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THE ROLE OF COST ACCOUNTING IN REDUCING COSTS AND MAXIMIZING PROFITS

Peshang Salam RAOUF,

Sulaimani Polytechnic University / Administrative Technical College / Accounting Department, Peshang.tca230059@spu.edu.iq

Abstract

Cost accounting is considered a comprehensive strategic system that goes beyond merely recording expenses, as it primarily aims to collect and analyze financial data related to production operations to transform it into accurate information that supports managerial decision-making. This accounting plays a crucial role in cost reduction by accurately identifying and analyzing cost centers, which helps in uncovering waste and extravagance in materials, wages, and indirect expenses. The application of modern technologies, such as Activity-Based Costing (ABC), also contributes to distinguishing between activities that add real value to the product and those that consume resources without benefit, allowing management to eliminate unnecessary activities and reduce operating expenses.

Keywords: *Cost Accounting, Profit, Cost Reduction, Cost Methods.*

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1. INTRODUCTION

Cost accounting plays a fundamental role in reducing costs thru precise analysis of production elements, identifying waste, and accurately allocating indirect costs (especially thru the ABC system). They help in making informed managerial decisions to rationalize expenses, improve operational efficiency, and develop products, thereby enhancing profitability and competitiveness without compromising quality (Rashid, 2025; Jaf *et al.,* 2025). The main roles of cost accounting in cost reduction: Identifying non-value-adding activities (ABC): The Activity-Based Costing (ABC) system contributes to analyzing operational processes to eliminate or reduce activities that consume resources without adding real value to the final product (Fatah, 2024). Accurate allocation of indirect costs: Instead of traditional distribution, the ABC system helps in accurately assigning indirect costs to the products that cause them, revealing the true cost and allowing for gap reduction (Rashid & Hamad, 2024). Application of the target costing system: This system helps in determining the allowable cost for the product based on the target market price, forcing the company to reduce costs during the design and production stages (Jaf, 2022; and Noori & Rashid, 2017). Cost control: Cost accounting allows for the comparison of actual costs with standard (planned) costs to analyze variances and address their causes, resulting in savings in operating expenses (Rashid, 2023). Value analysis: Working on analyzing each part of the product or service to achieve the required functions at the lowest possible cost without compromising quality. Supporting pricing and production decisions: Cost reports provide accurate data on product profitability, helping management to eliminate unprofitable products or improve their production methods (Rashid, 2019). In short, cost accounting provides "reliable evidence" to reduce business expenses by identifying sources of waste and improving supplier performance, which positively impacts net profits (Rashid, 2022).

Study Problem

Cost accounting is a vital strategic tool for organizations seeking to improve their financial performance, as it plays an essential role in reducing costs and maximizing profits thru precise and continuous expense analysis. Here is a detailed explanation of the role of cost accounting in this context: 1. The role of cost accounting in cost reduction: Identifying and analyzing unnecessary costs: It helps in discovering activities and products that consume resources without adding value, allowing for their elimination or reduction. Cost control: It provides accurate data to compare actual costs with planned ones, allowing management to take quick corrective actions when deviations occur. Using modern techniques: Methods such as Target Costing help determine the allowable cost for a product before its production to ensure profitability, while Activity-Based Costing (ABC) accurately allocates indirect costs to improve efficiency. Reducing waste: The application of Total Quality Management (TQM) and Just-In-Time (JIT) production thru cost accounting contributes to eliminating spoilage and defective production, thereby reducing overall production costs. The role of cost accounting in profit maximization: Accurately pricing products: By knowing the true cost of each unit (materials, labor, additional costs), the organization can set competitive prices that ensure a targeted profit margin. Product profitability analysis: It allows for identifying the most profitable products to focus on and the unprofitable products to discontinue. Decision support: It provides detailed reports for different management levels that help in making wise decisions regarding production or purchasing, and performance evaluation. Improving production efficiency: It contributes to enhancing the efficiency of resource utilization, which increases outputs and reduces inputs, thereby maximizing net profit. Summary: The integration of cost accounting with modern management methods, such as Lean Accounting, provides accurate information that supports rational decision-making and reduces expenses, ultimately leading to a competitive advantage and increased profits.

Hypotheses

The application of cost accounting helps by identifying unnecessary costs, continuously monitoring costs, using modern techniques such as (ABC) and (Target Costing), pricing products based on actual costs, and analyzing product profitability, in improving the financial performance efficiency of establishments and increasing their profits.

Study Objectives

Cost accounting is an essential and important tool in managing institutions, as it significantly contributes to reducing costs and maximizing profits by providing accurate financial information that helps management make appropriate decisions. It works on accurately determining the true cost of products and services by calculating the costs of materials, wages, and various expenses, which helps the organization clearly understand the unit cost. It also helps in uncovering waste and extravagance within the production process by analyzing cost elements and discovering underutilized capacities or inefficient use of materials and time, which leads to reducing unnecessary expenses and improving performance.

Cost accounting also contributes to cost control by comparing actual costs with planned costs and analyzing variances to address issues quickly, in addition to its role in improving operational efficiency and increasing productivity thru performance evaluation and the development of work methods. It also provides information that helps management negotiate with suppliers to obtain better prices for raw materials, leading to a reduction in variable costs.

On the other hand, cost accounting plays an important role in maximizing profits, as it helps in pricing products accurately to ensure cost coverage and achieve an appropriate profit margin. It also enables management to analyze the profitability of products and services to identify the most profitable ones and focus on them, while reducing or stopping unprofitable activities. It also supports administrative and strategic decision-making by providing accurate reports and

data that help in expansion, activity development, or stopping certain production lines when necessary.
In addition, cost accounting helps in preparing budget estimates and financial planning for the future, contributing to controlling expenses and achieving financial stability for the organization. By reducing costs and improving quality, companies can achieve a competitive advantage in the market by offering products at reasonable prices while maintaining a good level of profits. Therefore, cost accounting is an important strategic tool that helps the organization achieve a balance between cost, quality, and price, ultimately leading to increased profits, success, and sustained competitiveness.

The Importance of Study

Cost accounting plays an important and vital role in achieving the sustainability of institutions by helping them reduce costs and maximize profits. It provides accurate and detailed information about all direct and indirect expenses. Its role is not limited to recording financial data only, but also includes analyzing and using it to support administrative and strategic decisions. It helps management monitor various cost elements such as materials, wages, and indirect expenses, contributing to the detection of waste and extravagance and working to reduce them. Additionally, it analyzes the variances between actual costs and estimated costs to take appropriate corrective actions in a timely manner. It also contributes to improving operational efficiency by studying production efficiency, reducing waste, and selecting more efficient production methods, in addition to using modern techniques such as target costing, which helps in designing products within cost limits that achieve the desired profit.

On the other hand, cost accounting plays a fundamental role in maximizing profits, as it helps accurately determine the true cost of each product or service, contributing to the correct pricing of products to achieve the appropriate profit margin. It also enables management to analyze the profitability of products and services to identify the most profitable ones and focus on them, while studying the products that incur losses and making decisions about developing or discontinuing them. It also provides important information that supports competitive pricing decisions by understanding the impact of cost changes on profits, and helps in making non-routine decisions such as make-or-buy decisions and accepting special orders thru differential cost analysis.

Cost accounting also contributes to enhancing the competitiveness of the organization, as reducing costs and improving efficiency lead to offering products at reasonable prices while maintaining good quality and high profitability. It also provides an effective control system that reduces financial risks and supports the stability and continuity of the organization in the market. Therefore, cost accounting is an important strategic tool that transforms data and numbers into managerial information, helping organizations achieve the best use of resources, reduce unnecessary costs, increase profits, and gain a competitive advantage that ensures their success and continuity.

2. RESEARCH METHODOLOGY

The role of cost accounting in reducing costs and maximizing profits is considered a comprehensive system aimed at collecting, recording, analyzing, and interpreting data related to operational and production expenses, and transforming it into accurate information that helps management make effective decisions contributing to waste reduction, improving operational efficiency, and increasing profitability. Cost accounting is not limited to merely recording expenses; it is a strategic tool that helps organizations control their resources and achieve their financial goals more efficiently (Rashid, 2024).

Cost accounting contributes to cost reduction by identifying and analyzing cost centers within the organization, where departments or processes that consume significant resources are identified and efforts are made to reduce the associated expenses (Budur *et al.,* 2025). It also helps eliminate non-value-adding activities by using modern methods such as Activity-Based Costing, which distinguishes between necessary activities and those that increase costs without providing real benefits to the product or service (Rashid & Jaf, 2023). It also relies on continuous cost control by comparing actual costs with planned standard costs, which helps management identify deviations and take immediate corrective actions to reduce losses and minimize waste (Rashid, 2020; and Jaf *et al.,* 2015).

Cost accounting also plays an important role in efficiently managing inventory by determining optimal levels of raw materials and reducing storage costs, in addition to applying modern techniques that help control waste and by-products and improve the use of available resources (Rashid, 2025; and Fatah, 2024). On the other hand, cost accounting contributes to maximizing profits by providing accurate information about the cost of products and services, which helps management determine appropriate selling prices that achieve the desired profit margin while maintaining competitiveness in the market. It also enables management to analyze the profitability of products and services, identify the most profitable products to focus on, and study the less profitable products to make decisions about developing or discontinuing them. Cost accounting also supports various administrative and strategic decisions, such as purchasing or in-house manufacturing decisions, accepting or rejecting special orders, and shutting down certain production lines, by providing accurate data that helps in selecting the most efficient and profitable alternatives. In addition, it works on improving operational efficiency by directing resources toward optimal use and reducing waste and loss, which leads to increased productivity and achieving better financial results.

Institutions rely on a set of modern methods to implement this role, such as Activity-Based Costing, Target Costing which determines costs based on the target market price, Lean Accounting which focuses on reducing waste and improving processes, in addition to Quality Cost Reports that help management understand the costs of errors and repairs and work on improving the quality of products and services. Therefore, cost accounting is an important strategic tool that helps organizations transform financial data into effective managerial information, contributing to the reduction of unnecessary costs, protecting profit margins, enhancing competitiveness, and achieving sustainability and success in the business environment.

3. RESEARCH SCOPE

• Subjective Boundaries: The research addresses the role of cost accounting as a strategic tool in reducing costs and maximizing profits, with a focus on some modern methods such as Activity-Based Costing (ABC), Target Costing, and Lean Accounting.

• Spatial boundaries: The study is limited to the theoretical and practical aspects related to the Technical College of Management at the Sulaimani Technical University, with the use of hypothetical applied examples from some production companies.

• Temporal boundaries: This research was prepared and completed during the academic year 2025–2026.

An applied model on the role of cost accounting in reducing costs and maximizing profits
Cost accounting plays an important role in the success of institutions, as it helps management understand the true cost of production and analyze expenses accurately, leading to cost

reduction and increased profits. And thru the information it provides, management can make correct decisions related to production, pricing, and control.

Let's assume that a juice production factory was achieving low profits despite an increase in sales. The factory management used a cost accounting system to analyze production costs, and it was found that there was a significant increase in the cost of raw materials due to waste during manufacturing, in addition to increased electricity consumption.

After analyzing the costs, the management took several measures, including:

1. Reducing waste in raw materials. Reducing waste in raw materials.

2. Using energy-efficient machines. Using energy-efficient machines.

3. Better monitoring of workers and production. Better monitoring of workers and production.
4. Purchasing raw materials from suppliers at lower prices. Purchasing raw materials from suppliers at lower prices.

As a result, the cost of producing a single unit decreased, and profits increased due to reduced expenses and improved production efficiency.

The Following Information:

A company produces 1,000 units of a certain product.
First: Before using cost accounting
* Cost of raw materials = 8,000 dinars
* Workers' wages = 4,000 dinars
* Operating expenses = 3,000 dinars
So:
The total cost:
8000+4000+3000=15000
Cost of one unit:
15000/15=1000 div
15000/1000div=15
And the selling price per unit was 18 dinars.
Profit per unit:
18-15=3

18-15=3

Total profit:

3*1000=3000

Secondly: After implementing cost accounting

The company discovered waste in raw materials and excessive electricity consumption, so it reduced expenses.

The costs became:

* Raw materials = 6,500 dinars
* Workers' wages = 4,000 dinars
* Operating expenses = 2,500 dinars

Total new costs:

6500+4000+2500=13000

Cost of the new unit:

13000/1000=13

The new profit per unit:

18-13=5

Total new profit:

5*1000=5000

The result

* Costs decreased from 15,000 to 13,000
* Profits increased from 3,000 to 5,000.

4. CONCLUSION

Cost accounting contributes to:

* Cost control.
* Reducing waste and losses.
* Improving resource utilization.
* Supporting administrative decisions.
* Increasing profits and improving the financial performance of the institution

Recommendations for Future Implementation and Research

1. Systematic Adoption of Modern Costing Frameworks

- **Transition to Advanced Systems:** Manufacturing organizations should actively shift away from traditional cost allocation methods and embrace modern techniques like Activity-Based Costing (ABC). This shift allows for an accurate distribution of indirect overhead expenses to the specific products that generate them, exposing hidden operational inefficiencies.

- **Design-Phase Cost Management:** Companies should embed Target Costing into their product development lifecycles. By establishing an allowable production cost driven by competitive market pricing beforehand, businesses can eliminate financial waste before full-scale manufacturing ever begins.

2. Elimination of Structural Waste and Non-Value Operations

- **Rigorous Value Analysis:** Management teams must routinely perform structural value analysis across all operational phases. Identifying and removing non-value-adding activities ensures that corporate resources are strictly dedicated to processes that improve product quality or consumer satisfaction.

- **Operational Leak Prevention:** Firms should replicate the strategies of the applied juice factory model by targeting specific physical leakages, such as raw material waste and excessive utility consumption. Rectifying these issues directly lowers the baseline unit cost and lifts total profit margins.

3. Establishment of Continuous Variance Control

- **Real-Time Financial Monitoring:** Organizations need to build responsive variance analysis protocols that continuously contrast actual production outlays against predetermined standard or budgeted costs.

- **Proactive Corrective Management:** Rather than relying on retrospective annual reviews, management should utilize real-time cost accounting reports to deploy immediate corrective actions the moment financial deviations surface.

4. Strategic Supplier and Supply Chain Alignment

- **Data-Driven Supplier Negotiations:** Procurement departments should leverage the granular data from cost reports to negotiate more favorable raw material pricing with vendors. Securing lower input costs serves as a powerful lever for reducing total variable expenses.

- **Lean Inventory Management:** Businesses should integrate Lean Accounting alongside Just-In-Time (JIT) production principles to lower inventory holding costs and minimize product spoilage or obsolescence.

5. Academic and Institutional Expansion

- **Bridging Theory and Local Market Practice:** Academic entities, particularly within the Technical College of Management at Sulaimani Polytechnic University, should expand on these findings by generating further empirical and field-specific research models.

- **Developing Tailored Local Case Studies:** Shifting from purely hypothetical frameworks to active field studies within local production environments will greatly assist regional businesses in translating strategic cost theories into sustainable market advantages.

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