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The Importance of Costs in the Firm's Management Process

The management activity supposes complex information able to lie at the basis of decision making. The manager must be aware, most exactly and completely and also in due time, of the cost of production, using the information provided by the accounting division, a true connector between the former and the functional sectors and compartments.

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1. The place and role of the costs calculation in the firm's management process

The management activity in the contemporary era of profound changes is inconceivable without complete, rapid and accurate information which should be at the basis of decision making. Both theory and practice prove that in the firm's management activity, the manager, in order to obtain good results, should know the production cost as exactly and completely as possible, as well as in due time.

The costs calculation should not be regarded as a purpose *in se*, but as an important source of information from the field of costs, having a decisive role in the company's management.[1]. Consequently within the economic informational system the cost-related information occupies a central role. Due to this important role, the calculation of production costs has become a central issue of the company's economy.

As the purpose of the costs calculation is to provide cost-related information, it follows that it should be organised in a manner able to assure on the one hand the quantitative and qualitative measurement of the entire manufacturing process, and on the other hand to constitute a means of review, orientation and adjustment through decision afferent to its value side based on the information provided to each management level.

According to the means used, the costs calculation is able to respond to these requirements and to provide information about previous, present and future costs; nevertheless practice proves that the cost-related information is not sufficiently used in the decision making process because of certain obsolete and conservative conceptions still in place in certain enterprises, where the function of the costs calculation is limited to the mere determination of production costs by several specialists grouped in an office, who provide the connection between the top management and the operational sectors or compartments..

As costs are determined by all cost-generating places, all the company's operational sectors and compartments contribute to the production / manufacturing cost. That is why we consider that the issue of the costs calculation should not be regarded as isolated matter, as a sort of intermediary between the manager, operational sectors and compartments, as we see in fig.1, but as a fundamental issue of the entire company, of the whole staff.

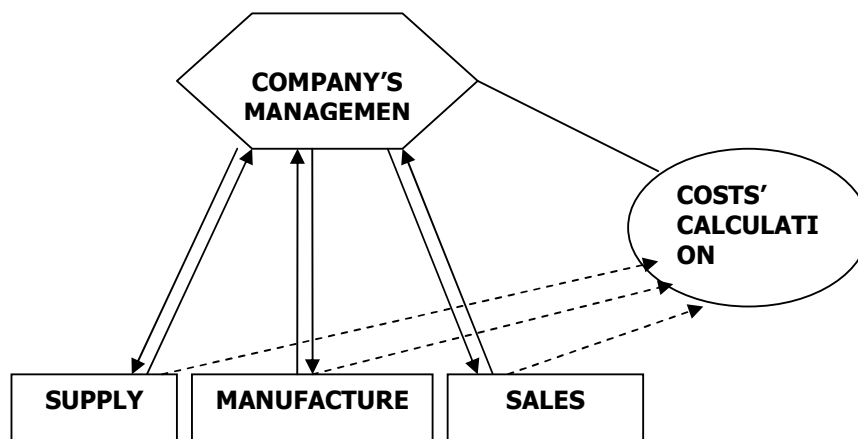


Fig.1. The place of costs calculation in the traditional conception.

This is important also, as an isolated treatment of costs constitutes a barrier in the way of their optimisation. The cost-related problems should be present in all the company's compartments, and the costs calculation and analysis should play an important part. (see fig.2.)

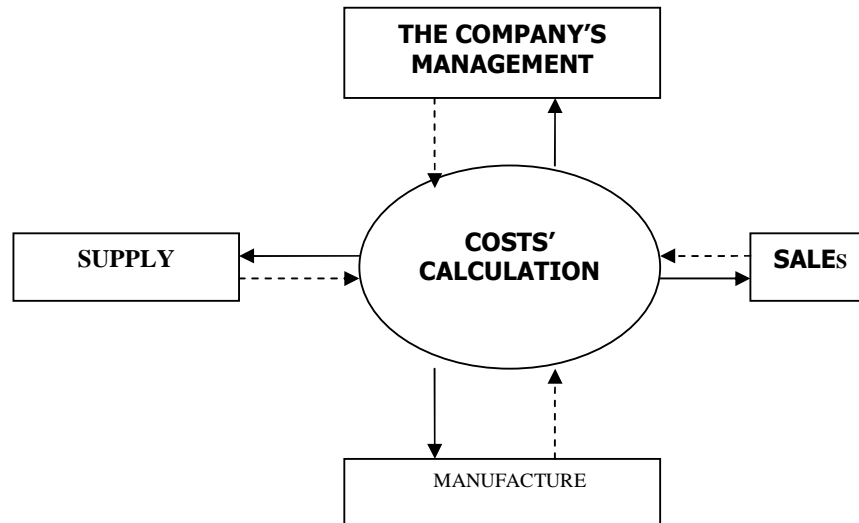


Fig.2. The central place of the costs' calculation

We must also keep in mind the fact that no speciality issue can be solved only on the basis of the thinking in the respective field, without treating it from the perspective of costs. We cannot perform any action, we cannot take any measure, we cannot engage in any activity or economic process without previously monitoring and analysing the costs it generates [2].

As costs mirror the entire activity of the company, the costs calculation and analysis should be regarded as a basic informational system of the management. The importance of the costs calculation for each organisational level of the company resides in the fact that:

- ✓ Costs appear everywhere within the company;
- ✓ The costs calculation is the only item able to explain the efficiency of the economic activity and the reaching of or deviation from the set goal;
- ✓ The information supplied by the costs calculation and analysis are basic information in the management of all cost-generating sectors / places;
- ✓ The liability for the costs level interest all the management's hierarchic levels within the company;
- ✓ Each manager is liable for the costs in the compartment he/she leads.

As the company's management can make appeal to a set of specific techniques, such as management through goals, management through delegation, management through exceptions, operational research etc, the necessity appears

to integrate the costs calculation and analysis corresponding to them so that they constitute the basic informational element in the decision making. In this context one recognises the adaptation of the costs calculation and analysis to the new management requirements, in a system of management through costs..

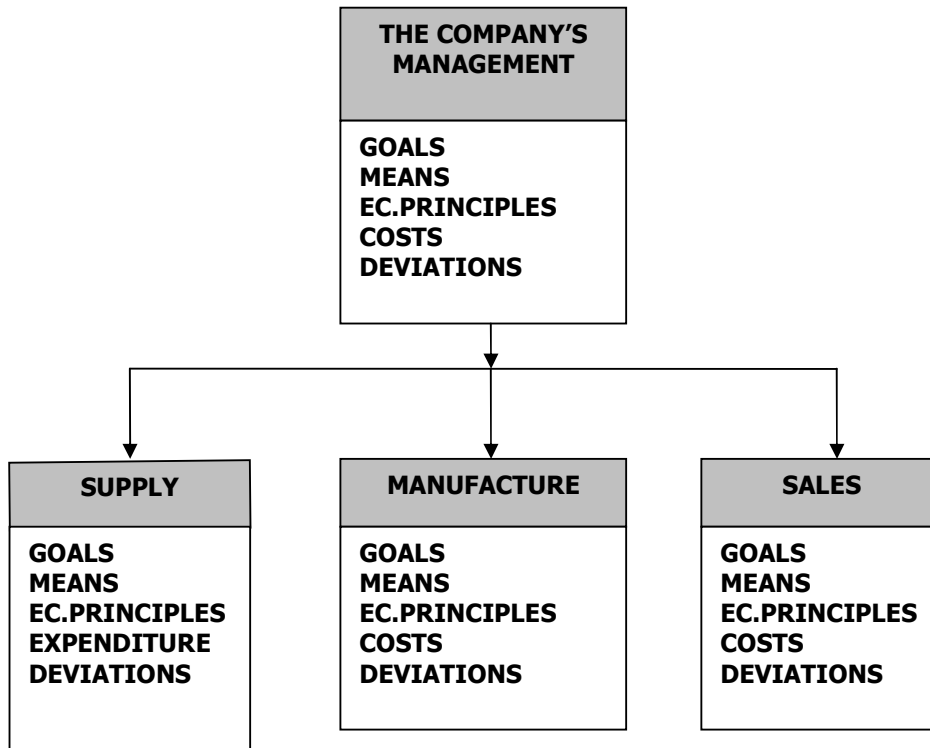


Fig.3. The costs calculation in the system of management through costs.

Such a system in which the goals set in accordance with the formulated economic principles and the means necessary for their fulfilment are followed up from the perspective of costs and deviations related to liabilities, as shown in the diagram in fig.3., assures the efficient management based on the information supplied by the costs calculation, in the context of the management levels' getting closer to the informational sources.

By adopting such a conception, in which the cost is monitored by cost-generating places, within certain pre-set limits with the help of the evolved method of costs calculation and analysis, one may combine the management through authority so that each manager, at his/her level, should be responsible for the partial set goal, allowing a better use of management reserves at medium and

inferior levels and the decongestion of the top management, in the context of the increase of responsibility and commitment incentives for the set goals. Starting from the performers / executors, the liability for costs is localised on each manager of the hierarchic scale, combined in a chain up to the top management of the company. Such a follow-up of costs assures the identification of deviations and their localisation, along with the indication of causes having generated them, as well of liabilities, and allows a filtering of cost-related information within the limit of each hierarchic level's necessities, through the application of the principles of management through exceptions, avoiding thus the occurrence of the phenomenon of the company's management overwhelming, generated by the avalanche of information triggered in the case of the use of classical methods of costs calculation..

2. The notion of cost and categories of costs specific to the company

The cost is an economic category manifesting itself directly in the material production, which is directly connected to value, to the forms of manifestation of the law of value. Thus, in order to know the content of costs in the manufacturing activity, the cost should be analysed as an economic category [3].

The study of costs is made of the theory of costs, the theory of costs calculation, the costs calculation and the costs information. Among these components there are direct relations and a close interdependency.

Thus, the theory of costs and the theory of costs calculation verifies its theoretical concepts by applying them within the costs calculation, and the costs calculation grounds its technique on their theoretical conception..

Starting from these realities, the notion of study of costs is fully affirmed as a necessity, not only under the aspect of its use, but also of its content, which, in the company's management, has a remarkable importance. We cannot limit ourselves to the mere calculation of costs without previously approaching cost-related theoretical issues and monitoring their finalisation in the costs information.

We clearly remark the universal character of the notion of cost from its very etymology, scientifically grounded on the content afferent to it, directly connected to a consumption of values. In this context *the cost cannot and should not be considered a result of a calculation, but an objective occurrence generated by the consumptions of values that generated it* [1].

The consumption of value for obtaining a product represents all the expenditure generated by the development of the manufacturing process. This economic category is obtained as a result of the execution of a certain volume of output and highlights the efficiency degree of the use of fixed manufacturing means / assets.

In order to calculate the manufacturing cost it is necessary to know the categories of costs, as well as their classification. The main factors of

characterisation, differentiation and definition of costs are. The technological costs, the homogeneity and content of the manufacturing consumption, the product unit, the moment of the consumption of the manufacturing means, the nature of the production activity, the main moments of the manufacture and the physical volume of the output..

This it becomes necessary to classify the manufacturing costs along with certain criteria, in accordance with the purpose aimed at, as we will discuss later on [5] and this classification is extremely useful in the management process.

➤ Classification of costs from the viewpoint of the nature of costs

From the perspective of their nature, i.e. the economic content, the manufacturing costs are divided into material costs or of labour materialised into costs and salary wages of live labour.

➤ Classification of cost from the viewpoint of competence or homogeneity of their content

From this perspective the manufacturing costs are divided into simple costs and complex costs.

The simple costs are those which have a homogenous content, being made of single- expenditure elements, which cannot be decomposed into their constitutive elements, and thus the literature also calls them *mono-elementary costs*. The complex costs are those which have a heterogeneous content, being made of several single-expenditure elements and for this reason the literature names them also *poly-elementary costs*, such as: the administration and management costs, the expenditure for the upkeep and operation of equipment and the general expenditure of each section, which form together the indirect manufacturing costs.

➤ Classification of costs from the viewpoint of their importance on the manufacturing process

From the perspective of their importance in the manufacturing process and of their connection with the technological process, the manufacturing costs are divided into basic costs and overheads.

➤ Classification of costs according to their distribution mode

According to their distribution, the manufacturing costs are divided into direct costs and indirect costs.

The direct costs are those identified on a certain calculation object (product, service, work, order, etc.) the very moment of their incurring and thus are directly included into the cost of the respective objects.

The indirect costs are those regarding the manufacture of several products, the execution of several works, service or order as calculation objects within a workshop, section or even the company it is entirety.

➤ Classification of costs from the viewpoint of their behaviour toward the volume of the output.

According to their behaviour toward the output volume, they are decided into variable costs and fixed costs.

The variable costs are those that on the whole modify their level along with the modification of the physical volume of the output having generated them, and per the product unit remain generally at the same level. They are connected to the operations of the production manufacturing and in the literature they are called *operational costs*.

The direct costs are those which do not generally modify their total level, remaining fixed, irrespective of the modification of the output physical volume.

- Classification of costs from the viewpoint of the manner in which they participate in the creation of new values

From the perspective of the manner in which they participate in the creation of new values, the manufacturing costs are divided into productive or efficient costs and non-productive or inefficient costs.

The productive costs are those resulting in the creation of new values. This category includes all the expenditure generated by the normal operation of the manufacturing process.

The non-productive costs are those which do not result in the creation of new values, but are incurred by the existence of certain drawbacks in organisation and management of manufacture. This category includes, for instance, the losses caused by interruptions, the losses from rejects, the exceeding of the consumption standards in materials and labour, expenditure incurred by the failure to entirely use the activity etc.

At the basis of the organisation of the process of costs calculation and analysis within the company there should lie their most exact and profound knowledge.

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