



The impact of internal control weaknesses on cost stickiness

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Abstract

The impact of internal control weaknesses on cost stickiness of the companies listed in Tehran Stock Exchange.

A basic assumption in management accounting indicates that the extent of cost variations is consistent with and proportional to an increase or decrease in the number of activities. With regard to the theories on cost behavior, cost variations exclusively depend on the level of activity variations which are made symmetrically. Evidence from recent research has questioned this theory and introduced and documented cost stickiness as an asymmetric response of costs to variations in a company's activities. Cost stickiness suggests that cost reduction induced by decreased activities is less than cost increase caused by reducing activities. Economic units should possess an effective internal control system to achieve their short-term and long-term goals, fulfill missions and perspectives, maintain affordability and profitability, counteract unexpected events, and respond to the authorities (capital owners, state, etc.). Considering the importance of cost behavior in companies' future planning, the present study aimed to explain and investigate the impact of internal control weaknesses on cost stickiness. Cost stickiness is an important issue in accounting and economics research, and literature has shown that cost stickiness cannot be separated from managers' motivations. The purpose of an organization's internal control system is to provide reasonable assurance to executive management that the objectives specified for operations and programs are attainable to this end, the study examined the effect of internal control weaknesses on sales, administrative and general costs and actual cost. The research was conducted on 139 companies within 2012-2017. The results showed that internal control weaknesses affect cost stickiness.

Keyword: Cost stickiness, Financial reporting, Internal control weaknesses

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