

# Total Cost Management

## Role of Management Accountants

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### Preamble

Total Cost Management (TCM) is now becoming the most powerful tool for global business and industry to gain competitive advantage in the market by utilizing efficient cost engineering and cost management techniques. TCM provides them the strategy to integrate processes for planning and controlling resources, costs, risks and profitability throughout the life cycle or value chain of a product, service, facility or project, in alignment with the business objectives and to achieve sustained corporate profitability.

TCM is now seen as a 'strategic model' that help manufacturing industry to design its own processes related to cost management and improve strategic performance. This re-engineering eventually leads to better efficiency and improvement in working processes and product quality and marketing.

Cost is no more a finance-related function. It is now becoming a 'strategic' function and even the operating, marketing and HR functions are also involved in costing and cost reduction initiatives. Today, the leading companies in the market are concentrating not only on standardizing and improving their existing processes but also on bringing innovations to improve the value of products with minimized costs. The management accountants had a strategic role in this overall cost management process.

The Management Accountants' role is assuming greater significance as they

possess the desired skills and technical know-how and expertise to help organizations in effectively implementing the TCM tools and techniques such as Activity-Based-Costing (ABC); Activity-Based Management (ABM) and Target costing. These cost management techniques lead to better cost control without compromising on the quality and customers satisfaction. Their expertise can also be hired by the government in better 'project cost management' of public sector development programs which involves resource planning, cost estimating, cost budgeting and cost control. With management accountant on board, the projects can be completed timely and within the approved budget limits. This would also lead to transparency of these projects.

### Cost Management and Business Profit Maximization

Cost challenges is one of the most critical tasks facing the Pakistani industry and the management accountants have a definite role to play in assisting the industry in meeting this challenge. They can help the industry in improving their cost structure and make them competitive in the export markets through better management, estimation and monitoring of business costs as well as prevention of cost overruns which is a significant factor in volatile economic situations.

The business and industry need to comprehend the fact that cost structure and business profitability are inter-linked and only better cost



management and control can lead to maximization of profitability for them. The cost structure is measured in terms of proportions of fixed cost and variable costs which is also reflected in the Cost Volume Profit (CVP) equation of a company. Large proportion of fixed cost to total cost indicates high fixed cost structure, whereas small proportion of fixed cost to total cost shows low fixed cost structure. The 'Sensitivity analysis' can bring to light the impact of costs structure on the profitability and accordingly the company adopts effective cost-cutting strategies to increase profit.

The adoption of TCM approach can help the Pakistani industry in effectively managing both the fixed and variable costs within the desired range or limits and at the same time improving the profitability. In order to maximize business profitability, the cost elements i.e. material, labour and overhead costs and even workers' behaviour can be strategically controlled through adoption of techniques like data collection and reporting as well as responsibility accounting a reporting system that compiles revenue, cost and profit information at the level of those individual managers most directly responsible for them.

By using the 'Cost engineering' technique, the fixed and variable costs can be effectively arranged and managed through careful scrutiny of each cost involved in operation, validating the current level of cost for each line item and take decision on reducing cost without compromising on quality of quantity of production. Similarly, the variable costs need to be constantly reviewed to locate any kind of wastage and also to assess whether any price increase is having any significant effect on bottom line of business.

### **How Management Accountants can help the Industry?**

The management accountants can provide their professional expertise to the Pakistani industry, especially textiles, automobiles, pharmaceutical and food industries in achieving performance excellence and sustainable competitive advantage as well as maximizing business profitability. The management accountants can help the industry in adopting TCM approach and ensuring better cost management which could benefit them in following ways:

- Addressing business challenges for more appropriate solutions

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- Taking advantage of opportunities specific to the industry or geographical location.
- Establishing good 'Responsibility Accounting System' for better cost control
- Improving product development and design and supply chain management
- Developing solutions for reducing repetitive processes
- Ensuring flexible budgeting through regular revisions to meet targets
- Optimizing internal IT operations by using cost reduction techniques
- Enhancing customer service
- Effective resource time utilization
- Overall team productivity improvement
- Department-wise performance management through cost collection and reporting

The management accountants can assist the industry in better cost management by identifying the areas where cost reduction is necessary as well as those areas where cost reduction would not be advantageous. Similarly, they can carry out detailed analysis of process and business objectives; establish standard costs for each category or process; prepare realistic 'budgeted costs'; evaluate opportunity for cost savings as well as elimination of unnecessary or excessive costs and in improving efficiency. By performing all these tasks, the management accountants guide the company towards maximizing its business profit.

Profitability and cost management is at the core of management excellence. The management accountants have also a definite role here to help the industry in achieving 'management excellence' by:

- adopting 'Smart' measures such as keeping insight on how small internal and external changes can be leveraged to increase profitability;
- keeping 'Agile' to implement promptly new opportunities to increase profitability that arise from constant change in global business environment



'Aligning' the insights across the value chain within the company and to other outside stakeholders who are the main profit drivers

- Adding 'value' to organizations by motivating managers and other employees to direct their efforts toward achieving the organizations' goals.

## Conclusion

With the rapidly changing global business environment, the Total Cost Management (TCM) is gradually emerging as the focal point of managements in almost all the manufacturing industries. The market dynamics have undergone revolutionary changes and become complex with knowledge explosion and technology advancement on one side and the mind-set of customers whose demands and requirement in terms of quality and services are constantly changing, on the other side.

To sustain market position with competitive edge, it has become quite imperative for businesses to keep constant monitoring of markets for any changes in product requirement, customer demand and requirement of customized services. At the same time, to create sustainable profitability levels, the companies also need to adopt cost management tools and techniques for improving competitiveness.

This changing scenario and increasing requirement of industry to reduce their 'cost of doing business' has enhanced the significant role of management accountants in coming to the rescue of the Pakistani industry to help them adopt better cost management techniques for improving efficiency and achieving competitiveness in the local and international markets. If the industry flourishes the country will flourish.

## References:

- Books on Cost Management
- Total Cost Management Framework – AACE International
- Total Cost Management – Confederation of Indian Industry