

# **Understanding costing system sophistication in an Australian city council**

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## *Abstract*

This Australian study explores and reports the findings of costing system sophistication in a public sector city council. Using longitudinal data from primary and secondary sources, the study explores and refines the meanings of costing system sophistication, and the reasons for sophisticating a costing system. The study finds that sophisticating a costing system requires detailed understanding of the elements of indirect costs and judgements about inclusion of these costs in product cost calculations. The study reveals that the inclusion of indirect costs is dependent on the perceived benefits of these costs in costing calculations, and the perceived meanings given to these costs by its users. The study also finds that costing system sophistication is driven by institutional isomorphic pressures imposed from external constituencies, and is in line with the prescriptions of institutional theory advocates. In particular coercive isomorphic pressure is observed to have led the normative and mimetic pressures throughout the sophistication process.

**Key words:** overhead costs, costing system sophistication, Institutional theory, cost pool, cost drivers.

**JEL classification codes:** M40, M41