same sense as wages accrue to labour, rent to the owners of rentable assets and interest to the money lenders.

Kakuru (2005) also defined profitability as the difference between the revenue generated by corporate firm and expenses incurred during the operation of the business. He further classified that various costs incurred by these firms some of which are fixed costs like rent while other are variable costs which can easily change for example electricity expenses and the corporate firms can easily achieve increased sales.

More So Brinker (2002), defined profitability as the difference between the revenue generated and the costs incurred to produce the same revenue during a given accounting period so to him corporate firms should aim at increasing sales revenue and reduce costs incurred so that they achieve the desired levels of profitability.

### 2.3 Review of related Literature

The review of related literature will be presented following the study objectives;

#### 2.3.1 Effect of Budget on profitability of organizations

Budgetary control is considered by the Institute of Cost and Management Accountants (CIMA) as the establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy, or to provide a basis for its revision (Malcom and Harris, 2010).

The overall purpose of budgetary control is to help managers plan and control the use of resources in systematic and logical manner to ensure that they achieve their financial objectives, that is profit satisfying( making satisfactory level of profits) and profit maximization( making the maximum profit). The Hotel after having made their assumptions about the forth coming period, the next stage is to set out their financial strategies in detail by preparing financial and non-financial budgets that cover every aspect of the firm's activities (McMahon, 2013).

Bendney and Colston (2015), argues that small business are relatively easily controlled by one person, usually the owner, but as the business expands, however, there is a tendency to split the organization into parts and employ a specialist manager to run it with a number of specialist line manager who are responsible for the operations of the particular functions. It is important decisions here are made with in an overall plan which will ensure that the business as the whole will achieve its agreed objectives as budget will force the management to think a head to anticipate what is likely to happen. It is essential therefore, that the business develops a formal planning and control system which will state clearly the objectives for both a business as the whole and for each individual functional manager.

According to a Ecoman- competency and training (2011), gave a detailed need for budgetary controls as analyzed thus Budgetary control integrates the organization's strategic planning with budgets and processes of cost control, identifies the budgeting / financial skills required for better decision making, whether for continuing business or project or a new business venture, identifies sources of financial and business data that provide insights into business and financial strategies when converted into budgets , explore traditional versus innovative budgetary techniques, get to know activity based budgeting and costing , explore capital budgeting techniques and cash flows, identify key financial indicators for the business and how and when monitor them, question to the problems and limitations of budgetary control and look for alternative tools, understand the importance of balancing financial and non-financial aspects of the business, interpret budgets and performance measurements as communication tools and finally help to think pro-actively beyond budgeting. Utilization of resources. Capital and effort are used to achieve financial objectives and kept at minimal level in any given organization. It promotes coordination and communication of all functions and activities among the various departments in an organization.

Motivation of manager through use of clearly defined objectives and monitoring of achievements through employees participating in the setting up of budgets and acting as a guide to management in the field of research and development in the future. Planning ahead gives time to take collective action which compels management to think about the future, which is probably the most important feature for nay business to succeed through increases in production efficiency, elimination of the wastes and controlling the costs.

Nwankwo (2010), contend that budgetary control establishes the system of control if plans are reviewed regularly against actual as well as transferring authority to individual managers for decisions. It provides a basis of performance appraisal, that is, variance analysis where actual performance is measured and assessed against the budget plan.

Budgetary control is a subject to human judgment, interpretation and evaluation. The system necessitates forecasting which is surrounded with the risks of future uncertainties. It requires good and adequate standards and in some cases these are hard to develop at the same time, it requires skills, experience, and expenditure of time, money and effort to make this system to work successfully.

Krishna (2010), stipulated that the biggest limitation of traditional budgetary control is that focuses primarily on expenses, paying little attention to the results obtained as the result of the expenses incurred. For example, the marketing manager may fail to cash on an opportunity to sell more by increasing the travelling of his sales persons because that will lead to travel expenditure exceed the budget.

Another common limitation of budgetary control is related to the way budgets are finalized. In many organizations the budgets are often prepared on the basis of past performance rather than the future requirements. This tends to create a false feeling of planned working, when in reality the organization is only drifting along with the flow of past trends. Set in stone. Managers may be constrained by the original budget (e.g. make no attempt to spend less than maximum or exceed target income).Time consuming process may deflect managers from their prime responsibilities to running the business.

Budgets are crude tools in improving performance. Poor performance not always may change after applying budgets cut as a disciplinary action. Sometimes budget increase could be the answer for improving performance. Efficiency is determine by observing performance output and outcome achieved considering the number of people involved in the process (productivity per person) and cost data (capturing direct cost as well as indirect).

Monaheng (2012), suggests that when budgetary control is high, budgetary participation should increase accordingly. When budgeting control is riding subordinates would want to know assessment criteria in details. Therefore, as the budgetary control increases, budgetary participation of subordinates is also expected to increase. He advocates that budgetary participation is an important moderating variable in the relations between type of budgetary control and subordinate's performance. Brownell (1982), findings, budget application that includes budgetary control have no direct effect on performance, while budgetary participation affects performance directly and negatively. But in case where budgetary control is high, there is a meaningful positive relation between performance and budgetary participation.

Differing from Brownell and Dunk (2011), the study conducted by Otley and Pollanen (2010), reveals that budgetary participation, control and task ambiguity directly affects performance negatively but in situations where they combined interaction of variables, the effect differ. According to the study, while budgetary participation, control and task ambiguity affect performance negatively, in situations where budgetary control is high, participation makes positive contribution to performance. One of the reasons for this increase in performance could be related to procedural justice, since budgetary control enables subordinates to participate more in budgetary process, their perception of procedural justice is positively affected by budgetary control.

Budgetary control is a technique of managerial control in which all operations are planned in advance in the form budgets and actual results are compared with budgetary standards. An effective system of budgetary control manages to plan and control the use of resource in a systematic and logical manner. Financial objectives and constraints should be communicated to managers of budget centers and regular monitoring keeps management informed of progress towards objectives (Pandey, 2013).

Constance (2010), contend that prior to erecting a new plant or taking on a new project, prudent managers conduct a cost-benefit analysis as a means of evaluating all the potential costs and revenues that may be generated if the project is completed. The outcome of the analysis will determine whether the project is financially feasible or if another project should be pursued. The first step in the process is to compile a comprehensive list of all the costs and benefits associated with the project or decision. Costs should include direct and indirect costs, intangible costs, opportunity costs and the cost of potential risks. Benefits should include all direct and indirect revenues and intangible benefits, such as increased production from improved employee safety and morale, or increased sales from customer goodwill. Joreme (2011), further contend that a ommon unit of monetary measurement should then be applied to all items on the list. Care hould be taken to not underestimate costs or overestimate benefits. A conservative approach vith a conscious effort to avoid any subjective tendencies when calculating estimates is best uited when assigning value to both costs and benefits for the purpose of a cost-benefit analysis. 'he final step is to quantitatively compare the results of the aggregate costs and benefits to letermine if the benefits outweigh the costs. If so, then the rational decision is to go forward with project. In not, a review of the project is warranted to see if adjustments can be made to either ncrease benefits and/or decrease costs to make the project viable. If not, the project may be ıbandoned.

Iohnson and Aggarwal (2015), argued that traditional measures of liquidity are in lack of expressing the effects of cash flows; hence, the effectiveness (and quality) of working cash nanagement practices in terms of firm profitability should be revised by components of cash conversion cycle. In a study by Myers (2003), about working capital management practices in retailing firms, it has been concluded that there is a reverse relationship between cash nanagement cycle and profitability. However, Soenen (1993) contradicts the same idea as he noted that in case of overlooking industrial differences, there does not exist any statistically constant relationship between cash conversion cycle and profitability. However, in case of considering industrial differences, the relationship between the mentioned variables has shown dissimilarities across industries as positive in some industries and negative in others.

### 2.3.2 Effect of cost allocation on profitability of organizations

Joreme (2011), contend that the core components of a cost allocation system consist of a way to track which organizations provides a product and/or service, the organizations that consume the products and/or services, and a list of portfolio offerings (e.g. service catalog). Depending on the operating structure within a company, the cost allocation data may generate an internal invoice or feed an ERP system's chargeback module. Accessing the data via an invoice or chargeback module are the typical methods that drive personnel behavior. In return, the consumption data becomes a great source of quantitative information to make better business decisions. Today's organizations face growing pressure to control costs and enable responsible financial ıanagement of resources. In this environment, an organization is expected to provide services ost-effectively and deliver business value while operating under tight budgetary constraints.

:aplan and Cooper (2015), argued that an effective cost allocation methodology enables an ırganization to identify what services are being provided and what they cost, to allocate costs to ›usiness units, and to manage cost recovery. Under this model, both the service provider and its espective consumers become aware of their service requirements and usage and how they lirectly influence the costs incurred. This information, in turn, improves discipline within the ›usiness units and financial discipline across the entire organization. With the organization ırticulating the costs of services provided, the business units become empowered and ›ncouraged to make informed decisions about the services and availability levels they request. Γhey can make trade-offs between service levels and costs, and they can benchmark internal :osts against outsourced providers.

Constance (2010), state that every organization must define their costs, like how funding runs :hrough the organization, who touches it, what they do and how they do it serves as a foundation for this understanding. According to the Office of Management and Budget's Uniform Guidance, there are only three types of costs indirect, Indirect-Admin (Overhead) and Direct. By correctly defining and allocating costs, true cost of service can be fully captured. Direct costs - are those that can be associated specifically to a final cost objective.

Constantinides (2013), argued that indirect costs - are things that you need to do for the sake of the organizational health & operations, but don't tie back to a specific program. For instance, the actual time (resources) that need to be dedicated when working with your Internet provider to fix the organization's connection is important, but it 's unlikely that the time spent can be tied to one particular function in a program. Indirect-Admin (Overhead) costs - are defined as those that are not direct but are necessary for the immediate support of the program. Indirect-Admin costs or overhead are very important to nonprofits since unlike government, they do not necessarily have separate buckets of funding. If direct costs are the foundation, the Overhead costs are one touch away. So, when you are working on managing a program, leading those working for a program in their work or simply accounting for program expenses and revenues, you are only one touch away and are, in effect, performing direct activities. These activities can be attributed to your Direct Costs for purposes of expense reimbursement.

Yeng (2010), argued that cost allocations are sometimes made to influence management behavior and thus promote goal congruence and managerial effort. Consequently, in some organizations there is no cost allocation for legal or internal auditing services or internal management consulting services because top management wants to encourage their use. In other organizations there is a cost allocation for such items to spur managers to make sure the benefits of the specified services exceed the costs.

Danladi (2012), provided that costs are allocated to products and projects to measure inventory costs and cost of goods sold. These allocations frequently service financial accounting purposes. However, the resulting costs are also often used by managers in planning, performance evaluation, and to motivate managers, as described above. To justify costs or obtain reimbursement. Sometimes prices are based directly on costs, or it may be necessary to justify an accepted bid. For example, government contracts often specify a price that includes reimbursement for costs plus some profit margin. In these instances, cost allocations become substitutes for the usual working of the marketplace in setting prices.

Stefania and Sgârdea (2009), argued that costs to be allocated are traced to cost pools, preferably keeping variable costs and fixed costs in separate pools. Fixed costs of service departments should be allocated using predetermined monthly lump sums for providing a basic capacity to serve. Variable costs should be assigned by using a predetermined standard unit rate for the services actually used. Often it is best to allocate only those central costs of an organization for which measures of usage by departments are available. Service department costs can be allocated using either the direct method or the step-down method.

Regina (2012) contend that joint costs are often allocated to products for inventory valuation and income determination using the physical-units or relative-sales-value method. However, such allocations should not affect decisions. Activity-based costing is growing in popularity. It first assigns costs to the activities of an organization. Then costs are traced to products or services based on cost drivers that measure the causes of the costs of a particular activity.

According to Jensen (2010) monitoring of costs can also be interpreted to enjoy private benefits of control even though they do not consider the effect of outsiders having voting stock. The private benefits literature extends the potential agency problem to include shareholders as well. The private benefits may include for example, pure monetary payments, higher salaries for board representation or underpriced services and goods for corporate owners. They can also be non-pecuniary, such as control amenities or synergies in production. Insider owners, in turn, could get private benefits from increased discretion over the firm's decisions. Naturally, the individual characteristics of the shareholders and the firm determine the potential for having these private benefits (Tim, 2011).

In a article to the market for corporate control literature, Stulz (2015), has argued that due to its discouraging effect on possible takeovers, managerial shareholdings have a nonlinear relationship with firm value. In the monitoring model by Stulz, the premium paid to get a control over a firm increases, but the probability of the takeover decreases with higher managerial shareholdings. The effect of increasing insider shareholding on costs was already discussed in detail in the previous section; as the managers bear larger fraction of the costs they will take less and less actions causing agency costs. But why would a more concentrated outside ownership lower costs? The monitoring meant here is not simply observing the managers' actions, but also figuring out their consequences in an uncertain world and actively participating in corporate decision making (Reen, 2013).

### 2.3.3 Effect of cost monitoring and control on profitability of organizations

Monitoring and control of costs by outside shareholders is likely to decrease the costs created by the manager as it limits her discretion, but is unlikely to eliminate them completely (Danladi, 2012). However, the owner-manager cannot escape bearing the ultimate price for the agency costs as she will bear the wealth effects on the value of her equity share, if the market anticipates the agency costs generated by her actions. For the empirical part, the idea that the markets anticipate agency costs is a crucial assumption, as we will look at the effect of ownership structure on equity values. Furthermore, the manager then has an incentive to try to limit agency costs (Jensen and Meckling, 2014).

Even though Jensen and Meckling (2014), present a special case in their paper, it demonstrates the conflict between managers and owners well. Naturally, we have left out any effects of the monitoring or the bonding (compensation tied to firm value, etc.) activities taken by the outside investors or the managers that would help to reduce costs. Nevertheless, even if most of the assumptions are loosened, the conflict of interest between owners and managers is relevant as long as the owners cannot observe the managers actions or their consequences completely. An example of what happens, when the monitoring by the external shareholders is taken into account can be found from Pagano and Röell (2015). They show that the owner-manager prefers more dispersed holdings by outsiders due to lesser monitoring and thus higher discretion to spend firm's resources on non-pecuniary benefits.

The main point of Jensen and Meckling (2014), monitoring model is that there is a tradeoff in the form of costs between having more or less insider ownership. Business costs are created whenever the manager also controls an outsider's investment besides her own, because there is a fundamental conflict of interest. This is the same conclusion Berle and Means argued already in 1932 by saying that the separation of ownership and control in large public companies created room for managers to use the wealth of the companies to their own advantage. Jensen and Meckling formulated a theory of ownership structure based on this problem of agency. Because of the conflict of interest between managers and outside shareholders, firm performance is not independent of ownership structure (Jensen, 2010).

Jensen (2010) also indicated in his article how debt financing affects the manager's incentives. Their main conclusions are similar to those with outside equity. Higher debt levels increase the moral hazard (incentive to take risk) of the manager, and the cost of taking extra risk (and the measures designed to limit it) can be thought as costs. These costs some times are borne by the firm as increased cost of borrowing. Jensen and Meckling further argue that due to agency problems the probability distribution of the future cash flows is not independent of the level of debt a company holds higher levels of debt lead to more risk taking and thus to higher variance in the returns. The levels of outside equity and debt are determined simultaneously as to minimize the total agency costs (and hence to maximize firm value) composed of agency costs on outside equity and agency costs on debt. The detailed exposition of their ownership structure model is left aside; the conclusions presented above nevertheless apply to it as well. What is mportant here is that there are different kinds of outside investors that are affected by agency )roblems and bear different sets of costs.

[he most often stated explanation is that shareholders with only small stakes in a company fail to nonitor management effectively. A more concentrated ownership, in the form of large shareholders, creates more effective monitoring. There are two important obstacles for effective nonitoring of the management that large shareholders may help to solve: they may reap enough penefits by staying informed that it exceeds the costs of obtaining the needed information and hey may also have a sufficiently large share of the votes that they can effectively influence corporate outcomes (even with a minority holding). Small shareholders have trouble doing this collectively as they internalize only a small part of the possible gains by themselves and suffer from free-rider problems.

Jensen and Fama (2003), also make a point that, when the decision making is in the firm is diffuse, costs can then be reduced by separating the management (initiation and implementation) and control (ratification and monitoring) of decisions. In smaller firms this can mean that managers do the management of decisions and shareholders the controlling of decisions, but in larger firms diffusion and separation of both at different levels of the organization are needed. There are of course many other factors besides the nature of decision making information that can tilt the balance to the side of separation of ownership and control. An obvious reason for this is firm size found also in Jensen and Meckling, (2013), paper, otherwise the firm size is constrained by the owner-managers wealth (and ability lend) and the possible benefits offered by economies of scale are left unused.

Easterbrook and Fischel (2014), have analyzed the voting structure of firms and the free-rider problems large shareholders may help to overcome in more detail. The important factor for the large shareholders to have an effect is that monitoring is costly, consuming resources such as time and money. The monitoring meant here is not simply observing the managers' actions, but also figuring out their consequences in an uncertain world and actively participating in corporate decision making. In terms of Jensen and Meckling (2013), one can think that agency costs are decreasing in the share the largest owner (or largest owners) holds due to increased efficiency in monitoring. There are formal models explaining why the existence of a large block holder may increase corporate performance (Zeckhauser and Pound, 2014).

## 2.4 Related Studies

Emengini (2014), carried out a study title 'product cost management in relation to Activity-Based costing (ABC) by manufacturing companies in a developing country like Nigeria. Data were collected from 58 sampled companies using questionnaire and analyzed using student's t-test and Multivariate analysis variance (MANOVA). The study disclosed that product cost management through application of ABC and traditional costing is geared towards cost reduction and are good strategic cost techniques in controlling cost. They further review that there is no statistically significant difference in cost reduction attained by ABC over Traditional costing, but though ABC tend to have higher effect and profit realized of ABC is equally higher. Base on the findings, the study recommends that manufacturing companies in developing countries should develop a good tone of management and core values that will promote the utilization of ABC in their costing system, and the use software to facilitate application of ABC. The research is limited to South East of Nigeria.

Horngren (2005), argues that that Activity-Based costing (ABC) when used as part of the strategic planning process may provide useful insights. An ABC system is a system that first accumulates overhead costs for each of the activities of the area being cost, and then assigns the costs of activities to the products, services or other cost objects that require that activity. Greater diversity in the types of products and services as well as customers classes results in greater business operating complexity. Therefore the consumption of a company's shared resources also varies substantially among products and customers. New products techniques have increased the proportion of indirect costs. Indirect costs are far more important in today's world class manufacturing environment.

Deloof (2003), also disclosed relationships between cost control and profitability by dividing cash conversion cycle into its components (inventory, accounts receivables and accounts payables periods). Results of the study have concluded that increases in all of these periods affect profitability negatively. Findings by Lazaridis and Trifonidis (2014,) also noted that there existed a relationship between cash management and profitability. Cash mismanagement affects profitability negatively. According to the findings of another study from a different perspective, it has been concluded that the effect of cash conversion cycle on profitability is stronger than the effect of current ratio on it (Eljelly, 2014).

According to Kakuru (2001) if cost management concentrates on boosting the liquidity, high balances of cash will be maintained. However the higher these balances are, the more profitability will be fore gone. This is risky especially to people who expect profitable ventures. On the other hand if cash management seeks to boost profitability, investments are highly risky but profitable and the business is threatened as there will be no cost to meet the operating obligations as they fall due. If care is not taken profitability will be short lived as the commercial bank will be forced to close due to illiquidity.

Stefania and Sgârdea (2009) contend that the mobilization of domestic and foreign resources has become problematic due to several year of dictatorial misrule, the business environment continues to be severely impacted by widespread religious, cultural and political disturbance in Nigeria, infrastructural by all intents and purposes, remain to be grossly inadequate and in a poor state, with the cause by supply of power leading to serious disruptions in production are constituting serious strains in the company's finances, with greater reliance been placed on the use of private generating facilities. However, the productivity of the manufacturing sector is also associated with high production cost rélated with high tariffs, increase in cost of energy, rising cost of imported inputs as a result of continues depreciation of naira exchange rate, and rising rate of inflation. Furthermore, the net import requirement of the manufacturing sub- sector grew rapidly as more than 60% of the raw materials consumed is imported due to lack of economics of scale, difficulty in obtaining technical expertise, inadequate research into local substitute and cost of production of locally sources material.

**2.5 Research Gaps**

Basing on the reviews of related literature, the following gaps will be identified; a number of studies will be reviewed which were carried out in different Organisations and countries which possess the geographical gap which this study intended to bridge. Similarly, the constructs used in other countries were not exactly the same as those used in this study. For instance in Lazaridis and Trifonidis (2014) argued that there existed a relationship between cash management and profitability. Cash mismanagement affects profitability negatively. According to the findings of another study from a different perspective, it has been concluded that the effect of cash conversion cycle on profitability is stronger than the effect of current ratio on it (Eljelly, 2014).

The Agency theory by Adam et al., (2011) who had investigated the influence of internal control on financial performance of Micro-finance Institutions in Central Uganda.

According to Jensen (2010) he argued that monitoring of costs can also be interpreted to enjoy private benefits of control even though they do not consider the effect of outsiders having voting stock. The private benefits literature extends the potential agency problem to include shareholders as well. The private benefits may include for example, pure monetary payments, higher salaries for board representation or underpriced services and goods for corporate owners, but however Jensen's argument did not indicate the measures to be undertaken in order to minimize costs.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.0 Introduction

This section gave clear information on how data was collected and he analyzed for the study. It therefore, focused on the nature and pattern of the research design the methodology that were used are; research design, sample size, target population and sampling procedure, the methods and instruments of data collection in the field were all he discussed.

## 3.1 Research Design

This study employed a cross-sectional research design. Cross-sectional design allowed the study of the population at one specific time and the difference between the individual groups within the population compared (Mugenda & Mugenda, 2003). The study also used survey design, this was used to collect data from a large sample of respondents. This study was also descriptive whereby qualitative and quantitative research approaches were used to gain insight to variables, it was descriptive in that it described the characteristics of respondents. Qualitative approach included the use of interviews, while quantitative approaches involved use of descriptive statistics that were generated inform of frequency tables, graphs, and Charts. Qualitative and quantitative approaches were adopted to enable the researcher to get and analyze information concerning respondents' opinions about the impact of cost control and profitability in manufacturing firms in G.B.K Group of Companies Limited.

## 3.2 Area of Study

The study was conducted in G.B.K Group of Companies Limited. Mbarara municipality, Mbarara district, south western Uganda. G.B.K Dairy Products (U) ltd started operations in 1996, It processed 5000L per day in plastic pouches (3 months' shell life), in 1998 pouches were replaced by Tetra Paks (3 & 8 months' shelf life. Currently, G.B.K processes 50,000L per day of which 45,000L is U.H.F branded (lassie in 500 and 250 ml and 5.000L branded Classic yoghurt in 500. 250 and 150 ml. In 2009. G.B.K ventured into Mineral water processing at a capacity 0145.0001. per day using Reverse Osmosis, Ozonation and UV treatment in 600 and 1.5 ml branded (1.13K Water. In 2010, G.B.K ventured into Natural juices in Tetra Paks branded

/ictoria Juices at a capacity of 20,000L per day in 500 and 250 ml. G.B.K has realized ignificant growth since its inception with more projects in the offing in a 20-year projection, hus efforts are under way for all companies to trade under G.B.K Group of Companies.

### 3.3 Study Population

Mugenda and Mugenda (2003) defined population as a set of people, services, elements, and events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. This study was conducted in manufacturing firm of G.B.K Group of Companies Limited and therefore, the population of this study included the support staff, middle managers and administrators from the manufacturing firm of G.B.K Group of Companies Limited which had a population of 100 employees in the category of support staff, middle managers and administrators. The respective populations of the individual manufacturing firms were presented in table 3.1 below.

### 3.4 Sample Size

Kothari's (2004) recommends that a sample of 10% to 30% of the target population is a sufficient representation of the population. The sample was drawn using stratified random sampling technique. The data was treated on the basis of applicability to the study, relevance, accuracy and sufficiency.

A sample of 80 respondents were considered. These comprised of the business people who deal in the G.B.K Group of Companies Limited services as they were 36 support staff, 22 Middle Managers and 22 Administrators of G.B.K Group of Companies Limited.

The number of respondents was arrived at by using the Slovene's formula as illustrated below.

Slovene's formula $n = \frac{N}{1+N(e)^2}$

Where **n** = Sample size

**N** = Population size

**e** = Marginal error which is 0.05

$$n = \frac{100}{1 + 100(0.05)2}$$

$$n = \frac{100}{1 + 100 * (0.0025)}$$

$$n = \frac{100}{1 + 0.25} = 80 \text{ respondents}$$

**Table 3.1: Showing sample size and sampling techniques**

| **Respondent category** | **Population** | **Sample size** | **Sampling technique** |
|---|---|---|---|
| Support staff | 40 | 36 | Simple random |
| Middle Managers | 30 | 22 | Simple random |
| Administrators | 30 | 22 | Simple random |
| **Total** | **100** | **80** | |

### 3.5 Sampling techniques

According to Sekaran (2003), sampling is the process of choosing the research units of the target Population, which are to be included in the study. The study used simple random sampling during the process of data collection from the study respondents. The study applied purposive sampling technique because it gives all the people the chances of being selected. Simple random sampling was used to select all the study respondents during data collection process in the study area.

### 3.6 Research instruments

#### 3.6.1 Questionnaires

This was a tool that the researcher used to collect data from the field. The questionnaire were both open ended and closed ended because the research also needs to acquire independent ideas from the respondents. The researcher set a number of questions related to the topic, objectives of the study. A self-administered questionnaire was used by select respondents (business people) hrough the use of primed questions. The respondents filled the questionnaires and returned them o the researcher who later analyze it for the next step.

### 3.6.2 Documentary Study

The researcher used various textbooks, references Journals Reports. Newspapers relating to the research study. These looked at the already existing data that had been published regarding the problem of the study.

## 3.7 Data Analysis.

Data was processed and analyzed after its collection during processing the researcher edited the collected information by sorting out the corrected and applicable information to the existing topic, after the editing of data the researcher then carried out recording of data and applied data where it was applicable. In data analysis the researcher critically examined the assembled data which made the researcher to think and analyzed the data in the next Cording.

## 3.8 Ethical Considerations

The researcher acquired an introductory letter from the Dean Faculty of Business and Development Studies of Bishop Stuart University, introducing him to G.B.K Group of Companies Limited and the division requesting to allow the researcher carries out the research study within G.B.K Group of Companies Limited.

## CHAPTER FOUR

## DATA PRESENTATION, ANALYSIS AND INTERPRETATION

### 4.0 Introduction

This chapter presented, analyzed and interpreted data collected from the field. Data analysis and interpretation was based on the research objectives. Below are the data presentations and analysis of research findings;

### 4.1 Response Rate

The study targeted a sample of 80 respondents. However, out of 80 questionnaires distributed 60 respondents completely filled in and returned the questionnaires, this represented a 75% response rate. This is a reliable response rate for analysis as Mugenda and Mugenda (2003) showed that 50% of response rate is sufficient for analysis and presentation of the data, 60% is reliable and 70% of response rate and over is excellent. However, 25% of the respondent were reluctant to responded to fill the questionnaire this was due to reasons like, the respondent were not available to fill them in at the required time and even after subsequent follow-up there were no positive reactions from them.

**Table 4.1: Response Rate**

| **Response** | **Frequency** | **Percentage (%)** |
|---|---|---|
| Filled in questionnaires | 60 | 75% |
| Non response | 20 | 25% |
| **Total** | **80** | **100.0** |

### 4.2 Demographic characteristics of the Respondents

The data in table 4.2 showed the profile information of respondents as to gender, age, level of education, years spent in a business and position held.

### 4.2.1 Gender of respondents

**Table 4.2: Gender of respondents**

| **Gender** | **Frequency** | **Percentage** |
|---|---|---|
| Male | 55 | 69% |
| Female | 25 | 31% |
| **Total** | **80** | **100%** |

**Sources: Primary Data 2019**

According to table 4.2 gender, results showed that 69% were male and 31% of the respondents were female. This clearly implied that majority of the respondents in Gourmet Burger kitchen group of companies are run and dominated by men while their counterpart occupies only small portion.

### 4.2.2 Age of respondents

**Table 4.3: Age of respondents**

| **Age** | **Frequency** | **Percentage** |
|---|---|---|
| 20-29 | 20 | 25% |
| 30-39 | 40 | 50% |
| 40-49 | 15 | 19% |
| 50 years and above | 5 | 6% |
| **Total** | **80** | **100** |

**Sources: Primary Data 2019**

Results in table 4.3 indicated that majority of the respondents represented in this study were between 30-39 years (50%), followed by respondents' age between 20-29years (25%), 19% were between 40-49 years and finally 6% were 50 years and above.

### 4.2.3 Marital Status of mothers

**Table 4.4: Responses on Marital status**

| Response | Frequency | Percentage |
|---|---|---|
| Single | 37 | 46% |
| Married | 29 | 36% |
| Widow | 9 | 11% |
| Divorced | 5 | 6% |
| **Total** | **80** | **100** |

**Source: Primary data 2019**

The findings from Table 4.4 shows that out Of the 80 respondents, 46% reported single, 36% reported being married, 11% reported being widow, 6% were divorced. This is a reflection of the common practice of cohabiting in modern African society. Also, the number of divorced and separated was the least, pointing to the relatively low rate of divorce and separation in Africa, as compared to the developed world where divorce averages over 40%, in the US for example, according to the United nations (2013).

### 4.2.4 Education Level

**Table 4.5: Response on Qualification of Respondents**

| Education qualification | Frequency | Percentage |
|---|---|---|
| Certificate | 9 | 11% |
| Diploma | 25 | 31% |
| Degree | 32 | 40% |
| Masters | 12 | 15% |
| Others | 2 | 3% |
| **Total** | **80** | **100** |

**Sources: Primary Data 2019**

Table 4.5, showed that majority of the respondents had attained Bachelors degree (40%), the second group of the respondents was (31%) had only attained diploma as far as education is concerned, the third group (15%) had attained Masters, 11.1% were certificate holders and only 1.2% were regarded as others who could be having professional certificates.

### 4.2.4 Years spent working in the organisation

**Table 4.6: Response on Years spent working in the organisation**

| Years spent working in the organisation | Frequency | Percentage |
|---|---|---|
| Less than 1 year | 5 | 6% |
| 1-3 years | 29 | 36% |
| 4-6 years | 37 | 46% |
| 7 years and above | 9 | 11% |
| **Total** | **162** | **100** |

**Sources: Primary Data 2019**

In table 4.6, in terms of years spent working, majority of the respondents (46%) had worked for 4-6 years, followed by those between 1-3 years (36%), 11% had worked for 7 years and above, finally 6% had worked for less than 1 year. This indicated that majority of these respondents had enough experience in their businesses, and therefore they could provide the researcher with the information required.

## 4.3 Cost controls

The independent variable in this study was cost controls, this variable (IV) was broken into three constructs and these were; budget control (with seven items/questions), cost allocation (with seven questions) and cost monitoring (with seven questions). Each of these questions was based on a four point Likert scale whereby respondents were asked to rate the cost controls by indicating the extent to which they agree or disagree with each question.

[able 4.7: Cost controls**

| get control | Mean | Std. | Interpretation | Rank |
|---|---|---|---|---|
| :e is effective budgeting of preliminary cost establishment | 3.28 | 1.012 | Very satisfactory | 1 |
| :e is effective budgetary planning for the materials required | 3.02 | 1.125 | Satisfactory | 2 |
| day to day activities are effectively budgeted for | 2.91 | 1.062 | Satisfactory | 3 |
| re is an accountable budgetary framework | 2.88 | 1.056 | Satisfactory | 4 |
| management teams usually okays the budgeting process | 2.81 | .952 | Satisfactory | 5 |
| re is effective budgeting at departmental levels | 2.74 | 1.165 | Satisfactory | 6 |
| manufacturing costs are effectively determined before luction | 2.36 | 1.265 | Unsatisfactory | 7 |
| **rage mean** | **2.86** | **.69300** | | |
| **t allocation** | | | | |
| management provide avenues and time schedule for the costs cated | 3.34 | 1.023 | Very satisfactory | 1 |
| re is a system for effective cost tracking for efficiency | 3.01 | 1.126 | Satisfactory | 2 |
| re is established stakeholder stance in cost allocation | 2.86 | 1.139 | Satisfactory | 3 |
| re is organization employ a steady and highly established cost cation mechanism | 2.73 | 1.058 | Satisfactory | 4 |
| re is effective determination of unit cost at levels of rations | 2.66 | .973 | Satisfactory | 5 |
| organizational status is sufficient for determining the ction of cost applications | 2.57 | 1.111 | Satisfactory | 6 |
| management teams determine the efficiency and ctiveness of costs allocated | 2.48 | 1.035 | Unsatisfactory | 7 |
| **rage mean** | **2.80** | **.66143** | | |
| **t monitoring** | | | | |
| management employees monitor the establishment of costs | 3.26 | 1.053 | Very satisfactory | 1 |
| organizations employee systems for effective cost control and rations | 2.86 | 1.054 | Satisfactory | 2 |
| organizational members provide for the operational capacity | 2.81 | 1.076 | Satisfactory | 3 |
| companies have effective cost monitoring teams in the anization | 2.77 | 1.037 | Satisfactory | 4 |
| re is effective assessment of cost requirements for the anizations | 2.60 | 1.139 | Satisfactory | 5 |
| re is effective cost control by management of this organization | 2.54 | .968 | Satisfactory | 6 |
| re is effective cost control monitoring in the organization | 2.41 | 1.055 | Unsatisfactory | 7 |
| **erage mean** | **2.75** | **.67688** | | |
| **erall mean** | **2.79** | **.62300** | | |

**Sources: Primary Data 2019**

Results in table 4.7 indicated that cost controls among manufacturing firm of G.B.K Group of Companies Limited was rated satisfactory and this was indicated by the overall mean of 2.79, implying that the owners of manufacturing firm of G.B.K Group of Companies Limited fairly manage their costs well. With respect to budget control; results indicated that budget control was rated high and this was indicated by the average mean (mean=2.86), implying that cost budgeting is fairly done well by the staff in G.B.K Group of Companies Limited. Results still indicated that there is effective budgeting of preliminary cost establishment (mean=3.28), there is effective budgetary planning for the materials required (mean=3.02), the day to day activities are effectively budgeted for (mean=2.91), there is an accountable budgetary framework (mean=2.88), the management teams usually okays the budgeting process (mean=2.81), there is effective budgeting at departmental levels (mean=2.74), however the manufacturing costs are not effectively determined before production (mean=2.36).

With respect to cost allocation; results in table 4.7 indicated that six items were used to measure this construct and it was also rated satisfactory and this was indicated by the average mean of 2.80, implying that cost allocation is fairly carried out well among manufacturing firm of G.B.K Group of Companies Limited. The responses still show that; the management provide avenues and time schedule for the costs allocated (mean=3.34), there is a system for effective cost tracking for efficiency (mean=3.01), there is established stakeholder stance in cost allocation (mean=2.86), there is organization employ a steady and highly established cost allocation mechanism (mean=2.73), there is effective determination of unit cost at levels of operations (mean=2.66), the organizational status is sufficient for determining the direction of cost applications (mean=2.57), but however the management teams do not determine the efficiency and effectiveness of costs allocated (mean=2.48).

With respect to cost monitoring; results in table 4.7 connoted that this was also measured using seven items (questions) and it was rated high (mean=2.75), implying there exists a good cost monitoring system among the manufacturing firm of G.B.K Group of Companies Limited. Still results indicated that; the management employees monitor the establishment of costs (mean=3.26), the organizations employee systems for effective cost control and operations (mean=2.86), the organizational members provide for the operational capacity (mean=2.81), the companies have effective cost monitoring teams in the organization (mean=2.77), there is effective assessment of cost requirements for the organizations (mean=2.60), there is effective cost control by management of this organization (mean=2.54), however there is no effective cost control monitoring in the organization (mean=2.41).

### 4.4 Profitability

Profitability is the dependent variable in this study and was broken into two constructs and these are; profitability (with five questions) and sales growth (with five items). Each of these questions was based on a four point Likert scale and respondents were asked to rate profitability by indicating the extent to which they agree or disagree with each question, their responses were analyzed using SPSS and summarized using means and standard deviations as indicated in table 4.8;

**Table 4.8: Profitability**

| ss profit margin | Mean | Std. | Interpretation | Rank |
|---|---|---|---|---|
| profit margin is appropriate to the expectations of the owner(s) | 2.90 | 1.053 | Satisfactory | 1 |
| always plan and meet the profit margin | 2.73 | 1.053 | Satisfactory | 2 |
| ival of this business has been due to the profits you always | 2.65 | 1.165 | Satisfactory | 3 |
| always plan to increase profit margin in the business | 2.60 | 1.048 | Satisfactory | 4 |
| : profit margin has always exceeded the expenditure | 2.41 | 1.037 | Unsatisfactory | 5 |
| **rage mean** | **2.66** | **.59070** | | |
| **ırn on assets** | | | | |
| current assets are generative of more profits in your business | 3.32 | .863 | Very satisfactory | 1 |
| net operating assets sufficiently support your daily operations | 2.84 | 1.083 | Satisfactory | 2 |
| return on assets is higher than the costs of operation in the ious period | 2.52 | 1.079 | Satisfactory | 3 |
| e has been gained profits on the capital employed by business | 2.47 | 1.107 | Unsatisfactory | 4 |
| : business has attained expansion because of high returns on s | 2.42 | 1.107 | Unsatisfactory | 5 |
| **rage mean** | **2.72** | **.67783** | | |
| **ırns on invested capital** | | | | |
| : business has reached a point at which returns on invested al are equal to expenses | 3.29 | .910 | Very satisfactory | 1 |
| state of invested capital in your business is steadily growing y day | 2.79 | .971 | Satisfactory | 2 |
| : net returns on invested capital are high | 2.72 | 1.128 | Satisfactory | 3 |
| : returns on invested capital are higher than the cost of goods per month | 2.64 | .974 | Satisfactory | 4 |
| eholders of this business receive relatively high returns on sted capital | 2.09 | 1.123 | Unsatisfactory | 5 |
| **rage mean** | **2.70** | **.59182** | | |
| **rall mean** | **2.69** | **.44560** | | |

**Sources: Primary Data 2019**

Results in table 4.8 indicated that the level of profitability is high and this was indicated by the overall mean of 2.69, which implies that manufacturing firm of G.B.K Group of Companies Limited have resources which can make them financially perform well. With respect to gross profit margin; this was the first construct on the dependent variable and was measured using five items/questions and it was rated satisfactory (average mean=2.66), implying that the manufacturing firm of G.B.K Group of Companies Limited always earn relatively high profits. Still results indicated that the profit margin is appropriate to the expectations of the owner(s) (mean=2.90), always plan and meet the profit margin (mean=2.73), survival of this business has been due to the profits you always earn (mean=2.65), always plan to increase profit margin in the business (mean=2.60), but however the business the profit margin has not always exceeded the expenditure (mean=2.41).

Concerning returns on assets; results in table 4.8 indicated that this construct was rated satisfactory and this was indicated by the average mean of 2.72. Still results indicated that the current assets are generative of more profits in your business (mean=3.32), the net operating assets sufficiently support your daily operations (mean=2.84), the return on assets is higher than the costs of operation in the previous period (mean=2.52), however has been no gained profits on the capital employed by businesses for the last few months (mean=2.47) and they have not attained expansion even though they have got high returns on assets (mean=2.42).

With respect to returns on invested capital; results in table 4.8 indicated that this construct was rated satisfactory and this was indicated by the average mean of 2.70. Still results indicated that the business has reached a point at which returns on invested capital are equal to expenses (mean=3.29), the state of invested capital in your business is steadily growing every day (mean=2.79), the net returns on invested capital are high (mean=2.72), the returns on invested capital are higher than the cost of goods sold per month (mean=2.64), however shareholders of this business receive relatively high returns on invested capital (mean=2.09).

### 4.5 Objective one; effect of budget control on profitability of manufacturing firm of G.B.K Group of Companies Limited

**Table 4.9: Regression analysis model of the effect of budget control on profitability of manufacturing firm of G.B.K Group of Companies Limited**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .593[a] | .352 | .348 | .35984 |
| a. Predictors: (Constant), Budget control | | | | |

| ANOVA[b] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 10.974 | 1 | 10.974 | 84.756 | .000[a] |
| | Residual | 20.199 | 156 | .129 | | |
| | Total | 31.174 | 157 | | | |
| a. Predictors: (Constant), Budget control | | | | | | |
| b. Dependent Variable: Profitability | | | | | | |

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| | | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | 1.607 | .121 | | 13.232 | .000 |
| | Budget control | .380 | .041 | .593 | 9.206 | .000 |
| a. Dependent Variable: Profitability | | | | | | |

Regression analysis results in the Model Summary table revealed that budget control accounted for 35.2% on profitability of manufacturing firm of G.B.K Group of Companies Limited and this was indicated by r-squared of 0.352 implying that budget control contribute to the profitability of manufacturing firm of G.B.K Group of Companies Limited.

The ANOVA table indicated that budget control significantly affects the profitability and this was indicated by the F-value=84.756 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that budget control highly contributes to the profitability of manufacturing firm of G.B.K Group of Companies Limited.

The coefficients table indicated that considering the standard error, budget control significantly influence the profitability of manufacturing firm of G.B.K Group of Companies Limited (β=0.380, Sig=0. 000).

**Testing for hypothesis**

The hypothesis was rejected since the significant value was found to be less than 0.05 (Sig=0. 000).

### 4.6 Objective two; the effect of cost allocation on profitability of manufacturing firm of G.B.K Group of Companies Limited

**Table 4.10: Regression analysis model of the effect of cost allocation on profitability of manufacturing firm of G.B.K Group of Companies Limited**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .562[a] | .315 | .311 | .36536 |
| a. Predictors: (Constant), Cost allocation | | | | |

| ANOVA[b] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 9.530 | 1 | 9.530 | 71.395 | .000[a] |
| | Residual | 20.691 | 155 | .133 | | |
| | Total | 30.221 | 156 | | | |
| a. Predictors: (Constant), Cost allocation | | | | | | |
| b. Dependent Variable: Profitability | | | | | | |

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.646 | .127 | | 12.991 | .000 |
| | Cost allocation | .373 | .044 | .562 | 8.450 | .000 |
| a. Dependent Variable: Profitability | | | | | | |

Regression analysis results in the Model Summary table indicated that the cost allocation accounted for 31.5% on profitability of manufacturing firm of G.B.K Group of Companies Limited and this was indicated by r-squared of 0.315 implying that cost allocation significantly contributes 3.7% on the profitability of manufacturing firm of G.B.K Group of Companies Limited.

The ANOVA table indicated that cost allocation significantly affects the profitability and this was indicated by the F-value=71.395 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that cost allocation highly affects the profitability of manufacturing firm of G.B.K Group of Companies Limited.

The coefficients table indicated that considering the standard error, cost allocation significantly affects the profitability of small scale businesses (β=0.373, Sig=0. 000).

**Testing for hypothesis**

The hypothesis was rejected since the significant value was found to be less than 0.05 (Sig=0. 000).

**4.7 Objective three; effect of cost monitoring on profitability of manufacturing firm of G.B.K Group of Companies Limited**

**Table 4.11: Regression analysis model of effect of cost monitoring on profitability of manufacturing firm of G.B.K Group of Companies Limited**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .614[a] | .377 | .373 | .35227 |
| a. Predictors: (Constant), Cost monitoring | | | | |

| ANOVA[b] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 11.623 | 1 | 11.623 | 93.669 | .000[a] |
| | Residual | 19.234 | 155 | .124 | | |
| | Total | 30.858 | 156 | | | |
| a. Predictors: (Constant), Cost monitoring | | | | | | |
| b. Dependent Variable: Profitability | | | | | | |

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.601 | .117 | | 13.716 | .000 |
| | Cost monitoring | .399 | .041 | .614 | 9.678 | .000 |
| a. Dependent Variable: Profitability | | | | | | |

Regression analysis results in the model Summary table indicated that the cost monitoring significantly affects profitability of manufacturing firm of G.B.K Group of Companies Limited at a rate of 37.7% and this was indicated by r-squared of 0.377, hence implying that cost monitoring significantly influences the profitability of manufacturing firm of G.B.K Group of Companies Limited.

The ANOVA table indicated a positive significant effect cost monitoring has on profitability and this was indicated by the positive F-value=93.669 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that cost monitoring highly affects the profitability of manufacturing firm of G.B.K Group of Companies Limited. Still this implied that high levels of cost monitoring can improve the level of profitability and poor cost monitoring measures reduce it.

The coefficients table indicated that considering the standard error, cost monitoring significantly affects the profitability of small scale businesses ($\beta$=0.399, Sig=0. 000).

**Testing for hypothesis**

The hypothesis was rejected since the significant value was found to be less than 0.05 (Sig=0. 000).

# CHAPTER FIVE

# DISCUSSIONS, CONLUSIONS AND RECOMMENDATIONS

## 5.0 Introduction

This chapter focuses on the findings, conclusions; recommendations based on the conclusions of this study and suggested areas that need further research following the study objectives;

## 5.1 Discussions

This study was set to find out the relationship between cost controls and profitability in the Manufacturing firm of G.B.K Group of Companies Limited, three specific objectives guided this study and these were i) determining the effect of budget control on profitability of manufacturing firm of G.B.K Group of Companies Limited; ii) examining the effect of cost allocation on profitability of manufacturing firm of G.B.K Group of Companies Limited and (iii) to establish the effect of cost monitoring on profitability of manufacturing firm of G.B.K Group of Companies Limited.

### 5.1.1 Objective one; the effect of budget control on profitability

The findings indicated that budget control significantly affects the profitability of manufacturing firm of G.B.K Group of Companies Limited, this effect therefore implies that budget control contribute to the profitability of manufacturing firm of G.B.K Group of Companies Limited. This finding is in line with Bendney and Colston (2015) who argued that small business are relatively easily controlled by one person, usually the owner, but as the business expands, however, there is a tendency to split the organization into parts and employ a specialist manager to run it with a number of specialist line manager who are responsible for the operations of the particular functions. Nwankwo (2010) contend that budgetary control establishes the system of control if plans are reviewed regularly against actual as well as transferring authority to individual managers for decisions. It provides a basis of performance appraisal, that is, variance analysis where actual performance is measured and assessed against the budget plan. Even Krishna, (2010) stipulated that the biggest limitation of traditional budgetary control is that focuses primarily on expenses, paying little attention to the results obtained as the result of the expenses incurred. For example, the marketing manager may fail to cash on an opportunity to sell more by increasing the travelling of his sales persons because that will lead to travel expenditure exceed the budget.

Otley and Pollanen (2000) reveal that budgetary participation, control and task ambiguity directly affects performance negatively but in situations where they combined interaction of variables, the effect differs. According to the study, while budgetary participation, control and task ambiguity affect performance negatively, in situations where budgetary control is high, participation makes positive contribution to performance.

**5.1.2 Objective two; the effect of cost allocation on profitability**

The findings revealed that there is a significant effect cost allocation has on profitability of manufacturing firm of G.B.K Group of Companies Limited, this also implied that high cost allocation improves the level of profitability of Manufacturing firm of G.B.K Group of Companies Limited and poor cost allocation reduces it. This finding agrees with Kaplan and Cooper (2015) who argued that an effective cost allocation methodology enables an organization to identify what services are being provided and what they cost, to allocate costs to business units, and to manage cost recovery. Under this model, both the service provider and its respective consumers become aware of their service requirements and usage and how they directly influence the costs incurred. There are usually significant differences in cost measurement between cost accounting for external reporting and costing for managerial purposes, the latter requiring a broader perspective that measures how resource expenses are consumed and reported as costs of the organization's activities and outputs.

Yeng (2010) argued that cost allocations are sometimes made to influence management behavior and thus promote goal congruence and managerial effort. Consequently, in some organizations there is no cost allocation for legal or internal auditing services or internal management consulting services because top management wants to encourage their use. In other organizations there is a cost allocation for such items to spur managers to make sure the benefits of the specified services exceed the costs.

### 5.1.3 Objective three; the effect of cost monitoring on profitability

But the findings of this study proved a weak positive significant effect cost monitoring has on profitability of manufacturing firm of G.B.K Group of Companies Limited, this therefore implies that good cost monitoring increases the level of profitability of Manufacturing firm of G.B.K Group of Companies Limited and poor cost monitoring reduces it. This finding is in line with Jensen and Meckling (2014) who argued that monitoring is a tradeoff in the form of costs between having more or less insider ownership. Business costs are created whenever the manager also controls an outsider's investment besides her own, because there is a fundamental conflict of interest. Furthermore according to Jensen (2010) monitoring of costs can also be interpreted to enjoy private benefits of control even though they do not consider the effect of outsiders having voting stock. The private benefits literature extends the potential agency problem to include shareholders as well. The private benefits may include for example, pure monetary payments, higher salaries for board representation or underpriced services and goods for corporate owners.

## 5.2 Conclusions

### 5.2.1 Objective one; the effect of budget control on profitability

According to the findings budget control has a positive significant effect on profitability of manufacturing firm of G.B.K Group of Companies Limited. Therefore budgetary control has a considerably high influence on the profitability of the manufacturing organizations, hence there is need for improving the budgetary controls to enhance profitability.

### 5.2.2 Objective two; the effect of cost allocation on profitability

According to the findings cost allocation has a significant effect on profitability of manufacturing firm of G.B.K Group of Companies Limited. Hence cost allocation has a high bearing on profitability of the manufacturing organizations.

### 5.2.3 Objective three; the effect of cost monitoring on profitability

According to the findings cost monitoring has a weak positive significant effect on profitability of manufacturing firm of G.B.K Group of Companies Limited. Therefore cost monitoring has a bearing on the profitability hence there is need for enhancing monitoring given the state of the profits though other factors complemented in the study.

## 5.3 Recommendation

### 5.3.1 Effect of budget control on profitability of manufacturing firm

The budget control was found operating though with limited capacity, there is need to enhance the budgetary controls through improving the mechanism for budgeting as the mechanism for enhancing profitability. The process of budget control in manufacturing companies should be very comprehensive covering all departments and sections as this will enable management to effectively implement budgetary controls. Manufacturing companies like G.B.K Group of Companies Limited should look at other factors that directly affect profitability. These include availability of qualified personnel to implement the budget, the level of technology applied and the effect of changes in demand.

### 5.3.2 Effect of cost allocation on profitability of manufacturing firm

The cost allocation appropriateness needs to be enhanced through enhancing the cost allocations mechanisms as practical situations to improve profitability. There is need for managers who are responsible for the setting cost allocation standards should be educated on the relevance for the costs of the manufacturing firm. Adherence to the standard costing information should be practiced by the top management as it is a tool for the improvement of profit in the manufacturing firm.

### 5.3.3 Effect of cost monitoring on profitability of manufacturing firm

The manufacturing companies need to improve the status quo on cost monitoring in order to enhance the state of monitoring aspects that negatively affect profitability. There is need to improve the stakeholders involvement in cost monitoring especially in assessing the costs involved in determining costs.

## 5.4. Limitations of the Study

The researcher faced the following challenges during the course of the study

(i) Shortage of funds limited the researcher since the study conducted is self-sponsored.

(ii) Reluctance among the members of staff to avail necessary data required for the study.

(iii) High costs on expenditures like meals and refreshments, stationery costs, consultation and transport cost.

### 5.5 Areas for further research

Prospective researchers and even students are encouraged to research on the following areas;

- Cost allocation and profitability of manufacturing firm of G.B.K Group of Companies Limited
- Cost monitoring and profitability of manufacturing firm of G.B.K Group of Companies Limited
- The challenges facing the profitability of manufacturing firm of G.B.K Group of Companies Limited

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# APPENDICES

## Appendix I: Research Questionnaire

**Dear respondent,**

I, am Ronald Bamwesigye a student of Kampala International University Uganda pursuing degree of business administration- Accounting and Finance. As part of my study at Kampala International University, I am conducting a study on "Cost controls and Profitability in manufacturing firm of G.B.K Group of Companies Limited. Please spare some time and answer the questions that follow. Your response will be kept strictly confidential and will only be accessed by the research team. The information provided will only be used for academic purposes in this study.

Thank you very much for your time and cooperation.

Yours Cordially,

..................................................

Researcher

**Section A: Demographics of respondents (Pick the appropriate response)**

Gender

- Male ☐
- Female ☐

Highest level of qualification

- Certificate and Diploma ☐
- Degree ☐
- Masters ☐
- others ☐

Age

a) 20 - 29 ☐

b) 30 - 39 ☐

c) 40 - 49 ☐

d) 50+ ☐

Marital Status: Single

Married ☐

Widowed ☐

Divorced ☐

Others (Specify)

...................................................................................................

How long have you worked in this organization

Less than 1 year ☐

Below 1-3 years ☐

Between 3-5 years ☐

6 years and above ☐

**SECTION B: Cost Control in Manufacturing firms in G.B.K Group of Companies Limited**

The use of Likert scale were 1= Strongly disagree, 2= Disagree, 3= Not sure 4= Agree, 5= Strongly Agree.

Direction: please tick the column corresponding rating that best describes your response using the guide below

| Score | mode of response | description |
|---|---|---|
| 4 | Strongly agree | you agree with no doubt |
| 3 | Agree | you agree with some doubt |
| 2 | Disagree | you disagree with some doubt |
| 1 | Strongly disagree | you disagree with no doubt |

| | Budget control | Rankings | | | |
|---|---|---|---|---|---|
| | **Response** | 1 | 2 | 3 | 4 |
| BC1. | There is effective budgetary planning for the materials required | | | | |
| BC2 | There is effective monitoring of preliminary cost establishment | | | | |
| BC3 | The day to day activities are effectively budgeted for | | | | |
| BC4 | There manufacturing costs are effectively determined before production | | | | |
| BC5 | There is effective budgeting at departmental levels | | | | |
| BC6 | There is an accountable budgetary framework | | | | |
| BC7 | The management teams usually okays the budgeting process | | | | |
| | **COST ALLOCATION** | | | | |
| **CA1.** | There is effective determination of unit cost at levels of operations | | | | |
| **CA2.** | There is organization employ a steady and highly established cost allocation mechanism | | | | |
| **CA3.** | The management teams determine the efficiency and effectiveness of costs allocated | | | | |
| **CA4.** | The organizational status is sufficient for determining the direction of cost applications | | | | |
| **CA5.** | There is a system for effective cost tracking for efficiency | | | | |
| **CA6.** | The management provide avenues and time schedule for the costs allocated | | | | |
| **CA7.** | There is established stakeholder stance in cost allocation | | | | |
| | **COST MONITORING AND CONTROL** | | | | |
| **CMC1** | There is effective cost control monitoring in the organization | | | | |
| **CMC2** | The companies have effective cost monitoring teams in the organization | | | | |
| **CMC3** | There is effective assessment of cost requirements for the organizations | | | | |
| **CMC4** | The management employees monitor the establishment of costs | | | | |

| | | | | | |
|---|---|---|---|---|---|
| CMC5 | The organizational members provide for the operational capacity | | | | |
| CMC6 | There is effective cost control by management of this organization | | | | |
| CMC7 | The organizations employ systems for effective cost control and operations | | | | |

**SECTION C: Level of Profitability manufacturing firms in G.B.K Group of Companies Limited**

**Indicate your level of agreement on the following determinants of profitability in the manufacturing companies.**

| | **Profitability** | 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| | **Gross profit margin** | | | | |
| 1 | You always plan and meet the desired profits | | | | |
| 2 | Survival of this business has been due to the profits you always earn | | | | |
| 3 | The returns on capital employed is appropriate to the expectations of the owner(s) | | | | |
| 4 | You always plan to increase profitability in the business | | | | |
| 5 | Your business revenue have always exceeded the expenditure | | | | |
| | **Return on assets** | | | | |
| 1 | Your business has attained expansion because of high returns on assets | | | | |
| 2 | The current assets are generative of more profits in your business | | | | |
| 3 | There has been gained profits on the capital employed by business | | | | |
| 4 | The net operating assets sufficiently support your daily operations | | | | |
| 5 | The return on assets is higher than the costs of operation in the previous period | | | | |
| | **Returns on invested capital** | | | | |
| 1 | Shareholders of this business receive relatively high returns | | | | |
| 2 | Your net profit margins are high | | | | |
| 3 | Your business has reached a point at which revenues are equal to expenses | | | | |
| 4 | Your sales are higher than the cost of goods sold per month | | | | |
| 5 | The state of capital in your business is steadily growing every day | | | | |

## Appendix II: Time Frame 2019

| ACTIVITY | Mar | April | May | July | August |
|---|---|---|---|---|---|
| Topic formulation | | | | | |
| Introduction writing | | | | | |
| Literature review writing | | | | | |
| Methodology | | | | | |
| Typing and correction | | | | | |
| Reviewing | | | | | |
| Final copy formulation | | | | | |
| Report Submission | | | | | |

## Appendix III: Study Budget

The study is estimated to cost a total of Ug sh. 195000/= as shown below.

| **ITEM** | Quantity | **AMOUNT** |
|---|---|---|
| Communication | Air time | 40,000 |
| Transport | To &fro | 50,000 |
| Meals | Lunch (10) | 50,000 |
| Printing | 4copies | 20,000 |
| Binding | 4copies | 20,000 |
| Papers | 1 ream | 15000 |
| **Total** | | **195000/=** |

**Thanks for your responses**

**End**