

CRITICAL DEVELOPMENT OF COSTING METHODS USED IN THE FURNITURE INDUSTRY, IN THE CONTEXT OF ECONOMIC REALITY SPECIAL XXI CENTURY.

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In the current economic downturn in the furniture industry companies, to face competition, requires new costing methods to succeed, in a flexible manner, fructifying market information, inside to find levers to identify places, resource intensive activities and then cost reduction opportunities. New methods of management cost excess the accounting and economics scope Current economic situation requires this work and converts the cost information into the main tool of insurance competitiveness and profitability of the company. Applying the standard cost in single cost model is a viable business solutions of enterprises in the furniture industry to face strong competition from European Union, specifically in the context of complex economic XXI century.

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1. Introduction

The enterprises of the furniture industry is placed in a competitive environment, in the value chain between suppliers, on the one hand and distributors or customers on the other. External tensions who acting on it must be taken within its. To face competition companies allocate more and more research resources for research, to achieve quality products that require obtaining additional authorization. Harmonization with European standards of quality, environmental protection involves additional costs will be reflected in the indirect costs of the enterprise. Further, their share will increase in relation to total expenditures and their allocation will be made on products that are found most. This development of costs resulting from the need to launch the marketing of new products, new technologies of need to communicate with the external environment, highly complex and dynamic, which requires great efforts to adapt.

In these circumstances companies in the furniture industry to face competition requires new methods of costing. They rely on the use of techniques who involving in their quest a large number of specialists and changes in many of enterprise functions. In countries like USA, Japan, France this problem was solved by applying methods that meet current requirements as the method ABC (Activity Based Costing)-the process cost approach, the method target costing, value engineering analysis, UVA method. By implementing advanced management accounting methods to provide increased management control over the rational use of resources, proper allocation of their consumption on objects of calculation, optimizing the production process and use information as necessary to end users.

2. The impact of cost calculation methods on Operating results

Comparative studies of the results obtained by applying different methods of costing shows that the Operating results is influenced by policies and methods applied by enterprises, namely: costing method, method of inventory valuation, depreciation system practiced. Calculation method chosen has a direct impact, measurable, and one indirectly. Directly affects, the method of calculation affects income, the value of stored and fixed production (in charge of production), as and size of finished goods stock. Indirectly the influence manifests itself through the sale price, when it was based on cost. The Cost calculation errors affects enterprises performance in both variants possible: when is higher, respectively lower than the actual consumption of

resources. When the full cost is set at a level higher than normal, the price will be higher than its competitors, which will affect the competitive advantage and competitiveness of enterprise. When the full cost is set at a level lower than normal, exists the risk that the sale price does not lead the necessary margin to normal undertaking and the enterprises to operate at a loss. Also, how to "guidance" of consumption to the balance or profit and loss account significantly change the results of the company.

3. Advantages and disadvantages of using the method on orders in the furniture industry

As advantages of method on orders, identify [1]:

- the method is suitable economic context that has emerged: that of labor productivity growth mechanized companies;
- the method is adapted to work in the stable universe, because the average unit cost is calculated based on information obtained in previous years, on the "stock";
- is a tool for establishing long-term policy, because the full cost (return) is the first information used in setting the retail price (before linking with the market price and the price of competitors);
- *Can be used in evaluating tangible and intangible assets, works property built by enterprises themselves;*
- *can be used together with assessment methods based on variable costs and eliminate the incidence of changes in activity by attributing rational practice of fixed costs.*

However, in the deep economic crisis by passing both furniture enterprises, as well the environment they operate, the cost information provided by traditional method lose their relevance. *The lapse of that cost calculation model is given by changes in business environment but also the practices of firms.*

As critics of the method generated by change the economic context can remember:

- products are not homogeneous, there are a wide variety in how they consume resources;
- need to provide products and special orders, not manufactured in homogeneous series homogeneous;
- various activities and tech make impossible the existence of some homogeneous;
- decreases share of production costs for distribution, R & D and other support activities;
- reduced share of indirect costs to direct, using a single arbitrary allocation bases leading to erroneous results;
- multiplying the cost variability criteria (or, in other words, increasing fixed costs relative to production volume);
- order cost calculation system there is no explanation to obtain the production cost, but the cost-value optimizing various cost items.

4. Modern costing and the impact on measurements performance in the furniture industry

Enterprise management involves measuring costs and performance and their management. For performance measurement is calculated projected costs (standard or exanthema) and compared with realized costs (real or expost). The conditions that characterize the current global economic environment, the most important objective of an accounting system costing seems to be able to estimate involved total product offering.

The stakes of the full cost calculating are high: performance assessment at the centers of responsibility, highlighting the effect of "chain" in case of cuts in processes and activities, assess the financial accounting, decision making on products, customers and activities.

A modern management characterized by the fact that *performance and accountability that are global, collective, and costs must be integrated within the concept of value, involves the use of computer systems and performance measurement.*

4.1. Pros and cons arguments of using standard-cost calculation method

Standard-cost method has its genesis in SUA where appeared in 1901 under the name "Estimated cost system"(The pre-calculated cost), promoting first cost is determined before construction start. Standard cost has an pre-calculated cost to assess the performance over a certain period of time ."Trough Estimated cost system" was transformed in 1918 in "Standard cost accounting" (Standard cost calculation).[2]

The idea that the cost is a function of many factors has transformed the cost calculation in main objective of planning enterprise profitability. In this context, the standard cost is considered as a normal cost of production, and calculation of actual cost of products is no longer necessary. Favorable or unfavorable differences between actual and standard costs are deviations from normal manufacturing conditions, affecting company results for that period. In our country, Implementing Regulation Accounting Law states that, the standard or normal cost method is to determine in advance to the manufacturing of products both direct costs and those indirect grouped into fixed and variable, contained in the cost of production form antecalculation. By adding or subtracting deviations at the standard cost resulting the effective costs obtained production. It is noted that the Romanian version the deviations do not affect financial results.

Thus the positive points of the method can enumerate:

- *simplicity* - the standards are not influenced by short-term changes and are not reversed only when no longer reflects reality;
- *speed* - no need to wait to collect relating information to unit cost;
- *decisions* - *facilitate the application of coercive measures following calculating deviations.* Standards can be the basis for determining sales prices and allow performance evaluation of an entire component units;
- turning to production standards starting and calculating a regular manner deviations allows awareness at financial implications of of failure rules. *They facilitate the development of budgets, forecasts and incentives and simplifies the process of costing[3];*
- *can use management by exception:* managers will be contacted only when needed, to record significant deviations (exceptions);

In our view, the main conceptual advantage is increasing the accountability of staff, *orientation towards a "managerial attitude" (in the sense of Druker).*

Obviously that approach *method has drawbacks*, among which we mention:

- *implementing the method requires a long time* and the process is slow because it radically change existing habits and organization structures; standards must be substantiated and supported by staff;
- *standards must be accessible, but also ambitious.* However, the standard should not be very flexible because change milestone not allow accurately assess performance;
- *the method triggers conflicts regarding responsibility for deviations*, especially when the limits of responsibility centers are not very clearly defined and there are interactions between products and services;
- *standards are difficult to establish and watched in the field of intangible activities* (research-development, marketing, training);
- *causes high costs of implementing and adapting to changes.*

4.2. Adjustments to the standard-cost method

Following critics to the standard cost, he suffered a restriction of its application in several companies. Still others have preferred to adapt to the new system [4] :

- reduce the importance of standards and deviations relating to labor;
- manifests itself more strongly the importance of analysis based on machine hours, support services costs, product quality, production cycle;

- increasing importance inducers cost: the cost management system focuses on inductors and the number of hours-car number changes;
- advanced management accounting systems implementation requires moving attention at the unit-level costs for non unit-level costs and the growing importance of controlling overhead costs;
- need to obtain high quality and zero defect target, under JIT implementation.;
- eliminating costs that do not add value;
- shortening product life cycle;
- adoption of non-financial measures in operational control;
- Benchmarking's development as a way to control costs and increase efficiency-continuous search of the best ways to accomplish tasks through constant comparison methods and their performance with other firms or other parts of the same company;
- adoption of information systems in real time: a production system based on computer use allows the analyst to collect information even during the production process and draw up in real-time reports on the size of performance indicators. Allow thus rapid elimination of deviations.

4.3. Standard-cost method in the base model - single cost: direction of improvement of Management Accounting and Calculation Cost in furniture enterprises

Standard cost method is classified as forecast calculation methods and operational tracking of the production process allowing the establishment of production costs in advance before the start of production and making budget control actual costs against the default, on the kinds of irregularities and cases, while deployment of the production process. In this way, it offers undeniable advantages of studying and analyzing intelligence on the line of production efficiency, can meet such an important function for modern enterprise management, that the investigation and prediction tool and is therefore a valuable tool for the decision.

According to the concept of this method, unit production costs must be calculated in advance, using for this purpose preset sizes. While carrying out the production process is organized operative tracking of expenditure that gives rise to that, by comparison with standard costs, to establish the irregularities on places of spending and on the causes, so as to make the budgetary control of costs. In the original conception of standard cost method no longer have to calculate the actual cost, because the standard cost is considered scientific cost and at the same time, real, reason for any deviation the actual Costs from Standard-Costs is regarded as a deviation to normal and as such should pass directly into financial results. Still not exclude the possibility of calculating the actual costs of production achieved. This is done adding, or, subtracting of the standard-cost a deviations taken from management accounting which will track not only on places the costs and causes, but also on products. Calculation model is as it follows:

$$Cu_e = \frac{Cts \pm A}{Q} \quad \text{that,}$$

Cu_e = is the effective unit cost;

Ct_s = total Standard-cost;

Q = quantities produced.

The main work that involves the application of the standard cost method is:

- *developing the standard calculation by product;*
- *Calculating, tracking, analysis and reporting standard deviations for control budget;*
- *Management Accounting organizes in terms of application of Standard-cost method.*

Standard-cost method has the advantage of calculate labor rationalization, as the standard unit cost determined in advance is considered real cost and therefore not calculated the actual cost of finished products and production in progress at the end of each management period, and deviations are regarded as deviations from normal and pass directly into the company's financial results. The finished product and that in progress may settle at the cost standard. This feature but not removes the possibility calculating the actual cost of time to time, by distributing deviations to the finished product and production deviations in progress by conventional criteria, such as, for example, report that standard costs of production.

Another advantage of the standard-cost method and that cost is that although the concept is based on total costs using the classification of costs production into direct and indirect, it uses and classification of costs into variable and fixed production, allowing cost analysis compared with output and calculation of specific indicators direct-costing method, namely the equilibrium point optimal activity, the coverage factor, coefficient and interval safety, required for making based scientific decision.

A main feature of the standard-cost method consists *in the existence of an adequate operational comparison between actual expenditure and that pre-established taken as the baseline.* The application of Standard-cost method, the standard version single cost *leads to increasing the practical value of accounting information and, implicitly, to improve the organization of economic activities.* All this results in a better foundation costs budgets and, consequently, establish benchmarks as well to express the normal conditions of industrial activity.

Management based on predetermined size as the standard-cost method *corresponds to the principle of objective-based management and accounting gives in its quality of providing useful information decisions and corrective action , a major importance.*

In these conditions, accounting becomes the industrial enterprises, a useful tool for management, enterprise management, as its main mission is not to determine the cost of production, but to check if it determined in advance, was respected leaders sectors. In this way, management accounting can make tracking and control of classification in provisions of the budget and can provide expenditure information on the level of expenditure production.

Standard-cost method aims, mainly, to increase the role of production costs in ensuring achievement of the objectives in directing and good function of the company. *The main purpose of such calculations is to provide operational information needed to budget, evaluate, coordinate and control the activity or enterprise.*

Starting from the role and place of management accounting information in the modern, application of standard cost method gives it a matter of expediency, given the leverage in the process of preparation and decision making to trigger corrective action.

The standard-cost method replaces the simply operations of collecting and recording the actual data, to compare them to the end of the management period to achieve the commands method used in furniture industry enterprises, by providing an analytical character, operational and information predicting that their exploitation *to increase the efficiency of future activity.*

A prerequisite for the practical standard-cost method, besides the existence of a scheme sufficiently comprehensive scientifically based standards, is the existence of a well-developed techniques and operations production programming. This implies requires the existence a corresponding level of the organization of production, and a high degree of knowledge and explanation of economic and technological factors of production for all products and, especially products and new technologies.

Organization in good conditions of primary documentation on the expenditure and production cost calculation, and proper organization of records deviations from standards are also necessary prerequisites for adopting this management accounting and cost calculation method.

Considering the advantages and disadvantages of each of the three variants of standard-cost accounting organization, **I think the alternative that best meet the management needs of furniture enterprises is the standard version single cost.** This option enables for establishing

effective costs deviations from the standard costs during the unfolding process of production, costs of calculation articles and on causes, which facilitates cost effective budgetary control and decision making at all high levels of command. This also eliminates workload caused by the operation of in progress production inventory, whereas the recording system of consumption and production obtained in accounts only standard cost calculation, it is to determine the accounting method.

5. Conclusion

As a synthesis of research results I appreciate the following:

- **cost is a synthetic indicator reflecting efficiency of planning systems, record and control.**

It is measured by total consumption related to production of product, conditioned of technology and production organization, so it is designed to evaluate the product produced at a concrete stage of the production process;

- each enterprise must acquire modern management techniques to insure formation one adequate information system of a specific activity carried. Market economy requires this action, and transform *cost information into the main tool to ensure competitiveness and profitability of the furniture enterprise;*

- choosing the most appropriate costing methods in an enterprise leads to the fulfillment of two major goals: *to ensure the issue of improving quality information and user operations, control them and adding a value.*

- the costing method on orders, which are used in the furniture industry enterprises, has a number of drawbacks and *is not oriented to meet the management accounting function:* getting accurate information on the cost of manufactured products, ensuring the efficiency of the structural subdivisions of manufacturing production;

- *Using Standard-Single Cost Method, applied in conjunction with direct costing method in enterprises in the furniture industry in Romania is a direction of improving managerial accounting.*

In conclusion, it can be said that this paper has addressed a complex topic research and interest, **as improving methods of costing and managerial accounting is probably a viable solution to companies in Romania to cope with strong competition from EU Europe, in complex economic context, particular XXI century.**

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