

Abstract and real in approaching the cost with the help of the characteristics: location, time, method

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Abstract: The cost, as a central index system of economic - financial indicators of the company, requires knowledge of components of this indicator, which originate in clearings and production costs. Between clearings of productive values and cost of production is an intrinsic connection, due to the fact that both concepts express the size of resources consumed, which in greater or smaller way will be reflected in cost, depending on the applying field, the time of the cost calculation and the chosen method. A cost element has a specific content in a given period, defined by the applied method, and influenced by the time factor.

Key-Words: clearings, expenses, cost, method, time

1 Introduction

The scientific approach of accounting is imposed by the fact that the principles underlying the accounting model of knowledge and management form a reference system used in the administration and efficient management of assets of an enterprise. In its technical quality, accounting records and classifies transactions and events related to business assets in order to provide the users (external or internal) of information necessary for the economic decision making.

Regarding the organization of accounts is the current the view of Professor D. Voinea, which recorded the following: „In the composition of accounting as a science adhere not only hard evidence but also abstracts, with the help of which it demonstrates and examines how the economic creator of values body is built, living conditions of component parts, the structure of working means, internal and external relations [1]“

Development of accounting information in terms of scope, content and the operability is imposed by the need of decisions making, to reflect the exact financial situation of economic entities and financial and economic results obtained, in order to prevent risks, deficiencies, shortcomings, inefficiencies and to ensure free initiative in terms of respect for legality, regularity and fair competition.

The information generated by accounting helps us see how to use the material resources, financial and human, to go and to critically examine the positive aspects, but also weaknesses in order to take any necessary measures.

Accounting information is the one that can release management through decisions that are meant to set objectives, organize, coordinate and pool the collective actions for the intended purpose.

Specific accounting methods and means allow the detection of the border from where the users want to see what happens behind the figures, to find out why they are changing in a positive or negative way, and actual cases of success (profit) or failure of business activity (loss).

In the economic literature there is a tendency to avoid the issue of costs, a trend due to the fact that the inflation component of the Great Depression has determined the orientation of the general attention to prices. The consumer will always see the price, in terms of size and its dynamics, even if behind the "scene" is the cost, which every day becomes more of a concern of the manufacturer, manifested most specifically in terms of ensuring profits.

Enterprise management, for realizing the conduct and planning of the future uses the accounting figures, including those relating to production cost. This aspect imposes to primary records and general accounting requirements in the theory and practice of system development costs in accordance with the evolution of the complexity of the activities of businesses and economies, so that prices will lose from the inaccuracies that they have, becoming more revealing, active and flexible.

Cost, as a central index system of economic - financial indicators of the company determine the choice of a particular technologic process or production schemes, of certain categories of raw materials, introduction of rationalization and inventions into production process, organization and improvement of labor and production, etc.

In this regard, in order to monitor costs regularly and dynamic, both on the product and on the entire production, and to make comparisons of actual costs with standards and cost estimates made before the productive process, it is necessary to know the components of this indicator, respectively value consumptions and production costs.

2 Defining costs in terms of consumption values and production costs

In the activities made, the company uses inputs, consumes resources, which evaluated and measured in monetary units expression becomes the value of production costs, such as EG: use of work equipment (buildings, plant, machinery, etc..) generate depreciation expense of the facilities, consumption of items of work (raw materials, fuel, energy, etc..) takes the form of costs of raw materials, auxiliary materials, etc and the consumption of jobs are reflected in expenditure on wages and their assimilations.

By summing the costs of production it is achieved the cost, which is the monetary expression of resource consumption of achieving of the enterprise. But not all of consumption of inputs can come or not, in its composition, which requires a different approach to production costs based on resource consumption, of the bond with the company realizations as carriers of cost (products produced, services provided, etc. .), and not least to assess the monetary expression of both consumption and achievements.

Directly related to the production process, are only the consumptions of production values, which are essentially needed in achieving it, helping to create new products, the performance of new works and provision of new services.

Since neutral clearings, incidental and with special character, are not needed to the production process and do not contribute to creating value, being determined primarily by external influences to production process and unsatisfactory work of management and enterprise are treated as expenses of the period. All consumption values which occurred during the mining process, directly affecting a particular finished product, a certain order, a lot or a series of products, a manufacturing phase, etc., in a certain period of time is called production expenses [2].

In the production costs are included not only the own - said consumptions of productive nature, but also parts of the value added, such as for example social security contribution, contribution to the unemployment fund, etc.

The cost does not limit it self only to the clearings affected by the acquisition of a product, which occur only in production processes, including the total consumption of resources that occur in the production and sale of goods processes [3].

The accounting regulations in Romania, set the training of production costs or processing of stocks, including the production cost of property, from the direct costs related to production, the production costs directly attributable to the property (direct material, energy consumed for technology, direct labor and other direct production costs) and from the quota of indirect production costs allocated in a rational way as being related to their manufacture.

Adding at the production cost the general administrative expenses and cost of sales, distributed rationally we achieve the full cost.

Also, in the cost of goods, works and services it can be included other expenses only in the extent that this costs are incurred to bring inventories in the form and place where they are today [4].

We believe that in the production cost can be found both clearings and production costs, which are overlapping and partially underlying. Thus, there are production costs which are not clearings and, conversely, that there are clearings that are not production costs. Fulfilling the primary objective of any business, getting a positive result, is subject to decisions making and choosing the general policy only based on analysis of cost components: clearings and production costs.

Concluding, between the productive clearings and cost of production is an intrinsic connection, due to the fact that both concepts express the size of resources consumed, which in greater or smaller measure will be reflected in cost, depending on the scope, the moment of cost calculation and the method chosen.

The figure 1 shows the graphical scheme designed to represent the axiom set.

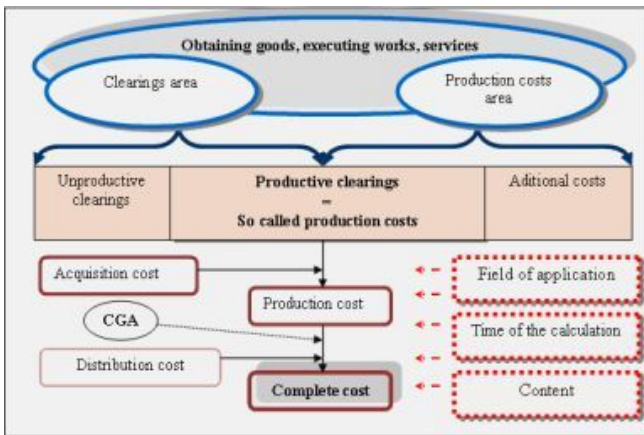


Fig. 1 – Reflecting in the cost of clearings and production costs

3 Cost approach in terms of dominant traits

Theoretical and methodological issues both in domestic and foreign literature is represented by the study of business costs. And in practical work, characterized by focusing efforts of economic entities to achieve greater profitability, cost approach is made in terms of its level, which is influenced by internal factors over which it can be acted directly.

The West European accounting doctrine there is a conception according to which the study of costs has as central theme the analysis of decision-making process and the vision that the cost is „algebraic sum of expenditure related to an element defined in an accounting system“ [5]. If analyzing the process of decisions making involves indicating the ways and means adopted to achieve optimum efficiency [6], analyzing costs in terms of algebraic sum of costs means defining the element, which is acting in the accounting network to identify costs in a period of time.

In line with this concept, **we consider** that **the cost study must be done in terms of** its predominant features: **the scope, timing and cost methodology**.

At first glance it would seem that these features operate independently, with no connection between them, something which is inconceivable given the fact that a cost element has a specific content in a given time. Also, cost content is defined by the applied method for the item to which it is addressed, and influenced by the time factor.

3.1. Field of application

Defining this characteristics has as starting point the answer to the question: "Who is the cost calculated to? ".

This question derives from the basic principle of management accounting, meaning the principle of cost localizing [7] or the principle that the principle of locality in space and the delimitation of types of production costs[8].

Determining the field of application involves the calculation object and unit of account.

The **object of calculation** can be:

- an **economic function** of a business (supply, production, sales, administration);
- an **exploitation resource**: machinery, installation, work;
- a **generator place of spending**: departments, workshops, work, services, offices;
- activity, a lot of products, product, service;
- a subdivision of a technical - productive system, organizational and administrative of the entity.

The area of cost calculations objects is diversifying as the time elapses, following many and varied aspects that take the production and technology, the deepening of specialization entities.

Obtaining relevant information on the cost calculation object is subject to express object in the appropriate units of measurement or calculation that can be natural units (meters, kilograms., Kwh, PC, liter, etc..) and conventional (ton of butter 65% fat mass, costs of 1,000 lei affairs unit, time working on product unit, number of hours of operation of equipment).

Calculations objects and calculation units determine the nomenclature of production costs.

The variety of the scope determine the calculation of the following types of costs: **costs of acquisition, production cost, distribution cost and administrative cost (CGA)**, when considering the economic functions of the entity. If one takes into account the procedure for attaching the equivalent of stored resources consumed in the business entity activity one will calculate **the cost of the product and period costs**.

Notes that the product cost and cost of the period are covered by theoretical - methodological clearings and production costs.

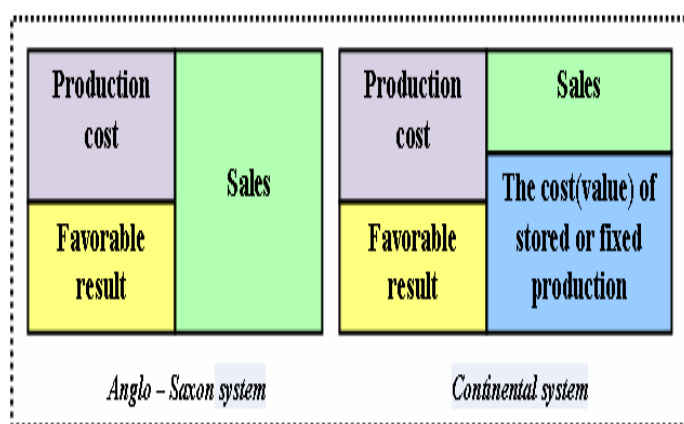
We think that from the accounting point of view, a fundamental choice is **represented by direction an observed consumption to the account for results** (in charge) or the balance sheet (stored or fixed cost of production). Since the cost of the product intended physical flows, before being admitted to account for results, will always pass by a stock, influencing the calculation of operating income.

In the **Anglo-Saxon practice**, sales are compared directly with the cost of products sold plus probable expenses not attributable to products considered to be covered by the sales of the period. These expenses not attributable, although expenses of the period are not classified as active element.

Continental system treats this problem by setting consumptions observed in reference period and attach them to the sales and production stored or fixed [9].

When the unsold output is valued at production cost, operating result is the same, whatever solution is adopted.

Graphical representation of resources consumption between the result account and balance sheet is shown in Figure 2.



Source: Mihail Epuran, Valeria Băbăiță, Corina Grosu, Contabilitate și control de gestiune, Ed. Economică, 1999, pag. 31

Fig. 2 – representation of resources consumption between the result account and balance sheet

3.2 Time calculation

Defining costs by taking into account the time factor, involves the answer to the question "When calculating the cost?". Considering a time "t", we can determine the default cost and an effective cost.

The cost of default (forecasted, pre calculated, standard) is a cost to be determined prior to the implementation of products, activities, services, processes by estimating the consumption of resources, both in quantitative and value aspect. Comparison of the activity sections, workshops, jobs, services, office work by volume is not mandatory, but has the advantage of being consistent with Taylorist scheme [10].

The organization can build a cost system lagged in relation to reality, based on the autonomy of analytical accounts through imputation or rational distribution.

This opportunity to foresee costs before being made meets the requirement of being informed about future events and the need to develop goals to be achieved.

If, in essence, this mechanism is essentially replacing reality with virtual in the process of calculating the cost, in terms of accounting techniques the mechanisms used are the same, compared with the organizational plan where they are completely different.

The difference is that:

- to satisfy the information requirements, determination of costs is based on what is real and known to design a next image;
- Fulfilling the need to develop goals to be achieved, require that at the determination of costs to be considered a desirable future for influencing the reality.

We notice that in default costs mechanism the only connection with reality is given only by the reference cost of normal production capacity.

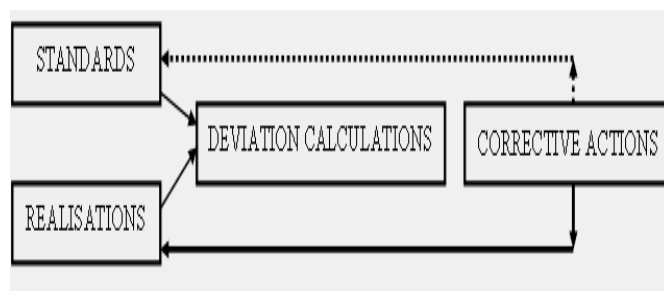
From practical studies conducted we believe that in order to make reliable cost system default, it is necessary to use three references that are not exclusive to one another: current reference, budget reference and technical reference.

Current reference implicitly makes the assumption that the relations between the centers of indirect costs will not be changed, and the technical and computer state of the business is frozen to the situation from the day on which the calculation was done [11]. This leads to the assumption that the element evaluated is rated marginal in relation to the operation and structure and is therefore useless to try to assess its impact on chaining costs.

Budget reference is given by a general need for forecasting and coordinating through the budget, remaining unchanged during the period between two reviews of the budget [12]. The cost of default uses the direct costs from the moment of calculation and is completed with indirect costs which are provided by the analysis centers budgets.

Technical reference costing involves introduction in the costs calculation of a technical standard which seeks the optimal use of production means (consumption of raw materials, direct labor, and hours of operation for technical installations). This technical standard should be complemented with the development environment as standard prices [13].

Implementation of default costs, regardless of the chosen option is useful subject to periodic approximation of reality, that application of corrective actions not only to the results but also to the standards [14] - see Figure. 3.



Source: Mihail Epuran, Valeria Băbăiță, Corina Grosu, Contabilitate și control de gestiune, Ed. Economică, 1999, pag. 34

Fig. 3 – Corrective actions resulting from periodic confrontation between the standards and achievements

Actual cost (historical cost, real cost, constant cost) is a cost calculated after the phenomenon that has caused it took place either by summing all expenditure recorded in financial accounts, or by adding only a part of them.

Thus, we can distinguish several categories of effective cost, depending on their content, on their economic nature, etc.. ie: full cost (accounting and economic), partial costs (variable and direct), acquisition costs, processing costs, marketing costs, production costs, costs out of production, unit costs, overhead costs, incremental costs, etc..

3.3. The methodology chosen for the cost determination represents the dimension based on which we answer the question: "*What (kind of cost) is calculated?*". The types of costs that can be calculated are grouped according to different criteria, such as: dependence on the variation in the level of activity, how to identify the consumption of resources, coverage of costs incorporated into the product cost, etc..

We believe that the most relevant methods are those mainly determined by the extent of production costs and clearings absorbed in the cost of production, as follows:

- total cost calculation methods (absorbent or full), including:
- basic or fundamental methods: the comprehensive or simple calculation method, phase method, ordering method;
- derived advanced methods: Method THM, GP method, the method Pert - cost;
- complex filing methods and operational control: the standard – cost method, ABC method and cost - target method;
- partial cost calculation methods (limiting methods): Direct – costing method, method of direct costs and specific cost method.

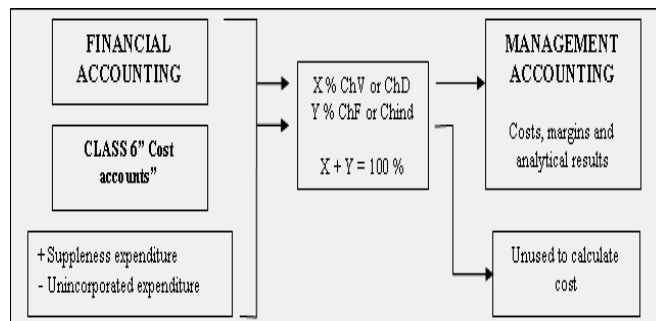
In the absorber type methods, manufactured product costs include all costs of production, in a precise order and defined logic, due to peculiarities of each enterprise.

Thus, total cost is obtained by successive integration of the different costs, respecting the normal flow of manufacturing process, being mandatory to use the following steps: determining and defining the costs of production on cost carriers and sectors, separating the delimited costs on sectors on the costs carriers, separation costs in relation to the degree of completion of production and unit cost determination.

Partial cost method contribute to the elimination of conventional and arbitrary from cost allocations that can not be directly affected to manufactured products, the

work performed and services rendered, the fixed costs (structure) are considered to be generated by time and not by productive activity carried out.

Schematic presentation of the mechanism of partial cost system in variable costs and direct cost variations is shown in Figure 4.



Sursa: Dorina Budugan, Iuliana Georgescu, Ioan Berheci, Leontina Bețianu, Contabilitate de gestiune, Editura CECCAR, București, 2007, pag. 356

Fig. 4 –Partial cost system in variable cost and direct cost variations

4 Conclusion

Improvement and diversification of production, the work performed and services offered have made more obvious aspects of *traditionalism and conservatism manifested in the calculation of costs*.

Over time it was sought continuous improvement of processes and techniques by developing calculation models of calculation appropriated to the perfection state of fabrication technology.

Designing and choosing a computer and accounting system for costs and calculation of costs is influenced by the following aspects:

- **additional advantages** brought by the new system must exceed its additional cost;
- **designing an appropriate system** begins with the study of how to run the proposed operation, after which, on the basis of this study is to determine the information to be collected and reported;
- **the systems that record the expenditure note** the different costs in order to facilitate decision making process;
- Must **provide all information** that show how an enterprise's resources are used by various specific cost objects. In making decisions process, managers combine accounting information with other information not related to expenses and costs, and non-financial performance indicators, such as for example duration of the installation - adjustment of equipment, share of the absences from work , etc..

Focusing on basic concepts, the analysis and procedures, cost accounting is actually put in value, as an essential tool for developing and implementing business strategies, by the answer given to the three questions:

- „To whom is the cost calculated to?“
- „When to calculate the cost?“
- „What (kind of cost) is calculated?“

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