

ADVANTAGES AND DISADVANTAGES OF APPLYING EVOLVED METHODS IN MANAGEMENT ACCOUNTING PRACTICE

SABOU FELICIA

ASSOCIATE PROFESSOR, VASILE GOLDIS WESTERN UNIVERSITY OF ARAD,,
e-mail:feliciasab@yahoo.com

Abstract

The evolved methods of management accounting have been developed with the purpose of removing the disadvantages of the classical methods, they are methods adapted to the new market conditions, which provide much more useful cost-related information so that the management of the company is able to take certain strategic decisions.

Out of the category of evolved methods, the most used is the one of standard-costs due to the advantages that it presents, being used widely in calculating the production costs in some developed countries. The main advantages of the standard-cost method are: in-advance knowledge of the production costs and the measures that ensure compliance to these; with the help of the deviations calculated from the standard costs, one manages a systematic control over the costs, thus allowing the making of decision in due time, in as far as the elimination of the deviations and the improvement of the activity are concerned and it is a method of analysis, control and cost forecast;

Although the advantages of using standards are significant, there are a few disadvantages to the employment of the standard-cost method: sometimes there can appear difficulties in establishing the deviations from the standard costs, the method does not allow an accurate calculation of the fixed costs.

As a result of the study, we can observe the fact that the evolved methods of management accounting, as compared to the classical ones, present a series of advantages linked to a better analysis, control, and foreseeing of costs, whereas the main disadvantage is related to the large amount of work necessary for these methods to be applied.

Key words: evolved methods of management accounting, permanent expenses, variable expenses, the method of standard cost, the direct-cost method, the machine-hour-fee method.

JEL Classification: M41

1.Introduction

According to the Law of Accounting no. 82/1991, the accounting system applied in Romanian companies comprises two subsystems: financial accounting and management accounting. This structure is a consequence of the adaptation of accounting to the requirements of the market economy so as to ensure, on the one hand, the transparency of the accounting information necessary for external users, and, on the other hand, the confidentiality of the data from the internal inventory of the company. Management accounting is internally regulated according to the internal requirements of the managerial team, the information provided by it being of confidential nature.

The management accounting within a firm is compulsory, according to the Law of accounting no. 82/1991, the administrator of the enterprise being the person responsible for it. The Law of accounting no. 82/1991 states that “commercial enterprises, chartered companies, public companies, national research and development institutes, co-operative societies, and any other corporate bodies with lucrative purposes, must organise and manage their own accounting, namely their financial accounting, according to the current law, and the management accounting adapted to their specific activity”[8].

2.Management Accounting

Management accounting provides the necessary information for outlining internal reports and analyses used by the managers of the companies in order to make decisions. The procedures and techniques used in managerial accounting are established according to the qualitative characteristics of the information required by the users, as well as the specific activity of the company.

As stated by The Law of Accounting no.82/1991, through management accounting, companies can get information that ensure an effective management of the patrimony, namely:

- Information related to the cost of the goods, works, services, for corporate bodies that are involved in the production of goods or with providing services, as well as the cost of the sold goods for the companies involved in sales;
- Information that constitutes the bases of budgeting and the control of the exploitation activity;
- Information necessary for the financial analyses in order to establish managerial decisions regarding the management of the internal activity;
- Other information required for the realisation of a proficient management [8];

3. The methods of management accounting

In our country, according to existing legislation, the calculation of production costs can be done according to the global method, the requisition method, the phase method, the standard costs method, the direct-costing or variable costs method, or other methods adopted by companies.

In the professional literature, other methods of calculating costs are mentioned, namely: the rate-hour-machine method, the PERT method, the Georges Perrin (GP) method, the method of placement or expenditure centre calculation[7].

The methods of management accounting and the methods of calculating costs may be classified, according to the moment in time of their appearance, into: classical methods, evolved methods, and modern methods of management accounting.

From the category of classical methods we can name: the global method, the order method, the phase method. In the category of evolved methods are usually included: the standard costs method/normed costs, the direct-costing method, the Georges Perrin (GP) method, the rate-hour-machine method, the PERT method, while in the category of modern methods we can discuss about: the ABC method, the ABM (Activity Based Management) method and the method of calculating target costs.

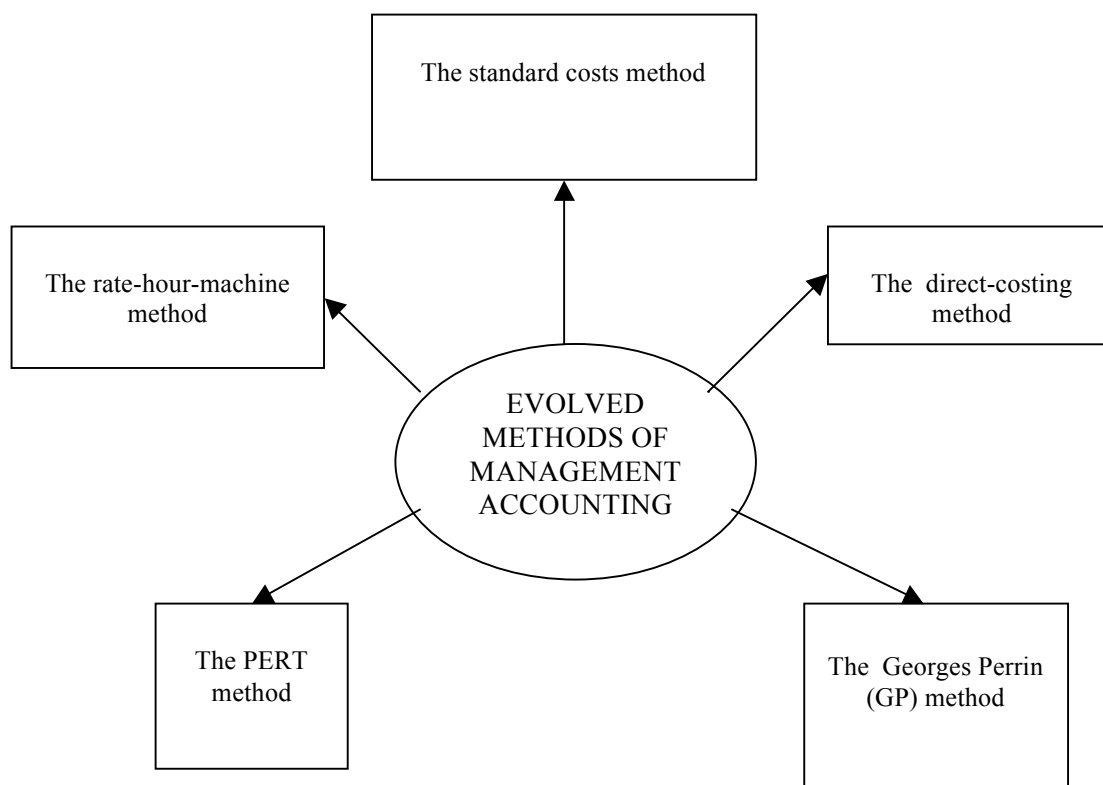


Figure 1. Evolved methods of management accounting

4. Evolved methods of management accounting

From the category of evolved methods, the most frequent method is the standard costs method. Through this method, a new category of costs is introduced, which are based on technical calculation, studies of productive consumption, the evaluation of material and time consumption with the aid of previewed measurements. These previewed measurements have appeared under different names, such as: standard costs, normed costs, estimated costs, preliminary costs or budgeted costs.

The basic concept of the standard cost method consists of the anticipated establishing of direct production costs (materials, manual labour) which are named *standards* and of indirect costs (common costs of departments, general expenses, marketing expenses) named *cost budgets*. The standard costs are costs established on scientific basis, according to the conditions imposed by the production processes, being, at the same time, standards for the measurement and comparison of effective production costs [5].

The structure of the production cost, calculated according to the standard costs method, includes the following main articles for calculation:

- materials;
- labour;
- excise costs;

A characteristic of the standard cost method is the fact that the standards (pre-calculated costs) are considered real or normal production costs.

In order to apply the standard cost method the following steps are to be taken:

- a) To calculate the standard costs per product
- b) To compare the standard costs with the effective ones and to highlight the deviations from the standard costs;
- c) To analyse the costs and the deviations that result from these, taking the necessary steps in order to improve activity [2];

The standard costs method, is used very often in romanian companies from the furniture industry, using sheets like these:

The costs sheet in standard cost method for materials, in furniture industry
Product _____

Table 1.

NR.	MATERIALS	MEAS.	STANDARD FOR MATERIALS	PRICE	TOTAL
1.	Material 1	mc			
2.	Material 2	mp			
3.	Material 3	mc			
4.	Material 4	kg			
5.	Material n	kg			
	TOTAL STANDARD MATERIALS COSTS				

The costs sheet in standard cost method for labour, in furniture industry
Product _____

Table 2.

NR.	THE NAME OF THE OPERATION	FEE/H	Time	Value
			minutes	lei
1.	Operation 1			
2.	Operation 2			
3.	Operation 3			
4.	Operation 4			
5.	Operation 5			
6.	Operation 6			

7.	Operation 7			
8.	Operation n			
	TOTAL STANDARD LABOUR COSTS			

The standard costs for materials and labour are compared with the effective ones and highlight the deviations from the standard costs. Then the company analyse the costs and the deviations that result from these, taking the necessary steps in order to improve activity.

The direct-costing method establishes a linear connection between costs, the volume of production, sales and profit, being very useful in analysing the economic-financial activity of the company [3]. By using this method one can determine partial costs, as the costs of products include just the variable expenses, the fixed expenses being considered expenses of the period, which go directly over the financial result of the period. The fixed expenses are scheduled and are supervised globally or in relation with a reduced number of places of incurring expenditures and it is not assigned to cost carriers. In this way it is eliminated the possibility of distorting the production costs, determined by the inclusion in these of the fixed expenses, which are assigned there by conventional criteria [4].

The GP method appeared for the first time in 1953 in France and was developed by Georges Perrin. This method is employed in economically developed countries in the machinery industry, textile industry, ceramics industry, and so on. It is a method of scheduling and supervising the production expenses and costs, whose main purpose is to calculate as accurate as possible the cost per product unit with the help of some equivalent coefficients named GPs, which are established in anticipation based on a special methodology.

The essence of the rate-hour-machine method consists in establishing the expenses for the operation of a machine or group of machines of the same type from a company in an hour. This method does not take into account the cost of raw materials and direct materials, it highlights only the equivalent expenditures with which a company makes a machine, a group of machines or a production center work within an hour.

The rate or the cost-hour-machine consists of: manual labour, indirect production expenses and general expenses of administration and marketing [1].

This method involves knowing the direct and indirect expenses structured on two categories, as follows:

- 1) Expenses for direct manual labour;
- 2) Indirect production expenses, general expenses of administration and marketing expenses, as assigned.

By employing the PERT-cost method one aims at optimizing the execution time of the operations and minimizing costs, based on the interdependence cost-time [2].

5. Conclusions

The evolved methods of management accounting have appeared in order to remove the disadvantages of the classical methods, they are methods that help with an accurate cost forecast.

Out of the category of evolved methods, the most used is the one of standard-costs due to the advantages that it presents, being used widely in calculating the production costs in some developed countries.

The main advantages of the standard-cost method are:

- In-advance knowledge of the production costs and the measures that ensure compliance to these;
- With the help of the deviations calculated from the standard costs, one manages a systematic control over the costs, thus allowing the making of decision in due time, in as far as the elimination of the deviations and the improvement of the activity are concerned.
- It is a method of analysis, control and cost forecast;

Although the advantages of using standards are significant, there are a few disadvantages to the employment of the standard-cost method: sometimes there can appear difficulties in establishing the deviations from the standard costs, the method does not allow an accurate calculation of the fixed costs.

By employing the direct-costing method one aims, first and foremost, at calculating and analysing the total yield of the company. For each product, the gross profit contribution is calculated in order to find out to what extent the variable costs incurred in the manufacturing and sale have been covered and what contribution it brings to coverage of fixed expenses in order to get a profit. The direct costing method has the following advantages: it is a method of analysis and forecasting of the products manufactured by the company, it is based on a simple way of calculating and allows taking long term decisions. The main disadvantage of the direct-costing method refers to fixed expenses, which according to this method are not distributed on products but are scheduled and are supervised globally [6].

The GP method creates the possibility to calculate more accurately the cost per product unit and allows the realisation of a strict analysis and the control over the activity of the company. This method requires a great volume of work, which is nevertheless compensated by the use on a longer period of the calculated GPs (5-6 years).

The PERT-cost method has a range of advantages, such as: it allows to establish accurately the technological connections between activities, it creates the possibility to control permanently the process of manufacturing, it creates the possibility to standardise scientifically the costs. The main disadvantage of this method consists in the big amount of work it requires.

In conclusion one can assert the fact that the evolved methods used in management accounting have a series of advantages connected to a better analysis, control and forecasting of the costs, but the main disadvantage is linked to the large amount of work necessary to implement these methods.

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