

THE ADVANTAGES OF TREATING INDIRECT COSTS BY THE ABC METHOD ALSO IN THE TOURISM UNITS

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Abstract: : In this context that the indirect costs represent a large portion of the total cost and the cost inductors relate only to production volume but not to other factors, the ABC method enables direct allocation of costs to products and services compared to traditional concepts of cost calculation. Feature of ABC is the idea of not allocate common costs, indirect operating the services through false and arbitrary quotas, but in accordance with the effective participation of services, as objects of calculation that drive tourism activities.

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1. INTRODUCTION

Indirect expenses are costs defined on the product or activity through an intermediate calculation of employment. They have a common character based on more products, services or activities or general in relation to any product, service or business operations.

Indirect costs attached to direct costs are part of the cost. Indirect costs can not be directly located on cost centers or the object of calculation. Therefore the term indirectly expresses that which can not be assigned but may be absorbed by cost centers or items costing.

2. LITERATURE REVIEW

A reference work on the ABC method is called "hidden factory" or "The hidden factory", written by Jeffrey G. Miller and Thomas E. Vollman. The two authors analyzed very accurately and place indirect production costs, concluding that it is very important to assign a role in controlling costs, developing a more detailed model of the causes of these costs. They have not insisted on creating a new system for determining the costs, but indirect costs of production detailing the measures to be taken and clarifying the causes that contributed to record negative deviations of indirect costs.

In a classical system resources consumed by customer service are considered indirect costs and, if appropriate, shall be allocated on a conventional key distribution, which will result in the allocation table most cost standardized products that require no doubt, few services to customers. This increases the risk of introducing distortions in cost and in assessing the overall performance of the organization. In such a context the organization's performance does not depend on a single factor of production, direct labor, which in this case is only a minimal part of the total cost. So the organization's

performance results from a combination of factors such as the minimum price, maximum quality, timeliness of delivery, etc..

In this context the indirect costs represent a large portion of the total cost and the cost inductors relate only to production volume but to other factors, the ABC method enables direct allocation of costs to products and services compared to traditional concepts of cost calculation .

The same problem is also reported by Cooper and Kaplan. The authors suggest that many of these indirect costs (cost of logistics, production, marketing, sales, distribution, service, technology, financial administration, information resources and general administration) may in fact be traced to individual products or product groups. Certain activities and processes consume a disproportionate amount of these activities.

Also, Cooper and Kaplan contend that a misallocation of indirect costs can generate huge distortions in estimating costs. Specifically, traditional cost strategies tend to attribute more indirect costs of goods made in larger quantities and less complex. Conversely, they seriously underestimated lower volumes and complexity of products and services. Since the cost of information is often used in assessing the profitability of different production strategies, incorrect allocation of costs may lead managers to poor decisions¹.

Based on traditional cost structure, previously proposed ABC method take three restatements, highlighted by French literature, namely dividing the indirect costs for certain items of work and / or workshops and / or activity centers, selection of activities subtask that will support global operational service, loss expenses divided by arbitrary keys and correct identification of the appropriate activities to determine the costs of products or customer orders².

3. DISCUSSION

Many markets have become market demand and command so that organizations should attempt to satisfy consumer desires leading to a multiplication of models and varieties. In important sectors such grounds share common indirect costs that always increase from that of actual production sectors. Indirect sector activities include: research and development, procurement, logistics, scheduling, work preparation, planning and production management, quality control, marketing, contracting, implementation and controls, accounting, finance, etc.. These changes in activity reach changes in the cost structure and significant decreases in favor of direct individual costs of the joint - indirect, while increasing the share of fixed costs³.

¹ Căpușneanu S.(autor), Possler L.(coordonator) - *Metoda calculației costurilor de proces (ABC) și posibilități de aplicare a ei în industria textilă din România*, Teză de doctorat, ASE București, 2006, p. 25-26;

² Man M., Răvaș B. - *Activity Based Costing method – a mean that the company's management deals with indirect costs*, Miskolc MicroCad, Universitatea din Miskolc, Ungaria, martie 2007, p. 3;

³ Dumitru C.G., Ioanăș C. - *Contabilitate de gestiune și evaluarea performanțelor*, Ed. Universitară, București, 2005, p. 346;

The value chain, indirect costs are important weights, from, design, production and continuing with marketing, distribution and service-customers, understanding their behavior is therefore of great importance in cost management⁴.

In any classical method of costing, cost overheads are absorbed in either the workload or on an equivalent value of consumption considered representative. Under a relatively insignificant level of indirect costs, the cost impact absorption have disastrous effects.

The big difference is observed today, however, is the strong focus on indirect costs.

Currently the share of direct costs sharply at the expense of indirect theorists and practitioners have focused more on rational and realistic approach applied to treatment of indirect costs. One consequence is represented by the ABC method by which initiated a new approach to indirect costs⁵.

Generally speaking, it can be stated that any expenditure outside the primary cost is an indirect expense. Maintained at the same general level, it may be that the structure of indirect costs between those expenses that are incurred in connection with the organization's overall tourism facilities or its components.

It is widely accepted that management accounting must be given to the choice and use of indirect cost allocation base. This choice may be based on four criteria:

- cause-effect criterion - includes identifying variable generating resource consumption, leading to the distribution most credible;
- benefits received criterion - requires identification of the beneficiary and the percentage distribution of the benefits received by each;
- the criterion of fairness and equity - indicates that a product or service that cost is allocated leading affordable for everyone. It is mainly used in government contracts being perceived as having a higher level than objective operational criteria;
- ability to bear criterion. The best example of the application of this criterion is to allocate salaries based on profit managers divisions, on the principle that where profit is high, it can support a greater proportion of costs.

Most appropriate criterion is the cause and effect, especially for a cost information intended for marketing decision making and motivation.

Practice of unsubstantiated scientific base distribution (which expresses a cause-effect relationship between costs and the basis for allocating shared costs) to allocate indirect costs leads to inaccurate production costs, unrealistic.

As a result, ABC allocation bases will require real costs, especially where indirect costs have a higher weight.

ABC method should be used especially in large tourism establishments in which indirect costs are high, the work is varied, the cost of errors is high and competition is fierce.

Feature of ABC is the idea of not allocate common costs, indirect operating the services through false and arbitrary quotas, but in accordance with the effective participation of services, as objects of calculation, drive tourism activities. One of the reasons, perhaps the most important relates to the distribution of indirect costs using

⁴ Albu N., Albu C. - *Instrumente de management al performanței – Contabilitatea de gestiune*, Ed. Economică, București, 2005, p. 158;

⁵ Caraiani C., Dumitrana M. - *Contabilitate de gestiune și control de gestiune*, Ed. Infomega, București, 2005, p. 75;

arbitrary keys (especially in establishing the estimate of expenses) which leads to inaccurate and incorrect allocation of these costs on carriers.

The basic concept of ABC corresponds to a procedure carried out in two stages, namely:

1. All indirect costs are identified and allocated to work processes.
2. Costs collected at activities are allocated to cost carriers (products, work performed, services rendered) using specific cost drivers.

The difference is given by using cost drivers (specific allocation keys compared to use specific keys arbitrary distribution of traditional costing methods).

Inevitably comes another feature, perhaps the most important for the allocation of indirect costs, ie decision support. Due to the inability to align the bases for allocating indirect costs to the chosen lead to recording traditional problems of over or underestimating costs and therefore having no real basis information provided can not be used appropriately in decision making. In comparison, ABC was able to align the criteria for allocating indirect costs specific thus providing more accurate information to support management decisions.

Based on these criteria from a study desk unit we have identified the following elements average indirect costs:

Table no. 1. Overheads cost drivers identified by ABC

Overheads cost drivers identified by ABC	
Maintenance and operation of tourism target	General administration expenses
- expenditure on current repairs and maintenance plumbing and electrical;	- expenditure on administrative staff salaries, manager, economic and serving staff;
- expenditure on current repairs and maintenance of air conditioning;	- expenditure on social security contributions and unemployment fund;
- running repairs and maintenance expenses furniture;	- expenditure on depreciation of tangible assets;
- running repairs and maintenance costs of storage;	- safety costs;
- expenditure on current repairs and maintenance of plant and equipment of the kitchen;	- expenses with taxes;
- expenditure on current repairs and maintenance of recreational land;	- environmental costs;
- running repairs and maintenance expenses nocturne	- expenditures on implementation of software;
- running repairs and maintenance expenses relaxation spaces (gym, sauna, etc.).	- expenditures on road transport;
- running repairs and maintenance costs of vehicles for recreation (ATV, snowmobile)	- expenditures on accommodation;
- expenditures on repairs and renovations;	- expenses for meals;
- expenditures on salaries of personnel performing maintenance and repairs;	- expenses for auditors and employees;
	- expenditure on insurance

	- administrative expenses - household
	- expenses for office supplies;
	- postage
	- expenses for books, magazines and publications;
	- expenses for travel and secondments;
	- heating costs;
	- costs of electricity for lighting;
	- expenses with bank;
	- entertainment expenses;
	- <i>diverse</i>

Indirect costs can not be allocated to require apportionment and absorption according to certain methods considered suitable in relation to their characteristics. Therefore managers must carefully address the issue of apportionment bases for choosing the most appropriate and does not lead to distortions of cost⁶.

The fact is that in terms of budgeting, at the level of tourism is necessary to establish flexible budgets that are detailed plans to be implemented in order to control indirect costs and are valid for a significant period.

4. CONCLUSIONS

Current economic practice requires consideration of the indirect costs in a distribution that exceeds that of their cost of products, works and services⁷.

In conclusion we can say that indirect costs are not allocated to the object of calculation, only after a thorough and accurate distribution that will lead to their identification cost carriers.

Important contribution of ABC is therefore in the way they are treated indirect costs.

Currently, tourism companies provide complex services and direct labor is only a small part of the total costs, unlike this fact, indirect costs are of particular importance. In these terms can not be justified using simplistic methods for allocating indirect costs, especially when data processing costs are not a barrier to the introduction of systems costing much more sophisticated.

ABC systems emphasizes the need for a better understanding of the behavior of indirect costs, allowing us to establish the causes of these indirect costs and how they relate to products and services. In conclusion, that long-term ABC recognizes, most costs are not fixed and seek to understand the drivers for change indirect costs in time.

The share of indirect costs in the cost structure grew more and more in recent years due to automation of production processes and the increasing complexity of services that are difficult to identify expenditure items costing. Because significant proportion of total costs, indirect costs should be paid attention both in terms of their analysis to control and managerial decisions especially regarding their correlation with changes in production or activity.

⁶ Caraiani C., Dumitrana M. - *Contabilitate de gestiune și control de gestiune*, Ed. Infomega, București, 2005, p. 72;

⁷ Oprea C., Man M. - *Contabilitate managerială*, Ed. Didactică și Pedagogică, București, 2008, p. 16;

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