

## **TOWARDS AN OPERATIONAL AND FORESEEABLE ADMINISTRATION ACCOUNTING**

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### **Abstract**

*Scientific management in the modern enterprise represents an estimated leading, based on a schedule where the decisions are scientifically taken. The reception in time of the information provided by the management bodies to act quickly, should be a prerequisite for any enterprise. Any information that isn't timely served, loses its value and likewise, from the management may lack an important element to achieve the proposed targets.*

*To develop the foreseeing side of the administration accounting and to furnish in an operative way information regarding the production costs, must be imposed the apparition of a new calculation method based on predetermined costs. The purpose of this article is the identification of the administration accounting classical system boundaries, as well as the need to improve the cost calculation by applying the standard cost method, in order to increase the amount of information provided to firm's management. Released in the U.S.A. in the early twentieths century, under the name of “estimated cost system”, the method provides information regarding the production costs with a foreseeing and operational character.*

*By applying the unique standard cost method will be removed the shortcomings of current costs methods, being given the advantages that they offer in terms of provided information operability on the irregularities that are arising in the production process and simplifying the costs calculation work. Using standards, the costs are becoming an important part of the indicators system on what are organized and managed the enterprise activities. The operational tracking of irregularities on each calculation item and on causes, at the level of each sector, is achieved with the help of some situations that are spotting out the deviations. In this way, will be made an operative control over the production expenses efficiency respectively over the causes that leads to such deviations and also will be taken decisions to reduce production costs.*

**Keywords:** cost standard, deviations, efficiency, foresight

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## **Introduction**

In practice and in cost calculation theory, arises more often the question if current methods of administration accounting can be used successfully to motivate companies conduct and activity on the market and to make businesses profitable.

Today's vast majority of Romanian enterprises calculates for their products the full cost obtained with the help of the effective methods left as legacy from the centralized planning system and imposed by the communist regime since 1951 namely the global method and the method on orders and phases. Also after 1990, these methods are applied, even if they aren't responding to today's managerial needs, presenting a number of shortcomings that influence the quality of information regarding the costs on product, responsibilities and operational control of production costs.

### **1. Limits of the current system of costs calculation**

Classical methods are oriented in the past, providing information about previous periods of management, without so much attention to the previsions. The effective complete cost of products is obtained with delay, after the entire production process was completed and all costs were centralized related to its deployment (at 20-25 days after the end of the period) a pronounced historical character of the furnished information is pointed out, fact that is making his use possible in the future. The historical character of the provided information, with these methods, makes the adjustment of the production process non operative in its deployment, and their role in short-term basis for decisions making is very low. If a decision based on costs is taken before the completion of the production process, it is possible that the information provided by the methods to not be appropriate, becoming useless. However, in the economic practice these decisions are very numerous. The way they are taken depends directly on the efficiency of the activities. The information provided by these methods can be used in long-term management processes, the production processes at which they refers being already closed.

Through the use of the global calculation methods, on orders, on phases, appear difficulties in assessing the economic efficiency, because the complete effective costs don't have comparability due to the changes of the factors that are influencing the costs, and the information of the past periods may contain elements of economic inefficiency. Therefore, any company should calculate its production costs using provisional methods, pointing in time, the causes that lead to cost overruns and enabling the possibility to take corrective actions.

Another limit of the current system of administration accounting is the fact that not takes into account the costs variation face to the changes in the activity volume. These methods primarily oriented to the full unit cost calculation, focus specifically on grouping the production and sales costs in direct and indirect, which doesn't allows their analysis in relation to the production volume. However, from

an economic point of view, costs are analyzed in relation to the production volume, in the same time requiring their use in costs calculation of the necessity to group the production and sale costs in variable and fixed. The lack of costs classification in variable and fixed is underlying at the base of erroneous decisions that are taken based on full costs.

The information provided by classical methods of calculation loses their relevance due to increase of indirect costs share in the total costs of the enterprise and also because of the expensive collection costs and information treatment. Also, during the collection and processing of all data regarding the full costs, leads to obtain information that are losing from their actuality. The cost control is very difficult to achieve because of the cost dividing in direct and indirect costs. It can be obtained if its classification is made in fixed and variable costs. Assessing the profitability of products based on price – cost complete relationship is not relevant to the structural programming of production and this because the complete costs aren't proportional with the volume of the achieved production, but only with few of them. For a proper planning of the production program it's necessary the differentiation of costs into fixed and variable costs.

The calculation methods mentioned above are in the category of methods on carriers, obligatory involving the development of two calculations rows regarding the determination of the production costs: ante calculations and calculations on effective costs. Early issue of some documents regarding the consumption of raw materials, direct materials, own or purchased semi products, direct labor, etc., also the opening in post calculation of the records and analytical statements to track production costs, requires a large amount of work to ensure a more rational and organized flow of information.

The method on orders, in ante calculation will determine the unit cost at the product level, while in post calculation at the level of an order and only after the end of the order will be determined the unit cost on product. The lack of unity between the subject of calculation from the ante calculation stage and post calculation represents another major limit of the method on orders and leads to the impossibility of tracking the operative way of framing into the costs forecasting.

All these limits of the administration accounting system and costing calculation practiced in the majority of the Romanian enterprises may be washed out gradually as the ownership and the other factors have their interest increased for the information provided by the administration accounting. The existing deficiencies in the techniques and methods of administration accounting must trigger the development of new techniques or improve the existing ones.

## **2. The need to improve the cost calculation methods**

The permanent increase of the economic efficiency and the management enterprises requirements in market economy conditions, determine the need to improve the costs calculation methods in order to increase their role in the

foundation of current and future decisions regarding the rational use of production means, improving technologic processes etc.. Through this will be followed the need to increase the operability of the furnished data to the managers, the increase of the informational content regarding the costs, in terms of determining some efficiency indicators necessary to the scientific management of the economic activity, the improvement of the distribution of the indirect costs through the use of appropriate criteria.

Information efficiency represents their possibility to be accepted in time by the management in order to act quickly and to solve all problems. Any information that isn't valuable in time will lose its value, and in this way, its necessary consumption work will be wasted. In the cost area, the efficiency of information is essential, because if we will know the costs after the product was manufactured, the information in question has only an ascertaining character and it may serve only for the achievement of some forecasts on long perspective. Efficiency must go to the point where any expensive cost can be detected even before it occurs. In this way, the information and the preventive control on any production costs can be generalized. In the same time, costs calculation will get an estimative character, which it's imposed as great need to resolve problems related to the introduction of new technologic processes to manufacture new products, etc.. The efficiency of information becomes essential for the effectiveness of the production process.

The process of improvement and diversification of cost calculation methods should start from these real needs. The main purpose of the improvement and diversification of costs calculation methods is to make them more functional and effective in providing necessary information in order to take managerial decisions. This thing is not conceivable without the use of a informational system well-tuned. Using information systems that use databases assures, to the user, information characterized by accuracy, relevancy, high knowledge value and structure according to the decision level which relevant and accessible presentations are made for.

### **3. Unique cost standard method – direction of improving the administration accounting**

To provide information efficiency about production costs and to develop the forecasting side of administration accounting and cost calculation is necessary to promote a calculation method based on predetermined costs. In this regard, I appreciate that the best one who meets these requirements is the standard cost method namely the version standard unique costs. The administration accounting will change, in this way, from the old bookkeeping that records and reports the past facts in a modern instrument of management. The appliance of operative and forecasting methods in the work of costs evidence and calculation based on pre established expenses creates opportunities to compare the effective and the standard costs, of recognizing and analyzing the causes of the eventual deviations.

Starting from the complexity of businesses activities, the gravity center of yield control is no longer the manufactured product or the order, but the workshop, department, work place, etc.. and the causes of the actual costs level of the products will be identified in the expenditure sectors where the enterprise activity was held for the manufacture the products. Cost control is carried out by the calculation and analysis on enterprises, on departments, of the effective costs deviations from the standard ones. These deviations are calculated at the organizational level, on calculation articles and causes.

Applying the standard cost doesn't concern, primarily, the accuracy of the costs calculations, although isn't to be neglected, but it's focused in particular on increasing the role of production costs in achieving the objectives of the budget, in leading to a better management system. The main purpose of such calculation is to provide operational and economic necessary information in controlling businesses activities.

Applying the standard cost corresponds to the management concept. In a market economy conditions the budget targets have priority over the effective results, and the value and role of the accounting information is determined by the degree of decision recovery to trigger corrective actions in order to increase the efficiency of the future activities.

This method has the advantage of rationing the labor calculation because will simplify the calculation of costs, simplification partly due to the rapidity of the calculation that the pre established utilization allows it. Standard unit costs are known in advance, being developed scientifically, are considered real production costs and no longer being necessary the calculation of effective products costs. Any deviation from them it's placed on behalf of the company's financial results, being considered deviations from the reality.

The standard cost represents the basis in order to determine the sales prices. This role appears in companies with administration on orders, where the existence of standard costs allows the establishment of the estimative expenses evaluations that will serve as basis for the calculation of the selling price. In the same way, when a new product is launched, product without equivalent on the market, the existence of standard costs and calculation of the standard manufacturing costs of the new product, based on raw materials consumption, consumables and capital goods, will serve as a reference to determine the selling price, given the marketing policies considerations.

The main objective of the method is to increase the responsibility in businesses. The standard cost is intended to guide the businesses activity, becoming a mean to control the use of resources or inputs of the production system, allowing a calculation of the deviations by comparing the effective consumption with the pre established one. The method provides to managers information on each expense in part, about where and how material and labor resources were

consumed, on their standard level and deviations giving the opportunity to discover quickly the causes that are generating unnecessary costs that must be eliminated in order to maximize the profit.

The method can be used to make the management to reduce costs and this because standards can be defined as a goal that must be reached than standards to be fallowed. Using the practical standards and not the ideal one's, leads to promoting efficiency and savings in an enterprise. Moreover, standards are often the basis for material incentives. Standards must be able to call up the organization's members. Standard cost method is designed to be exciting, but it can be seen as a source of oppression and can sometimes lead to development of employees resistance attitude that are imposed to fallow many standards. When company management is concerned on growing their stuff aspirations (making the employees to adhere best to the company's objectives, developing among them a spirit of healthy competition) may adopt demanding standards, even ideal, which will be reported to a relatively long time horizons.

Deviations from standard costs for raw materials and materials and also for the manual work will be calculated on production departments and within them on calculation articles specific to the standard cost method and on cases based on primary documents that reflect their actual value and not in the accounting manner. Deviations from standard overhead costs are established at the end of the administration period, after recalculating the expenditure standards and their comparison with the effective expenditures.

Another advantage of the standard cost method is that, although the concept is based on the total costs of production using the classification of production expenses in direct and indirect, it uses the classification of production expenses in fixed and variable, allowing the analysis of costs on production volume and calculation of required indicators, to adopt scientifically decisions.

Leading based on predetermined sizes as the standard cost method, corresponds to the management principle based on objectives, and gives to accounting process (in its quality of provider of useful information to decisions making process and corrective measures) a special importance. In these circumstances, the role of administration accounting is not only to determine the production cost, but to check if it was respected by the responsible of cost centers. This ensures the control over the production costs by furnishing daily information or in very short time regarding the deviations from the standard costs method that is underlying at the basis of the decisions making process during the economic processes.

In addition to these advantages the method presents also limitations and is good to be aware of them to make it practical. When a standard is set, it serves as a reference standard or goal to reach for a period more or less long. When the elaboration of standards requires a great effort, the company may have a natural

tendency to preserve the old standards for a longer period, especially to avoid the associated costs with their frequent redefinition. But when the real conditions of activity changes in a significant manner to those considered in the moment when the standards were developed, the standards may lose their power of information and hence their value will decrease also the variations that occur between the actual and standard can not be used for making decisions and exercise administration control. On the other hand, if the care to adapt continuously to the enterprise evolutions and its atmosphere leads to a dense revision of standards, then they will not be able to play their role in the organization's management. For the standard method to have an effect, they should be allowed to remain stable on a longer period.

We can say that any standard should be revised. The different content of standards leads to different periods of change. Usually, current standard cost can be reviewed when the prices changes, technological processes, specification of the products, so that standards are not real norms of measurement, being difficult to control current activities. Another reason to modify the current standards is finding mistakes in their establishment. We believe that once a year, usually before preparing budgets on next year, it is necessary to conduct full review of current standards. The base standard costs changes only when are made radical changes in production technology, the output of the company, or where basic standards departs significantly from the actual conditions and lose their meaning. Often the implementation of standards and management by exception can lead to focus the attention only on significant deviations, thereby losing of sight the whole process, with repercussions on the functioning of the enterprise.

The standard-cost methods are not governed by laws and not have a unique method for setting standards and drawing up accounting documents. However, such a system is satisfying the entrepreneur willing and serves as a powerful tool for controlling the production consumptions. In order to be effective, standard costs should have a double aspect: must be mobilized and accepted by those who have to reach them. They will be more mobilized as they were built with the participation of those who are called to put them in practice.

### **Conclusions**

The standard cost method, in its standard unique cost version comes to replace the operations of collecting and recording the effective data to compare them at the end of the administration period, which is achieved by plan - effectively type methods providing an investigator, analytical, operational and provisional information character. By using this method, administration accounting, as part of the management process, contributes to increasing the value, determines if resources are used efficient by the enterprise, and whether they are creating value for shareholders, customers and other stakeholders.

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