



Marginal Costing and Financial Performance of Selected Listed Manufacturing Companies in Lagos State, Nigeria

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Abstract

Persistent inefficiencies in cost management continue to undermine the financial performance of manufacturing firms in Nigeria, particularly in optimising the components of marginal costing. This study thus investigated how components of marginal costing namely, direct material cost, direct labour cost, and variable overhead affect the financial performance as measured by Return on Assets (ROA) of some selected listed manufacturing firms in Lagos State, Nigeria. It employs an ex post facto research design and analyzes secondary data from financial statements of five (5) firms from 2014 to 2023 and uses descriptive statistics, correlation, and fixed effects regression models. It was deduced that direct material cost has a negative effect on ROA (coefficient = -10.0141, $p = 0.0272$) while direct labour cost has a positive influence on ROA (coefficient = 8.1114, $p = 0.0157$). There was no significant effect from variable overhead cost. The study concluded that while adequate control of material cost is required to keep an organization profitable, adequate control of labour cost can improve an organization's return on assets. Thus, the study recommended that manufacturing firms commit more funds to labour and use better cost control method such as integrated cost management systems in a bid to improve financial performance.

Keyword: Cost Management, Financial Performance, Manufacturing Firms, Marginal Costing, Return on Assets (ROA)

1.0 Introduction

In developing economies like Nigeria, the manufacturing industry continues to be the main driver of economic growth, industrial output, and job creation. Manufacturing firms in developing economies rely on robust cost management to achieve profitability and efficiency. This is because manufacturing firms operate in highly competitive and sensitive cost environments, where the prices of raw materials are volatile, new technologies are continually emerging, and the economy is still adjusting to the effects of the COVID-19 pandemic. Marginal costing is a popular management accounting technique that helps managers guide variable production costs to achieve objectives, pricing, and profit. Marginal costing is a century-old technique that relies on contribution-margin accounting, where the manager needs to know which costs are variable and which are fixed (Drury, 2022). Marginal costing identifies direct materials, direct labor, and variable overhead as the primary costs that determine production efficiency and the financial performance of a business. Return on Assets (ROA) is one of the financial performance measures that is used to determine how well a business has used its financial resources. Adebayo and Olagunju (2023), Raju et al. (2024), and Nnamani et al. (2024) empirical studies which show how the majority of manufacturing firms can positively impact profitability and operational efficiency by managing costs/implementing cost management practices associated with marginal costing.

This is the primary reason for the interest in marginal costing when evaluating an organization; the evidence, however, does not exist (developing economies) or is insufficient (developing economies) when attempting to correlate marginal costing directly with the financial performance of an organization. By analyzing the existing literature, it would appear that researchers investigating cost management practices in an organization fail to examine the remaining three components (variable and indirect) unilaterally (direct labor, direct material) and the impact (positive or negative) of those components on the performance of the organization as measured by asset-oriented performance indicators, in this case, return on assets/ROA (Okafor & Adeyemi, 2022; Nwankwo & Okeke, 2023). The lack of empirical studies on the manufacturing firms that are publicly listed/get listed in Lagos State, Nigeria, as the country's main industrial and commercial hub, further entrenches the knowledge gap and, therefore, the evidence is lacking to outline the impact of marginal costing on the financial performance of the manufacturing firms in Nigeria during the economic crisis (2014-2023), the economic crises of digitalization and sustainability, and the economic crises in the aftermath of the COVID-19. The primary purpose of the study is to analyze the limited evidence of the impact of marginal costing initiatives on the financial performance of publicly listed manufacturing firms in Nigeria.

The current study aims to analyze the impact of marginal costing elements (i.e., direct materials cost, direct labor cost, and variable overhead cost) on the Return on Assets (ROA) of listed manufacturing firms in Nigeria to fill this gap, thus, answering the question: What impacts does marginal costing have on the ROA of Nigerian listed manufacturing firms? In alignment with this, the study confirmed the null hypothesis which states that the components of marginal costing have no significant impact on the ROA of Nigerian listed manufacturing firms. This study is a significant contribution to the body of knowledge in management accounting as it a foremost empirical study on the efficacy of marginal costing in developing countries, proffering actionable recommendations to financial managers, regulators, and shareholders on increasing cost management and financial profitability in the Nigerian manufacturing industry.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Marginal Costing

Marginal costing focuses on identifying and managing variable costs such as direct materials, direct labor, and variable overheads, for better managerial planning and increased profitability (Khan & Malik, 2023). Marginal costing, as opposed to traditional full-costing methods, takes contribution margins into consideration thus fostering better short-term operational decisions relating to pricing, product mix, and break-even analysis (Zhang & Chen, 2023). While the most recent studies show its usefulness in the short-term operational control in developing economies with volatile business environments, some critics argue that the short-term focus of marginal costing can lead to overlooking fixed costs and delaying the expenditure of keeping certain costs, ultimately hindering comprehensive planning (Johnson & Williams, 2024). Unlike full absorption costing, marginal costing offers more useful information about the behavior and profit of costs at different levels of production and is, therefore, consistent with the body of knowledge that margins evolve "agile" control mechanisms, especially in developing economies with rising costs (Khan & Malik, 2023). Adding the latest developments, Mpanza, (2025) propose that integrating marginal costing with real-time analytics and activity-based costing (ABC) frameworks could enhance the accuracy of decision-making in turbulent

markets. Hence, while marginal costing is necessary for operational control in the short-term, its usefulness is greater in combination with strategic cost management models, especially in the evolving manufacturing industry in Nigeria Raju et al. (2024).

2.1.2 Direct Labour Cost

The direct labor cost is the payment to the employees who participate directly in the production of the company's products and services and whose contributions can be pinpointed and attributed to specific units of the output. In the context of marginal costing and managerial accounting, direct labor cost is classified as a variable production cost as it directly impacts the production activity, and in turn, the operational efficiency and profitability, of the manufacturing firm. Recent studies show that direct labor cost managed well translates to higher levels of efficiency and profitability. This is to say that the efficiency of the laborer in turn impacts the cost of production and the profit levels. Labor, when managed effectively as stated in the researches done by Adebayo & Olagunju (2023) and Nnamani, et al. (2024) leads to the achievement of the organizational objectives by minimizing waste and improving the productivity of the people. In the same spirit, Raju et al. (2024) expresses that there alters in management of labor of control cost that determine profitability and cost efficiency in manufacturing firms in developing countries. Nwankwo and Okeke (2023) say that increased labour costs in developing economies due to inflation and wage pressures would without technological change and productivity improvements be on the profitability of firms. Rising labour costs would be in direct contradiction to the principal of marginal costing. The direct labour costs would be in direct contradiction to the principal of marginal costing. The direct labour costs would be seen as a means to an end. Technological advances and managerial skills are vital. The efficient management of production technology, integrated with the flexible management of human resources, will enable the manufacturing industry to achieve better profitability.

2.1.3 Direct Material Cost

Direct materials refer to the physical parts that makeup a product (Kimmel et al. 2020). Consider baking, the direct materials used would be flour, yeast, eggs, sugar, oil, and water. The concept of direct materials is used in cost accounting, and this cost is treated as a separate line item in numerous financial statements. Direct materials increase the total cost of a produced item, which is then allocated to cost of goods sold (which appears on the profit or loss statement) and allocated to inventory on the balance sheet) Direct materials usually include raw materials and sub-assemblies. Direct materials also include all materials that are integrated into a finished product. The cost of direct materials is subtracted from sales when calculating the contribution margin (Fraiha 2022).

2.1.4 Variable Overhead Cost

Variable overhead costs are the costs associated with indirect production overhead costs in marginal costing and include indirect production costs that cannot be associated with or attributed to a specific unit or product. They include indirect labor, maintenance and indirect materials that increase or decrease depending on production activity. From a managerial accounting perspective, effective control of the costs of indirect overhead is relevant in product costing, pricing, contribution margin, and break-even point analysis as it helps the firm compute the marginal costs of producing of additional units and helps in the optimal allocation of resources (Drury, 2022). Empirical studies have also pointed that controlling indirect

overhead costs adds to the operational efficiency and profitability of a firm, by highlighting areas of possible cost savings, and improving production and pricing decisions (Adebayo & Olagunju, 2023; Raju et al. (2024). Considering the high cost of energy, poor infrastructure, and highly competitive market environments in developing countries like Nigeria, the need to manage operational costs to remain profitable is important for manufacturing businesses (Nnamani et al., 2024).

2.1.5 Financial Performance

An organization's strategic and operational goals can be realized when it effectively manages its resources and generates sufficient profits. Financial performance is the analysis of how effectively and efficiently a company is able to convert resources into profits. In the fields of accounting and management literature, financial performance is a critical element to assessing company performance and helps in making financial management decisions and evaluating results (Neely, 2001). Profitability is the most important measure of all the various means of assessing firm performance (Douglas & Hobert, 2013). When a firm shows an ability to consistently generate profits, that firm is said to be financially sustainable. The measure of financial performance that scholars value the most is Return on Assets (ROA). This is because it demonstrates the ability of a firm to efficiently manage its resources, in this case its assets, to generate profits (Pandy, 2005; Drury, 2022). This measure is particularly important in profit-making activities that consume a lot of resources, such as manufacturing. ROA is calculated by taking the firm's total assets and dividing it by the firm's net profit. The result of this calculation is a percentage that shows how effectively a firm's management is able to control and make decisions regarding the firm's resources. Drury (2022) indicates that ROA is a commonly used metric for empirical accounting and finance studies focused on the financial performance of firms. This popularity is attributable to its simplicity, comparability, and relevance in profitability analysis.

2.2 Theoretical Framework

The Marginal Costing Theory, also known as contribution costing, is the theoretical basis of the study, as it offers a solid analytical tool to analyse the relationship between cost behaviour and financial performance of manufacturing firms. The theory has its roots in the early managerial accounting innovations, specifically the contributions of Schmalenbach (1908), and has since been greatly refined and used in the literature of contemporary cost accounting (Drury, 2022; Horngren et al., 2021). Marginal costing separates between the variable costs, which are direct materials, direct labour and variable overhead and fixed costs, where only the variable costs are useful in making short-term production and pricing decisions.

The main idea of marginal costing theory is that the managerial decisions must be made based on the marginal (incremental) cost of production because it is the one that directly affects the contribution margin (sales revenue - variable costs). This is a very important contribution margin that is used to cover the fixed costs and profit. The theory can be used to help firms optimise levels of production, pricing and allocation of resources through instruments like Cost-Volume-Profit (CVP) analysis and break-even analysis (Drury, 2022). Marginal costing by concentrating on cost behaviour offers a clear-cut framework on the idea that management of the variable cost components efficiently will result in increased profitability and financial performance.

Marginal costing theory is especially applicable in the context of this study in its explanation of the impact of management of direct material cost, direct labour cost as well as variable overhead cost on Return on Assets (ROA) which is a major indicator of financial performance. Effective management of variable costs increases the contribution margins, which consequently enhances net income, in comparison to total assets. On the other hand, lack of cost control, particularly in using materials or in procurement can undermine profitability and asset efficiency. This way, the theory has made a direct connection between optimisation of cost structure and better financial performance.

Moreover, the theory of marginal costing justifies the view that good management of cost can lessen inefficiencies and avoid unnecessary capital that may be bound up in unproductive processes or inventory. This is especially relevant in manufacturing companies where material and labour costs make up a large portion of the overall costs. Cost efficiency can help firms to increase asset utilisation and, in the end, improve ROA. Thus, the theory offers a rational and empirical foundation of analysing the effects of changes in the components of marginal costs on financial performance.

Marginal costing principles have been empirically used to investigate the performance of firms. As an example, Adebayo and Olagunju (2023) discovered that the practices of effective cost control can greatly enhance the profitability of Nigerian manufacturing companies. In the same vein, Nnamani et al. (2024) found that management of variable costs is important to improve financial performance indicators such as ROA. In a general sense, research articles like that by Pavlatos and Kostakis (2018) and Hansen et al. (2022) indicate that the current cost management system based on the principles of marginal costing helps to make better decisions and enhance organisational performance. These studies offer empirical evidence of the theoretical forecast that the optimal management of marginal costs has a positive impact on the performance of firms.

In conclusion, marginal costing theory is a rich theory in the explanation of the relationship between cost behaviour and financial performance. The theory supports the research on the effects of direct material cost, direct labour cost, and variable overhead cost to the Return on Assets of the sampled listed manufacturing firms in Lagos State, Nigeria by concentrating on the elements of variable costs and their influence on the contribution margin and profitability.

2.3 Empirical Review

Empirical studies on marginal costing and financial performance of manufacturing companies provide inconclusive yet informative evidence, especially in the roles of direct material cost and variable overheads. Recent panel-based research in emerging economies indicates that efficient cost management can have a substantial impact on the profitability of firms and their use of assets, but the extent and direction of these impacts differ depending on the cost element and situations.

As an example, Newstyle and Nwdighoha (2025) used a fixed effects panel regression on consumer goods firms in Nigeria and found that both direct material cost and variable overhead costs have statistically significant positive impact on Return on Assets (ROA). It is interesting to note that the variable overhead costs accounted a significant percentage of changes in ROA implying that effective distribution and utilisation of the overhead resources including energy, maintenance, and indirect production inputs can result in operational efficiency and asset productivity. The results are consistent with the broader literature on cost management, which

highlights that enhanced overhead control and process optimisation may result in an enhanced capacity utilisation and profitability (Drury, 2022; Hansen et al., 2022).

The positive correlation between the material costs and ROA should however be interpreted carefully. Although higher material costs can be a sign of more production activity and revenue generation it can also be a sign of inefficiencies like wastage, bad procurement practices or fluctuating prices. Previous research indicates that the effects of material costs on performance are relative to the cost efficiency and not to the absolute costs levels, which means that organizations with a stronger inventory management system and relationship with suppliers are more likely to experience better financial results (Horngren et al., 2021). This subtle insight is crucial in the need to differentiate between the growth-driven cost expansion and the cost inefficiencies that dilute profitability.

One of the major weaknesses of the literature is the scanty incorporation of direct labour cost (DLC) in the literature review of empirical studies on marginal costing elements and financial performance. Although marginal costing theory is clear in recognising direct labour as a fundamental variable cost, most empirical studies simply either aggregate labour with other costs or not mention it. This exclusion is of importance as labour costs might have different behavioural and productivity influences as compared to material and overhead costs. As an example, investment in the quality of labour and the efficiency of labour can improve the quality of production and minimise the rework, which positively affects financial results (Hansen et al., 2022). On the other hand, poor labour utilisation can raise unit costs without any increment in output.

Furthermore, the literature does not generally analyze the combined and relative impacts of direct material cost, direct labour cost, and variable overhead cost in a comprehensive analysis. This disjointed solution restricts the possibility to comprehend the interplay of these cost elements that drive ROA. Since marginal costing is a multi-component system in its own right, the isolation or partial analysis of cost elements can facilitate incomplete or biased results on cost-performance relationships.

This disparity is further increased in the context of Nigeria and other developing economies where there are structural issues that include inflation, inefficiencies within the supply chain, and limitations on labour productivity, all of which impact cost behaviour and financial performance. This has led to the fact that there is a need to carry out detailed empirical research that would assess the effect of direct material cost, direct labour cost, and variable overhead cost on ROA on both individual and combined basis especially on listed manufacturing companies where cost effectiveness directly affects shareholder value.

In general, whereas previous research spanning analytical studies, survey-based research, and panel data econometric analyses offers evidence that cost management has an impact on financial performance (Drury, 2022; Hansen et al., 2022; Pavlatos & Kostakis, 2018; Uwuigbe et al., 2020), the literature is inconclusive and fragmented in terms of the methodology. This highlights the importance of more rigorous panel-based analyses that combine all the important elements of marginal costing to give a better understanding of how cost structures contribute to efficiency and profitability of assets in developing economies.

3.0 Methodology

The study utilized an ex post facto research design to gauge the impact of marginal costing on the financial performance of manufacturing companies in Lagos State, Nigeria, and posit a methodology to study the cost structure and financial performance proxied by Return on Assets (ROA). The population constitutes the 54 manufacturing companies listed on the Nigerian Exchange Group (NGX) in various subsectors including food and beverages, cement, and consumer goods, selected on the basis of having publicly accessible financial statements. A purposive sampling technique has been used to obtain five firms which fall within the stipulated criteria of having financial statements for the years 2014 - 2023, having an explicit influence of marginal costing or a cost management approach, and descending from various manufacturing subsector. Secondary data were gathered from financial statements and websites of the companies, and the NGX database, on the total assets and the components of marginal costing: direct material cost, direct labour cost, and variable overhead cost. The analytical approach employed descriptive statistics (mean, standard deviation), correlation to determine the relationship between the components of marginal costing and ROA and simple regression to determine the influence of marginal costing on financial performance. The model's statistical significance was evaluated using ANOVA, with ROA calculated as $(ROA) = (\text{Profit After Tax/Total Assets}) \times 100$.

Model Specification

$$ROA = f(\text{MCT}) \dots \dots \dots \text{(Equ.1)}$$

$$ROA_{it} = \beta_0 + \beta_1 \text{DMC}_{it} + \beta_2 \text{DLC}_{it} + \beta_3 \text{VOHC}_{it} + \mu_{it} \text{ ----- (Equ. 2)}$$

Where:

ROA= Return on Asset of firm i

DMC = Direct Material Cost of firm i

DLC = Direct Labour/wages Cost of firm i

VOHC = Variable Overhead Cost of firm i

β = Regression coefficients

μ = Error term

it = in time t

4.0 Results and Discussions

4.1 Descriptive Statistics

Table 4.1: Descriptive Analysis

	ROA	DMC	DLC	VOHC
Mean	8.4042	10.6821	9.8852	10.2321
Median	4.94500	10.7094	9.9884	10.3192
Maximum	40.5000	11.4989	10.8516	11.8171
Minimum	-13.6600	8.0176	7.3712	6.8445
Std. Dev.	10.01458	0.5671	0.5982	0.8706
Skewness	0.6829	-1.9859	-1.5276	-1.8182
Kurtosis	3.8031	10.78812	7.4194	8.4830

Jarque-Bera	5.3452	159.2279	60.1367	190.1814
Probability	0.0691	0.00000	0.00000	0.00000
Sum	420.2100	534.1042	494.2583	511.6028
Sum Sq. Dev.	4914.296	15.75994	17.53148	37.1426
Observations	50	50	50	50

Author's Compilation, (2025)

It can be concluded that there is reasonably good diversity in terms of financial performance and cost structure of the firms in the study sample. The Return on Assets (ROA) showed a mean of 8.40% with a range of -13.66% to 40.50% and a standard deviation of 10.01% which means that there is a wide spread of profitability across the firms. The mean of the direct material cost (DMC) is 10.68% and a standard deviation of 0.57 which means that the range of 8.02% to 11.50% is a fairly consistent range of material costs. The mean of the direct labour costs (DLC) is 9.89% and a standard deviation of 0.60 with a range of 7.37% to 10.85% which means that there is a moderate spread in labour cost. The mean of Variable Overhead Cost (VOHC) is 10.23% with a standard deviation of 0.87 and a range of 6.84% to 11.82%. The ROA (0.68) and cost components (-1.99 to -1.52) of the firms show a left tail (left) skewed distribution of cost and for the ROA indicate a group of firms with rather high or low performance and/or costs. The distribution of the kurtosis (3.80 to 10.79) imply the presence of a few extreme or unusual values. The Jarque-Bera statistics further confirm the non-normality of several variables, particularly ROA and DMC, with all p-values less than 0.05, indicative of the necessity for robust estimation procedures in the following analyses.

4.2 Correlation Matrix

Table 4.2: Correlation Matrix

	ROA	LDMC	LDLC	LVOHC
ROA	1			
DMC	-0.1277	1		
DLC	0.1478	0.7842	1	
VOHC	0.0309	0.5621	0.7608	1

The correlation matrix has revealed certain interesting connections among the variables. Mediation for Direct Material Cost (DMC) and Variable Overhead Cost (VOHC) stands at -0.13 and 0.03 respectively. With this, it can safely be concluded that there is no relationship that is linear regarding the profitability. On the contrary, Return on Assets (ROA) is positively correlated with Direct Labor Cost (DLC), which stands at 0.15. In addition, with the correlation of Direct Labor Cost (DLC) with Direct Material Cost (DMC) and Variable Overhead Cost (VOHC), which are 0.78 and 0.76 respectively, it would be fair to say that there exists a high level of interconnectedness of labor and the other marginal costs. Mediation of DMC and VOHC stands at 0.56. This correlation suggests that while the expenses of labor are affected by the increase of the material and the overhead costs, the relationship that labor costs have with Return On Assets (ROA) is weak. This suggests that the costs that are marginal directly have no correlation with the returns that the assets have (ROA). There may be multicollinearity, therefore, it would be advisable to note this before conducting the regression analysis in order to arrive at a valid conclusion.

4.3 Regression Analysis

Hypothesis

H0₂: Marginal costing (Direct Material Cost, Direct Labour Cost and Variable Overhead Cost) do not significantly affect Return on Assets (ROA) of listed manufacturing companies of Nigeria.

$$ROA_{it} = \beta_0 + \beta_1 DMC_{it} + \beta_2 DLC_{it} + \beta_3 OHC_{it} + \mu_{it} \quad \text{----- (Equ. 2)}$$

4.3.2 Regression Results of Effect of Marginal Costing on Return on Assets (ROA)

		Pooled	Fixed Effect	Random Effect
DMC	Coefficient	-11.5622	-10.0141	-11.5622
	Standard Error	3.7629	4.3743	3.5459
	T. Statistics	-3.0726	-2.2893	-3.2607
	Probability	0.0036	0.0272	0.0021
DLC	Coefficient	14.2198	8.1114	14.2198
	Standard Error	4.5468	5.6280	4.2846
	T. Statistics	3.1274	1.4413	3.3188
	Probability	0.0031	0.0157	0.0018
VOHC	Coefficient	-2.8434	-2.1862	-2.8433
	Standard Error	2.3438	2.2698	2.2086
	T. Statistics	-1.2132	-0.9632	-1.2874
	Probability	0.2313	0.3410	0.2044
CONSTANT	Coefficient	20.4416	57.5626	20.4416
	Standard Error	25.1722	24.4106	23.7205
	T. Statistics	0.8121	2.3581	0.8618
	Probability	0.4209	0.0231	0.3933
	R-Squared	0.2015	0.48930	0.2015
	F-Statistics	3.8696	4.5989	23.8696
	Durbin Watson	1.1578	1.50642	1.1578
	Probability(F-Stat)	0.0150	0.004394	0.0150
Hausman	Probability	0.0235		

Source: Analyzed Data (2014-2023)

The regression analysis of marginal costing components and their impact on ROA shows complex relationships between the variables. Direct materials costs (DMC) has a coefficient of -10.0141 ($p = 0.0272$), meaning that averages show that a one-unit increase in DMC leads to ROA decreasing by roughly 10% and this is statistically significant at the 5% level. On the other hand, Direct Labor Costs (DLC) is also significant and has a positive coefficient of 8.1114 ($p = 0.0157$), meaning that on average, a one-unit increase in DLC leads to ROA increasing by 8% and shows the positive influence of spending on labor. For Variable Overhead Cost (VOHC), a coefficient of -2.1862 is noted, although in this case the statistic does not show significance ($p = 0.3410$). This means that, on average, the overhead costs have a neutral impact on the return on assets of a company. Thus, the marginal costing components affect profitability differently. A strong regression relationship is observed; the model explains 48.93% of ROA and is significant in the case of the components of the cost. This is evidenced by a statistically significant ($p < 0.05$) F-value of 4.5989 and an R-squared value of 0.4893.

4.4 Discussion of Findings

The results of this research offer subtle evidence on the disparate impacts of the elements of marginal costing on financial results, as proxied by Return on Assets (ROA). Particularly, the negative impact of direct material cost is significant ($\beta = -10.0141$, $p < 0.05$), which implies that increasing material costs have a negative impact on profitability, especially in a fluctuating macroeconomic environment like Nigeria where input prices are extremely sensitive to exchange rate changes and supply chain shocks. This finding is in line with previous research that highlights the negative role of ineffective material cost management in the performance of firms (Adebayo and Olagunju, 2023; Nwankwo and Okeke, 2023). Nonetheless, it is opposite of the results given by Newstyle and Nwdighoha (2025), who found a positive correlation between material costs and ROA, which they explained by higher activity in production. The difference can be attributed to differences in cost efficiency: whereas in some situations scale expansion may be indicated by increased material costs, in the current analysis it seems to signal inefficiency, which can be wastage or poor procurement practices or cost inflation. This reinforces the claim on cost efficiency made by Horngren et al. (2021) that cost levels are not important but the critical determinant of the performance results.

On the other hand, the high and positive impact of direct labour cost (8.1114, $p < 0.05$) indicates that investment in human capital positively influences the use of assets and profitability. This result supports empirical data that relates labour productivity and skill formation to the enhanced financial performance of manufacturing companies (Nnamani et al., 2024; Raju et al., 2024). It also supports the theoretical assumption that the effective use of labour leads to an improvement of contribution margins and operational efficiency (Drury, 2022). Conversely, the non-significance of variable overhead cost ($p > 0.05$) indicates that indirect expenses might not have a direct impact on profitability in the sampled companies, perhaps because they have a different approach when allocating overheads or they have an established cost-control system. This observation is at odds with other studies that claim that overhead costs are a major driver of firm performance (Adebayo and Olagunju, 2023; Hansen et al., 2022), but in line with the perception that overheads tend to be more diffuse and indirectly affect financial performance. In general, the findings underscore the idea that even though in emerging economies direct cost elements especially materials and labour have a significant influence on financial performance, the impact of overhead costs can be more situational and reliant on managerial efficiency and cost allocation behaviours.

5.0 Conclusion and Recommendations

This study analysed how the marginal costing elements of direct material cost, direct labour cost and variable overhead cost influenced the financial performance of the listed manufacturing companies in Lagos State in Nigeria using Return on Assets (ROA) as a proxy. The results show that direct material cost has a strong negative impact on ROA, meaning that the inefficiency in material cost control hurts profitability, whereas direct labour cost has a strong positive impact, meaning that investment in human capital has a positive impact on asset utilisation and the financial performance. Conversely, the variable overhead cost does not have significant effect on ROA, which means that its effect could be indirect or it could depend on the practice of firm-specific allocation of costs. On these findings, the study concludes that management of the direct cost elements is important in the enhancement of financial performance of manufacturing companies in unpredictable economic conditions. Based on this,

the study suggests that companies need to enhance material cost management by enhancing procurement policies, supplier consolidation, and inventory management approaches, and at the same time, raise strategic investment in human resources, training and productivity-enhancing technologies. In addition, companies ought to embrace integrated cost management systems, a blend of marginal costing with new methods like the activity-based costing, to boost the visibility of costs, resource allocation, and managerial decision-making, and, consequently, the financial performance.

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