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RESEARCH ARTICLE

Improving Managerial Cost Accounting And Product Cost Calculation: A Contemporary Approach

Jo'rayev Jahongir Ashurboy o'g'li
Student of Tashkent State University of Economics, Uzbekistan

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Abstract

Accurate product cost calculation is central to effective managerial decision-making, profitability, and operational efficiency. Traditional cost accounting methods often fail to reflect the true cost of products due to imprecise overhead allocation. This study investigates methods to improve managerial cost accounting, focusing on the integration of activity-based costing (ABC), real-time data collection, and enhanced cost driver analysis. Using a mixed-methods approach, data were collected from 50 manufacturing firms through structured surveys and five in-depth case studies. Results demonstrate that ABC significantly improves cost accuracy, informs strategic pricing, and enhances managerial decision-making. The study concludes that combining advanced costing techniques with employee training and technological integration optimizes product cost calculation and overall business performance.

KEYWORDS

Managerial cost accounting, product cost calculation, activity-based costing, cost allocation, financial decision-making.

INTRODUCTION

Managerial cost accounting is a critical instrument for internal decision-making, enabling managers to evaluate product profitability, allocate resources efficiently, and make informed strategic choices (Horngren et al., 2013). Accurate product cost calculation, in particular, ensures that organizations set competitive prices, manage costs effectively, and maintain financial sustainability. However, conventional cost accounting methods, such as traditional absorption costing, often allocate overheads based on broad measures like direct labor hours, which can distort the actual cost of individual products (Drury, 2018).

The literature emphasizes the need for more precise methods, such as activity-based costing (ABC), which identifies activities as primary cost drivers and allocates costs according to actual resource consumption (Kaplan & Anderson, 2007). ABC has been shown to improve accuracy in product costing, particularly in complex manufacturing environments where overhead constitutes a significant portion of total costs (Cooper & Kaplan, 1988).

Despite its advantages, implementing ABC presents challenges, including data collection, staff expertise, and integration with existing financial systems. Furthermore, managerial practices and organizational culture influence the effectiveness of costing methods. Therefore, this study investigates practical strategies to enhance managerial cost accounting and product cost calculation, aiming to provide actionable insights for contemporary manufacturing firms.

METHODS

A mixed-methods research design was employed to provide a

comprehensive understanding of cost accounting practices and product cost calculation improvements.

Quantitative Component:

Structured surveys were distributed to 50 manufacturing firms operating in diverse sectors, including electronics, textiles, and automotive components. The survey focused on:

- Methods of cost allocation
- Adoption of ABC
- Accuracy of product cost calculation
- Frequency and timeliness of cost updates

Descriptive statistics and comparative analyses were used to assess differences between traditional and ABC practices in terms of cost accuracy and managerial satisfaction.

Five-in-depth case studies were conducted with firms that had successfully implemented cost accounting improvements. Semi-structured interviews with financial managers explored:

- Implementation challenges
- Cost driver identification processes
- Perceived benefits of improved costing methods
- Integration with enterprise resource planning (ERP) systems

Thematic analysis was used to identify recurring patterns and best practices in managerial cost accounting.

RESULTS

Quantitative Findings:

- Traditional cost accounting: 68% of firms still relied primarily on absorption costing methods. These firms reported over- or under-costing of products, with errors averaging 12–18% per unit.
- Activity-Based Costing (ABC): Firms implementing ABC observed a 15–25% improvement in cost accuracy, particularly for high-overhead products.
- Cost update frequency: Firms that updated costs monthly demonstrated more accurate pricing decisions than those updating quarterly.

Qualitative Findings:

Three major themes emerged:

1. Precision through cost driver analysis: Firms that mapped activities and identified specific cost drivers achieved higher accuracy and better resource allocation.
2. Technological integration: Use of ERP systems and real-time data collection reduced delays and errors in cost reporting.
3. Human resource capacity: Staff trained in ABC principles and cost driver analysis could leverage advanced techniques effectively, improving managerial confidence.

A mid-sized electronics manufacturer reported that after implementing ABC, the cost of a key product decreased by 8% due to better identification of indirect costs, allowing more competitive pricing without sacrificing margins.

DISCUSSION

The study confirms that activity-based costing significantly enhances managerial cost accounting and product cost calculation. Accurate allocation of overheads, combined with systematic identification of cost drivers, ensures that managers have reliable information for decision-making.

Managerial Implications:

- Firms should prioritize training and capacity building to maximize the benefits of ABC.
- Integration with ERP systems facilitates real-time cost tracking and supports agile pricing decisions.
- Managers should continuously monitor cost allocation methods, as static approaches may not reflect changing operational realities.

Limitations and Future Research:

While this study focused on manufacturing firms, further research should examine service industries where cost structures differ. Additionally, the integration of machine learning and AI in cost prediction could further improve accuracy and reduce manual errors.

CONCLUSION

Improving managerial cost accounting and product cost calculation is essential for organizational efficiency, profitability, and informed decision-making. Adoption of activity-based costing, accurate cost driver identification, real-time data collection, and staff training substantially improve product cost accuracy. Firms that implement these strategies are better positioned to set competitive prices, optimize resource allocation, and enhance operational performance.

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