Interest of cost management within the context of accounting system development in Romania

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Abstract: - The accounting system in Romania is the result of a long process of settling the historical, political, economic and social aspects. During centralized economy (communist) up to the Revolution of December 1989, the accounting system was monist, accounting management was integrated into general accounting and aimed to provide the necessary information to plan and control the national economy. The production process in general and the cost and product profitability analysis in particular was the core of the accounting concerns. Today, accounting management is organized in a completely autonomous circuit with financial accounting, but the regulations in the field of accounting management are few compared to those in financial accounting.

The purpose of this paper is to analyze the characteristics of information system costs within the accounting system during the communist period and accounting system of post-revolutionary period, to analyze changes in the legal framework regarding the accounting management organization in Romania, and also to formulate recommendations to increase the accounting's efficiency, so as accounting management to meet the information needs expressed by users of accounting information.

Key-Words: - accounting system, calculation, cost, expenses, information system, accounting result

1 Introduction

The information represents a story, a message that comes from a knowledge field, and the informational system is an organized and integrated set of data and information, that includes used procedures and methods for its collection, processing and transmission.

Typically, the economic information is one of the basic forms of information, is generated and used in the economic activity, by the processes and phenomena developed in this field. For the economic-financial analysis represents the basic raw material because the analysis is based on information and at his turn provides information important for the entire activity of the company. The economic information represents a set of indicators that constitutes the necessary dataset to organize and conduct economic activities.

Accounting is an essential component of the economic information system, because by specific tools and processes is providing [7]:
• clarification regarding the firms past and present activities;
• guidance on future economic strategies;
• pertinent analysis oriented towards market;
• limiting the random field in development decisions;
• solutions and for the taken decisions.

The management of modern enterprises is based on dynamism, flexibility and foresight that impose the use of operative and complex information in decisions making.

Along with the financial accounting, the administration accounting represents the first source of information for an enterprise that provides a basis for decisions to achieve the set targets. The diversification of intern information volume and their use to solve various problems that the enterprises are facing, make from the administration accounting one of the most important instruments of the managerial team, regardless of their responsibilities.
2 Cost information system during the communist period

The accounting system from the period before the 1989 revolution was adjusted to the centralized planned economy. There was a permanent control of the state in enterprises activity, accounting being a control mean of the implementation plan. The tax system was rigid, simplistic and unmotivated without a financial market.

Since 1947, the normalization of accounting in Romania is the exclusive attribute of the state once with the creation of a Permanent Council of Accounting Normalization in the Ministry of Industry and Commerce. The Council has developed a general framework of accounts that was applicable to all industrial enterprises, which included classes and groups of accounts used in different branches of industry. It also produced the instructions on technique regarding the records.

The accounting framework is monist and consists in organizing the accounts into a single stream or flow, both for operations that are regarding the relations with third parties and also those related to the internal administration of the company. Administration accounting was integrated into the general accounting and managed by government regulations. There is no conceptual framework before the revolution.

In this way, accounting meets the needs of economic planning. The purpose of the unit was the realization of the objectives set by the plan. There is no motivation to maximize profits. The basic functions of accounting were to justify the facts and to control the achievement of the plan.

The calculation with planned cost was introduced starting with 1951 when the unique plan of conducting the national economy included for the first time a section covering the planning cost price. For industrial enterprises, the mandatory regulations that are valid in Romania between 1951 and 1989 indicate as costing methods the following: global method, the method on orders and the phase method [4].

Corporate management was the internal user of the accounting information. Cost analysis was in the center of all preoccupations. The costs were used to determine prices. Stocks were valued at a total planned cost obtained by adding to the production cost of general expenses the marketing costs, even if the overall cost was higher than the commercial value. The principle of expenses settlement from the revenues is based on different expenditure categories other than those encountered in western systems.

Expenses settlement from revenues can take place as the receipts were made. The resulting difference is registered at the level of the result account. In the planned economy this model is similar to the model based on the cost of sold products, but with very significant differences, from reasons of receipts and payments accounting [2].

Financial statements prepared by the companies were intended, with preference, to supply statistics needed to design and implement the economic policy of the state. Consequently, their format was the same for all companies, regardless of activities size or nature. They were prepared quarterly and were part of an information system that should enable the State to allocate resources and ensure the plan is implemented.

The accounting system with a single circuit has been implemented in our country until 1.01.1994, currently being used in Anglo-Saxon countries and the United States of America.

3 Cost information system during the post-revolutionary period

Changing the political system of Romania after the 1989 revolution, the transition from a centralized economy to a market economy, led to the beginning of profound reforms in the accounting system. It had to meet the new demands that were to be fulfilled for Romania’s integration into NATO and the European Union.

A major problem faced by Romania within the change of December 1898 has been the choice of the accounting model that should be adopted: an Anglo-Saxon accounting model or a continental one. It has finally opted for a continental accounting system, the French one. Accounting has moved on from the integralist conception according to which „accounting and financial management are carried out simultaneously, without splitting them rigorously”, to the dualistic conception according to which accounting management is held „in a completely autonomous circuit with financial accounting” [6].

Accounting Law no. 82 of December 24, 1991, published in the O.M. no. 265 of December 27, 1991, implemented by the Government Decision no. 704/1993 but also by the related accounting regulations is the first achievement of the policy reform.

Accounting General Direction of the Ministry of Finance in collaboration with Romanian academics and practitioners finalized at the end of 1993 the accounting system, which was to be applied in Romania starting from January 1st, 1994.
The acceleration of privatization process, development of capital market and free market economy and also the increase of the economic globalization process have imposed further development of Romanian accounting system, aiming at a better harmonization with European Directives and International Financial Reporting Standards regulations. In this background the regulations concerning the organization of cost calculation has suffered many changes.

Financial Accounting covers all assets of the business cycle in structure as an administration unit. It provides and uses necessary information to elaborate the balance sheet, the profit and loss account and annexes. The administration accounting has as object the analytical administration of stocks, revenues calculation, activities, analytical results, expenditure and income forecast.

The mechanism and methodology to realize the correspondences, the internal communication and information exchange between these two circuits is very important in organizing and leading the accounting activity. In financial accounting, expenses are recorded depending on their nature (economic content), while in accounting management, in order to calculate the costs of goods, works, services and costs for the period, expenditure are highlighted on costing items, or activity centers (product, work, service, place), while respecting a structure of costing items, specific to the activity of each organization (direct costs, indirect production costs, sales expenses, general administrative expenses).

In the current context, the efficiency of the financial accounting administration concerns, doubling the accounting system with an effective system of information communication assuring in the same time the flexibility of accountant structures, collaboration and coordination with other departments in order to achieve the organization's global goals.

According to Article 11, 1st paragraph of Law no. 82/1991, republished, the responsibility for organization and leadership of accounting management adapted to the specific of business rests for the administrator or other legal entity that has the obligation of managing the unit in cause.

The General Plan of Accounts in Romania reserved, regulatory, for achieving accounting management a minimal system of accounts, which is found in the 9th class called “Management accounts”. They have a preventative character; each unit can hold or use other account structures related to management and information interests. Also, the correlations of these accounts are limited, operating in closed circuit, meaning only between them.

Over time regulations on the organization of accounting management has given rise to controversies and interpretations. For example, Article 1 of the Accounting Law no. 82/1991 stipulated that: „Autonomous utilities, businesses, public institutions, cooperative units, companies and other legal entities or individuals that having the quality of trader has an obligation to organize and lead their own accounting under the present law”.

Article 27 from Regulation no. 704 - December 22nd 1993 from the Law of Accounting stipulates the following: „Administration Accounting will be organized by each unit according to the specific of the activity and its own needs, having as main objectives the following: costs calculation, establishing the product results, profitability, works and performed services, preparation of revenue and expenditure budgets on types of activities, monitoring and controlling their execution to provide results and furnish necessary data for decision substantiation regarding the administration of the economic unit and others”.

The same regulation, of article 105 stipulated that „the way to organize the accounting is up to each economic unit, depending on the specific business and its own needs”. Moreover in the accounting chart, the 9th class dedicated to administration accounting, presents a disclosure with the following explanation „the usage of this accounts is not mandatory”. All this has raised confusion among businesses that have interpreted that the administration accounting is not mandatory.

The requirements imposed by International Financial Reporting Standards regarding the financial statements of assets and company's performance led the bodies that are pursuing the accounting regulations to interfere with appropriate modifications. Thus, articolul 1 of Accounting Law no. 82/1991, republished in Official Gazette 629 from August 26th 2002 stipulates explicitly, the mandatory organization of administration accounting along with the financial accounting, as follows:

Paragraph 1, „Companies, societies/national companies, autonomous directions, national research institutes - development, cooperatives and other legal entities with lucrative purposes are required to organize and run their own accounting respectively the financial accounting under this law, and administration accounting adapted to the specific of the activity”.
Paragraph 2. „The stipulations of paragraph (1) are applied only to public institutions, associations and other legal persons with or without lucrative purposes and to authorized individuals to conduct independent activities”.

While the amendments of Accounting Law (Accounting Law No. 82/1991 republished in the Official Gazette no. 48/14.01.2005; Law no. 259/2007 published in O G no. 506 from 27/07/2007 to modify and complete the Accounting Law no. 82/1991; Accounting Law no. 82/1991, republished in the Official Gazette no. 454 from 18.06.2008) paragraph 1 of article 1 was retained, the text being enhanced with further clarification in paragraphs 2 and 3 of the same article, thus:

(2) „Public institutions, associations and other legal entities with or without economic purpose, and also the individuals engaged in income generating activities have also the obligation to conduct their own accounting process respectively financial accounting and if is necessary the administration accounting”.

(3) „Subunits without legal personality, from abroad, that are belonging to persons referred to in paragraph (1) and (2), resident in Romania and also the Romanian subunits without legal personality established or domiciled abroad are obliged to organize and lead their own accounting under this law”.

Since 2001, according to OMFP no. 94 that approves accounting regulations harmonized with the IVth Directive of the European Economic Community and the International Accounting Standards and Official Gazette no. 306/2002 for approving the simplified, harmonized with the European directives, then the OMFP no.1752/2005, and later with the Order no. 3055 from 29/10/2009 to approve the accounting regulations with the European directives, published in the Official Gazette, Part I no. 766 from 10/11/2009, the legal persons from the first article of the Accounting Law no. 82/1991, republished, have the obligation to present in the explicative notes of the financial situations data regarding the exploitation result of the current exercise compared with the previous exercise. This information is contained in Note 4 “Analysis of exploitation result”, analysis to be carried out strictly based on data provided by accounting management (expenditure are presented on destinations: basic activity expenses, complementary activity expenses, indirect production costs, selling costs, general administrative expenses).

Also to satisfy the information needs of users in the 9th note „Examples of calculation and analysis of key economic and financial indicators” appear indicators that can be calculated based on information provided by administration accounting: the speed of stock rotation (inventory turns), number of days of storage, the gross margin on sales, etc... It can be said that the information furnished by administration accounting are used by internal users, but also helps to calculate and analyze the indicators that are available to external users.

Taking into account the new obligations of companies to submit in the financial statements an exploitation analysis and to calculate various indicators, the legal framework extremely poor from the field of administration accounting was completed in December 2003 by the Order 1826 of the Minister of Public Finances that is approving the details the organization and conduct of administration accounting. It refers to principles of calculation costs, cost structure and assembly.

Under this order through the administration accounting the legal persons can obtain information that will ensure an effective management of assets, respectively (OMFP no. 1826/2003):

- information regarding the cost of goods, services, for legal persons that are engaged in manufacturing activities, service and cost of goods sold for legal persons engaged in the trade activity;
- information that are staying at the basis of budgeting and control of the exploitation activity;
- information necessary to make financial analyzes in order to substantiate the managerial decisions regarding the internal business management;
- other information required to achieve an efficient management.

Administration accounting provides information necessary to prepare internal reports and analysis used by the management of the unit in decision making process. Disclosure requirements and information analyze offered by the administration accounting are not exhaustive. To organize the administration accounting process will be followed that the obtained information to satisfy both the existing need of information and the ones in a continue change.

Processes and techniques used in accounting management are determined depending on the qualitative characteristics of information required by users, and depending on the activity particularities.

According to the Order of the Ministry of Public Finance of 1826, costing can be done by one of these methods: standard cost method, ordering method, phase method, global methods, direct costing method or other methods adopted by a legal entity depending on the production organization, specific of the activity, the technological process particularities and needs.
Although this piece of legislation makes a number of clarifications and defines a number of concepts in the field of cost calculation, however, administration accounting regulations are few in comparison with those of financial accounting. Also, although some of the calculation methods are mentioned, for an enterprise that choose to organize the costs calculation, no minimum standards exists to implement them, although the business are applying this methods for decades.

The emptiness from the legislation in the cost calculation field is maintained and practitioners make efforts to fill this void with their solutions based on specialty literature and experiences.

4 Income statement complied based on information provided by accounting management

In the conditions of an economic globalization and capital market development, the development of Romanian accounting systems aims to harmonize the legislation with European directives and align them with the International Financial Reporting Standards. Also the needs of accounting information users increased. Annual financial statements must give a true picture of the financial position of performance, changes in equity and cash flow of the enterprises.

Financial and administration accounting are complementary: the first putts undercover the processes that the second is detailing. To make the two types of accounting work, they should be done together: to publish financial statements, administration accounting furnishes the stock costs while to calculate it needs the financial accounting expenses [1].

In Romania, according to current regulations, companies are required to establish the income statement depending on the nature of expenses and revenues. However, the need to align with the International Accounting Standards will allow Romanian companies in the near future, to prepare the income statement also depending on their destination.

According to IAS 1 „Presentation of financial statements”, „an entity shall present an analysis of expenses using a classification based either on the expenses nature, either on their use within the entity, whichever is more relevant and credible”. Entities are encouraged to present this analysis in the income statement.

The second method is known as „the method of classification after expenses destination or sales cost” and is classifying the expenses by their function as part of sales cost, distribution cost or administrative activities. At a minimum requirement, an entity discloses its sales cost separately from the other expenses according to this method. This presentation often provides more relevant information to users than the expenses classification by nature, but allocating the costs by functions can be arbitrary and involves in a considerable way professional reasoning. An example of a result account using the expenditure function is presented in Table no. 1 (International Financial Reporting Standards (IFRS), 2006).

<table>
<thead>
<tr>
<th>Indicators</th>
<th>N-1</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Incomes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale costs</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Gross margin</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other incomes</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Financing costs</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Profit share for associate entities</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit before taxing</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Income tax expenses</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Period profit</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
By drawing such a model of the results account is made a more open interface for the users of accounting information. Thus, it allows internal users to analyze business management functions. This model is useful also for the external users, particularly to the investors of current equity that are interested in the risk and profit of their investment.

Businesses that are classifying expenses by function shall disclose additional information about the nature of their expenditures.

5 Conclusions
The managers can’t lead well unless they have as much data and information they can get regarding the costs and their implications over company performance, trends and strategies in costs field [3].

Both circuits of accounting - financial and administrative - are required to be organized and run into the Romanian companies. The current methodology of accounting and production costs calculation into a single circuit, that envisages their collection and distribution according of their destination – on calculation articles - does not allow separate reflection of expenses by their economic nature. This fact has a number of shortcomings including [5]:

- difficult to clearly identify ways to reduce costs;
- some efficiency indicators of the economic activity based on production costs are difficult calculated;
- the calculation of unit final results aren’t realized efficient, as well as the financial situation and the determination and presentation on time the annual financial statements.

We believe that the increase of the accounting activity efficiency can be done so it can meet all the requirements of internal and external management line of an enterprise, including timely preparation and presentation of financial statements by applying an integrated model of financial and administrative accounting through a merger between the accounts of the 6th Class „Expense accounts” and those form the 9th Class „Administration account” both from the general plan.

References: