

THE USE OF CALCULATION OF COSTS FOR ACTIVITIES TO IMPROVE COST MANAGEMENT AND PROFITABILITY

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Abstract:

Dissatisfaction with the classical systems of managerial accounting has led to global acceptance of the ABC, as a result of the many theoretical and applied works, which had as its objective the creation of a system for calculating relevant costs, adapted to the needs of information, in the new context of production organization. Under this method, the task, allowing a new vision in the company and cut cross vision, becomes the Centre of representation and modeling of enterprise and serves as an interface between the resources consumed and cost bearers whose cost you want to measure it. In this way you get a real cost, on the basis of which the strategic decisions by removing non-creative activities and using as the basis for apportionment of costs it generates activity.

Key words: calculation of costs, activity, process, transversal vision

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The premise of the cost calculation by ABC method

The evolution of the economic environment and technological changes have affected and adjacent classical systems theories of managerial accounting, which must respond to the following **issues**:

✚ *Diversification of production and the necessity of meeting the demand for goods and services to a clientele increasingly more differentiated.* The performance of the enterprise is no longer depends only on the costs, but is determined by the Union of the value and cost of production of goods and services.

✚ *Development support activities.* Because the value for the customer is generated so the product sold and the related services offered through support activities (delivery, installation, training, service, etc.), classic systems of managerial accounting must answer the question: how to determine the cost of the resources consumed by customers if the system of managerial accounting is organized on the principle that resources are consumed by products?

✚ *The structure cost the enterprise has changed radically in many industrial sectors.* In the new structure, the share of indirect costs has increased production, distribution of appropriate indirect costs between products becomes prevalent and returning at key time-or time-machine worker, used in classical systems of accounting, is no longer appropriate.

✚ *Functional control of resources.* Accounting information systems should be constructed in such a way as to generate information relevant to the processes of the enterprise, involving a cross-section of the enterprise coupled with functional vision, which return any unused portion in the management of the day-to-day coordination of the enterprise.

✚ *Relevance of the volume of production as the inductor.* Multiplying cost inductors (such as: diversity and complexity of production processes of production) makes adequate representation of the resource consumption of the undertaking to be complex.

In this context, the Kaplan and Cooper have proposed a new model of the enterprise accounting, promoters of the idea of using the model ABC Activity Based Costing. It consisted of the transposition and application of the instruments and methods for direct reference with the function of double, auxiliary and supporting jobs. In Germany, following the publication of the book of Jacob/Mayer, calculation of the cost of development process. Activity Based Costing concepts and calculation of the costs of the process are used interchangeably in the literature, in the same sense as interpreted and notions Transaction Costing or calculation of costs.

Overview of the ABC method

One of the most suitable tools for the improvement of a system of registration and calculation of costs is the cost calculation. Calculation of costs of activities shows a classic system and calculation of costs by putting the focus on individual activities as the fundamental cost objects.

In the literature, the concepts and process are defined distinctly, like this:

- *Activity* means an operation specifies a lot of costs, which determine the use of factors of production.

- *The activity* is a transformation of the inputs (information or material used in production) or outputs of resources in products made of mechanisms (people, machines or systems that process, or support activity) within the restrictions set by means of control.

- *The work* represents a set of homogeneous characteristic of a creator and consumer of resources.

- An *activity* is defined as a set of elementary operations, carried out by one or more individuals, enabling the provision of utilities from certain resources, homogeneous in terms of cost and performance behaviors.

- The *process* is a chain of activities geared towards getting an output, characterized by: output an achievement of a result; resource consumption (rated at the level of pimples); an influence factor cost (cost drivers) which is at the same time and to gauge the number of processes to run.

- In the framework of main processes are distinguished and partial processes. Through the main process means a homogenous activities that are subject to the same factor influencing the cost and to determine the cost of the process. Through the process part is a chain of activities of a group of homogeneous costs, which can be integrated in one or more of the core processes and for that to be determined the cost of the process. The distinction lies in the fact that partial processes relate to a single consignment of costs, while the main processes are arranged by costs.

In the meaning of authors p. Horvath/r. Mayer, calculation of the cost of the process can be understood as a new approach to the calculation of the cost in order to emphasize the transparency of the growth in the sectors of indirect activities, ensuring an efficient use of resources, highlighting, use of capacity, to improve the calculation of the product and to avoid this kind of strategic decisions. So, its destination, the calculation of the cost of the process is facing long-term decisions and can be considered as a support for strategic issues of the company.

In practice, the two definitions have helped in understanding the ABC method:

- ➡ *Consortium of Advanced Manufacturers International (C.A.M.I.)* defines the ABC method as a method for the identification of the connections between cost inductors and cost activities by measuring the cost of the process activities and cost objects.

- ➡ Liggett, Trevino and Lavelle argued that certain activities are implemented for the manufacture of the products. These activities use enterprise resources and costs. The production uses activities. By determining the quantitative resources used for a task

(and the costs resulting from it) and adding to the cost of production is possible to report the activity to execute a product units throughout the territory.

So, calculation of costs (ABC) is a method of approach to the allocation of spending, by identifying the main operational activities are classified all expenses, reduce or remove non-generating activities and allocate costs using as a basis the activity they generate. The ABC method meets your specific concerns on cost management and performance, as well as a reliable base for pricing policies for sale. This method relates to the management of activities, to establish a global vision and transversal processes of the enterprise, a link between activities and resource consumption.

Task-based accounting rests on two fundamental principles, namely:

- *Products consume. The cost of transfer of the product corresponding to generators or inductors.*

- *Activities consume resources or values* that represent the productive factors, cost accounting, in fact, quantified in monetary terms, of such resources or factors of production waste.

The relationship between these three concepts can be expressed through two relationships: consumption and required. Processes consume the processes or activities that consume resources instead. Also, resources are necessary for carrying out the activities, which in turn are necessary for the process. If it is possible to measure each phase of the relationship, then the cost is perfectly defined. It requires the collection of relevant information on the consumption of resources and activities in the system considered. Thus, ABC seeks a more real damage to indirect costs and the use of a large number of determinants of cost-sharing basis, as compared with traditional methods, removing as much as possible conventionalism from the distribution of these costs. The work is the foundation of, removing the causation of the resources consumed and produced.

Organization of accounting of the costs by the ABC

ABC calculates the costs of operating systems and then charge the cost objects and cost calculation of costs as well as your products or services on the basis of the activities needed to produce each product or service. Direct costs attributable to products or orders with ease, which is why ABC systems focuses on indirect costs, their Department, their processes, products and other objects and cost calculation.

Organization of accounting of the costs by the ABC is considering taking more *steps to follow*:

- *Identification and analysis activities* that constitute the basis for the allocation of expenditure. First, you must define the objectives of building a model of the enterprise from its activities, since the activity-based analysis can be used with multiple objectives, which far outweigh the cost calculation of costs. Identification of the activities can be carried out from several points of view on the portal, or organizational structure of the enterprise, either from a functional detailing activities function with function. It is essential to determine for each responsibility center that is attached to identify the person who can take decisions relating to management activity. A proper management of the work and its performance, in terms of cost and quality, requires an understanding of the place, which it occupies in the process. Regrouping activities in management processes can be determined by aggregating the cost, the cost of the process. Knowledge of the overall cost of the undertaking will allow the orientation of the cost-cutting efforts in processes that are consuming the most resources.

- *Collection costs*, requires determination and demarcation between the activities of the relevant expenses are part of the model and processes in order to support the calculation of their costs. At this stage, the information collected must allow for the identification of

causal factors that justify the best resource consumption by each activity, i.e. inductors of resources (resource drivers). Identification of the causal factors are an advantage for the management of activities, allow the implementation of effective programs to reduce the cost of training activities, without undesirable effects in the form of higher prices in other secoare of the enterprise.

📌 *Identification of the factors that determine the cost of an activity*, called inductors of cost (cost drivers) and the calculation of unit costs on the enzyme. The activities are grouped according to the identified responsibility centers after the same surge in resource regrouping centres or poles of cost (cost pools). On the basis of the cost of each collection centre, determine the unit cost of each inductor, according to the relationship: the cost of an inductor = cost resources on activities/inductor volume.

📌 *Impaired shedding activities costs (supplies, works or services)*. ABC method is based on the principle that activities generate costs, and carriers are what create the demand for these activities. It is necessary to identify the various activities and the creation of a collection centre for each activity costs of generating costs.

The advantages and limits of the ABC method

The advantages of the ABC:

ABC method involves the development of maps of activities that allow the shifting of attention the activities of managers that represent the most important cost for the enterprise and the activities of non-creative value whose elimination would allow reductions in the enterprise, without a reduction in the value of the product offered to customers.

The ABC show the interrelationship that exists between the activities of the different functions of the organisation. It shows the impact of a decision concerning an activity on other activities contained in another structural function of the enterprise.

Improving the quality of accounting information allows making the best decision in terms of product policy, outsourcing or the manufacture of products for enterprise or compone.

The ABC method is the analysis of the activities. The staff of production and distribution in the system of calculation of costs of activities to identify areas in which you can get cost reductions and the ways to achieve these reductions. Managers set goals for reducing costs in various fields, expressing these objectives in terms of reduction of costs per unit distribution base. An analysis of the factors that cause the appearance of costs, identifying numerous opportunities to improve the way in which they are carried out various activities. Managers can assess the opportunity to reduce or even eliminate certain activities. Often, in the design phase, before making final decisions on the proposed methods, there are many opportunities to reduce costs in production. To identify new models that will allow a reduction in costs, management can evaluate how the design of products and production processes and activities affecting the enterprise.

The main costs and limits of the method ABC are related to the quantifications required to implement it. Managers must estimate the cost of the batch, and then to

identify and measure the determinants for these lots, which will serve as the basis for the allocation of costs. And the simplest systems require many expensive calculations on ABC for the determination of the cost of products and services. As ABC systems are becoming more detailed and to create lots more costs, more distribution operations to calculate the costs for each activity costs. This increases the risk of the wrong identification of the costs of the various lots of pimples on activities.

Some companies consider a less detailed ABC offers plenty of advantages and that the implementation of a system in greater detail, with all the costs and complexities involved in it, not worth the effort. However, as improving the technologies and reducing the cost of quantification, the ABC has become a practical alternative for many companies, who use this system to plan and manage activities.

The information provided by an ABC system are used by the management in order to increase customer satisfaction and improve the profitability of the company. ABC systems are used for making managerial decisions on pricing, product mix, reducing costs, improving processes, protection, redesigning products and production processes and the planning and management of the undertaking's activities.

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