

EFFECTS OF STANDARD COSTING ON THE PROFITABILITY OF TELECOMMUNICATION COMPANIES (STUDY OF MTN NIGERIA)

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Abstract: The paper is aimed at examining the effects of standard costing on the profitability of MTN telecommunication companies to discovering if the application of standard costing techniques have any effect on profitability, to explore the relationship between standard costing and the profitability of telecommunication companies and determining whether standard costing techniques and principles are being adopted and practiced by Nigerian MTN telecommunication company. The design of this paper is descriptive survey method and the paper was conducted at MTN Company, which is the case study of this paper work. The instrument of data collection was analyzed using the secondary data and interviews. The following were discovered findings shows that accounting records are kept and are significantly necessary in the management of the company. That the company employs standard costing in their product and decisions are made with the standard costing information obtained in the company. That accounting reports are prepared and presented to the company's management and that actions are taken promptly on the information given in the report. That effective application of standard costing has effect on the profitability of the company. That the company benefit in a significant way through the use of standard costing especially in the improvement of profit. We came to a conclusion that standard costing is widely used in Nigerian telecommunication companies and that standard costing enhances adequate planning, control and decision making processes in the company. That standard costing aids telecommunication companies in the elimination of unprofitable products, provision of costing information and cost control.

Keywords: telecommunication, standard costing, profitability, cost control, accounting.

1. INTRODUCTION

Standard costing is a performance appraisal technique used by comparing actual performance against the standards for all areas of operations with the organization. This is done in discussion with various heads of organization segments. When actual performance takes place, the actual data are compared with standards; if there is a difference between actual and standards, the difference is analysed to find reason thereof. Deviation of actual from standard is called 'variance'. Such variance, maybe 'favourable' or 'Adverse' for the organization Abdullahi, (2014). Controlling cost involves providing clear cut information on what the cost should be incurred, what the cost was actually incurred, what is the variance between what was and what should have been, why and what remedial action should be taken to ensure that the actual occurrence agree with the planned. Standard costing is a measure of comparison for quantity and qualitative values. It is a normal reference point for reevaluation of performance. It has also been variously referred to as the preparation and the use of standard cost and measurement at the points of incidence Okoye, (2000). Standard costing is concerned with measures of efficiency, which describes how managers can have control over the acquisition and use of resources in producing a given quality of output.

MTN Nigeria is the largest member of MTN group, a South African company with many subsidiaries spread across the world (21 countries in Africa and Middle East). In Nigeria, the company just marked its 13 years of operation. The company's vision is to be the country's leading telecommunications service provider while its mission is to provide 1st class network quality, customer service and value. MTN communications Ltd was one of the three (3) initial GSM companies licensed by NCC to provide telecommunications services to the Nigerian public. It commenced operations in August 2001 and has been the largest in all of Nigeria, MTN has invested billions of dollars in telecoms equipment and infrastructure providing base stations, and other amenities. It has also created job for hundred of thousand of Nigerians directly and indirectly. In the area of products and services MTN offers various services like MTN happy hour, MTN family and friends etc. It provides services like internet browsing, international roaming, enterprise solutions and airtime services. It also provides MTN blackberry services, data bundle, MTN video calling, fast link, mobile internet. Among all the mobile phone networks, MTN is the most widely spread in terms of coverage and availability. Successful implementation of TQM in the Nigerian Telecommunications sector will result in improved employee involvement, improved communication, increased productivity, improved quality of service, reduced cost, customer satisfaction, and improved competitive advantage.

Profit making is one of the primary aims of setting up a business. Profits to a business entity is key, it is when good profits are declared that management think of salary increases, good working conditions and so on for the employees. The Telecommunications industry is one of the fastest growing industries in the world in terms of revenues and profits. There is no doubt that the Telecommunications industry in Ghana has contributed so much in terms of the growth of Ghana's Economy. Telecoms accounted for a third of GDP growth in Ghana in 2010 (WI June, 2011; MTN Annual Reports and Delta Partners Analysis, retrieved from Ghana Chamber of Telecommunications site- (WI June, 2011). The Telecoms industry is one industry that invests so much in equipment, infrastructure, logistics and software in order to deliver quality services to its customers. The sophistication of the consumer, the increased and rapid technological advancements and globalization leave the telcos with little option than to invest in the above mentioned items. These investments may not necessarily result in immediate gains for the Telcos, but they still would have to do them to remain in competition. Because of this, managers of Telcos are always confronted with issues of cost reduction in order to maximize revenues and profits. Managers, in trying to maximize profits are faced with a difficult situation as to what they actually have to concentrate or focus on; whether to focus on procuring state of the art equipment (increase assets-switching, transmission, roaming, etc equipment), focus on programs that will yield huge revenues (marketing of products and services, adverts, promotions, coming out with new products and services, etc.,) focus on efficiently managing debt and cutting down cost and so on.

With the Nigeria's Telecommunications industry in perspective, this study is aimed at exploring how these issues were handled and also how profitability was affected by balancing the levels of current assets, non-current assets, current liabilities, non-current liabilities and so on. The solution may not be found in procuring state of the art equipment, running programs to maximize revenues and so on and this is what this research work seeks to unravel. It is also aimed at revealing profitability trends in the industry over the years to inform decision making by investors and policy makers.

2. LITERATURE REVIEW

The Nigerian telecommunication commission is a body that is established by the federal government of Nigeria to regulate and conduct the affairs of telecommunication in the country. Since 2001 this has brought about the deregulation of the industry which gave ways for companies like MTN, AIRTEL & GLOBACOM etc. as a result of deregulation, and then the Nigeria telecommunication limited (NITEL), which is the national provider was only 500,000 subscribers out of the population of 166.6 million of Nigerians living in the country. The federal government though there is a need to expand the industry because of the rapid growth of the economy and for the people to stay in touch with their loved ones. With the involvement of the private companies in this industry, this then cost the MTN Nigeria about \$285 million dollars to obtain the license to operate in the country telecomm.

Nigeria communication commission is an independent body assign by the federal government of Nigeria to carried out and ensure a smooth and reliable telecommunication practice in the country, with Chairperson Engr Peter Egbe Igoh. Whereas, NCC is ensure that the licensee is implement and operate at all time in a most efficient and accurate billing system. Which they also engage themselves of the investors entry into Nigeria market for the provision, and provide of communication services, equipment and facilities.

Section 3 of the Nigeria Communication Act (NCA) 2003; give NCC the power of inspecting of the licensee books of account. And also, summon any persons or bodies to appear before the commission in case of any dispute or wrongdoing.

Since, the inception of the privatization in the telecommunication industry in Nigeria, the growth in the industry has increase from his inception since 2001 till date which the influence on the people needs and the marketing adopt by these operators in the sectors.

This study will focus on the effect of standard costing on the profitability of telecommunication companies case study of MTN Nigeria in the Nigerian market.

2.1 THE CONCEPT OF STANDARD COSTING:

Standard costing is therefore defined by Nweze (2010) as a system of accounting which makes use of predetermined costs relating to each element of cost layout, materials and overhead for each line of product manufactured or service supplied. Standard costing technique therefore represents an integral part of management accounting control technique which will also include budgeting system and responsibility accounting statement.

The definition of standard costing as per the institute of chartered accountants official terminology is “a predetermined calculation of how much cost should be under specific working conditions. It is built up from an assessment of the value of cost element and correlates technical specifications and the quantification of materials, labor and other costs to prices and/or wages expected to apply during the period which the standard cost is expected to be used.

Early work on economic growth and development highlighted the necessity of adequate infrastructure as a basis for development. Hirschman (1958) recognized the importance of social over-head capital, which he defined as those services without which primary, secondary and tertiary production activities cannot function. The social over-head capital includes all public services from law and order through education and public health to transportation, communications, power and water supply.

Adeniji (2009) states that standard costing re[resents an integral part of management accounting control techniques which also include budgeting system and responsibility accounting statement. According to him, standard costing technique may be either viewed from the perspective of marginal costing technique or absorption costing technique. By relating standard costing technique with marginal costing technique, variance will be determined on the total relevant cost of product excluding fixed overhead. But if it is viewed in the context of absorption costing, then variance analysis will involve the total cost of product t the organization.

2.1.1 TYPES OF STANDARD COSTING:

- **IDEAL STANDARD:**

This may be described as an established standard specifically designed on the basis of maximum productive capacity of the organization i.e. standard established without providing adequately for any negative factor that may inhibit the attainment of the standard. For example, labor standards established without the provision for lateness, absenteeism, industrial action, annual leave, maternity leave etc.

- **ATTAINABLE STANDARD:**

Also referred to as practical standards. This will represent an established standard specifically premised on what is considered practicable within the organization. Practical standards are established with adequate provision for negative factors that may affect the attainment of the established standards. For example, in establishing production standards, adequate provision is given to ideal time or loss of production due to machine breakdown, loss of power, lack of raw materials, repairs and maintenances etc.

- **CURRENT STANDARD:**

This will be described as an established standard specifically based on the prevailing working condition within the organization or the industry at large. Current standards are however subject to frequent changes in order to reflect the current position within the organization.

- **BASIC STANDARD:**

This will represent an old established standard designed principally to satisfy a given objective. Basic standards are not subject to frequent alterations, therefore, outdated in nature.

- **MATERIAL STANDARD:** The material content of a product, raw materials, sub assemblies, piece parts, finishing material etc, is derived from technical and engineering specifications, frequently in the form of a Bill of materials. This standard quantities required normally include an allowance for normal and inevitable losses in the production, that is, machining losses, evaporation and expected level of breakages and rejections.
- **LABOUR STANDARDS:** Without detailed operation and process specification, it would be impossible to establish standards and labor times. The technique of work measurement are involved, frequently combined with work study projections based elemental analysis when a part is not yet in production. The labor standards must specify the exact grades of labor to be used as well as the times involved. Planned labor times are expressed in standard hours (or standard minutes). The concept of standard hour/minute is important and is defined by Lucey (2002) as the quantity of work achievable at standard performance in an hour or minute. Once the times a grade of labor is established, a forecast can be made of the relevant wage rates for the appropriate future periods. This is usually done by the personnel department.

2.3 ADVANTAGES AND DISADVANTAGES OF STANDARD COSTING:

According to Eyisi (2009), the advantages of standard costing are as follows;

- Acts as a yardstick: standard cost acts as a yardstick against actual are compared with standard costs. This means that standard costing provides basis whereby performance may be measured on the basis of what product to produce, how much quantity to use and the expected levels of activity which are compared with the actual results obtained.
- Provides a basis for regular checks on expenditure incurred: This provides a basis for regular checks and control materials, price usage, labour costs and overhead expenditures.
- Provides quickly and readily available reports for management decisions:
- Cost control and cost reduction: By comparing actual cost and standard cost, cost can be controlled and reduced through constant monitoring measure and comparing results.
- Performance measurement: This is a recognizable method of monitoring and appraising performance through variance analysis, analyzing causes of shortfall and improving method and procedures for the future.
- Motivation of workers: By creating a realistic target, standard costing creates a realistic target motivating workers to achieve goals and standards that have been laid down.
- Helps in formulating production price even before goods are produced.
- It provides a basis for budgeting and forecasting.
- Helps in tackling internal problem with emphasis being given to likely price changes, standard costing is likely to be the most suitable system for solving internal problem rising from inflation.

The disadvantages of standard costing:

- **Unattainable standards:** When a standard costing is badly desired.
- **Administrative inconvenience:** The problem associated with accurate estimation of normal loss and recording of prices, rates, times and quantity may be posed administrative inconvenience to managers and all workers that are involved in designing and carrying out operations for standards set.
- **Problem of stock valuation:** The valuation of stocks is based on unrealistic
- **Persistent increase in inflation:** Standards set are being affected by persistent changing prices inflation hence making standard costing a mere tool which is unattainable.

2.4 CONCEPT OF PROFITABILITY:

Pandey (2010) defines profit as the difference between revenues and expenses over a period of time, (usually one year). Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profit. Therefore, the

financial manager should continuously evaluate the efficiency of the company in terms of profit. Terms with similar meanings includes earnings, income and margin.

A company should earn profit to survive and grow over a long period of time. Profits are essential, but it could be wrong to assume that every action initiated by management of a company should be aimed at maximizing profit, irrespective of concern for customers, employees, suppliers or social consequences. It is unfortunate that the word 'profit' is looked upon as a term of abuse since some firms always want to maximize profit at the cost of employees, customers and the society. Except such infrequent cases, it is a fact that sufficient profits must be earned to sustain the operations of the business to be able to obtain funds from the investors for expansion and growth and to contribute towards the social overheads for the welfare of the society.

Ezeamama (2010) agrees that profit is the difference between revenues and expenses over a period of time. Therefore, profitability is the ability to make profits from all business activities of the company, organization, firm or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. However, the term 'profitability' is an index of efficiency and is regarded as a measure of efficiency and management guide to greater efficiency. Though, profitability is an important yardstick for measuring the efficiency, the extent of profitability cannot be taken as a final proof for efficiency. Sometimes, satisfactory profits can mark inefficiency and conversely, a proper degree of efficiency can be accompanied by an absence of profit. The net profit figure simply reveals a satisfactory balance between the values received and values given. The change in operational efficiency is merely one of the factors on which profitability of an enterprise largely depends; moreover, there are many other factors besides efficiency which affects profitability ranging from the degree of competition that a firm faces, market competition, the strength of demand, the state of the demand, the advertising campaign, substitutes, Costing methods to the efficiency of the company.

3. METHODOLOGY

Research has been defined by different authors in different ways. However, Research can be referred as a develop strategic in order to identify and understanding of the strength and weakness of the competitors in a ways of takeover the business strategy, which the firms use in analysis of the essential information they gather and the management combine it together in competing in an operation (Svatko 1989, 9).

3.1 Research data and plans:

Research data are research work which is consists of one data which is secondary data.

3.0.1 Secondary data:

These are data that is useful not only to find information to solve our research problem, but also to better understanding and explain the research problem. Although, it's preferable to start the research work with the secondary data (Ghuri & Gronhaug 2005, 91). In addition, the secondary data can be obtained from various sources which include books, journal articles and also online data sources.

3.0.2 Data collection methods: Secondary data sources (financial statements of the Telcos in Nigeria for industry level analysis) were the only sources employed for this study. No primary data was employed

3.0.3 Quantitative methods

In these study an interview was used when it's was necessary, to get the fact and figure when they are not sufficient enough to answer the research problems.

4. CONCLUSION AND RECOMMENDATION

Having examined in details the effect of standard costing on the profitability of telecommunication companies (study of kano state), one can conclude that standard costing is extremely necessary in every telecommunication company in Nigeria. If the principles and techniques of standard costing is being adopted and practiced in MTN kano company, it serves as a tool for improvement of profitability. This is so because it enhances adequate planning, control and decision making processes in the company. On the whole, the findings of this study support the general conclusion that standard costing aids in the improvement of profit in manufacturing companies.

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