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The Use of Accounting Information System for the Management of Business Costs

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Abstract

Constant change is typical not only for social space, but also for economic structure and business as well. For agents and reasons of these changes in our country it is necessary to look for not only in transformation of our economic conditions - this process has been running for several years and market mechanism has become reality – but the importance and influence of a new phenomenon is growing. This phenomenon is called new economics, or globalization which is typical with national borders destroying and harmonisation of management tools.

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1. Introduction

The result of this process is the fact that investors, joining our market or firms with foreign participation insist on such a managing which brings them added value. In this logic, an available tool is controlling. Controlling is a specific management system, which exploits especially accounting, expenses and cost calculation system of a company and company's budgets. At first, companies have to rethink its expenses, accounting and cost calculation system. This article discusses the first two mentioned elements.

2. Accounting information

In general, accounting can be divided in two categories: financial accounting and managerial accounting. This

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classification is very important, especially for controlling. Controlling exploits managerial accounting which concerns providing information that managers inside the organization use. A production manager wants a report on the number of units of product various workers manufacture in order to evaluate their performance. A sales manager wants a report showing the relative profitability of two products in order to focus selling effort. Firms do not distribute by Majercak, et al. (2013) managerial accounting reports to outside user because these reports often contain confidential information.

On the other hand, external users prefer to see and evaluate company's financial status as a whole. Therefore the financial accounting is necessary for the firm, too. It concerns preparing general purpose reports for stakeholders outside the company. Such stakeholders include owners, shareholders, creditors, financial analysts and government regulators.

Both financial and managerial accounting brings information to their specific users. Supply and demand for accounting information determines by Kral, (2001) information confidence.

The costs and benefits of information are very important elements for managers in order to be able to decide to what extent the accounting is sufficient. Only if the benefits of information exceed its costs the company should generate accounting information to managers.

Accounting is necessary because of some specific type of information, too. This information brings some knowledge about costs. In principle a cost is a sacrifice of resources. The term cost is meaningful only if it is used in specific concept.

The definition of a cost as a "sacrifice" leads directly to the opportunity cost concept. If a firm uses an asset for one purpose, the opportunity cost of using it for that purpose is the return forgone from its best alternative use.

It is necessary to distinguish cost as used in managerial accounting from expense, as used in financial accounting. Whereas a cost is a sacrifice of resources, an expense is the historical cost of goods or services a firm uses in a particular accounting period. Managerial accounting deals primarily with costs, not expenses.

Sunk costs result from past expenditures. Decisions do not affect them because the firm incurred sunk costs in the past, whereas decisions made now affect the future. Past expenditures are by Kenneth, (2013) sunk costs but it does not mean that information about past amounts spent is totally irrelevant, e.g. for performance evaluation.

3. Materials and Methods

Relevant bibliographic resources were used to write this article. Acquired information concerning the development, creation and basic characteristics of cost management were then used to compare different possibilities of cost management and controlling. Concerning methods, analysis, synthesis, deduction and abstraction were used.

4. Costs information

Managers use some other classification of the costs as well. According to the relation to a cost object there are direct costs and indirect costs. Costs that relate directly to a cost object are direct. Those that do not, are indirect.

A cost object is any item for which a manager wishes to measure cost. Departments, stores, divisions, product lines or units produced are by Majerova et. al. (2013) typical cost objects.

Indirect costs are common too, or shared by two or more costs objects, so accountants also call them common costs.

Direct materials and direct labour are costs that a firm can trace to particular units of production. Manufacturing overhead are costs that give a firm the ability to produce such as indirect materials, indirect labour, cost of utilities, property taxes, depreciation, insurance, rent and other costs of operating the manufacturing facilities. Non-manufacturing costs comprise marketing costs and administrative costs.

In addition to this classification there are some other ways how to appreciate costs. Another standpoint goes out the cost behaviour. This classification is perhaps most useful. According to this way there are:

- Variable costs that change as the level of activity changes, whereas
- Fixed costs do not change with change of activity volume.

In the short run a time period long enough to change the level of production within the constraints of current total productive capacity, many of firm's costs are fixed. In the long run management can change total productive capacity and no costs are fixed.

Total costs of an item can be expressed as follows: TC = F + VX where TC represent total cost during period, F represent fixed cost during a time period, V represent variable cost per unit of activity and X represent number of units of activity during a period.

Fixed costs that provide a firm with capacity to produce are capacity costs. Other fixed costs that include research, development and advertising to generate new business are discretionary costs or programmed costs or managed costs.

Relations among selling prices, unit costs, volume sold and profits expresses cost – volume-profit model: $\pi = TR - TC = PX - (F + VX)$ where:

- π represents operating profit for the period.
- TR represents total revenues for the period.
- TC represents total costs for the period.
- P represents unit selling price.
- F represents fixed operating costs for the period.
- V represent unit variable costs and
- X represent number of units sold in the period.

The point where total costs equal total revenues is the breakeven point, π must be zero.

If $\pi = 0$, it means that TR = TC and PX = F + VX, Xb = F/P-V The unit contribution margin is the excess of the unit selling price over the unit variable cost, that is P – V. Many managerial decision models use the unit contribution margin.

5. Results and Discussion

All costs firms incur, they eventually transform in expense. If a firm does not pay a cost immediately but adds it in to an inventory account on the balance sheet until it sells the goods, that cost is said to be "inventoriable". Inventoriable costs are called product costs. Not inventoriable costs are called period costs because the firm pays them in the period incurred. It is necessary - for external financial reporting - to treat all manufacturing costs as product costs. Using full absorption costing, the firm assigns each unit of a good produced the unit's variable manufacturing cost plus a share of fixed manufacturing costs for inventory valuation. Variable costing method of inventory valuation includes only each unit's variable manufacturing costs. Firms using variable costing treat fixed manufacturing costs as period costs they expense in the period in which they incur the costs. Firms treat by Sukalova, (2012) all non-manufacturing costs as period costs and therefore the costs are non-iventoriable under both methods.

All types of costs or expenses are necessary for managers to be able to make some important decision. For managerial decision they need to know contribution margin. This margin is very often mixed up with gross margin, but they are different.

It is possible to define both margins with the help of full costs components which include marketing and administrative costs but the full absorption cost inventory value does not.

The unit variable costs include variable marketing and administrative costs but the variable manufacturing costs do not:

- unit profit margin = unit selling price - full cost per unit of making and selling the product
- unit gross margin = unit selling price - unit full absorption cost of making the product
- unit contribution margin = unit selling price - unit variable cost of making and selling the product.

Managers have to distinguish between these margins because firms routinely report total gross margin on external financial statements but find contribution margin generally more useful for managerial decisions. Controllability is important when managers use accounting data for performance evaluation.

Knowing which costs employees can control allows managers to set priorities in performing one of their most important missions - cost control. Knowing that, in the short run, factory rent is a non-controllable cost, whereas direct labour hours worked are controllable, enables managers to focus their attention on costs that they can more easily manage. It is important to recognize the relative nature of controllable and non-controllable costs. First, costs that mangers cannot control in the short run are likely to be controllable in the long run at some level in the organization.

Second, as one moves up the organization to higher levels of management, more and more costs become controllable. We consider a cost to be controllable at the level in the organization where the management at that level has the power to authorize the cost. If top management but not district sales managers can authorize the advertising budget, it controls advertising costs.

Costs Reported on Income Statements

It is possible to use three types of income statements:

- **External financial reporting**

Firm allocates fixed manufacturing costing to each unit produced.

Table 1. Income Statement for External Financial Reporting

Sales revenues	....
Minus cost of goods sold	....
Gross margin	....
Minus marketing and administrative expenses	....
Net income before taxes	....

- **Managerial decision making**

Firm uses variable costing and treats fixed manufacturing costs as period costs: the firm does not use them to unit for inventory valuation. Variable costing reflects cost behaviour better than full absorption costing does.

Table 2. Income Statement for Managerial decision making

Sales revenue	....
Minus variable cost	....
Variable costs of goods sold	....
Variable marketing and administrative costs	....
Total variable costs	....
Contribution margin	....
Less fixed costs	....
Fixed manufacturing costs	....
Fixed marketing and administrative costs	....
Total fixed costs	....
Operating profit	....

- **Managerial performance evaluation**

Costs and revenues are divided into amounts that the managers can control and those they cannot. It also assigns costs and revenues to responsibility centres (any part of the firm for which a manager has responsibility).

Table 3. Income Statement for Performance evaluation

	Controllable by branches	Non-controllable by branches	Total for the firm
Sales revenues			
Minus variable costs			
Contribution margin			
Fixed costs assigned to branches			
Operating profit			

Source: own work

6. Conclusion

Implementing these changes to the firm‘s practice needs a lot of efforts and endurance. Inevitable condition of application of them is manager‘s ability to elaborate the system and to persuade all staff and managers about the necessity of each step. The result will not appear immediately but certainly in the long run.

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