

The Role of Accounting Information Systems In Rationalizing Pricing Decisions Field Study in Iraqi Textile & Sewing Companies

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Abstract

Accounting literature reports that pricing policy in any organization cannot success unless an efficient, accurate, and comprehensive accounting information system is available including cost systems. However, cost accounting information systems are divers and vary depending on the situation. The aim of this study is to investigate the ability of the textile and sewing establishments in Iraq to use more efficient accounting methods in forming the pricing policy. Currently, the majority of these establishments still using the full cost method for this purpose. The study adopts the empirical method to approach its objectives by choosing (30) organizations to survey. Questionnaire forms were developed according to the research requirements and distributed on officials concerned in the selected companies with pricing decisions.

Data collected is analyzed using the quantitative and statistical techniques. The results indicated that the use of other methods of pricing, i. e., the marginal cost method and the addition ratio method, may offer the organizations better opportunities to utilize from its benefits, evaluate the alternative, lowering the prices and thus attracts more customers, face the competition, and have good market share. This paper contributes to the literature by providing valid analyzes of all the available accounting methods for pricing especially in the area of cost accounting and suggest many valid recommendations for Iraqi textile and sewing organizations to follow.

Keywords : Accounting information, cost systems, pricing policy, Textile & Sewing Sector.

Introduction:

In any organization, pricing policy is considered one of the most important factors affecting the company and its future. This policy affects directly the company profit and its level of efficiency and decides to a large extent its ability to face the competition and its share of market (Samry, 2010,p.10).

For this, pricing policy in any organization is mostly conducted by top management or senior executives. This policy does not affect pricing process and revenues only, but it also extends to other areas such as determining which products to be produced and sold, to which segment of consumers should be sold, what are the ways of selling, and in which markets should be sold. This policy also decides the size of investments to be allocated for this purpose. Because of these factors, pricing policy has its impact on the policies of production, finance, advertising, and other policies that depend on pricing decisions.

The determination of pricing policy and the prices is normally based on managerial decisions which are also linked to a company's marketing plan. The importance of each marketing plan may change from one stage to another in the product life cycle. Marketing and production management need the kind of accounting information that helps determining the best set of decisions that the management can take. Thus, there is a great relationship between the accounting information and pricing policy in any organization (Horngren, et., al., 1997, pp. 430-447). Furthermore, it is proved that accounting information system can provide quality cost systems necessary for pricing products (Alahdal, W.M. and Alsamhi, T. Prusty, 2016, pp70-78).

The research is divided into four parts : (The methodology, The theoretical part, The empirical part, The conclusions and recommendations).

Part (1): Research Methodology:

1- Research Problem:

The importance of the information provided by the accounting information systems for pricing policies in any organization is doubtless clear. Therefore, the research looks at the possibility of applying different methods of cost for pricing policy in investigate the possibility of finding the best possible methods to formulate this policy. Thus, the research problem can be set out as the following:

1. What are the factors influencing pricing policies and decisions in the Iraqi textile organizations, and what is the role of accounting information as one of the main factors influencing these decisions?
2. What is the extent to which accounting information, in particular cost accounting information, is used in the pricing policies of the products in this sector?

2- Research Aims:

The research aims to achieve the following aspects:

- 1- Determining the factors influencing pricing decisions in the textile sector in Iraq and the extent of their impact.

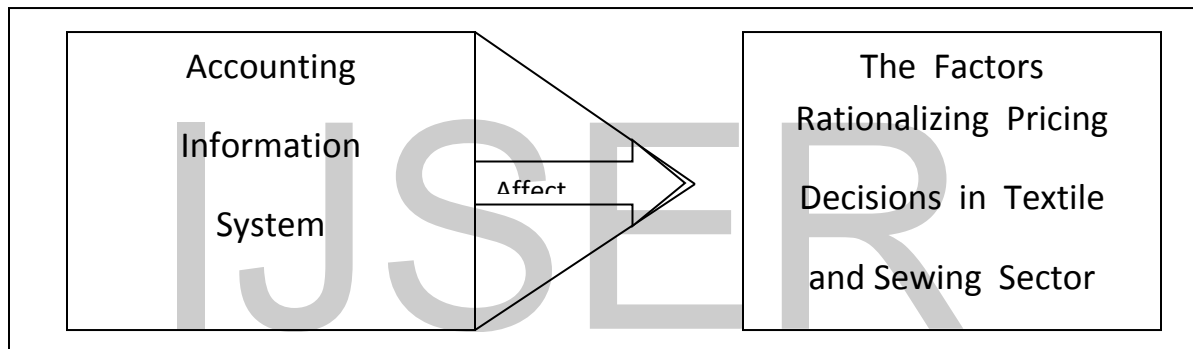
- 2- To verify the extent to which these establishments benefit from the accounting information in the pricing process
- 3 - To clarify the importance of using alternative accounting methods of pricing and the conditions of using each.

3- Research Importance:

The importance of the research is that it can assist managements in the textile and sewing sector in selecting the best methods of pricing suitable for different cases of market situations using the accounting information systems and best cost methods .

4-Measurement Model:

The model which explains the factors affecting the research (the fixed and variable factors) can be represented by the following figure:



(5)-Research Hypotheses :

To approach its objectives and in the light of the research problem and its model, this research is based on the following hypotheses :

- 1- First Hypothesis (Ho1):The total cost method is considered the basis and the most famous method to price products in the sewing sector in Iraq.
2. Second hypothesis (Ho2): The pricing decisions in this sector are subject to personal judgment that is not based on scientific bases.
- 3-Third hypothesis (Ho3): Standard costs are not often used to rationalize pricing decisions.
- 4-Fourth Hypothesis (Ho4): Alternative costing methods provided by cost accounting are considered as valid methods and beneficial for pricing policy.

(1) Research Tools:

The research depends on empirical work. The empirical work is divided into two parts , in the *first* part a questionnaire study is conducted, in the *second*, a case study is performed in one of

the sample companies to test the applicability of the suggested methods of pricing on the company's products.

(2) Research population , sample and sampling:

Research population is the group of Iraqi companies working in textile and sewing industry. The sample is selected from the population to be (25) company chosen on the basis of different sizes and locations and (2) high officials were selected from each company, i.e., (50) forms in total . Questionnaire form was developed for the purpose of gathering the data and information necessary to answer the research questions and to test the hypotheses. Questionnaire forms were distributed on the officials of sample companies. (42) forms out of (50) were collected . The questionnaire includes two sections, the first is to collect the personal information of the sample , in the second, the empirical information about the Iraqi Textile and Sewing companies necessary to answer the research main questions and to test the hypotheses was collected. Simple Statistical methods and percentages calculations were used to decide the weight of the sample answers. Questionnaire form is attached in appendix (1) of the research. One of the companies Sample was selected to be subject to case study . The frank name of this company is not mentioned in the study as per its management wish, rather we call it the national company.

Part (2): Theoretical Basis of The Research:

1- Accounting Information System:

Accounting information system is considered as one of the most important sources of information which can be used for managerial decision making process in any organization.(Horngren , op., Cit., pp. 430-447).This source of information is always characterized by accuracy, comprehensively, as well as its ability to provide valid analysis of different aspects of companies activities, and can assist in many other different decisions such as investment and financing decisions (AlZubaidy,2010), (Al-Makhadma , (2007).

Many studies and researches have been written about the role of these systems in forming the decision making process. Most of these studies were made in different industrial sector establishments (Al-Khalaf & Zuwalif, 2007, pp159-200), (Azad et. al. (2016)), (Cooper, R., &Kaplan, (1992),pp.1-12), (Lane & Durden (2013)). However, only few of these studies were made about Textile and sewing sector. Thus , this study is addressed to discuss the role of these information systems for this sector in aim of exploring the aspects in which these systems can contribute in assisting pricing decision process.

2-Pricing Decisions and the Periodic Reviews:

As it is known, selling price of any product is not constant, it is rather subject to periodic revisions to be adjusted based on the factors affecting the subsequent distribution of the product in the market, and often business projects addressing the factors affecting the marketing mix, such as sales and sales mix, which will enter the new product.

The price review depends on a clear system that determines the need and the appropriate times of information within the product life cycle. Such a system needs to collect a lot of necessary and appropriate information on financial, accounting, and marketing areas and ready when needed. Such a system requires the collection and preparation of diverse information such as :

sales in units and value for previous years and sales sold in prices below the expected price , the size of company involvement in market , current and projected costs divided to variable and fixed , customers and so on (Nasser & Kattabeen, 1997, pp.138-150).

The pricing policy and strategy are very important also in many aspects and in particular for the company market share, increasing the quantity of units sold , increasing the cash inflow to the company, supporting the opportunity of the company survival and so on (Al-Khair, 2014, pp. 22- 26)(Al – Muathen,1999, pp. 366-368).This information undoubtedly provides a necessary basis for an information system that can be referenced in pricing, in particular those figures concerned with calculating the product cost (Cooper R.& Kaplan R.S., Op. Cit., pp.1-12).

3-Historical Cost Versus Standard Cost :

Accounting information has, for along period of time, used as a source for decision making , in particular for pricing policy. This source of information is characterized by accuracy, reliability, facilitate forecasting , give comprehensive picture about the company activities and many other benefits that can give the decision maker the ability to build a confidential bases for pricing (Al-Majhly, & Mustafa, 2009, pp. 44-56).

One of the main branches of accounting information is the cost accounting . When we use cost accounting a question would arise , what source of cost information should be used? And what should accounting provide?. In this area, two main trends about the costs are necessary to formulate a pricing policy : historical cost and predetermined (standard) cost, (Garrison, 1988, pp. 585-586).

-Historical cost: Is the cost actually paid for the purchase of an asset, regardless of whether it is consistent with the market price or not. It is also the carrying amount at which the asset is recorded in the records (Noor, et. al., 1999, p. 16). Although the actual cost method is one of the commonly used methods for pricing because of its ease and the need for market-based estimations, this approach faces some criticism, including (Guilding, et., al., (2005), pp. 125-137.):

- The use of actual cost method in pricing leads to many inefficiencies in performance and encourages departments not to improve production or reducing damage and loss. All these inefficiencies in production lead to high costs to be borne by consumers. As a result, the company's interest in measuring cost and

activity deviations will be weak, and the company will be in a weak position if faced with a competitive situation.

- This is a misleading indicator to evaluate the performance of companies, especially when using a profit rate based on the actual cost. This would lead to the reward of deficient companies and punishment of efficient companies. This will also result in the inability of the pricing policy to achieve the function of performance control, unlike the case when using the necessary cost methods to determine the prices of the product, this method leads to the detection of deficiencies and facilitate the diagnosis of the causes and treatment before the exacerbation of the imbalance.

- Standard cost- (Pre-determined cost): The pricing method based on pre-defined cost or standard cost is, however, one of the most appropriate methods for control purposes. It takes into consideration objective factors based on previous studies and experiences of the company. Therefore, this method is concerned with what should be the cost and not what it really is. This is so important and beneficial if this method is based on a new technique of cost using the activity based Technique (ABC) which use the activities actually used to produce the product (Cooper & Kaplan , 1988, pp.20-27), (Brignall , et.al.,1991,pp. 227 -248), and (Al-Rajaby, 1995,pp. 294-296) . However, if this pre-determined method of cost is built on an ideal basis for pricing difficult to meet in the real world, there is no doubt that it will face some difficulties in implementation compared to actual results achieved.

If these methods represent general trends in the nature of costs necessary for pricing process, the next paragraph deals with possible practical methods of pricing and the contents of each of the current study.

4-Pricing Methods:

There are many technical methods available to help managements in determining selling prices, some of which are more practical in the application and can be used easily while others are characterized as being based on theoretical bases and needs to certain mathematics in practice such as differentiation and particular representation of factors affecting the pricing process (Al-Rajaby, Ob .Cit., , pp.369-370), makes it facing some difficulties in use. In general, the practical methods of application provided by cost accounting and managerial accounting are : (Wright, 1996, pp. 134-145) :

- 1- Pricing based on total cost
2. Pricing based on marginal cost
- 3-Pricing based on added ratio

-Pricing Based on Total Cost :

This method is based on total cost that refers to the total initial production costs plus the absorbed indirect costs, and is therefore called the “Absorption Costing Technique Method”. It means that pricing processes take into account all direct and indirect costs of production plus a percentage of the target profit. The initial cost of production represents the cost of raw materials used in production plus direct labor costs and other direct industrial costs. Other non-direct costs include indirect industrial costs and marketing costs are not included (Maurice & Louderback, 1989,p. 48). For pricing purposes, the total cost is calculated with the addition of a certain profit rate. This method is one of the easiest and most common methods of pricing and preferred for application, where sales forecast is taken into account for calculating the unit cost, and is often used for pricing in cases where there is no competition (monopoly market).

However, the problem faced by the organizations that rely on total cost is how to arrive at a precise measure to determine this cost. The amount of additional charges distributed on units of production vary depending on the volume of production and the number of units sold. The determination of profit margin ratio is, in itself, a fundamental problem, since there is no reliable basis for determining this percentage, and not a single profit margin can be used for all cases.

- Pricing Based on Marginal Cost:

The pricing method based on Marginal Costing is also called the Contribution Margin Method, based on the variable cost plus a certain profit margin. This method differs from the total cost method in that it deducts the indirect costs later from the realized profit margin but does not place these costs as a basis for pricing as in the case of the total cost method (Wright, Op Cit, pp.147-150). This pricing method can be used in competitive markets and alternative goods.

Between the two methods of pricing there are many methods that represent a compromise, such as the method of capacity utilization, which depends on some additions to the variable cost, such as adding a certain proportion of the cost of direct work or the total direct and indirect work to the variable cost as compensation for indirect costs borne by the company. In addition some companies may use target costing, which is planned in advance and designed before production so that the company may face the difficulties of design (Skinner, 1970, pp.201-217), (Al-Khalaf and Zuwailif, Op.Cit.,pp.159-200)

The use of the pricing method on the basis of marginal cost is concerned with two principles: First, the variable cost of a unit of production determines the minimum selling price. Therefore, the enterprise can sell at a competitive price, but fails if prices are kept to that extent because the entity can not recover production costs. The second principle is that: the pricing decisions depend on the study and the differentiation between different alternatives and the task of management is to provide the appropriate data to enable the optimal choice of the best economic mix prices of its products and the size and composition of sales so that can cover the fixed and periodic costs to achieve a certain profit and return possible on their investments (Faraj & Saeed, 2014, pp. 259-271).

Rational management that seeks to maximize its profits can benefit from the elasticity of the demand for its products in terms of customer classes and market diversification, though the prices of a particular product are often determined by applying the method of discrimination by analyzing customer classes into sections called market segments. Thus, market is divided on the basis of the purchasing power of consumers within one market and several markets, where some features are added to the commodity in order to be sold at different prices within the same geographical area (Faraj & Saeed, Op. Cit, p. 265). This method can also be used especially for goods such as clothing, cars, electrical appliances and similar luxury goods, where the company determines in advance the highest profit amount for the first class of the commodity and the additional profit for the second item, and so on, for the rest of the items. The product mix is one of the most successful and necessary policies to maximize a company's profit. The direct cost is linked to the units produced and the limit allowed by the customers' ability to pay, which can be taken into account when making competitive pricing decisions rather than linking the total cost to the sales price (Gayle, 1989, pp.726-730) and (Wright, 1996, Op. Cit. pp.,147-150).

- Pricing Based on Percentage of Addition:

Under this method, after determining the cost of the commodity on the basis of marginal cost, an addition of a certain proportion to the cost is made, in order to cover the administrative expenses that are calculated within the cost, as well as achieving a percentage of profit. Therefore, the unit sale price will be determined on the basis of variable cost (representing the initial cost of production with the variable portion of the indirect costs) plus a proportion of the fixed portion of the indirect costs by allocating them on a certain basis, i.e., unit of direct labor or gross labor, then adding a certain percentage of the profit calculated as a percentage of the total of the previous two steps (Metcalf & Powel, 1991, pp.52-54)

The criticism directed to this method is that it does not take into account the elasticity of demand, especially if the percentage of the addition is constant, as it is often increased demand for goods in certain seasons and sometimes maintained, which requires flexibility in the price. The fixed increment ratio can be used in case the project costs are stable, with elasticity of demand based on time, product life cycle and prevailing economic conditions.

5-Cost Elements in the Textile and Sewing Industry:

Before we start the empirical study and gathering the necessary information, it is necessary to highlight some necessary points about costs in the textile sector. The main components of costs in this sector can be summarized as:

- 1- Direct raw materials represented by raw materials such as yarns of various types for weaving and sewing of different fabrics.
- 2 - Direct labor of workers of production , skilled and non skilled workers who use machinery and equipment to convert raw materials to final goods.
- 3 - Depreciation of machinery and equipment and various means of production
4. Indirect industrial expenses including energy, fuel, maintenance, wages, indirect materials and other industrial expenses necessary for production but not directly involved in the manufacturing of the product.
- 5 - Selling and marketing expenses and administrative expenses.

6-Research Background (Theoretical Survey):

Researches in the area of pricing policy and pricing decisions are a lot, however, researches in in this area in textile and sewing sector is very rare. The following is a review of some of these studies.

One of the early contributions in this area is the study made by (Skinners' study, 1970, pp.201-217) which used (179) company as a sample taken from industrial sector ,however, this study was conducted on different industrial companies rather than on textile and sewing companies. The findings of this study is that cost is used in 70% of the companies in pricing policy. The study found that only 10% of these companies use full cost in pricing policy, other cost methods are used differently by the other part of the companies.

Another early study in the area is made by (Hall, & Hitch, (1939), pp. 12-45). . This study focused on the use of full cost information to base pricing decisions. The research indicated that only the minority of establishments use the marginal revenue and cost curves in pricing decisions rather than the full cost method.

Another one of the important researches conducted in this area is the research made by (Govindarajan, & Anthony, (1983),pp. 30-36). The aim of the research was to discover evidences about the contribution of the use of full cost pricing method and profit maximization model. The authors used 500 forms as questionnaire distributed on industrial companies and received about 80% of the firms. The research suggest an alternative model by identifying a satisfactory level of profit rather than to maximize it , and this leads to full cost pricing . The final conclusion of the study is that there is high preference of the respondents to use full cost systems as a basis for pricing decisions.

A study prepared by Mohamad et. al.(2000), conducted in the textile and plastic companies in Jordan . They took (20) companies as a sample of Jordanian companies working in this sector .They concluded that accounting information systems can assist very efficiently in piecing policy in this sector . They also concluded that the total cost factor is consider the most significant factor for management to cover and therefore other pricing methods are given only a little attention.

Another study made about pricing policy in Pharmaceutical Industry in Jordan. The study used the target costs as a basis for pricing policies. The finding of this study is that pricing decisions are affected by many factors including customers ,competition, costs . The study concluded that using the traditional methods in this era do not help in assisting the company and that the target costing method and planed profit are the best method that can be used for pricing purposes (Al-Khalaf & Zuwalif, Op.Cit., pp159-200). As it is obvious this study was also conducted on different companies rather than the textile and Sewing companies.

In another study made in the General Directorate of Roads and Urban Development of East Azerbaijan Province, Ahadi, A. & Azar, F. (2016). showed an important difference between the information obtained through the activity – based costing system in comparison with that information obtained from the traditional system of information.

In tourism organizations , Lane and Durden (2013) investigated the role of information provided by cost systems for pricing decisions .The study collected the necessary information from Queensland organizations. The study found that full cost information has greater significance to these organizations . In addition, the study found that customers short term survival objectives are the most important pricing objectives.

In Iraq , one of the recent studies conducted about hotels sector to investigate the role of accounting information for pricing decisions . This study chose a group of Iraqi hotels and used the descriptive analytical study to approach its objectives. The study found out that the hotels managements and operators are aware of the importance of accounting information for pricing policy, however, they have no obvious mechanism to use it for this purpose practically. The study also uncovered that those managements and officials don't care about training and qualifying the workers in the hotels of how to use this information for pricing policies . Another point is uncovered is that a unique policy for pricing is used by the managements and there is no care about the reactions of customers about the prices (Imad & Haithem, (2014)).

Another study prepared about the role of computerized accounting information in product pricing and cost measurement in Jordanian Industrial Corporation. The study arrived at the result that the companies that have accounting information systems is to contribute to the process of communication between the different departments and with the public, facilitating the planning process for cost elements. Such companies have to provide information capable of correcting past events, and that such companies that have accounting information system have to provide information about the size of standard expenses and compare them with the actual resulting incurred. This study in fact indicate that the availability of computerized system facilitate designing and using the standard costing system which is necessary to apply new methods of pricing (Alhosban and Maqableh, (2014), pp429-449.

Part(3): Empirical Study:

The empirical study of the research includes two sections:

- Section(1): questionnaire study,
- Section (2): case study.

Section (1):Questionnaire Study:

Questionnaire Description:

A questionnaire method is used in a sample of the companies. (50) forms of questionnaire were distributed on selected sample of companies, (42) forms of them were collected, (i.e. 84%). The questionnaire includes two parts: The **first part** is to discuss the personal information of the sample, this information includes:

1. Function (Job)
2. Period of experience
3. Qualifications (certificate)
4. Specialization

The **second part** of the questionnaire is aimed to collect information from the sample companies about the main factors affecting the pricing policies of the companies and to test the study hypotheses. In order to have a clear and reliable answers. The questionnaire is designed to be simple, and the questions are to be answered directly without alternatives. The list included five questions designed to be close to the research objectives(Appendix (1) explains the questionnaire form). The following is the analysis of the first section of the questionnaire:

Section (1): Questionnaire Analysis :

Part (1): Personal information:

The following tables show the results and the analysis of the first part of the questionnaire :

Table (1)
Frequency Distribution of Sample According to Their Jobs

Job	Number	Percentage
General Manager	17	%40
Manager	20	%48
Manager Assistance	5	%12
Total	42	%100

Table (2)
Frequency Distribution of the Sample According
to their Period of Experience

Period of Experience	Number	Percentage
5-10 Years	14	33%
11-15 Years	18	43%
More than 15	10	24%
	42	100%

Table No. (3)
Frequency Distribution of the Sample
According to the Qualification and Specializations

Specialization Qualifications	Accounting		Financial Sciences		Business Administration		Economy		Total	Perc.
	Frequ.	Percen.	Frequ.	Percen.	Frequ.	Percen.	Frequ.	Perce		
Diploma	5		2		3		2		12	28.5%
Bachelor	14		3		6		2		25	59.5%
High Qualification	2		----		2		1		5	12%
Total	21	50%	5	12%	11	26%	5	12%	42	100%

The information obtained from the sample companies indicates that the jobs of the respondent officials (Table 1) are characterized as senior management positions, which qualifies them to provide sufficient and reliable information for the purposes of this research. The percentage of managers and general managers is 88% (Table 1). Table (2) indicates that the experience of those whose experience exceeded (10) years of the target sample is 67 %, which is good for the purposes of the research. All those officers who were selected for the purpose of this research were having more than (5) years experience, i.e, (100%) of the sample . Table (3) indicates that 71.5 % of the sample have bachelor degree and higher certificates (59.5 + 12). The results of the tables indicates that the sample officers can express mature views on the points investigated in this research .Also, the table indicates that the specializations of the sample officers are close to the specializations necessary to apply accounting and cost accounting systems without high difficulty.

Part(2) : Analysis of the Second Part's questions:

Second Part of the questionnaire includes (5) questions related to the points investigated by this study and aim to test the research hypotheses , the following is the analysis and discussion of the results of questionnaire of each of these questions:

Question(1): What factors do you think are really effective in pricing decisions of the products in your company? The answers of the sample are shown in Table (4).

Table NO. (4)

Factors Affecting Pricing decisions in Textile & Sewing's Companies

Items	Answer	Percentage out of (100)
1-Cost Per Unit	15	60%
2-Market Demand and Supply State	2	8%
3-Company's Targets	5	20%
4-Public Acceptance of the Good	3	12%
	25	100%

The results shown in Table (4) indicate that the most influential factor in the pricing decisions from the view point of the sample companies is the cost of unit of production. The result indicates a percentage of 60% of the sample. However, recovering the entire cost of the products is often an important goal for many companies. Many are afraid to deal with the pricing process on the basis of long-term cost recovery strategies, and most of them seek to sell in a price higher than the cost in any case to avoid falling in price and to achieve reasonable return on its capital invested.

It is also noted that the planned targets of the company, as one of its influential factors pricing decisions, came in the second place and accounted to 20%. This significance is normal, as most companies seek to achieve their goals by maximizing their profits. This significance comes also from the importance of the first factor, which indicated the desire of companies to cover the costs of its product in order to get the greatest return possible. The other two factors, namely the degree of consumer demand on the commodity and the state of balance between supply and demand, ranked third and fourth respectively. Iraq's markets are characterized by a moderate level of competition, and the absorption of local production is good.

Question(2): What are the basic requirements that should be taken into consideration when determining prices in your company? The answers of this question is shown in Table (5).

Table NO. (5)

Basic Requirements of Pricing Process

Items	No. of Respondents (out of 25)	Percentage
1-Covering Total Costs of Product	13	52%
2-Achieving Particular Net Profit	6	24%
3-Achieving Particular Profit Margin	4	16%
4-Covering Variable costs of product	2	8%
Total	25	100%

This questions is designed to provide more details on the objectives of the first question. The second question relates to the two main factors that dealt with when discussing the first question, i.e., the cost of producing one unit (factor 1) and the company's target (factor 3) - Table (4). The requirements of the second question are designed on this basis to provide information on whether the company seeks to

cover the costs of the product (regardless the elements of the cost are) or to cover the total costs (paragraph 1 of question 2) or merely covers the variable costs (paragraph 4 of question 2). Therefore, the company seeks to achieve a certain net profit which is a requirement to the previous requirement (total cost coverage), or it seeks to achieve a certain margin of contribution (a requirement related to the subsequent requirement to cover variable costs).

The answers of question (2-1) –(Covering Total Costs of Product)show that most of the sample (52%) believe that covering the total cost of the product is the basic requirement when decide the prices of a particular product. This result supports the conclusion when answering question (1-1) ,i.e., first question about the factors taken into account in the formulation of pricing decisions giving priority to cover the total cost, which is a concern for many companies. Table (5) also shows that some companies give a certain importance to the requirement of achieving a net profit, after covering the total costs, which is the high percentage accounted to 24% of the sample and is consistent with the desire to cover the total costs of the product. However, the requirement to achieve a certain margin of contribution was only 16% of the sample due to its correlation with the variable costs of the product, where we noted that it did not receive high support from the sample in Table (4).

It is also noted that the fourth requirement of question (2) -(cover the variable costs of the product) did not receive significant attention from the sample . This requirement received only (8%) approval. As far as this situation reflects the state of concern and fear of the stumbling block that the company may face difficult circumstances in the local market and the potential change in the consumers demand, this state also confirms two aspects: *First* , the desire of the company to achieve the highest and urgent possible return, and *Second*, the unaware of the companies to the importance of pricing on marginal cost basis, and what this can provide opportunities to increase sales and increase the company's share in the market.

Question (3): What are the priorities of the elements that affect the cost of the product:?

The third question is to find out which cost elements are the most influential in the cost of the product among the elements of direct and indirect costs. The answers are obtained are shown in Table (6).

Table NO. (6)
Production Elements Affecting Production Cost

Items	Degree (out of 100)	Percentage out of (100)
1-Raw Material	13	52%
2-LaborWages	3	12%
3-Factory Over Head Costs	7	28%
4-Managerial & Marketing Costs	2	8%

The answers of Table (6) shows that the most cost-effective production element is the raw materials and gets (52%). This is due to the fact that the textile industry relies mainly on raw materials (textiles). The second element came in the priority is the indirect industrial costs with (28%) of the total, while the cost of wages came in the third rank with (12%). This is a sign of the modest cost of wages in priority over the cost of both raw materials and indirect industrial costs. However, the discussion with the company officials explained the fact that the cost of wages may rise above the proportion of indirect

industrial costs incurred in the case of textile industries that require large knitting, especially in some types of products.

The table also shows the significance of the marketing and administrative costs which have reached (8%) in terms of significance, which represents a relatively low significance, however, this cost may also rise in some cases when the company needs high advertising campaign.

Question 4: To what extent does the textile industry in Iraq use standard costing in pricing its products? The standard price is used in some industries, especially in the case of stability of supply and demand. This type of pricing helps greatly measuring the efficiency and effectiveness of pricing decisions. The fourth question is to investigate the extent to which textile industries in Iraq use this type of pricing method. Table (7) shows the answers:

Table NO. (7)
The Extent of Using Standard Prices in Pricing Policy

Items	Number	Percentage
1-Always Used	Zero	0%
2- Often Used	1	4 %
3-Rarely Used	5	20%
4-Not Used	19	76%
Total	25	100%

The above answers reflect the fact that there is no clear interest in using standard costs for pricing purposes. 76% of the sample indicated that these costs are never used for pricing purposes, while the other cases ranged from 0% to 20%. The presence of these weak percentages of non-use of standard costs reflects some simple attempts by some companies to absorb some aspects of development in cost accounting and pricing methods. It also reflects the fact that some working accountants are graduated from universities who seek to apply some of the knowledge they learned in universities in the companies they work in. In addition, there is no real tendency to use standard costs in pricing decisions.

Question 5: What is the nature and level of the departments responsible for pricing decisions?

The fifth question is to know the importance of pricing decisions in the Iraqi textile sector by knowing the level and nature of the departments responsible for taking them. Table (8) shows the information obtained from the research sample.

Table NO. (8)
The Level of Managements Responsible for Pricing Decisions

Items	Number	Percentage
1-Top Management	19	76%
2- Production Management	4	16%
3-Sales Management	1	4%
4-Financial Management	1	4%
	25	100%

Table (8) shows that the top management in most companies is the party who is responsible for making the pricing decisions, with a percentage of 76% of the sample. It is observed that companies that have indicated that production management is responsible for making pricing decisions are often small companies whose owners, who represent their senior management, are represented in executive functions as production managers or directly responsible for financial management. The end result, therefore, indicates the fact that pricing decisions are often the top management concern and often use their own pricing experience, which explains why many of these companies have moved away from adopting pricing techniques. However, this does not prevent forming the higher administrations, especially in large companies, from the use of lower executive managers, especially sales managers, production managers and financial managers. This use is usually obvious in cases where it is difficult to make pricing decisions easily and flexibly because of the economic conditions surrounding the company or because of the constant change in production costs, and the product is subject to fluctuation.

Summary of the questionnaire results analysis:

It is clear from the information provided in tables (4-8) that :

- 1 - The most influential factors in the pricing decisions in the Iraqi textile and sewing companies is the “cost of unit of the product” followed by “company target” as one of the factors affecting the decisions mentioned.
2. Covering the “total cost of the product” and “achieving a certain net profit” is the main objectives of the pricing process.
- 3 – “Raw materials” followed by “indirect industrial costs” are the most important elements of production impact on the cost of the product from the view point of the companies officials.
- 4 –Most of the companies do not use standard costs in the pricing process and only few of them use this method in an irregular way.
- 5 - Top management are mainly responsible for pricing decision. Since these decisions are strategic decisions, it is logical to be the responsibility of senior management. However, it is necessary, for the success and effectiveness of these decisions, that executive departments should participate in making them, this point is not clear in the respondents answers , where the percentage of views about this participation is small compared to the situation with the top managements .

Section(2): Case Study :

Pricing Alternatives in The National Company for Textile Industries:

In the first section of this part we discussed the information obtained through the questionnaire study about the requirements to test the first three hypotheses of this research. In this second section , a case study is presented to test the fourth hypotheses. Three basic methods of cost accounting are used for pricing and discussed in order to compare between them to derive the implications for pricing decisions. These methods are the “total cost method”, “the marginal cost method”, and the “addition ratio method”.

In order to achieve this goal practically, one of the Iraqi companies specialized in textile and sewing industry is selected. This is the “National Textile Company*1” - a limited joint stock company. The actual name of the company is not mentioned as per the management wish). The company is specialized in producing various maternity and women's garments made from acrylic yarn. For the purpose of testing the fourth hypothesis, three products were chosen from the cloths produced by the company, namely the native dress size (13), jerseys size (12), and the long girls' dress size (26). It should be noted that the company has other productive sections specialized in the production of raw materials of different fabrics. These sections are not included in this study.

The methods of pricing of the three above mentioned products were studied by the Textile Section in the Company. Currently, the company use only the total cost method for pricing and adding some additions as a profit margin in accordance with the Company's policy. Prices rise when there is any change in the cost of the component materials of the product, which is reflected on the behavior of the consumer and the volume of demand and the margin of contribution.

The production and financial plan of the textile department shows for 2017 some figures about the budgeted sales and capital expected to be used as well as the rate of return expected by the management . These figures are used by the research to calculate the target profit and the additions to total cost and variable cost as it is explained in Table (9) below:

Table No. (9)

**Sales Budget of The National Company
(Amounts are by I.D.)*1**

Budgeted Sales By Value	I.D.170000000
Capital Expected to be used for Fixed Assets (By Current Value)	I.D.80000000
Targeted Rate on Capital expected to be used	30%
Targeted Profit (80000000X 30%)	I.D. 24000000
Fixed Factory Overhead Costs (80000000X 20%)	I.D. 16000000
Addition to Total Cost= $\frac{\text{Targeted Profit}}{\text{T. Cost}} \times 100 = \frac{24000000}{170000000 - 24000000} \times 100 = 16\%$	
Addition to Variable Cost = $\frac{\text{Required Total Contribution} *2}{\text{Total variable Cost} *3} \times 100 = 30\%$	

*1: 1 USA Dollar is approximately equal to 1190 I.D.

*2: Required Total Contribution = Targeted Profit – FOH Cost = 24000000 + 16000000= 40000000 I.D.

*3: T. Variable Cost = Planned Sales - T. Contribution Required = 170000000 - 40000000 = 130000000 I.D.

The ratios of 16% and 30% are derived from the calculations developed by the previous budget and were used to add the total cost and variable cost respectively for each product for the purpose of determining the selling price as shown in Table (10).

Table (10) illustrates the possible methods of using accounting information in such a way as to provide useful alternatives to the decision maker in pricing process and the possibilities of selection that can be adopted in accordance with the nature of the circumstances of the project in terms of competition, supply and demand volume of the product and the quantities expected to be sold and the market share of the company. The table also shows how prices are calculated on a cost basis. The calculation is made using the three pricing methods referred to above and each of the three products mentioned, taking into account the following:

Table No (10)

Possible Methods To Use Sales Prices of in Sewing Department On Cost Basis

Details / Dozen	Son Suit No.12		T. Shirt No. 13		Maxi (No 26)	
	T. Cost	V. Cost	T. Cost	V. Cost	T. Cost	V. Cost
<u>Threads used Per Dozen:</u>	<u>Kilo</u>	<u>Kilo</u>	<u>Kilo</u>	<u>Kilo</u>	<u>Kilo</u>	<u>Kilo</u>
Weight	3.710		3.690		8.100	
Waste	<u>0.340</u>		<u>0.310</u>		<u>0.400</u>	
	<u>4.050</u>		<u>4.000</u>		<u>8.500</u>	
<u>Cost Per Dozen:</u>	<u>I.D</u>	<u>I.D</u>	<u>I.D</u>	<u>I.D</u>	<u>I.D</u>	<u>I.D</u>
Thread Cost	1900	0000	5200	0000	16800	0000
Pulling of the Threads& Samples	<u>300</u>	8000	<u>200</u>	4750	<u>500</u>	18380
Needles use Cost	000	600	000	400	000	500
Buttons	900	000	550	000	600	000
Clothing & Strips Sewing	4000	000	4000	000	4000	000
Plastics	<u>5600</u>	6750	0000	3800	<u>0000</u>	3950
Bags	<u>0000</u>	<u>500</u>	-----	<u>250</u>	<u>0000</u>	<u>750</u>
Total	<u>12700</u>	<u>15850</u>	<u>9950</u>	<u>9200</u>	<u>21900</u>	<u>23580</u>
<u>Labor Cost:</u>						
Knitting	1800		500		4500	
Added Cost of Labor	<u>2500</u>		<u>2250</u>		<u>4900</u>	
Total	4300		2750		9400	
<u>Premium of Labor Overtime:</u>						
25% of additions for labor	<u>1075</u>	5375	<u>688</u>	3438	<u>2350</u>	11750
Backing & Covers	000	775		775		775
Total	<u>18075</u>	<u>22000</u>	<u>13388</u>	<u>13413</u>	<u>33650</u>	<u>36105</u>
Indirect Cost (Percentage of T.C)	<u>6450</u>	0000	<u>4125</u>	0000	<u>15862</u>	0000
Total	<u>24525</u>		<u>17513</u>		<u>49512</u>	
Commission Discount 5%	1226	128	838	700	<u>2445</u>	1805
Total	25751	22128	18351	14113	51957	37910
T. cost + 16%(addition)	4120	0000	2849	0000	6163	0000
V. Cost + 30%(addition)	0000	6803	0000	4414	0000	11373
Total	29871	29481	20650	18527	58120	49283
V. Cost + (3X addition for Labor)*1	29628		29863		52610	

*1: Kind (1) of Products = 22128 +(3 X 2500) =29628 I.D.

: Kind (2) of Products = 14113 + (3 X 2250) = 20863 I.D

: Kind (3) of Product = 37910 + (3 X 4900) = 52610 I.D

- The weight of Yarn for each dozen pieces (12 pieces) was determined on the basis of the standard quantities set by the company for production and added a fixed percentage instead of damage and loss.
- The cost of Yarns used in production was calculated by multiplying the weight of Yarns by the standard cost per kilogram set by the company based on its previous experience and prevailing prices. The costs of

using needles in production were determined on the basis of prior management experience. The costs of using the added trinkets were also charged at the standard cost used during the previous period.

- Allowances were determined by multiplying the production quantities at the permitted disposal rates. If there is an increase in the time or traction rates of a piece in a given section, more than the last standard price determination process, separate indications are added for the purpose of determining the increases.
- Indirect industrial costs shall be added to the factory that manufactures the suits if more than one loading rate is used. The assumption is that indirect industrial costs are charged on the basis of a proportion of labor costs, which is the most widely used basis for protecting indirect industrial costs.
- The sum of the two columns in this table represents the pricing method based on total cost of the first column and the variable cost of the second column and each of the three products. For example, the first column of the pricing of jerseys for boys size(13) indicates that the pricing at the total cost was ID (25751) and the variable cost is ID (22128). After the addition of the percentages determined by the budget of the applied rates specified in Table (9) for the purposes of pricing, the price become (I.D. 29871), and (I.D. 29481) , respectively, and the second product (I.D. 20650) and (I.D.18527) respectively, and so on the third product.

The third method (last of the table) added (3) times of the cost of direct labor to the variable cost and the cost of the first product (I.D. 29628) and the second product (I.D. 20863) and the third product (I.D. 52610). The obvious differences in the size of the product from the planned size, this may make indirect industrial cost rates calculated on the basis of planned size are not objective.

It is noted in Table (10) that, the costs of needles, bags, packages were added to the column of variable costs as variable indirect industrial or marketing costs, but were not added to the total cost column because they implicitly included in the indirect costs (fixed and variable) .The total costs at (120%) and (135%) are respectively shown in the table.

Analysis and Results:

The study of the company's activities indicates that the main factor restricts its ability to increase its production capacity of cloths is the "added cost of labor" .The work capacity of current production requires an increase of (I.D. 130000000) to labor cost . This figure is obtained by multiplying the additions for labor of each product in the planned output volume of that product. In order to achieve the contribution margin of (I.D 40000000) planned by the company, it is necessary to get about three Iraqi Dinars (I.D. 3) as a contribution margin for each one Dinar spent for direct labor , i.e., (130000000/ 40000000). Therefore, the basis on which the third pricing method (shown in the last column of Table (10)) was to take the variable cost plus (3) times of the additional cost of labor cost.

Table (10) also indicates that the accounting department can advise the company to sell the highest price of the three products, i.e., using the total cost method to face the worst possibilities, this method adopted by the company understudy. However, taking the highest prices may not always be possible, and the company has to reduce it in many cases. This reduction may sometimes be minimal, and may be even lower than the declared price of the product, taking into account the need to cover the variable costs of the product. This is because selling at less prices may expose the company to losses difficult to meet.

Therefore, accounting department in such a case can provide information in cooperation with the sales department to clarify important aspects, such as sales made at a price lower than the total cost, sales made at prices between total cost and lowest desirable price, and sales made at a price lower than the desired

price, based on an added ratio to the cost of labor and the price based on the variable cost, which was made at a price higher than the desired price.

A simple review of the information and alternatives provided by Table(10), it is possible to conclude that such information and alternatives can support pricing policy. This is because the additional accounting information i., e., the marginal costing method for pricing and the addition ratio method which depend either on labor basis or any other basis may be convenient to the company when it passes difficult situations. Such methods of pricing form other alternatives for decision maker, particularly when the total cost method is unable to give the answer or cannot be used. These methods may produce different applied ratios for factory overhead costs for each product (or each section or department when the product is independent within the company) even if there are two factories identical in production within the company. Therefore, different ratios are used in Table(10), i.e.,120% for first product (section(1)) and 120% for second product and 135% for third product. These differences between the ratios enable the company to review and adjust each ratio independently according to the nature of activities and the variables affected .

As it is observed in Table (10), two elements having high intensity in the company' knitting activity, they are capital intensity and labor intensity. Therefore, the information in Table (10) indicates that the labor cost of knitting varies greatly between the three products. In such a case, it is assumed that there should be various applied rates for (FOH) costs for every process ,i.e., there should be an applied rate for knitting process and another applied rate for direct labor costs. Through the information revealed by Table (10), the management may use the price based on total cost, as it is the case with the company under study. However, this method of pricing fails to face any proper calculation of the relationship between the price and demand. For example, the management may be willing to sell a dozen of Maksi dress in less than (I.D.58120) when you find sufficient evidence that it can be sold at more than the indicated price . The manager may be persuaded to sell at (I.D.60000) for dozen. By doing this, the management can achieve contribution margin equal to (I.D. 265080) for selling a dozen, i.e., $(12 \times (60000 - 37910))$. However, in this case , the manager overlooked the fact that reducing the price below the total cost may lead the company to sell more quantity than before.

For example, the sale of (50) dozen at (I.D. 45000) per a dozen will provide the company with a contribution margin of (I.e. 354500) , i.e. $(50 \times (45000 - 37910))$. This prove that the pricing alternatives provided by accounting information systems can contribute to formulate an effective pricing policy that assist the company in facing the potential changes in the cost components as well as the change in environmental factors surrounding the company and its selling policies as well as the competitive situation it faces.

The comparison between the three methods shown in Table (10) indicates the weakness of total cost method when market conditions are non-fatal and competition is high. This method does not provide management with a manual on how to consider the relationship between price and demand, especially when the company is working under the available capacity (in case of excessive capacity). This method can not also distinguishes between incremental costs and fixed costs. The allocation of common fixed costs to product classes is considered as an initial measure of opportunity cost towards directing management efforts to a particular product. Opportunity costs should be measured within the profit framework. Therefore, the alternatives of the pricing methods that accounting information can provide (illustrated in Table (10)) draw the management attention to the relationship between its pricing proposals showed by the table and the actual prices, highlighting those prices that appear to be less in their

contributions to profit and return on capital, but it enables the company to sell in larger quantities and thus achieve a margin of contribution greater than the case when sale at high prices.

Therefore, the role of accounting information should not be limited to providing the basis for the formulation and direction of pricing policy based on total cost. This method, in addition to its negative aspects mentioned earlier, the pricing using this method should be built on long-term basis. Thus, it is necessary to consider the factors affecting market prices that are subject to multiple economic impacts. In addition, the selling price is one of the variables within the marketing mix. Since prices are based on the total cost, it is possible to neglect the valuation of other non-price variables.

Research Results, Conclusions & Recommendations:

Research Results :

Through the practical study in the sample companies working in the Iraqi textile sector, discussed earlier, the following conclusions can be drawn:

First: Factors Affecting Pricing Decisions:

- 1 - The most important factor governing pricing decisions is the cost factor.
2. The need to cover the total costs in the textile industry in Iraq is considered the most important requirement for determining the price of the product, which is in line with the priorities of the factors governing the pricing decisions referred to in the first paragraph above.

Second: - Factors Affecting the Cost of Product :

The study showed that the raw material element is considered the most effective element in the sewing sector production cost. Thus, the investor consider basically the priority to cover this element cost as a prime objective in pricing process. Then, the cost of (FOH cost) comes in the second priority. These two elements of cost formed the highest costs of production in this sector.

Third: The Extent to Which The Modern Methods are Used in Pricing Process:

1 -The study showed that the majority of companies in the sector under study do not benefit from the concepts and applications of standard costs in the pricing processes. This has reduced the possibility of rationalization of the pricing decisions. The reliance only on the “total cost” method in pricing has limited the chances to activate the control system on the cost elements and reduces the diagnosis process on deviations that is the basis to rationalize decisions and reduce the chance to utilize the standard cost method.

2 - The main body controlling the decisions of pricing process in the companies under study is the senior management, which is often far from production processes, especially in large enterprises. The contribution of executive departments is weak compared to senior management. The research shows that there is a big gap between the contribution of top managements in the pricing process (75%) and the contribution of the other executive departments(25%). The process is somewhat subject to diligence, and is somewhat far from scientific methods.

Fourth: Problems Facing the Textile and Sewing Sector In Iraq :

1 –There is a rise in the cost of products and thus a rise in the products price because of the desire to cover the total costs

2 –There is a relative volatility in the cost of materials. This cost constitutes the main part of the product cost, which depends mainly on the pricing process and this process leads to fluctuations in the products' prices.

Testing and Validation of Hypotheses:

By reviewing the results we approach the following conclusions:

1- The first hypothesis of the research is fully approved through the supporting results in: First (2) and Fourth (1)

2. The second hypothesis is partially approved through the supporting results in: Third (1) and Fourth (1)

3 –The third hypothesis is completely approved through the results in: Third (1).

4. The fourth hypothesis is investigated in a holistic manner through the results of the supporting analysis in the second part of empirical study-sections (2).

Conclusions and Recommendations:

1-Conclusions:

The previous pages discussed the pricing policy aspects of the Iraqi industrial establishments operating in the textile and sewing sector. The empirical part also included a survey conducted on (25) company representing the research sample. The second part of the empirical study also discussed the application of the pricing methods and possible alternatives that accounting information systems can provide. The research has also tested the validity of the hypotheses of the research and explained the results approached by its applications which can be summarized as follows:

1-The accounting information systems have a great role to play for pricing process in the industrial sector in Iraq and in particular the textile and sewing sector. Most of the accounts can be managed by the accounting services. They provide the opportunity to manage the company to draw appropriate conclusions from them to make the appropriate decision according to the circumstances or the nature of the product and its productive life cycle.

2- Pricing based on the total cost is the prevailing method in the sector in question. The coverage of this cost is the main concern of management. This method does not take into consideration the expected demand for the product and it lacks the understanding that prices are a function of costs, and the total cost fails to consider the relationship between price and demand.

3 –The ignorance of the use of standard costing method in pricing process and cost control diminishes the chance to diagnosing deviations in a way that helps rationalize pricing decisions. Special management experience plays an important role in the pricing process. Since self-experience does not always provide a proper pricing framework for the complex data of modern economies due to high competition and constant fluctuation in raw material prices, it is necessary to have a documented system for the development and review of prices. Therefore, the study provides an indication of the role that accounting information can play in shaping such a system.

4. Although pricing methods can be influenced by factors such as market prices, supply and demand, and alternative commodity prices, the use of cost information in a scientific way is as multifaceted as the case presented by the research, which includes three pricing methods, Each of which can provide a broad and flexible pricing framework. Such a framework, if integrated with the empirical experience of the

company's management, will provide good pricing based on objective considerations that will provide the company with confidence in the efficiency of its pricing processes. This framework and associated accounts will provide management with an opportunity to take advantage of the information that the accounting system can provide.

2- Recommendations:

For the purpose of making use of the results of the research and its conclusions, the following recommendations and proposals seem necessary to the companies under study:

- 1 - Although there is some experience in the management of the companies in the field of pricing, it is necessary to provide a clear system gives a clear signal to the management for the purpose of determining and reviewing prices either on the basis of total cost or marginal cost or on self-experience. It is necessary for the accounting systems to contribute effectively in the design of this system by identifying and providing information of an appropriate and necessary nature, and that the responsibility of management and accountant in this aspect is integrated.
- 2 - It is necessary for the companies concerned to pay attention to calculating the marginal cost per unit. Thus, the continuous definition and use of the variable cost of a single unit is one of the most important options for the pricing process, especially in the context of intense competition in which businesses are forced to reduce the price to the limit, which enables them to face competition without lowering the price to the variable cost of the unit, which should be covered in all circumstances to avoid loss.
- 3 - The need to pay attention to the standard costs to be used in the process of pricing and the diagnosis of deviations and to strengthen control over the various elements of costs.
- 4 - The need to provide a set of records which is necessary to collect, analysis and presentation of information under different methods. In additional there is a need to provide methods to determine and review prices, so that management can obtain appropriate and timely information for cases presented in a timely manner and within the economic conditions surrounding the company and producer.
- 5 - Pay attention to the role that accounting departments can play in making pricing decisions and attention to the nature of information that can be provided through its experience in collecting and processing information in this area.

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الملحق

استمارة الاستبانة – ملحق رقم (1)

عدد الاستمارات (25) استمارة:

أولاً: معلومات شخصية:

الوظيفة :

مدير عام مدير معاون المدير

فترة الخدمة (الخبرة):

10 - 5 سنة 11 - 15 سنة اكثر من 15 سنة

المؤهل العلمي (الشهادة) :

دون البكالوريوس (دبلوم) بكالوريوس شهادة عليا

التخصص:

المحاسبة علوم مالية ادارة أعمال اقتصاد

ثانياً: الاستبانة:

Question (1):What are the factors affecting pricing decisions in Sewing's & Textile Establishments?

Items	Item Selected
1-Cost Per Unit	
2-Market Demand and Supply State	
3-Company's Targets	
4-Public Acceptance of the Good	

Question (2):What are the basic Requirements for Pricing Process?

Items	Item Selected
1-Covering Total Costs of Product	
2-Achieving Particular Net Profit	
3-Achieving Particular Profit Margin	
4-Covering Variable costs of product	

Question (3):What are the basic requirements that should be taken into consideration when determining prices in your company?

Items	The Item Selected
1-Raw Material	
2-LaborWages	
3-Factory Over Head Costs	
4-Managerial &Marketing Costs	

Question (4):To what extent does the textile industry in Iraq use standard costing in pricing its products ?

Items	Item Selected
1-Always Used	
2- Often Used	
3-Rarely Used	
4-Not Used	

Question (5):What is the nature and level of the departments responsible for pricing decisions?

Items	Item Selected
1-Top Management	
2- Production Management	
3-Sales Management	
4-Financial Management	