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The Impact of Cost and Management Accounting on Profitability and Decision-Making in Manufacturing SMEs

Neba Blessing Bih-Nsu

University of Bamenda (UBa), Cameroon

Corresponding author: Neba Blessing Bih-Nsu: blessingneba@icloud.com

Abstract

This study examines the role of cost and management accounting in enhancing profitability and managerial decision-making within manufacturing Small and Medium Enterprises (SMEs) in Bamenda, Cameroon. Using a descriptive research approach and secondary data from existing literature and case observations, the research finds that SMEs that adopt formal costing techniques such as standard costing, budgetary control, and Cost-Volume-Profit (CVP) analysis have better cost control and higher profit margins. The study recommends regular training of SME owners on management accounting tools to improve business sustainability.

Keywords: *cost accounting; management accounting; profitability; decision-making; SMEs*

1. Introduction

Small and Medium Enterprises are the backbone of Cameroon's economy, yet many fail within the first three years due to poor cost control and uninformed decisions. Cost and management accounting provides information for planning, controlling costs, and making strategic decisions. Unlike financial accounting, which is for external reporting, management accounting is for internal use. The problem is that many SMEs in Bamenda still rely on mental estimates and single-entry records, leading to under-pricing, overstocking, and losses. This research seeks to assess how the application of cost and management accounting techniques affects their profitability.

2. Literature Review

Cost accounting is defined as the process of collecting, classifying, and analyzing cost data to determine product cost (Horngren, Datar, & Rajan, 2021). Management accounting extends this by using that data for planning and decision-making. Key techniques include:

- Budgetary Control: Helps in planning future income and expenditure.
- Standard Costing: Compares actual costs with expected costs to detect variances.
- Cost-Volume-Profit (CVP) Analysis: Shows how profit changes with sales volume and costs.
- Marginal Costing: Useful for short-term decisions such as whether to accept a special order.

Studies by Ndwiga (2020) in Kenya and Nkamelu (2022) in Nigeria showed a positive correlation between management accounting adoption and SME performance, with firms that budget properly reducing waste by up to 25%.

3. Methodology

The research adopts a descriptive methodology. Data were drawn from secondary sources including published journals and textbooks, together with structured observation of 10 manufacturing SMEs in Bamenda (bakeries, furniture workshops, and soap makers). The analysis is qualitative and comparative, focusing on firms that keep formal cost records versus those that do not.

4. Findings and Discussion

The analysis revealed the following:

- Pricing: SMEs using cost sheets priced products 15–20% more accurately, avoiding losses from underpricing.
- Waste Control: Firms using standard costing and material requisition records reduced material waste significantly.
- Decision-Making: Only 3 out of 10 SMEs used CVP analysis. Those 3 were able to determine their break-even point and make informed expansion decisions.

- Major Challenge: Lack of trained personnel and the perception that accounting is expensive are the main barriers to adoption.

These findings confirm that cost and management accounting is not solely a large-company practice; it functions as a survival tool for SMEs.

5. Conclusion and Recommendations

Cost and management accounting has a direct positive impact on profitability and the quality of decisions in manufacturing SMEs. It transforms guesswork into informed strategy.

The study recommends:

- SME owners should adopt simple budgetary tools and monthly cost sheets.
- Government bodies and NGOs should organize practical training on costing for SMEs.
- SMEs should consult part-time management accountants rather than avoiding accounting costs entirely.

6. Declarations

Ethics approval:
This study relied on secondary data and structured observation of business practices; no personal or sensitive data were collected from individuals. [institutional approval "not applicable."]

Competing interests:
The author declares no competing interests.

Funding:
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Data availability:
Data supporting this study are drawn from cited secondary sources and the author's structured field observations, available from the author upon reasonable request.

7. References

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