# Proposal for the Cost Model Based on Causal Activities to Rationalize the Decision-Making Pricing. Applied Study in the General Company for Leather Industries – Baghdad

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## Article Info

<table>
<thead>
<tr>
<th>Article history:</th>
<th>ABSTRACT</th>
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</thead>
<tbody>
<tr>
<td><strong>Purpose:</strong> The aim of this study is to shed light on the concepts of activity-based costs by studying and analyzing the relationship between activity-based cost reduction and the consolidation of pricing decisions, with proposing an activity-based cost model in the analysis of additional costs and the products that cause this to happen.</td>
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<td><strong>Theoretical framework:</strong> The proposed model and recommendations contribute to making this company apply modern cost systems that help control cost elements as well as provide annual activities information on a database, in addition to its contribution to making pricing decisions related to products.</td>
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<td><strong>Methodology:</strong> The research methodology is based on cost analysis and pricing decisions, as it chose the General Company for Leather Industries in Baghdad, one of the companies of the Ministry of Industry and Minerals, and the data was analyzed by analyzing the values through cost pools. Study and sample population: Account managers and employees in the General Company for Leather Industries.</td>
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<td><strong>Findings:</strong> The conceptual framework is useful for the company's management, account managers and control to make the company more effective in allocating costs based on activities and knowing the reasons for the high costs due to the use of traditional methods of costing.</td>
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<td><strong>Research, Practical &amp; Social implications:</strong> The study can benefit the company in controlling the high additional costs and controlling the pricing decisions of industrial products, especially the leather industry.</td>
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<td><strong>Originality/Value:</strong> The value of the study is tested the relationship between additional costs and pricing decisions using the activity-based cost method, which was applied in the General Company for Leather Industries.</td>
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## Keywords:
Cost; Activities; Causality; Decision-Making; Pricing.

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**Resumo**

**Objetivo:** O objetivo deste estudo é esclarecer os conceitos de custos baseados em atividades, estudando e analisando a relação entre a redução de custos baseada em atividades e a consolidação das decisões de preços, propondo um modelo de custos baseado em atividades na análise dos custos adicionais e dos produtos que causam isso.

**Estrutura teórica:** O modelo proposto e as recomendações contribuem para que esta empresa aplique sistemas de custos modernos que ajudam a controlar os elementos de custos, bem como fornecem informações anuais sobre as atividades em um banco de dados, além de sua contribuição para a tomada de decisões de precificação relacionadas aos produtos.

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Conclusões: A estrutura conceitual é útil para a administração da empresa, gerentes de contas e controle para tornar a empresa mais eficaz na alocação de custos com base nas atividades e conhecendo as razões dos altos custos devido ao uso de métodos tradicionais de custeio.

Pesquisa, implicações práticas e sociais: O estudo pode beneficiar a empresa no controle dos altos custos adicionais e no controle das decisões de preços de produtos industriais, especialmente a indústria do couro.

Originalidade/valor: O valor do estudo é testado a relação entre os custos adicionais e as decisões de preços usando o método de custos baseados em atividades, que foi aplicado na Empresa Geral para Indústrias de Couro.

Palavras-chave: Custo, Atividades, Causalidade, Tomada de Decisão, Fixação de Preços.

INTRODUCTION

The importance of pricing decisions has increased under the activity-based cost system, which has a role in measuring the cost and performance of activities, resources and various cost elements. This interest, in turn, led to the study and analysis of causal costs with the aim of controlling them and knowing their effects when making decisions related to pricing or dealing with laws and regulations, while re-pricing high products that cause a rise in product pricing on
the basis of actual cost if the commodity is new or if the market is new, in which products have appeared and which have become the work of consumers.

Not to mention the role of competition in influencing the prices of these companies’ goods, in addition to the rest of the factors that affect pricing decisions, as the identification and measurement of the company's resources, the evaluation and classification of activities into value-adding activities that are useful and useless value-adding activities that are related to an appropriate causal relationship with the cost elements. Therefore, the pricing strategy has a great impact on achieving marketing objectives and is considered as the practical program that organizations are committed to applying to achieve the price objectives set with the need to be consistent with the prevailing causal variables.

The pricing strategy is also of particular importance to companies that are concerned with production because it is closely related to its objectives and revenues, and choosing a pricing strategy is a complex matter for the complexity of the decisions and choices that must be made when determining the price strategy.

The price is directly related to the fixed and variable cost, so the management experts consider that cost determination is the starting point for determining pricing policy in industrial companies, and price is the main problem in determining the fate of the company, and there are several factors that are taken into account when determining the price, such as setting pricing goals, as good management recognizes that the success of the company in achieving these goals, it is imperative that the price goals are compatible and not inconsistent with the marketing goals and the general objectives of the company.

The problem of the study is to determine the role of the Activity-based cost by identifying the activities that cause the burden to be loaded and whether it is possible to reduce the cost and its impact on decision-making in industrial companies and what is the impact on the market share of these companies in the adoption of modern cost systems in calculating costs and distinguishing products and activities that cause the addition of costs from other activities, as well as the collection of all items of additional costs, including other costs, within the items of indirect industrial costs and then charged to the units produced according to traditional loading bases, which makes the distribution of costs to the units produced incorrectly distort the real costs of each product, and this reflects negatively on the composition of production and sale and thus affects the margin of profit and related decision-making, in addition to controlling pricing in order to compete and the time that requires the attribution of other costs to the
activities or products that actually cause them to occur, and the problem can be clarified by asking the following questions:

1. What is the impact of cost on pricing decisions of industrial companies?
2. Does the activity-based costing system redistribute the additional costs that help make pricing decisions?
3. Are the additional costs related to the activities and products that cause the cost in reducing the cost of the product and thus affect the market share?
4. Does the activity-based costing system help to make rational pricing decisions?

The importance of this research is evident from the fact that it deals with one of the modern methods of cost analysis in a manner (Activity-based cost) by analysis, study and evaluation, with the aim of clarifying the intellectual framework, the components on which it depends and the relations between these components, and the problems of application in a manner that helps to apply this method and achieve the desired benefits from it, and this enables in the end to address the risks faced by companies industries, which still use traditional systems in calculating costs in the face of competitive foreign industries that use modern methods that ensure that they reveal and strengthen their competitive position and take supportive corrective measures. It is expected that the application of this method will help Arab companies to achieve strategic cost reduction and reveal the hidden causal costs under the heading of indirect industrial costs, and to put their products at competitive prices in the markets to meet the desires of the consumer and achieve satisfaction. Some of the most important points can be summarized:

1. Highlight the concept of causal costs according to the activity-based cost system as a modern costly system that distributes causal costs according to the activities that cause them.
2. Distribute the causal costs to the activities and products that cause them to occur through the use of an activity-based costing system that breaks down costs and links them to activities according to the cause-and-effect relationship.
3. Determining the exact cost of the product and its impact on pricing decisions.

The research is based on the basic premise that "adopting a cost model based on causal activities works to rationalize pricing decisions and rebuild product pricing". From the basic hypothesis, several sub-hypotheses emerge as follows:

- There is a statistically significant relationship between the importance of activating the cost system on the basis of causal activities and pricing decisions.
- There is a statistically significant relationship between the proposed model of causal cost activities and the pricing decision to re-price the product.

This study seeks to achieve a number of objectives that are closely related to each other, and these objectives are:

1. Study the intellectual framework of the Activity-based cost in order to detect the hidden causal costs that must be available to support the factors of success of pricing decisions.
2. Study and analyze the relationship between cost reduction from an activity-based cost perspective and support pricing decisions for companies.
3. Proposing a model of Activity-based cost in the analysis of additional costs in general and causal costs in particular on the activities and products that cause those costs to occur in order to support the researcher’s conclusion in his theoretical study of the capabilities that characterize this method in the field of supporting pricing decisions of companies and do not have his counterparts of traditional cost reduction methods and search for modern technological systems.
4. Accuracy and appropriateness of accounting information and its effects on the profitability and strategy of the company in the modern production formation to maintain its market share.

LITERATURE REVIEW

The First Topic: Making Pricing Decisions and the Role of Cost Based on the Activities in Achieving Them

The price is the only element of the marketing mix that achieves a return, while the rest of the elements are considered cost, which is the most flexible and some experts consider the pricing process the first problem facing the marketing executives. Despite that importance, most pricing decisions move away from scientific analysis methods so that the price is determined on the basis of cost without taking into account the demand situation, competition and customers.

The concept of pricing

The price is a value paid by the consumer to the seller of the good or service offered in exchange for obtaining it, and that value given to a specific good or service, which is expressed in cash form, and the price is considered about the level of supply and demand and is considered
a measure of the quality of the product. Price is defined as "the reflection and embodiment of the value of an object to the consumer during a given period". It is also defined as "it expresses the value of the thing and regardless of the benefit that the consumer achieves by obtaining the thing in question". It was also defined as "a translation of the value of the commodity at a time into monetary value", and the price here is just a tool to grant the commodities financial status. This definition represents the price bearing the value of the commodity at a certain time, and the value is flexible, which may be intangible, such as maintaining the quality of the product caused by those products when owning a particular commodity, in addition to that this value varies according to consumers, but in terms of times for one consumer. Cutler and Armstrong defined it as "an expression of the value paid by the buyer to obtain the good or service.

The importance of pricing

Price is the intermediate financial instrument through which the exchange between the service provider and the beneficiary takes place, and this exchange must represent a good value for the consumer, and high enough to allow the service provider to achieve its financial goal, hence the importance of pricing is reflected in the development of the marketing strategy for multiple strategic uses such as:

1. Adopting a low price at the beginning of the life of new services to earn income for new markets.
2. Use the competitive price to maintain the market share of the service.
3. Adopting the high price in organizations that work for financial goals in a way that allows them to achieve those goals. When the service organization has a distinctive mental image, it is easy for its management to set prices commensurate with this image, and the customer is willing to pay amounts commensurate with this mental image as well, in order to cover his needs, especially psychological ones.

Steps of pricing decisions

Pricing decisions depend on a number of steps, the most important of which are as follows:

❖ Setting pricing goals:

Pricing objectives also differ among themselves, due to many reasons specific to their conditions and the nature of their products, as well as the nature of the prevailing competition. In general, pricing objectives can be set as follows(achieving an appropriate return on invested
capital, supporting the organization's market position, price stability, facing competition, maximizing profit, and achieving a balance between demand and supply, distributing economic resources between alternative uses and in a manner that reflects the priorities of the production plan, directing and rationalizing consumption (demand for goods and services).

❖ Determination of demand

The price determined by the company for its goods has an impact on the level of demand. The change in prices leads to a change in the required quantities and in normal conditions. The relationship between price and demand is inverse, meaning that the decrease in price leads to an increase in demand while the increase in price leads to a decrease in demand, but this requires the stability of other factors related to the consumer, purchasing power, the desires, tastes and needs of consumers, as well as the stability of other factors related to the structure of the marketing mix (commodity, promotion and distribution).

❖ Cost and Revenue Estimate:

1. Estimating costs, costs can be seen as the norm that marketers cannot price their products less than in the long run, while demand can be considered the upper limit that they cannot exceed. It is also possible to distinguish between two types of costs incurred in the course of a company's business to provide goods and services, including fixed costs and variable costs.

2. Total fixed costs are those that do not change in the total number of units produced or sold, and these fixed costs are not absolutely fixed in the sense that they are not subject to increase or decrease, such as rents and others.

3. Aggregate variable costs: The sum of the variable costs directly related to the production or sale of the commodity. This type of cost includes those related to raw materials, workers' wages and transportation costs. These costs are assumed to be zero when there is no production at all. The average variable cost, which is the unit share of variable costs, is derived from the total variable costs.

Hence, the researcher believes that the causal costs have an important role in the process of determining prices for the products as they are hidden costs within this group, which must be disclosed and detailed within the indirect (variable) industrial costs and the loading of products for those causal costs.

4. Total costs: The total fixed costs and the total variable costs of the units produced or sold. These are also affected by the number of units produced or sold. The more these
units, the more these costs increase as a result of the increase in total variable costs due to the increase in the use of raw materials and manpower to produce additional materials.

**Accounting Methods in Pricing**

After the company determines its pricing policy and takes into account all the factors that affect pricing decisions, the companies have reached the choice of pricing method that achieves its objectives and is consistent with its pricing policy. The company's price is usually somewhere between two extreme prices, one of which is a low price that is not expected to achieve any profits and the other a high price that is not expected to achieve any sales. At some point between these two prices, the company can maneuver to choose the appropriate price. The accounting input in pricing depends on the cost data mainly, and the reason is the use of cost data to:

1. Availability of cost data.
2. Price can be justified and defended on a cost basis.
3. Revenue has to be done by the cost if the organization wants to stay in the market and the business.

**Full cost Pricing**

This method is more common and the oldest in terms of practical application, because it is easy to use and depends on private data, and is usually used when the market for the intermediate product is competitive, as it includes all elements of incomplete variable and fixed costs until the product reaches the market, including the cost of marketing and administrative services, with the addition of an acceptable profit margin to reach the selling price.

**Variable cost pricing**

Prices based on variable cost represent the input margin of contribution to pricing, as it may be more accurate for the organization in some short-term cases to sell a product at a price lower than its total cost, but at the same time it exceeds the variable cost, making it contribute to cover part of the fixed cost, qualify to enter or penetrate new markets, or expand an existing market.
Pricing on the basis of return on investment

The method aims to link what is added to the cost of the product to the invested capital, and is one of the appropriate measures because it outputs all the main components of profitability (revenues, costs and investment). It can be compared with the rate of return for other opportunities inside or outside the organization.

Activity-based cost-based pricing

The activity-based costing system has a role in measuring the cost and performance of the various activities, resources and cost elements, where the identification and measurement of the company's resources and the evaluation and classification of activities into value-adding activities of benefit and non-value-adding activities of useless value that have an appropriate causal relationship with the cost elements and thus avoid misleading results.

Accordingly, the researcher believes that there has been increased interest in studying and analyzing the costs of causality with the aim of controlling it and knowing its effects when making decisions related to pricing or dealing with laws and regulations, with the re-pricing of high products that occur as a result of additional costs on the basis of actual cost, and the causal costs have occupied a major space for important companies because of their impact on pricing decisions and entering into sharp competition for prices between companies.

The Second Topic: the Nature of the Cost Based on the Causal Activities According to the Proposed Model

Cost based on causal activities, their importance and benefits

The Activity-based cost in place within the industrial companies has necessitated a change in the process of introduction and detail, especially with regard to the distribution of revenues and costs to include the activities of causality costs. It needs to amend the methods used to record revenues and measure the costs of different activities in line with all products, so that each item is recorded in its product category. The idea behind this method is that the activities carried out within the company consume its resources. The aim is to identify the most important causal activities that occur to consume the resources used for each activity within the framework of evaluating the product and allocating the cost for each product, and to analyze their activities and clarify the benefit of applying the proposed model of Activity-based cost based on causal costs and the types of costs of causal activities and its Influencing factors. The idea of the proposed cost model is based on activities. Cost occurs as a result of the
occurrence of a specific activity. The main reason for the existence of these activities is the final cost units. Therefore, the cost of products or the causal cost is only the total costs of activities required by the cost units. The cost system based on the causal activities focuses on measuring the actual cost and measuring the performance of the causal activities of products, the company and other cost units. This system contributes more accurate data on the cost of products than the traditional cost accounting system. The value of the technological unit added at the end or at the end of the production line is an existing fixed asset because it works to provide future economic benefits to the company at a time that is not a requirement of the production process for the manufacture of the product.

The importance of cost based on causal activities

Increasing interest in studying and analyzing the costs of causality with the aim of controlling it and knowing its effects when making decisions related to pricing or dealing with regulations and laws, adding products or closing production lines, or reducing or expanding what is already in place. There are some factors that led to increased attention to causal costs, including:

❖ Increasing the intensity of competition in domestic and foreign markets.
❖ High and cumulative causal costs have become an important component of the cost of production and sales for many products.
❖ The company's need for more effective means of controlling causal costs.

From the above, the new economic cost and the challenges it has created are emphasizing the importance of the proposed cost model of causal activities as influential activities, which have become as important as the productive activities of the industrial function. The activity-based cost model aims to re-pric products that have been distortedly costed, and for their cost to be of high quality, to make many correct decisions in re-pricing, such as quantifying the causal costs incurred by each product and carrying out costly production lines closures, determining the price to be sold for the product, the optimal product mix, and causal control over production processes.

Benefit of applying cost based on causal activities

Measuring and calculating costs according to the traditional methods that industrial companies still limit causal costs and add them all according to the traditional method to indirect industrial costs, and some management accountants may call them other costs. These errors
lead to the availability of inaccurate information that is difficult to rely on in making pricing strategic decisions. Therefore, the activity-based cost model begins to be important to determine the costs of causal activities that provide the information necessary to make the pricing decision. The main objective of the costs of causal activities is several things, the most important of which are:

1. Provide appropriate quantitative data that will help management and its cadres in making various decisions.
2. Determine the profitability of the product.
3. Cancellation of production lines, the company bears losses and burdens.
4. Acknowledge the inadequacy of traditional cost systems in achieving this by ignoring the importance of causal costs and making them embedded or hidden within indirect industrial costs.
5. The inability of traditional systems to find appropriate methods for attaching causal costs.
6. Distribute the costs of causal activities to product lines, consumers, products or others according to the basis of distribution, taking into account the causal and updated relationship of the causal cost.

The cost of causal activities and its Influencing factors

It is necessary to determine the costs of causal activities to work on providing information that attracts investors by eliminating the causal burdens that reduce the profitability of the product or be a burden on it, which removes the threats and vulnerabilities facing the company for fear of applying strict laws to maintain causality, including the closure of factories and companies. The primary objective of the activity-based cost model is not only to accurately measure the unit cost of production from incremental costs but also to attempt to formulate a profitability map for the company.

The strategic dimension of pricing decisions in light of cost based on causal activities

Attention to causal activities within the company is one of the strategic points for reformulating the pricing of important products, as all efforts and activities are directed to improve the quality of accounting information that helps to determine the cost of the product more accurately and gives a clearer picture to investors and decision makers by identifying activities for each of the different groups of products causing causal damages, in addition to
providing opportunities for investors and management to improve the company's profitability by doing the following procedures:

1. Expanding business with new investors.
2. Re-pricing of higher products based on actual cost.
3. Identify harmful and loss-making products for the company.
4. To dispense with products that cause additional cost and that achieve permanent losses for the producer and the consumer.
5. Trying to attract more investors who would like to achieve the company's highest profitability.

Therefore, the accounting information provided by the cost model on the basis of causal activities must serve all the company's activities from the design stage to the pricing decision for the purpose of selling the product in the open and more competitive markets, unlike the traditional input of cost management, which begins with determining production requirements, then product design, and designing production processes.

Modern cost systems in general and activity-based cost systems in particular also play an important role in supporting the strategic choice adopted by industrial companies, as follows:

**Supporting cost leadership strategy**

The cost reduction process for the activity-based cost and activity-based management systems is very important, and it is done through the management and control of activities, as the activities are the ones that consume resources, in addition to the fact that the company and according to these two systems is a series of activities designed to provide information to managers in order to improve the value provided to the customer by pricing the product in its true form in preparation for gaining his satisfaction and achieving the company's strategic objectives, meaning that the activities are the basis of the company's work and the basis of difference and differentiation between competitors, as managers, if they want their products to compete with the products of other organizations, they must know two things, the first is the activities that manufacture the product, and the second is to determine the cost of these activities and pricing it in its real and competitive form, and this is an affirmation that the management of activities and their control is the one that leads to reduce costs and thus achieve a cost-led pricing strategy.
Supporting the differentiation strategy

As for the role of the activity-based cost system and the activity-based management system in achieving this pricing strategy, it is represented in the pricing of the product, which is complementary to the goal of these systems to reduce costs, as through the steps taken to determine the cost, the goal of re-pricing is achieved. Analyzing the activities and classifying them into activities that add value and others that do not add value, can draw the attention of the management to the activities that add value to the customer and work to redistribute resources to them and manage them efficiently to ensure the provision of a product or provide a service that meets the demands and expectations of the customer in order to gain his satisfaction, which is the goal on which the company works. In today's competitive business context, customers demand products or services of persuasive quality and at competitive prices within the intense competition witnessed by the market, and industrial companies must strive to achieve this by ensuring that every step in the production process adds value to the product/service. Whereas the activity-based cost system provides cost information on the activities that manufacture the product, which is invested and used by the activity-based cost system in contributing to the goal of product pricing by analyzing the activities along the value chain related to product production, which affects the customer through his purchase of this product and its consumption.

Supporting the Focus Strategy

The adoption of the proposed model of causal cost is through a sequence of activities to provide the production requirements of planning and designing products, reducing costs, evaluating products and comparing them with competitors to reach a distinct strategic cost. Companies that have a strong orientation towards a long-term expansion strategy are expected to give great importance to acquiring knowledge and information about causal costs. These companies are also expected to bear some relatively large costs if they do not fulfill product protection. The accounting of causal costs has occupied a major space for important companies because of their impact on pricing decisions, and entering into intense price competition, as the consumer and society have shown within the regulations and laws to direct the most severe penalties against companies that violate laws and causal instructions.
MATERIAL AND METHODOLOGY

The research methodology is based on cost analysis and pricing decisions, as it chose the General Company for Leather Industries in Baghdad, one of the companies of the Ministry of Industry and Minerals, and the data was analyzed by analyzing the values through cost pools.

The Proposed Model of Cost Based on the Activities in Rationalizing the Pricing Decision

The proposed cost model on the basis of causal activities helps to rationalize the pricing decisions of the company, since one of the dimensions of pricing decisions is to identify the problem, and there is no doubt that the process of separating causal costs from indirect industrial costs and other costs is the starting point for determining the problem that strategic decision makers need to price, and then moving to other dimensions, including generating the alternative and choosing the best alternative, and so on, and that the researcher believes that the cost process on the basis of causal activities is one of the first importance that must precede the measurement and disclosure processes. And that the causal costs must be distinguished from the other costs and separated, and that the separation process is not limited to the tabulation, as the costs must be tracked and inspected according to reality, and this study has clarified a number of accounting methods for accounting for the causal costs and case studies for industrial companies and put on a variety of organizations and how to apply the causal accounting and the principles and necessary to apply them, and as the United Nations organization showed that the causal costs that have become hidden costs must be disclosed and included among the other cost items and that the separation process must be done in the first things, which is that the separation process is done and then things other accounting treatments.

The Objectives and Basic Principles of the Proposed Model and its Importance

The proposed model aims to try to achieve the following objectives:

1. Identify and list the types of causal activities that can be addressed during real cost allocations.
2. Trying to measure the effects of the company's activities on the product.
3. Contribute to the monitoring of the establishment's causal activities and the evaluation of its accounting performance, through the communication of information to the relevant beneficiaries.
4. Harmonization with other relevant systems in order to achieve the goal of protecting society.
The basic principles of the proposed model are as follows:

1) Causal costs can be addressed within the financial accounting framework or within the management accounting framework and at the same time serve the objectives of causal accounting, but some other issues, which cannot be addressed within the framework of either. Causation shall be processed independently and as an integral part of their information.

2) The necessity of identifying and measuring the elements related to the causal costs of voluntary expenditures or of assets, liabilities and provisions, measuring the causal costs in quantitative or material terms, and giving a monetary value for each measurement and disclosing them.

3) One of the most important pillars of accounting disclosure is the disclosure that the process of determining and distributing causal costs, and the focus must be on the principle of disclosures with all the effects and activities of causality in both its negative and positive aspects, while giving a complete and clear picture of the disclosures.

4) Focus on all causal and preventive activities that warn of harm as early warning.

Accordingly, the application of the model is one of the scientific means and methods that help to identify the most important causal problems in the company's production processes. This model focuses on the cost, including the causal cost, and the possibility of reducing it by eliminating waste or loss during production processes as much as possible, which leads to improving the time of the production process, its causal cost, and its quality. For example:

1. Wasteful overproduction, which results in additional costs.

2. Wasted operation, which leaves extra costs.

3. Storage waste, which has damage to raw materials as it is sometimes difficult to dispose of.

4. Identify the causal deviations and analyze the causes of this deviation and therefore management has to develop the necessary procedures to address these causal deviations caused by production lines.

The causal activities that add value are usually important in evaluating their contribution by determining the cost and quality of the final product, and this is done by being ready to pay for the possession of this product. Such causal activities that will add value or benefit will positively impact the company's performance in knowing the cost drivers. The Company therefore endeavours not to exclude those activities and to carry them out efficiently. Any activity that cannot be classified as valuable is not adding value or benefit, that is, is worthless.
or useless from the customers' point of view. This presents management with a great opportunity to reduce cost without reducing the service capacity of the product to the customer. Causal activities that add value to the product can be classified into mandatory activities that are binding to meet the laws, optional activities such as planning of activities, training and other activities that interfere with productive activities such as restructuring or designing a product or process, and the provision of production factors for operations.

**Identify beneficiaries of causal cost information**

The accounting information system is one of the most important outputs needed by government agencies, shareholders, debtors and creditors for the purpose of completing the company's activities. The decision-makers in the company's senior management must adopt the proposed model that will help the senior management to identify the causal cost information that was embedded among other items and reduce the expenses borne by the company as a result of its activities with the assistance of decision-makers in making their decisions.

**Steps to allocate and apply the cost model based on causal activities**

The company's lower production costs are one of the first competitive priorities on which industrial companies have relied to achieve competitive advantage with less expensive and high-quality products. The company can adopt a cost leadership strategy, which is a broad strategy that guarantees the company to reach its goals by offering a high-quality product at a lower price that enables it to control other competitors. Any company that seeks to achieve the best competitive advantage is through a cost model based on causal activities that have a direct role in reducing cost by focusing on the process of analyzing activities for productive processes in addition to the hidden causal activities within these processes, and the resulting deletion of unnecessary activities that do not add value or benefit. The allocation process to determine the cost of the final cost units shall be carried out in a manner not very different from that followed in the allocation of production costs, in the following order:

1. Identify the final causal cost units on which the costs will be allocated (production lines, activities, products, damage-causing raw materials).
2. Inventory and identification of different causal activities, including accurate and detailed identification of all causal activities in the company, and therefore requires a comprehensive inventory of all the different types and procedures of work that take place within the scope of these activities, so they are regrouped together in
homogeneous groups according to the level of activity (unit level, batch, product, factory) in a way that reduces the number of activities.

3. Calculating the direct cost of each set of causal activities, by identifying the homogeneous sets of activities, thus making it easier to determine their cost.

4. Determine the cost drivers for each activity (homogeneous group of activities) where the activities are regrouped by ratios or rates of demand for activities by the final cost units.

The field study

In this study, the theoretical aspects are strengthened by an applied study through which it is possible to identify the extent of the correlation between quality cost systems and rationalize pricing decisions where obtained to reach a set of results by presenting a set of data in industrial companies. After reviewing the theoretical aspect of the study and with regard to the concept and forms of quality cost systems, and then addressing the stages and pricing decisions. We will try to find the exchange relationship through the exploratory study of a group of Iraqi industrial companies, and analyze the results using the Statistical Analysis Program (SPSS) in order to reach the correlation between quality cost systems and rationalize pricing decisions, and then highlight the results with the most important recommendations.

RESULTS AND DISCUSSION

The Initial Application of Cost Based on Causal Activities

The initial application in the company's production lines must follow the causal activities, which are as follows:

1. Prepare a graph of production processes with a detailed degree, move away from abbreviation and verify that all activities of production processes include inputs and outputs and finally end with marketing.

2. Preparing models through a list to interpret and define production activities and identify the causal activities of each production activity through production process maps and through actual viewing of production sections and collecting information on the cost of the depleted resources, which depends on continuous estimates from the group of final beneficiaries. It is preferable to use a one-stage cost flow model and track the cost impact of those resources within the activities and make them into totals, then a chart of the above operations is drawn up to be clear to all.
3. Identify the obstacles facing the model and find alternative solutions by forming work teams to follow up on production processes, analyze costs across the value chain and identify the cost drivers created by the product, in addition to following up on processes and continuous improvement.
4. Using a common analytical method, diagnosing the activities that cause the product, addressing the problems that occur during production processes and finding alternative opportunities for them.
5. Transferring alternative opportunities to senior management for decision-making that provide appropriate solutions and alternatives.
6. Using model data, determining the financial impact of each alternative, quantifying the true cost after detecting the hidden causal cost, applying the changes planned for production operations and detecting the new cost characteristics.
7. Verify that the steps have been correctly applied, and if a specific defect is found in one of the steps, the correction is done by feedbacking that step.

The researcher will present the cost model based on the causal activities, which will be the subject of the researcher's study at the General Company for Leather Industry in Baghdad for the tanning plant according to the following proposed model:

Table 1: Proposed model for the distribution of causal costs according to activities

<table>
<thead>
<tr>
<th>Activity Related</th>
<th>Key activities, including sub-activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement</td>
<td>Partial cost</td>
</tr>
<tr>
<td>Cost based on causal activities for the month of February</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher's preparation of the proposed form.

Table No. (2) Cost Distribution Card for the proposed model

<table>
<thead>
<tr>
<th>Statement</th>
<th>Activity 1</th>
<th>Activity 2</th>
<th>Activity 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of procurement of raw materials/leather</td>
<td>total cost</td>
<td>total cost</td>
<td>total cost</td>
</tr>
<tr>
<td>Production cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Services Department</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages for workers for causal activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity requirements for causal activities</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Applying the Proposed Model According to the Design Route

The proposed model is applied by a number of steps that must be followed according to the following:

1- Diagnosis of causal activities carried out by the company.

2- Determine the raw materials and raw materials requirements of production lines and what expectations are expected from that production process.

3- Registration by charts and activities that are the cause of the cost are recorded, which result in the production of a particular product or the provision of the service and the registration process is end-to-end.

4- Separate the expenses borne by the company as a result of its practice of multiple causal activities from normal expenses.

5- Separating and dismantling indirect industrial costs according to the significant event and separating causal costs from other costs.

6- Opening accounts for causal costs, starting from the cost card to the trial balance and the final accounts of the facility, and it shall be in the following sequence:
   - A sub-ledger account of the causal activities and show the total cost incurred by the company within each activity
   - Analytical accounts of causal costs, analytical accounts of assets, analytical accounts of liabilities, provisions, reserves and other accounts directly related to the accounting activity of the entity.

7- Accounting for impairment in the manner appropriate to the nature of the asset, the annual impairment shall be calculated and apportioned to the purposes for which it is used in accordance with an objective criterion or by estimation.

8- Determining the type of subsidies to be collected should be accounted for as follows:
A government subsidy from the donor in the purchase of an asset or a reduction in its cost, the asset is recorded in net value provided that this is disclosed in the annual report of the establishment.

If the subsidy is for the purpose of reducing taxes or customs, this shall be disclosed in a manner that shows that its cause is originating with no set-off in both cases, and comprehensive disclosure of that subsidy is required.

9- Identify cost systems that add value that accountants believe add value, benefit, or benefit to raw materials or products, as they affect the cost drivers of these activities causality in explaining their cost behavior.

Therefore, the systems of causal activities that add value are usually evaluated through their contribution to determining the cost and quality of the final product, and this is done by the customer being ready to pay for the possession of this product. Such systems of causal costs that would add value or benefit would have a positive impact on a company's performance in knowing the causes of the cost. The Company therefore endeavours not to exclude those activities and to carry them out efficiently. Any activity that cannot be classified as valuable is not adding value or benefit, that is, is worthless or useless from the customers' point of view. This presents management with a great opportunity to reduce cost without reducing the service capacity of the product to the customer. Therefore, the determination of causal cost systems, gives the setting of rules and foundations, by identifying and then measuring the costs and implementation of causal laws and legislation for the future, or by identifying indirect or hidden costs that are more difficult to identify, and although these costs are difficult to measure accurately, they may be very important.

The Mechanism of Calculating the Cost Based on the Causal Activities and Detecting its Causes for the Research Sample

After reviewing what the researcher believes are the most prominent features of the accounting model proposed to be applied for accounting for the effects of the causal activities practiced by the economic establishments in the Iraqi Leather Industry Company, these features will be addressed through the following elements and components:

Based on what was previously presented, the General Company for Leather Industry - the research sample relies on the centralization in the management of its factories, especially with regard to production processes, through the fact that the planning and follow-up department of the company is the only one responsible for setting budgets and production
plans without the participation of production managers within those factories in addition to the centralization followed by other departments in the company, the researcher will work for the purposes of research to identify cost centers, especially for the rational and safe manufacturers - the research sample, and based on what has been put forward in the theoretical aspect of the research and the causal costs of basic considerations for the purpose of rationalizing pricing decisions. As the previous tables showed that the company deals with its calculation with cost centers and not to make any considerations for the causal costs of the manufacturers of Al-Rasheed and Al-Ma'mun. Therefore, the researcher proposes to adopt a proposed model for causal costs that helps to rationalize the pricing decisions of the company because this model works to increase the disclosure of accounting information and thus helps companies to make rational strategic decisions and works to support the continuity of the industrial company by disclosing the accounting performance of the company and facing future risks.

The model that the researcher prepared after reviewing the most prominent features of the proposed accounting model to be applied for accounting for the causal effects of the activities carried out by the economic establishments in the Iraqi State Company for Leather Industries, it is noted from the above that the distribution of causal costs was not distributed according to any basis, where the cost drivers of the product were not searched for, where the costs are collected and divided by the number of units produced, and in light of that, the researcher will apply the proposed model of cost based on the causal activities according to the cost drivers that show the reason and search for the result for those causal costs according to the proposed model with the inclusion of a model for the cost card based on the causal activities in which the costs are distributed fairly and correctly, which helps to make pricing decisions fairly and rationally.

After the process of determining and distributing the costs in their actual form and revealing the causal costs through its various causal activities, the process of distributing the cost of each product was conducted through the X program, where the details that were automatically included were transferred to the cost card, as the complex of showing the cost of the product in its actual form, as the researcher conducted a programmatic process in the Excel program that makes it easy for the administrative accountant or the cost accountant to indicate the cost card for the leather product with the price of each meter in the currency of the Iraqi dinar and the US dollar in exchange for the exchange rate adopted by the company in the event that the product is sold outside Iraq, as the leather company deals with all Arab
and foreign customers. Accordingly, the new cost card shows the costs of the causal activities in detail, and that the management accountant enters the cost of raw materials only within each production process for the required month in calculating the cost of the product. After the introduction process, the cost is calculated automatically to facilitate the calculation process and keep the accountant away from repeated mistakes.

It is noticed through cost cards No. (4), we find that there are differences in the prices of the product while comparing them with the price of the product according to the method followed in the company, which hid the details of the causal costs, which distorted the calculation of the cost. This indicates that the proposed model will redistribute or build pricing decisions because the model provided full details of the pricing process Real and move away from discretionary pricing, notes:

- The number of meters produced must be entered to calculate the cost per meter at the price of dinars
- The exchange rate for the dollar can be entered into the proposed system and the price will be calculated.

The results were practical in a table showing the distribution of cost according to causation according to the following:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Product 1</th>
<th>Product 2</th>
<th>Product 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of procurement of raw materials/ leather</td>
<td>657,095,000</td>
<td>430,000,000</td>
<td>635,430,000</td>
</tr>
<tr>
<td>Production cost</td>
<td>157,272,548</td>
<td>104,848,366</td>
<td>262,120,914</td>
</tr>
<tr>
<td>Administrative Services Department</td>
<td>9,832,397</td>
<td>6,554,931</td>
<td>16,387,328</td>
</tr>
<tr>
<td>Salaries and wages for workers for causal activities</td>
<td>660,699</td>
<td>440,466</td>
<td>1,101,165</td>
</tr>
<tr>
<td>Commodity requirements for causal activities</td>
<td>363,830</td>
<td>242,554</td>
<td>606,384</td>
</tr>
<tr>
<td>Private Depreciation of Causal Activity Assets</td>
<td>20,494</td>
<td>13,663</td>
<td>34,157</td>
</tr>
<tr>
<td>Service requirements for causal cost activities</td>
<td>631,607</td>
<td>421,072</td>
<td>1,052,679</td>
</tr>
<tr>
<td>Total Branches</td>
<td>825,876,575</td>
<td>542,521,050</td>
<td>916,732,626</td>
</tr>
<tr>
<td>Total</td>
<td>2,285,130,251</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Enter the number of units produced 27,870 m 19,800 m 39,000
Cost per unit in dinars 29,633/- 27,400/- 23,506/-
Cost per unit in USD 24 22 19

Source: Prepared by the research based on the company's data.

Accordingly, the researcher is able to conclude that the cost model on the basis of causal activities allocates the causal costs more accurately by dividing the different activities, including the causal activities, into multiple levels (unit, batch, product and company level). Then, the cost of these activities is allocated to the different cost elements using cost drivers.
that have an appropriate causal relationship with the cost elements. In addition, it is preferable to apply the model in companies that have many products that constitute a large part of the additional costs, as the greatest impact of this model is to improve the allocation of these costs, especially since recently there has been an unusual growth in additional costs as a percentage of the total cost. The use of the cost model on the basis of causal activities is not limited to industrial companies only, but it can also be used with service companies, non-profit companies and government organizations.

This model has been concerned with determining the cost accurately, as the cost of the product at the level of one unit for the production sections will vary in the difference and the model will show that this distribution has an impact on determining the cost of the product, which showed the true picture of it, as the company can make pricing decisions in light of the correct information. This model also shows that the causal costs have been accurately determined with the adoption of the appropriate method to determine the cost of treatment of damage and is one of the factors controlling the cost and removal of the additional costs and product protection standards and safety systems in place, in addition to the method of determining the cost of a control system and separating it from indirect industrial costs, and it shows to the public the extent of the management's interest in protecting the product and producing high-quality products. This model provides accurate accounting information through which the principle of accounting and accounting disclosure is achieved.

The accounting information resulting from the analysis has clear implications and achieves a high degree of comprehensiveness, reliability and accuracy as a measure of the quality of the information, which aims to provide information that reflects the results of the critical analysis of the causal processes that lead to and that are reliable to future forward-looking decisions that help the continuity of industrial establishments and overcome the risks that may prevent their continuity. For this purpose, the researcher applied the proposed model, starting with the redistribution of costs, as it is the most important step in determining how to allocate costs and how to separate causal costs from indirect industrial costs.

Through the proposed model of the cost card, it has been established that the cost based on the causal activities re-pricing the products according to the quality of the product and the distribution of costs in their true and fair form, and Table No. (4) showed that the prices of the products varied.
CONCLUSION

The researcher believes that this model has been interested in determining the cost accurately, as the cost of the product at the level of one unit for the production sections has varied in the difference, and it shows that this distribution has an impact on determining the cost of the product, which showed the true picture of it, as the company can make pricing decisions in light of the correct information, as this system shows the causal costs accurately, which adopted the appropriate method to determine the cost of damage treatment and is one of the factors controlling the cost and removal of the additional costs and product protection standards and safety systems in place, in addition to the method of determining the cost of a control system and separating it from indirect industrial costs, and it shows to the public the extent of the management's interest in protecting the product.

This fair distribution has provided accurate accounting information through which the principle of accounting and accounting disclosure is achieved. The accounting information resulting from the distribution has clear indications and achieves a high degree of comprehensiveness, reliability and accuracy as a measure of information quality, which aims to provide information that reflects the results of critical analysis of causal processes leading to inappropriate deviations in the expression of accounting performance.

It is noted that the proposed model reached by the researcher in the above table notes the difference in cost between the traditional system and the proposed model. The reason for this difference is the failure to achieve fairness in the distribution of costs and not to distinguish between causal costs and indirect industrial costs according to the traditional system in the company because these costs are distributed in one cost complex and approved on the basis of the units produced only to determine and load the unit of the final product. It is clear that the model helped to provide more accurate accounting information and achieve a fair distribution because it relies on more than a cost pool and by cost-causing activities in a way that facilitates the allocation of causal cost elements to activities according to the cost of activities consumed by the products based on the cost drivers that link the cause between the distributed cost and the different cost objectives, which provides more accurate and objective information in making pricing decisions.

The calculation of causal costs helps to support the continuity of industrial establishments. It can be noted that cost is the main factor in making pricing decisions, as increasing accuracy in determining and measuring the cost of products rationalizes the decision in addition to providing a sound and accurate basis for pricing the company's products, adopting
policies and programs aimed at protecting the product and charging the product that causes the causal cost and not charging that causal cost to products that do not cause harm, as is the case for the loading activity, which should not bear the cost of the product compared to the rest of products that cause the cost.

It is noted from the previous tables of the model that there is a difference in the distribution processes in addition to determining the causal costs that were hidden in the traditional system and that this difference in the costs allocated between the main productive activities and the sub-activities led to achieving an equitable distribution of costs between the activities in light of the cause-and-effect relationship and this provides the management with more appropriate information for each activity. We find that according to the traditional method currently adopted by the company, "products are the ones that consume resources." Products are the first target without taking into account the causal costs that you do not know how to deal with or ignore. The company has adopted in dealing with the distribution of costs by identifying and estimating indirect industrial costs and direct wages together at the level of the company as a whole in one cost complex and preparing one loading rate for this complex and considering the causal costs as indirect industrial costs.

As recommendations about this study, the researchers suggest:

The need to implement a cost-accounting system based on activities in industrial companies in order to create a good information base and soon meet the needs of its users from internal and external parties; The need to separate the causal costs from the indirect industrial costs to overcome the problems that may arise early with the aim of proper accounting measurement and disclosure; The researcher recommends that the company focus on highlighting the role of the management accountant in the field of measuring and analyzing causal costs, since he is the best person to interact with modern concepts in the field of modern accounting laws and frameworks; The researcher recommends that the role of the managerial accountant should be first in the analysis of causal costs and then the role of review and follow-up; The researcher recommends that industrial companies and the rest of the companies adopt the use of the activity-based cost method for its applicability in the field of causal cost analysis, which traditional systems have not been able to do; The researcher recommends that industrial companies disclose their contribution in the field of product improvement and support and preservation; In view of the role of the accounting profession and its contribution to continuous improvement, it is required to include accounting measurement of costs such as those arising from cost causes caused by the activity of industrial companies; The researcher recommends
that industrial companies disclose accounting information within their financial statements to increase transparency in accounting information, and in the disclosure of accounting information for costs; To apply modern accounting regardless of the activity you are engaged in as any activity and regardless of the size of the company and its capital.

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