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COST TYPE INFORMATION - EFFICIENCY RESULT OF INFORMATION PROVIDED BY MANAGEMENT ACCOUNTING

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Abstract

Any economic activity is mainly aimed at obtaining the highest possible efficiency. However, the level of profitability of an organization is influenced by a number of factors and being aware of these factors is particularly important for the efficient targeting of the organizational activities. As the prerequisites to achieve a high return are primarily the low production cost, our focus should be directed towards multilateral knowledge of the cost.

1. INTRODUCTION

The analysis of the evolutionary stages of the cost study underline the idea that cost-type information is the result of a complex process of cost theory, the theory of cost calculation, cost concepts (Olariu, C., 1977:17).

Thus, the totality of information obtained from the cost field is called cost information. As part of the study of costs, cost-type information represents the synthesis of organizational activity reflected in costs. Even if profit is the main objective of the economic entity, no decision can be

made, no choice in the overall policy can be made without "translating" them in terms of costs. These are the ones that help the entity manager use optimally the current and future economic means and resources.

Cost information should be provided to management in the shortest time possible and it must be accurate and with an actual economic significance.

The complex and varied content of cost information makes it the most important tool available to managers for understanding the influence factors and their implications on the level of production costs. But the importance of cost information resides not only in its ability to provide information, but, especially, in the content of the information constituting valuable items for testing, analysis and substantiation of decisions needed to guide current and future work of the organization.

2. COST INFORMATION SYSTEM AND THE DECISION-MAKING PROCESS

Cost information system plays an important role in every organization, in the decision making process (Budugan et. Al., 2007). In fact, American literature describes the role of costs as an information manager.

An important task of management is to ensure control over the operations, processes, sectors, and of course, over costs. In order to achieve the goals within an organization, there are numerous control systems (production control, quality control, inventory control) that contribute to this task. Nevertheless, cost information is important because it monitors the results of all the others. Detailed analysis of expenses, the production cost calculation, the quantification of losses, estimating work efficiency provide a solid basis for financial control.

Knowing costs is a crucial factor in making decisions and planning future activities.

Analyzing and recording data on past operating costs is only one aspect of cost accounting. Managers are concerned about the costs that will arise in the future, their level underpinning the supply and production decisions and the pricing policies. Managers' efforts should be directed towards costs because if they can control costs, they will make profits. Cost information system

articulates with managerial accounting, that is, it is part of managerial accounting. In essence, the role of cost information system consists of "setting budgets, standard costs and actual costs of operations, processes, activities or products and employees analysis, profitability or use of funds" (Lucey, T., 1993:1) Although initially (more than a century ago), cost calculation focused exclusively on production activities, today it has expanded to unproductive activities, such as banking and finance, government institutions, health care institutions, etc..

The cost information is a "milestone" in the accounting information system of an organization. Thus, information on financial performance criteria emanates from this system. In essence, the role of cost information system consists of "setting budgets, standard costs and actual costs of operations, processes, activities or products, and of the analysis of variances, profitability or use of funds" (Lucey, T., 1993:1).

According to some authors (Kaplan, RS, Atkinson, A., 1998:222), cost-type information is important for managers for at least three reasons:

- ✗ the purchase of goods, manufacturing of products or withdrawal of products are decided based on costs. It is also influenced by the nature of customer relationships;
- ✗ costs can be the basis for setting a price;
- ✗ cost analysis identifies the need to improve the product design or the manufacturing process.

To be of real help in the decision making process, Peter Drucker suggests a classification of costs according to their reported results (Drucker, P., 2001:70), as it follows:

- ✓ *productive costs* - costs of efforts that aim to provide the customer the amount that he wants and is willing to pay. This includes production costs, promotion costs, information costs, costs of sales, but also the packaging costs;
- ✓ *support costs* - provide no intrinsic value, but cannot be avoided. This category includes the cost of shipping, tracking orders, accounting or financial activity control. Traditionally, these costs are treated as overheads;
- ✓ *supervision costs* - they are the costs of activities that do not aim to do

something, only to prevent the occurrence of undesirable events;

✓ *loss* - cost of resources that do not produce the expected results.

Making a decision is a difficult task, as costs are the basic factors in the decision making process. In this respect, we calculate and use several categories of costs, which is why literature frequently uses the expression "different costs for different purposes" (Horngren, RS et al, 2006:17). Therefore, in order to make a decision, four pieces of information on costs are always important, (Bouquiu, H., 2004:39), as follows:

a) What costs are influenced by the decision to be taken?

b) What is waived if you choose a solution instead of another (a decision is to abort)?

c) How will costs behave, especially those that involve options considered after the decision? What is the logic, what laws will they follow?

d) How can you act on costs?

a) *What costs are influenced by the decision to be taken?* When making a decision, only costs that change depending on the approach taken should be considered, over a certain period of time. Not all costs are taken into consideration in the decision making process, only relevant costs.

A cost is relevant if prepared at the right time for the right decision maker with satisfactory precision (Albu & Albu N., C., 2003:132). Thus, relevant cost, also called provisional cost is the additional cost entailed by that decision. A cost that is present in an alternative (solution) but it is missing from others is called a differential cost. Differential method is essential in decision-making and can be used for both short-term decision making and long term. Costs that can be avoided and influenced are those that can be removed entirely or partly as a result of choosing an alternative from several in development of the decision (Cristea, H., 2004:329). There are, however, unavoidable costs, called indifferent costs or (Slope, IP, 1998:609) or irrelevant (Bouquiu, H., 2004:41). They are past costs, historical costs, which can no longer be influenced to justify a future decision.

In literature, there have been concerns about the direction of using appropriate terminology in making decisions about costs.

These costs can be determined by reference to: the costs calculated in the previous reporting period, the same costs to date, competitive rates, costs calculated from a technical and economic analysis, the same costs calculated in relation to an operating budget and resulting from this budget.

Power manager influence on costs is determined both by the possibility of knowing the scope of the cost, as well as identifying the costs that you can control or not. From this point of view, the following types of costs can be distinguished:

• *reversible cost and irreversible cost.* A cost is irreversible if one can no longer reflect on it after making a decision, regardless of the approach adopted. In the opposite case, it is reversible. The decision to install a new machine is irreversible, whereas the decision to work overtime is reversible;

• *controllable cost and managed cost.* A cost is controllable when the decision maker has complete power over the cost issue (e.g. hiring an employee). Cost-run occurs when the decision maker is imposed from outside the organization (e.g. social spending, taxation, royalties). Controllable cost share increases primarily due to salary costs;

• *determined costs and discretionary costs.* Cost is determined when there is a clear relationship between it and the effect obtained (e.g. raw material consumption depends on obtained production-). A cost is discretionary when it is discreetly related to the result, that is, it will be hard to find a correlation between the administrative and office supplies consumption. Unlike the costs involved, called mandatory costs (due to contractual obligations, company policy, etc), the volume of discretionary costs can be changed easily (advertising, sponsorship volume);

• *visible costs and hidden costs.* A hidden cost is already generated (cost being passed) and cannot be avoided, regardless of the action that the manager decides to take. A cost is visible when the real decision maker can know the amount of expenditures that were included in it;

• *internal costs and external costs.* External costs (outsourcing) are costs that are transferred to third parties - for example, environmental costs are social, not supported (fully) by the polluting agent. Internal costs consist of production costs for all activities of the company.

From this brief overview of costs, we underline that manager's authority is limited to all internal manageable costs. It will show strong visible on costs reversible and determined. Rather, the decision maker does not influence very little on administrative costs and outsourced.

We also must note that understanding the behavior of costs, of contribution margins (the difference between the largest turnover and marginal cost) and marginal calculation principles generally represents a challenge for any manager who wants a meaningful decision. Marginal cost arose from the need to explain the reaction of costs in relation to changes in the physical volume of production and prices, and it is also known as the "additional cost" or "differential cost ". Especially in a competitive environment, in the decision-making process, marginal cost is considered the most relevant.

b) What is waived if you choose a solution instead of another (to decide means to give up)? Making a decision involves choosing a solution over another. Professor Henri Bouquin states that "any decision is a sacrifice and every sacrifice is an opportunity cost. Opportunity cost is thus sacrifice in real terms, it supports an economic subject which makes a choice between several possible actions "(Bouquin, H., 2004:49).

Regarding the opportunity cost in economic literature, there are several interpretations of its data. The opportunity cost estimation or election is that an economic entity attaches chances given up when making the choice. It is the loss resulting from waivers involved in any option. Managers try increasingly to integrate more opportunity costs in the economic analysis of management problems. Social opportunity costs, such as a conflict or social climate degradation as sources of losses are increasingly important. Thus, opportunity cost is analyzed more as a probable waste of resources, than as an actual cost.

Note that, although irreversible costs should not be considered in the decision making process, because you cannot return to them, you can not underestimate the importance of opportunity cost, or in other words, what you can achieve in the future (if products cannot be resold, their opportunity cost is zero).

c) How will costs behave, especially those

that involve options considered after the decision? What is the logic, what laws will they follow? To choose a solution cost behaviour must be tested in each case. Knowledge of cost behaviour in all its complexity theory and practice is an essential tool for managers and is used to increase the performance of the economic entity.

The term of cost behaviour refers to the extent to which the costs of an economic entity respond to a change in the activities taking place in the organization. An understanding of the behaviour of the cost structures and the ability to provide cost behaviour in a given situation is essential for planning, decision making and control activity and requires an understanding of the relationships input - output, i.e. between resources employed and results achieved.

It can be argued that an increase in the physical volume of production increases overall cost. A reduction, however, in output to a certain extent, means a cost decrease to a lower extent than their increase when output volume also increased. The classification of costs as variable and fixed costs, is very important from this point of view.

Variable costs allow us to calculate a margin on variable cost for each product by deducting variable cost from the turnover. The size of the variable cost margin is valuable information that a manager can use as decision support to provide or not different products, namely to boost sales with the most profitable ones and to take unprofitable products off the market (if the variable cost margin is negative).

Further developments of this classification divide costs: variable costs, fixed costs specific (direct) and common fixed costs (indirect). This will allow the determination of both a variable cost margin and a margin on specific costs. The margins referred to "specific costs" indicate the extent to which products / services contribute to common fixed costs. It provides, therefore, by this calculation a more pertinent profitability of different products and a means to avoid wrong decisions which may be based on full costs.

One purpose of management accounting is to charge as exactly as possible costs based on calculation object (finished product, works, service etc). But a number of determinants of costs (Horngren, R., S. et al, 2006:38) and the activity and amount of production affect costs

over a limited financial period. In other words, there is a cause-effect relationship between a change in the level of activity or volume of production and a change in the level of total costs.

The traditional definition of variable cost assumes a linear relationship between cost and volume of production, after which the costs increase or decrease with increasing or decreasing output. However, the number of charges varies in a linear manner relative to the activity or production volume. But for the results of the analysis, forecasting and cost control management to be useful in calculations must include all costs. Therefore, to simplify the cost analysis techniques and to facilitate the use of variable costs, management accountants have developed a method for transforming the linear variable costs into variable costs linear, called linear approximation. This (i.e. linear approximation) is based on the concept of relevant range of production, representing workload limits an organization expects to operate (see fig.) (Needles Jr., BE, et al 2000:903, Horngren, CT, et al 2006:39). Many nonlinear costs can be expected, this relevant range can be considered as variables. Although this quantification (i.e. linear approximation of a nonlinear variable cost) is not very accurate, it will allow linear variable costs to be included in the cost analysis of development patterns, as error is usually insignificant.

Fixed costs evolve differently from variable costs, while remaining generally constant within a relevant volume or production activity. According to economic theory, in the long run all costs tend to be variable. Also, changes in production capacity and the involvement of other factors of production may increase or decrease fixed costs. As a result, the cost is fixed only for a limited time period (usually, a period budget) and only in relation to a specific period (usually large) activity and total production volume (level an organization expects to operate). Relevant range segment activity is likely to place an organization's actual operations. It follows that this linear approximation will allow the organization's management to estimate future costs, obtain accurate budget estimates and to conduct business more efficient cost control.

d) *How can you act on the costs?* Ability to operate on a cost means to influence the

causes triggering the production process (or activities in the process) and the consumption that requires organization, which responds to the needs of the organization and the costs capacity it triggers. One cannot act in the future based on costs decided in the past (irreversible costs). The increase in the volume of irreversible costs reduces the scope of the decision maker. In this respect, costs must be identified before they come into existence, from the moment of the decision that triggers them. Thus, it was observed that in certain productive sectors, the moment when you can act on costs is the moment when the product is conceived. Once the process of production started, costs will be incurred (i.e. costs due to a previous decision), without being able to act on them. These costs can be affected only by major changes in the firm's policies. As a result, all these considerations led to the application of cost calculation methods such as: Target Costing and Kaizen Costing.

3. CONCLUSIONS

Cost-type information must be considered as tools for creating value at a lower cost. Moreover, this study demonstrates the capacity of cost information system to provide relevant information that serves many aims, such as:

✓ they can be used in financial accounting (acquisition cost, production cost, full cost, cost of sales, cost of period);

✓ they can be used in making decisions (opportunity cost, relevant cost, irreversible cost);

✓ they can be used to appreciate (measure) and manage performance (hidden costs, controllable costs, outsourced costs).

Most of these costs affect the quality of the sold products, the company image and, thus, its performance. Thus, they are significant for managers when making a decision.

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