

-RESEARCH ARTICLE-

THE ROLE OF COSTING TECHNIQUES IN REDUCTION OF COST AND ACHIEVING COMPETITIVE ADVANTAGE IN IRAQI FINANCIAL INSTITUTIONS

Nada Salman Nikkeh

Technical College of Management- Baghdad, Middle
Technical University, IRAQ.

Email: ndads98@gmail.com

<https://orcid.org/0000-0002-3284-3884>

Sarah Isam Hasan

Accounting Department, College of Administration
and Economics, University of Kufa, IRAQ

Email: sarahi.kbelah@uokufa.edu.iq

<https://orcid.org/0000-0001-7235-923X>

Haitham Sahib Saeed

Department of Accounting, College of Administration
and Economics, Mustansiriyah University, Iraq.

Email: haithamsaheb66@uomustansiriyah.edu.iq

<https://orcid.org/0000-0002-0298-239X>

Hakeem Hammood Flayyih

Department of Accounting, College of Administration
and Economics, University of Baghdad, IRAQ

E-mail: hakeem.hmood@coadec.uobaghdad.edu.iq

<https://orcid.org/0000-0003-0615-0854>

—Abstract—

Achieving a competitive edge is essential for the success of an institution, and this may be accomplished by utilizing various costing approaches and reducing production costs. This situation deserves the attention of academics. The current study explores the effect

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of costing methods such as absorption costing and marginal costing on the accomplishment of competitive advantage by Iraqi financial institutions. The research also examines the function of cost reduction as a mediator between absorption costing, marginal costing, and the development of competitive advantage by Iraqi financial institutions. Survey questions were utilized to collect primary data from the selected respondents. The research also employed PLS-SEM using smart-PLS to examine the correlations between the variables under investigation. Absorption and marginal costing were found to have a good relationship with Iraqi financial institutions' accomplishment of competitive advantage. The results also revealed that cost reduction considerably mediates the relationship between absorption costing, marginal costing, and the realization of competitive advantage by Iraqi financial institutions. Utilizing absorption and marginal costing, the research assists policymakers in formulating cost-reduction and competitive advantage-related policies.

Keywords: costing techniques, absorption costing, marginal costing, achievement of competitive advantage, reduction of cost, financial institutions in Iraq

1. INTRODUCTION

A business's competitive advantage influences customers' decisions and pushes them to choose the company's products over its competitors. Understanding and acquiring competitive advantages is advantageous for organizations seeking to increase their market share (Na et al., 2019). The user experience of higher quality, more inexpensive, less expensive, and more durable firm products may give the company a competitive advantage. Additionally, competitive advantages may exist in the form of other tangible or intangible assets, such as intellectual property or customer service personnel. Competitive advantages over market competitors are crucial for a company's business success (Saeidi et al., 2019). The competitive advantages may result in increased product or service sales profitability. The rise in total sales results from achieving competitive advantages, attracting more customers, increasing the frequency of customers, and retaining potential customers through fostering brand loyalty (Liu et al., 2019).

Obtaining competitive advantages improves the consistency and predictability of a company's revenue sources. Thus, it draws superior talent, brand alliances, and prospective clients. Therefore, obtaining competitive advantages enhances the internal functionality of businesses, boosts their financial position, and prolongs their market survival (Argyres et al., 2019). A company's competitive advantages are determined by its cost management, affecting its capacity to manage its resources, decisions, and functions. Businesses use several costing methods to determine prices for their products and services. Companies use both absorption costing and marginal costing as costing methods. In absorption costing, all direct costs, such as material and labor costs, as well as indirect costs, such as overhead, are incorporated into the costs paid to Products. Marginal costing determines an organization's ideal production volume, where the least

cost is charged per unit (Zameer et al., 2020). Effective cost management strategies can reduce total corporate expenses. It raises the quantity of earnings in reserves the company uses for maintenance, improvement, or any form of innovation to safeguard against contingent hazards. It decreases customers' production costs and increases the value of products. Consequently, with appropriate costing strategies, the business can acquire competitive advantages (Zhao et al., 2019).

This research investigates the competitive advantages of Iraqi financial institutions. Iraq is rapidly developing and has an economy with a high middle-class income. Iraq's nominal gross domestic product in 2022 will be \$297.34 billion, while its purchasing power parity will be \$512.93 billion. Iraq has an expanding finance sector (Mohammed, 2018). Iraq will soon catch up to global standards regarding technology and financial services. However, numerous issues must be resolved. The World Bank states that in 2018, only 23 percent of Iraqis had access to financial and banking services. They continue to pay with cash and engage in manual transactions mainly. A lack of faith in the financial banking industry and a deficiency of knowledge about financial or banking services have hampered economic development (Ali et al., 2021). There are currently 74 financial institutions in the country, comprising 53 privately owned banks (PSOB), seven state-owned banks (SOB), and 14 branches of foreign banks. However, according to data from 2021, the financial sector's contribution to Iraq's overall GDP was only 1.94 percent. Even though there are 904 financial institutions in Iraq, the bulk is located in Baghdad and Basra, which account for 37.1% and 9.3% of all branches, respectively (Jassim, 2022).

Iraq's major financial institutions include Babylon Bank, Agricultural Cooperative Bank of Iraq, Bank of Baghdad, Bank of Iraq, Dar Es Salaam Investment Bank, Basrah International Bank for Investment, Gulf Commercial Bank, Iraqi Islamic Bank, Industrial Bank of Iraq, Islamic Cooperation Investment Bank, Rafadain Bank, Rasheed Bank, Trade Bank of Iraq, Real Estate Bank of Iraq, and Warka Bank, among others (Al-Nasrawi et al., 2020). Nonetheless, Iraq's financial industry is expanding and boosting the nation's economy. The financial industry continues to develop more slowly than is required to meet economic demands and compete with the financial sectors of other countries. The government must monitor individual financial institution performance (Jaber, 2022). The new research moves in this direction. This study aims to examine the effects of costing approaches such as absorption costing and marginal costing on the attainment of competitive advantages. Its purpose is also to investigate the role of cost reduction as a mediator between absorption costing and marginal costing and the achievement of competitive advantages. This essay is not merely a rehash of previous works; it takes the topic of competitive advantages of earlier works and adds numerous new elements. First, the relationship between costing methods and generating competitive advantages has been studied extensively in the prior literature. The role of absorption and marginal costs in creating competitive advantages is briefly discussed.

This study contributes to the field by examining the effects of absorption costing and marginal costing on gaining competitive advantages. Second, only the function of cost reduction in attaining competitive advantages has been investigated. This study investigates the role of cost reduction as a link between absorption costing, marginal costing, and competitive advantage attainment. Thirdly, the development of Iraq's financial institutions has been a cause for concern. However, just a few authors studied this issue and proposed a remedy. This study contributes to the literature by examining the impact of absorption and marginal costing in cost reduction and achieving competitive advantages for Iraqi financial institutions.

The remainder of the paper consists of five sections: The second section of the literature study discusses the relationship between absorption costing and marginal costing regarding cost reduction and attaining competitive advantages. The third section provides a detailed description of all methodologies utilized in this research. The results were extracted from the collected data in the next section. In the fifth section, outcomes are aligned with other studies of a similar nature, and there is a brief conclusion, implications, and study limitations.

2. LITERATURE REVIEW

To increase and maintain their market share, businesses require competitive advantages for acquiring new customers, fostering brand loyalty, and retaining potential customers. The strategies used by businesses to determine the price of their goods and services result in cost-effective and production-optimizing improvements to business operations, ultimately contributing to the development of competitive advantages (Elrehail et al., 2020). The writers have explored the relationship between costing approaches such as absorption and marginal costing and cost reduction and competitive advantage. In subsequent paragraphs, the relationship between absorption costing, marginal costing, cost reduction, and competitive advantages is hypothesized by analyzing the perspectives of several authors. Absorption costing is one of the cost accounting methods that accounts for all costs involved with the production of goods or the provision of services. Absorption costing includes all manufacturing overheads and material and labor charges (Lestari et al., 2020). As a result of transferring all additional costs, such as rent, utilities, insurance, repair, rent, taxes, administrative fees, etc., to customers for these products and services, the company strives to maintain product quality and produce new varieties with enhanced features. Consequently, absorption pricing generates competitive benefits (Chen et al., 2019). Fainshmidt et al. (2019), in a research study titled "Dynamic Capabilities for Competitive Advantages," investigate the effects of absorption costing on competitive advantages through the development of dynamic capabilities. Key informants such as CEOs, CFOs, and owners/managers were asked to complete questionnaires as part of a survey about the management of enterprises in Israel. A fuzzy-set Qualitative Comparative Analysis was conducted to analyze the relationship between this study's components empirically. The study hypothesizes that

when absorption costing is chosen to charge costs to products and services, human capital is spent in building dynamic capacities to manage the efficacy of infrastructure, production materials and technologies, and logistics. Therefore, competitive advantages emerge. Discuss the relationship between costing approaches, such as absorption costing, inventory management, and competitive advantages in [Kaewchur \(2021\)](#). Data from 280 Thai SMEs and 14 observable variables were gathered utilizing a mixed research methodology. The study suggests that all production-related expenses are passed on to the customer when absorption costing is used. With this method, organizations with more lavish spending prefer to improve the efficiency of their production technologies and train their employees to use them. These costs will enable the company to establish a competitive advantage and gain ground. [Lee et al. \(2019\)](#) study the relationship between absorption costing as a costing technique, digitalization, resources, and competitive advantages in addition to innovation, learning, and marketing through empirical research. The respondents were selected using a quota sample method, and standardized questionnaires were distributed to 143 Malaysian small and medium-sized exporting manufacturers. Smart-PLS v3.2.8 software was utilized to test the research hypotheses and produce findings. The results indicated that absorption costing has a favorable relationship with competitive advantages, given that these companies value learning and innovation. In this light,

H1: Absorption costing has a positive impact on achieving competitive advantages.

In marginal costing, costs are assigned to individual units, and the creation of each additional unit affects total production expenses. In marginal cost analysis, management identifies the point at which economies of scale may be realized, and production technologies and overall business operations can be enhanced. When business processes and productivity are enhanced, a company can increase its market share and compete more effectively. Therefore, marginal costing increases competitive advantages. [\(Haseeb et al., 2019\)](#); [\(Papadas et al., 2019\)](#) examine the relationship between marginal costing, internal green marketing strategies, and competitive advantages. Through questionnaires, data were collected from 226 research participants who were Marketing or CSR managers of the selected companies. Data analysis uses descriptive statistics, correlation, and path analysis to evaluate hypotheses. The study hypothesizes that when businesses adopt marginal costing for their products and services, they develop effective leadership and teamwork among their employees, enhance the productive capacity of their resources through effective resource allocation, and develop agility through effective time management. This allows them to achieve competitive advantages. [Akpan et al. \(2022\)](#) investigate the effects of marginal costs on the attainment of competitive advantage. According to the study, company management uses the marginal costing method to predict the number of units they must strive to manufacture, and the minimum quantity of labor and materials required for manufacturing. This enhances product quality while minimizing consumer harm and generates effective waste and resource

management. Consequently, marginal costs provide enterprises with a competitive advantage. According to [Pratono et al. \(2019\)](#) study, the objective of marginal costing management is to maximize output from a single production cycle by optimizing the usage of resources, materials, and labor. The enhancement of resource productivity, the effectiveness of labor, and the exceptional product quality of materials all enable businesses to provide customers with higher-quality goods and services and to increase brand loyalty. Consequently, marginal costs produce competitive advantages. Hence,

H2: Marginal costing has a positive impact on achieving competitive advantages.

Absorption costing enhances the quality of applied resources and the efficiency of manufacturing processes while reducing the company's expenses. And the lowering of overall costs leads to increased earnings for the business. The number of dividends declared to shareholders rises, along with their confidence in the company and investment level, which aids the company's market competition. It refers to cost reduction as the link between absorption costs and the attainment of competitive advantages ([Voss et al., 2019](#)). [Sellitto et al. \(2020\)](#) study examined the relationship between absorption costs, cost reduction, green innovation, and obtaining competitive advantages in a cluster of Southern Brazilian furniture manufacturers. This cluster consists of 245 businesses.

The survey method is utilized as a research approach. From 98 valid answers from these companies, data was collected. An examination of structural equation modeling by partial least squares was conducted using the SMART-PLS program. The study demonstrates that good management of absorption costing results in a significant drop in corporate costs. The cost reduction and savings encourage green innovation and contribute to developing competitive advantages. Therefore, cost reduction mediates between absorption costing and the attainment of competitive advantages. [Udriyah et al. \(2019\)](#) examine the connection between absorption costing, cost reduction, innovation, obtaining competitive advantages, and company performance in the Malaysian textile industry. As a strategy for collecting data, 150 textile companies in Selangor, Malaysia, were surveyed using questionnaires developed. Path analysis using SPSS 20.0 was utilized for analysis. According to the study, absorption costing minimizes the company's financial burden and enables it to initiate new business processes. The innovation adoption that yields superior results provides organizations with competitive advantages. Consequently, we post the following hypothesis:

H3: Cost reduction is a significant mediator between absorption costing and achieving competitive advantages.

In marginal costing, corporations do not transfer all expenses to the commodities they produce without considering increased prices and a more significant burden on consumers. They seek to maximize the quantity of products and services produced in a single production phase and the productive capacity of all physical and human resources

through their design strategies (Rehman Khan et al., 2021). Creating more goods and services in a single manufacturing phase reduces enterprises' production and operating expenses. Effective tactics, more productive resources, and production agility are a company's competitive advantages for success (Sidek et al., 2019). Muñoz et al. (2019) examine the relationship between marginal costing, cost reduction, and competitive advantage. When marginal costing is utilized, there is preparation in advance, and there is a tendency to spend prudently so that each unit incurs the lowest cost. In this instance, the organization's total expenses decrease. The increased profits enable the company to attract possible investors and advisory services that set it apart from competitors—utilizing marginal costs and the subsequent cost reduction to build competitive advantages. Khan et al. (2019) shed light on the relationship between marginal costing, cost reduction, investment in intangible resources and organizations' competencies, and the attainment of competitive advantages and business performance. Data were collected from 329 Pakistani businesses. The results of structural equation modeling indicate that marginal costing decreases expenses and raises investment levels, resulting in a competitive advantage. Hence,

H4: Cost reduction is a significant mediator between marginal costing and achieving competitive advantages.

3. RESEARCH METHODS

This study investigates the impact of costing techniques such as absorption costing and marginal costing on the achievement of competitive advantage, as well as the role of cost reduction as a mediator between absorption costing, marginal costing, and the achievement of competitive advantage in Iraqi financial institutions. Survey questions were utilized to collect primary data from the selected respondents. Absorption costing has eight questions from Gupta et al. (2010), marginal costing has six questions from Jacobs (2018), cost reduction has five questions from Valueva et al. (2020), and competitive advantage has eight questions from (Abu-Rumman, 2018). In addition, the research employed PLS-SEM using smart-PLS to examine the correlations between the variables under investigation.

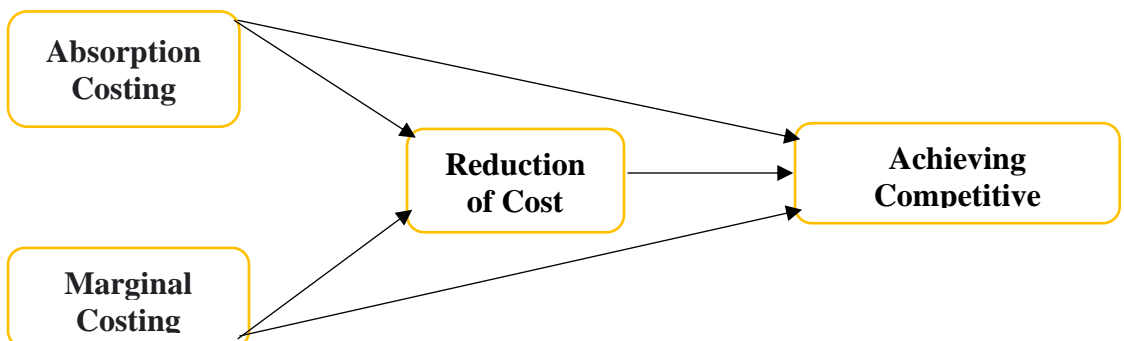


Figure 1. A research framework

It is an efficient tool that intelligently handles complex models. In addition, it gives the most accurate estimation findings despite the researchers' usage of massive data sets. Absorption costing (ABC) and marginal costing are the predictors used in this investigation (MRC). In addition, the research employed only one mediating variable, reduction of cost (RDC), and one dependent variable, competitive advantage accomplishment (ACA). This framework presents these constructs, as seen in [Figure 1](#).

4. RESEARCH FINDINGS

The research findings demonstrate convergent validity, which is the correlation between items. The results revealed that the Alpha and composite reliability (CR) values exceed 0.70. In contrast, factor loadings and extracted average variance (AVE) values exceed 0.50. These values demonstrated the validity of the wide connection between items and convergent validity. These numbers are presented in [Table 1](#).

Table 1. Convergent Validity

Constructs	Items	Loadings	Alpha	CR	AVE
Absorption Costing	ABC1	0.616	0.898	0.919	0.589
	ABC2	0.630			
	ABC3	0.705			
	ABC4	0.887			
	ABC5	0.785			
	ABC6	0.794			
	ABC7	0.807			
	ABC8	0.865			
Achieving Competitive Advantage	ACA2	0.775	0.853	0.891	0.576
	ACA3	0.763			
	ACA5	0.763			
	ACA6	0.769			
	ACA7	0.746			
	ACA8	0.736			
Marginal Costing	MRC1	0.784	0.873	0.904	0.611
	MRC2	0.773			
	MRC3	0.833			
	MRC4	0.747			
	MRC5	0.749			
	MRC6	0.800			
Reduction of Cost	RDC1	0.878	0.868	0.905	0.659
	RDC2	0.866			
	RDC3	0.669			
	RDC4	0.818			
	RDC5	0.809			

The research results demonstrate the association between variables, known as discriminant validity. Cross-loadings and Fornell Larcker were utilized to test the discriminant validity. The outcomes revealed by the figures illustrating the association with the variable are more significant than those shown by the statistics demonstrating the link with other factors. These values demonstrated the validity of the low correlation between variables and discriminant validity. These numbers are shown in [Tables 2 and 3](#).

Table 2. Fornell Larcker

	ABC	ACA	MRC	RDC
ABC	0.767			
ACA	0.638	0.759		
MRC	0.456	0.648	0.782	
RDC	0.437	0.657	0.506	0.812

Table 3. Cross-Loadings

	ABC	ACA	MRC	RDC
ABC1	0.616	0.393	0.283	0.247
ABC2	0.630	0.428	0.356	0.207
ABC3	0.705	0.437	0.286	0.209
ABC4	0.887	0.564	0.365	0.418
ABC5	0.785	0.516	0.360	0.385
ABC6	0.794	0.479	0.417	0.338
ABC7	0.807	0.527	0.364	0.369
ABC8	0.865	0.547	0.366	0.430
ACA2	0.459	0.775	0.492	0.374
ACA3	0.495	0.763	0.498	0.471
ACA5	0.439	0.763	0.491	0.570
ACA6	0.456	0.769	0.393	0.686
ACA7	0.557	0.746	0.544	0.446
ACA8	0.495	0.736	0.537	0.421
MRC1	0.423	0.547	0.784	0.374
MRC2	0.315	0.406	0.773	0.419
MRC3	0.410	0.603	0.833	0.462
MRC4	0.339	0.533	0.747	0.336
MRC5	0.270	0.371	0.749	0.383
MRC6	0.356	0.535	0.800	0.393
RDC1	0.379	0.609	0.478	0.878
RDC2	0.360	0.518	0.370	0.866

RDC3	0.422	0.546	0.422	0.669
RDC4	0.291	0.508	0.415	0.818
RDC5	0.292	0.447	0.335	0.809

Examining the discriminant validity utilizing the Heterotrait Monotrait (HTMT) ratio revealed that the numbers are fewer than 0.85. These values demonstrated the validity of the low correlation between variables and discriminant validity. These numbers are presented in [Table 4](#).

Table 4. Heterotrait Monotrait Ratio

	ABC	ACA	MRC	RDC
ABC				
ACA	0.726			
MRC	0.511	0.740		
RDC	0.476	0.749	0.573	

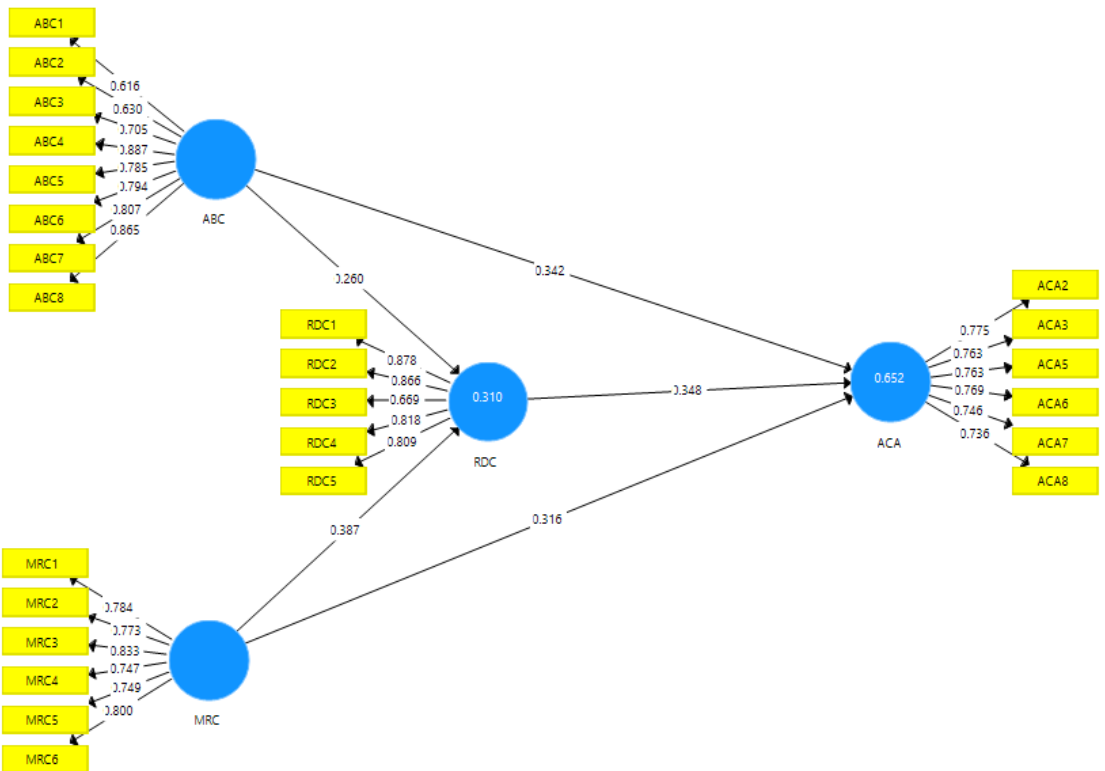


Figure 2. Measurement Model Assessment

The results indicated that absorption and marginal costing have a favorable relationship with the realization of competitive advantage by financial institutions in Iraq; therefore, H1 and H2 can be accepted. In addition, the results demonstrated that cost reduction considerably mediates the relationship between absorption costing, marginal costing, and the realization of competitive advantage by financial institutions in Iraq, accepting hypotheses H3 and H4. These numbers are presented in Table 5.

Table 5. A Path Analysis

Relationships	Beta	Standard Deviation	T Statistics	P Values
ABC -> ACA	0.342	0.039	8.726	0.000
ABC -> RDC	0.260	0.056	4.631	0.000
MRC -> ACA	0.316	0.047	6.673	0.000
MRC -> RDC	0.387	0.057	6.809	0.000
RDC -> ACA	0.348	0.045	7.683	0.000
ABC -> RDC -> ACA	0.090	0.022	4.109	0.000
MRC -> RDC -> ACA	0.135	0.028	4.786	0.000

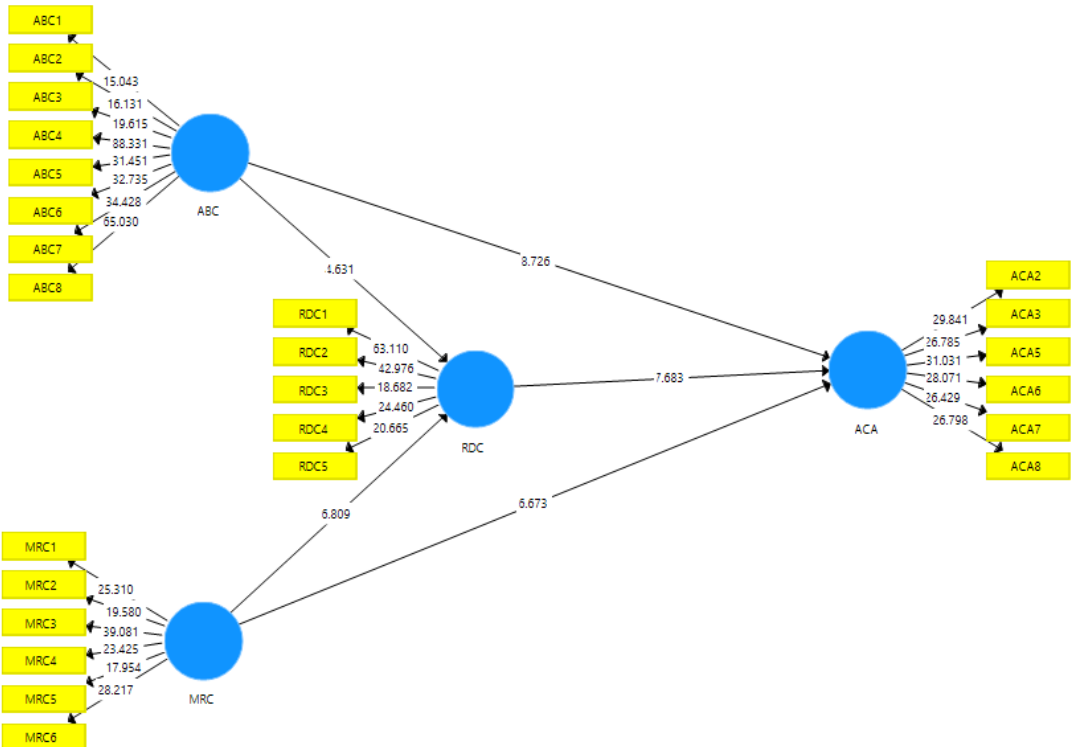


Figure 3. Structural Model Assessment

5. DISCUSSIONS

Results indicated that absorption costs have a positive effect on attaining competitive advantages. These results are consistent with [Bal et al. \(2019\)](#)'s research, which demonstrates that in absorption costing, all associated costs are transferred to the customer, and the company can invest in enhancing the efficiency of production technologies and educating the workforce on how to interact with these technologies. Due to these expenses, the organization can get competitive advantages. These results are also consistent with [Lu et al. \(2021\)](#) findings, which imply that organizations strive for good resource integration and staff collaboration if there are absorption costs. This improves production at reduced costs and enables the company to compete successfully with market rivals.

The results demonstrated that marginal costing has a favorable effect on the attainment of competitive advantages. These findings are consistent with [Yang et al. \(2018\)](#)'s research. According to the study, with the marginal costing technique, the company estimates the number of units it must attempt to produce and the minimal amount of material and labor that may be utilized for production purposes. This promotes efficient waste and resource management and improves product quality while minimizing user harm. Therefore, marginal costs favorably impact the attainment of competitive advantages. According to [Singjai et al. \(2018\)](#), if marginal costing is followed by organizational management, it strives to preserve the effectiveness of every business department, resulting in competitive advantages for the firm.

Results indicated that cost reduction is an essential mediator between absorption costs and attaining competitive advantages. These findings are consistent with [Farhikhteh et al. \(2020\)](#)'s research. According to the authors, organizations utilize a distinct absorption pricing method based on their objectives. Absorption costing, wherein enterprises bear the least burden of any cost and charge reasonable pricing, minimizes the overall business costs. When a corporation faces little costs, it can invest in the management of both physical and human resources, achieving competitive advantages and corporate success. These findings are also consistent with [Jones et al. \(2018\)](#), who assert that adopting the absorption costing method is advantageous for reducing costs from multiple perspectives and that the resulting reduction in cost burden enhances a company's ability to achieve competitive advantages.

Results indicated that cost reduction is an essential mediator between marginal costing and attaining competitive advantages. These findings are consistent with the research conducted by [Vrontis et al. \(2022\)](#). In businesses that utilize marginal costing, there is planning and a battle to spend prudently so that each unit incurs the lowest cost. In this case, the total cost of doing business decreases, and the organization's increased earnings help it attract investors and consultants who can help it stand out in the market. Thus, marginal costing and the resulting cost reduction contribute to competitive advantages.

Abeysekara et al. (2019) claim that the implementation of the marginal costing technique is useful in decreasing costs through care and planning and that the decrease of overall costs allows the business to achieve competitive advantages.

6. IMPLICATIONS

An existing study article provides the authors with an appropriate source of guidance. This study sheds light on the effects of costing approaches such as absorption costing and marginal costing on attaining competitive advantages. Investigating cost reduction as a mediator between absorption costing and marginal costing and achieving competitive advantages contributes to the existing research. In addition, the current study investigates the influence of cost strategies, such as absorption and marginal costing, in the cost reduction and attainment of competitive advantages by Iraqi financial institutions. Due to its focus on the competitiveness of firms, particularly financial institutions, the present study applies to any growing economy. It instructs the management of businesses on how to obtain competitive advantages, which influence corporate success. The report recommends that business administrators favor absorption costs and adequately use them to get competitive advantages. It stipulates that businesses should attempt to select and implement marginal costs, which would be an effective strategy for achieving competitive advantages. The current study also suggests that business organizations adopt absorption costing policies to maintain cost management. Utilizing absorption and marginal costing, the research assists policymakers in formulating cost-reduction and competitive advantage-related policies. Consequently, organizations might obtain competitive advantages. In addition, the study indicates that businesses should use marginal costing to minimize expenses and create competitive advantages.

7. CONCLUSION

The study aimed to examine the effects of costing approaches such as absorption costing and marginal costing on achieving competitive advantages. It was also intended to examine the relationship between cost reduction and absorption costing, marginal costing, and competitive advantage. The survey of Iraqi financial institutions was done to collect primary data for cost reduction, absorption costing, marginal costing, and obtaining competitive advantages. Absorption and marginal costing have an excellent effect on gaining competitive advantages, according to the conclusions of a study. The results demonstrated that if absorption costing is implemented, corporate administration focuses on the efficiency of each department's responsibilities and makes an appropriate investment. Therefore, it facilitates the attainment of competitive advantages. The study's findings also demonstrated that when marginal costing is implemented, organizations' management can effectively prepare for and pursue possibilities while minimizing potential losses. These businesses can gain a competitive edge. The results indicated that cost reduction is a significant mediator between absorption costing,

marginal costing, and competitive advantage attainment. The results also demonstrated that adopting absorption costing reduces total costs, facilitating competitive advantages. Similarly, the implementation of marginal costing reduces expenses and facilitates the attainment of competitive advantages.

8. LIMITATIONS

There are still certain limitations in the current research article. However, these constraints can be eliminated in future study projects with certain modifications. The present study is less exhaustive since it examines only two costing methodologies, absorption costing and marginal costing, for assessing progress in work on competitive advantages: absorption costing and marginal costing. In future publications, it is anticipated that the researchers will investigate additional aspects that influence the attainment of competitive advantages. Data was collected from Iraqi financial institutions to examine the effects of costing approaches such as absorption costing and marginal costing on achieving competitive advantages. It is recommended that the researchers survey several nations to obtain comprehensive data for more valid and general conclusions.

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