

# **CONCEPTUAL AND LEGAL FRAMEWORK FOR THE ORGANIZATION OF MANAGEMENT ACCOUNTING AND COST CALCULATION IN INDUSTRY OF MANUFACTURING DAIRY PRODUCTS**

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**Abstract:** According to the legal framework of our country, economic units are responsible for organizing the management accounting adjusted to the specific activity.

Economic and social transformations after 1989 led to significant changes in financial accounting, this being in a continuous process of harmonization with the principles, rules, conventions and accounting standards in countries with developed market economy.

Legal framework in our country favored and still favors notable changes in accounting doctrine. So, improvements were made to the accounting system through its harmonization with the Fourth Directive of the EEC and International Accounting Standards. According to the Regulations of the Accounting Act no. 82/1991 republished, economic units are bound to organize accounting, optionally being only concrete way of organizing it according to the specific activity.

**JEL classification: M41, M11, Q1.**

**Key words: critical; management accounting, legal framework, methodological principles, organization, support measures**

## **1. INTRODUCTION**

This paper aims to identify the conceptual and legislative framework that represents the basis for the organization of management accounting and cost calculation in the food industry and especially in the dairy industry.

European and global market developments of dairy products and changing consumer preferences in the context of socio-economic development and diversification of production will influence increasingly more the sector of milk production and processing, sector supported by policy instruments that no longer fit the current economic context.

Although Romania is already an EU member state, faces significant structural challenges both in terms of farm structure in general, as well as in terms of processing. Farmers, processors and traders must comply with EU quality standards for milk and rigors of the *acquis communautaire* in the field.

## **2. PREMISES OF THE ORGANIZATION OF MANAGEMENT ACCOUNTING AND COST CALCULATION IN INDUSTRY OF MANUFACTURING DAIRY PRODUCTS**

According to the legal framework of our country, economic units are responsible for organizing the management accounting adjusted to the specific activity.

Economic and social transformations after 1989 led to significant changes in financial accounting, this being in a continuous process of harmonization with the principles, rules, conventions and accounting standards in countries with developed market economy.

Legal framework in our country favored and still favors notable changes in accounting doctrine. So, improvements were made to the accounting system through its harmonization with the Fourth Directive of the EEC and International Accounting Standards. According to the Regulations of the Accounting Act no. 82/1991 republished, economic units are bound to organize accounting, optionally being only concrete way of organizing it according to the specific activity.

Responsibility for the organization and management accounting leadership adapted to the specific activity returns to the administrator or to other legal entity who has the obligation to manage the respective unit.

Management accounting mainly provide information concerning the constituent elements of costs and outcomes, which presents particular interest to managers of the patrimonial units. Also, management accounting provides necessary information to elaborate reports and internal analysis unit used by the management in making decisions. Disclosure requirements and analysis of information provided by management accounting are not controlling.

By the management accounting legal entities can get information to ensure efficient management of the patrimony, namely:

- information on the cost of goods, works, services for legal entities engaged in production activities, services, as well as the cost of goods sold for legal entities engaged in trade activity
- information underlying the budgeting and control of operating activities;
- necessary information for financial analysis for the substantiation of management decisions concerning the management of internal business
- other information required by the implementation of a performance management.

Obtaining this information shall have as a support economic establishment and development of own economic information systems, characterized by elasticity, flexibility, precision and efficiency. In these information systems an important place occupies accounting, in general and management, in particular.

The organization of management accounting will track that the information obtained to satisfy both the needs of existing information and the evolving ones. Procedures and techniques used in management accounting are dependent on the qualitative characteristics of the information required by users, and the particularities of activity.

The organization of Analytical and management accounting involves a set of activities performed by a company towards an efficient information system for the cost calculation, activity efficiency analysis, development, monitoring and control of expenditure budgets, subject to management at all levels of the organizational structures.

Implementation organizing method of analytical and management accounting means:

- Identify cost carriers and units of calculation;
- Setting the expenses places
- Setting the documents and forms system, required for the identification, collection and processing of data on costs and obtained production;
- Reporting deviations in budgetary control.

Regarding organs that must perform the works of management accounting and cost calculation, were drawn different ways of calculation, namely:

- Ante-calculations are developed by the budget enforcement bodies and post-calculations by the accounting enforcement bodies;
- Elaboration of ante-calculations and post-calculations to be made by a single body subordinated to the accounting department.

Organization and functioning of management accounting are based on concepts and principles purely internal whose content is free for standardization, being defined according to the own conventions of every enterprise (for example, the formula of sold products costs) and who are find outside of any normalization (standardization). Consequently, although the organization of management accounting is obligatory, it has a separate freedom regarding the possibility of adaptation by each company, depending on the activity specific and information needs for the decision making.

### 3. ROMANIAN AND EUROPEAN LEGISLATION SPECIFIC TO DAIRY INDUSTRY

European and global market developments of dairy products and changing consumer preferences in the context of socio-economic development and diversification of production because of new technologies introduction, influence of related sectors (beef and veal meat, arable crops and feedingstuffs) who suffered deep reforms policy instruments to facilitate the player connection on the actual channels at the real signals of the market, will influence more and more milk production and processing sector is supported through policy instruments that no longer fit the current economic context. Thus, the necessity of a radical reforms in the policy sector has become increasingly obvious and stringent.

Currently, the main specific EU legislative documents governing dairy industry are presented in Table no 1.

**Table no 1. Main european regulations in the dairy industry**

No. Crt.	Main european regulations in the dairy industry
1	Regulation 776/78 for the application of the lowest rate of export refunds on dairy products and repealing and amending certain Regulations
2	79/1067/CEE Commission Directive establishing Community methods of analysis for testing certain canned milk, partly or wholly dehydrated for human consumption
3	Regulation 1465/79 amending Regulations 1391/78 and 2962/78 on rules of application of the non-marketing of milk and milk products and for the conversion of dairy herds
4	Regulation 1381/80 amending Regulation 1822/77 on perceprea co-responsibility levy perception on sector of milk and milk products in the dairy products marketing year 1980/1981
5	Regulation 2735/80 amending Regulation 1391/78 regarding the application rules of the non-marketing regime premiums of milk and milk products and for the conversion of dairy herds
6	Regulation 2429/81 amending Regulations 2191/81 and 2192/81 on aid for the purchase of butter
7	Regulation (EC) no. 1255/1999 of 17 May 1999 on the common organization of the market in milk

No. Crt.	Main european regulations in the dairy industry
	and milk products
8	Regulation (EC) no. 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) no. 2019/93, (EC) no. 1452/2001, (EC) no. 1453/2001, (EC) no. 1454/2001, (EC) no. 1868/94, (EC) no. 1251/1999, (EC) no. 1254/1999, (EC) no. 1673/2000, (EC) no. 2358/71 and (EC) no. 2529/2001 and Regulation (EC) no. 1973/2004 laying down detailed rules for its
9	Regulation 1788/2003 establishing a tax in the sector of milk and milk products
10	Regulation 595/2004 establishing detailed rules for implementing Council Regulation (EC) no. 1788/2003 establishing a tax in the sector of milk and milk products
11	Regulation (EC) no. 1468/2006 of 4 October 2006 amending Regulation (EC) no. 595/2004 laying down detailed rules for applying Regulation (EC) no. 1788/2003 establishing a levy in the sector of milk and milk
12	Regulation (EC) NO. 1152/2007 from 26 September 2007 amending Regulation (EC) no. 1255/1999 on the common organization of the market in the sector of milk and milk products

*Source: European Institute of Romania - Strategy studies and policies (SPOS 2008). Study no. 1. Dynamic impacts of milk quota to farmers in Romania in the context of the Common Agricultural Policy reform, Bucharest, December 2008*

However, the dairy industry shall be reported and at internal legislation specific to Romania, legislation presented in Table no. 2

**Table no. 2. Romanian specific legislation in the sector of milk and milk products**

No. Crt.	Romanian specific legislation in the sector of milk and milk products
1	Order no. 234/2002 for approving the sanitary veterinary norm establishing the list of third countries from which Romania approves import of milk and milk products
2	Order no 868/2003 for approving the sanitary veterinary norm regarding pollution prevention program of measures to milk, raw material of pesticide residues or substances used in agriculture and animal health treatments
3	Law no. 48/2005 approving Government Ordinance no. 48/2005 on the organization of cow's milk market
4	Nr.192/2005 Act to repeal Ordinance approving GEO no. 29/2000 on support for milk producers
5	Order no.1289/2005 on the recognition of the Council on product "Milk and milk products"
6	Order no. 521/832/321/2003 approving the Norms regarding the name under which it is sold, labeling and quality conditions partly or wholly dehydrated pasteurized milk for human consumption, published in the Official Gazette of Romania no. 665/19.XI.2003 (which repeals Order MAFF / MHF 128/300/2001).
7	Order no. 1388/2005 laying down the conditions for approval of buyers cow milk and the application form for approval and registration in the register of buyers
8	GD 852/2006 for approving the Methodology for granting individual milk quota and the allocation and reconstitution of the national reserve of milk

No. Crt.	Romanian specific legislation in the sector of milk and milk products
9	Government Decision no. 812/2010 to amend and supplement no. 852/2006 approving the Methodology for granting individual milk quota and the allocation and reconstitution of the national reserve of milk
10	Order of the President of the National Sanitary Veterinary and Food Safety Authority no. 55/2010 for approving the sanitary veterinary norm and food safety of sanitary veterinary conditions which may be the direct sale of raw milk through vending
11	Senate Decision no. 2/2011 on the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) nr.1234/2007 of the Council as regards contractual relations in the sector of milk and milk products

Source: <http://www.mdrl.ro/euroimm>

With this legislation, the European Union and the Romanian is provided support for the internal market to stabilize and support prices, support for protection of farmers' income, and not least, control measures are awarded to the offer. (tabel no 3)

**Tabel no. 3. Type of measures**

Nr. Crt	Type of measures	Features
1	Support measures for internal market to stabilize and support prices can be classified as follows:	<ul style="list-style-type: none"> <li>▪ measures to stabilize the market by: <ul style="list-style-type: none"> <li>- Public intervention for buying of butter and skimmed milk powder regarding them prices support (intervention buying, storing and then selling).</li> <li>- Measures for private storage of butter and cream, milk powder and cheese, to eliminate dairy market imbalance as a result of supply and demand (seasonal storage of secure processors).</li> <li>- Measures to control international trade through border protection measures (high tariff protection, minimum import prices and quotas) and export subsidies. <ul style="list-style-type: none"> <li>▪ measures to stimulate demand through: <ul style="list-style-type: none"> <li>- Schemes for purchase at reduced prices by nonprofit organizations butter, butter and cream concentrate for use in pastries and ice cream</li> <li>- Support for use of skimmed milk powder for feeding.</li> <li>- Support for use of skimmed milk powder to produce casein.</li> <li>- Support for school milk consumption.</li> <li>- Support for the consumption of milk for people with disabilities</li> </ul> </li> </ul> </li> </ul> </li> </ul>
2	Support measures of farmers income for mitigating losses due to falling	Single Payment Scheme (which in 2007 includes the premium for milk production achieved under quota

Nr. Crt	Type of measures	Features
	intervention prices through:	and additional premium or premium for permanent pasture area).
3	Offer control measures (limited) through:	<ul style="list-style-type: none"> <li>▪ production quota system introduced in order to limit the quantity of subsidy milk from the EU budget and to maintain expenditures an acceptable and predictable level. Initially was wanted to maintain the instrument for ten years, but over time (in 1992, 1999 and then to Mid Term Review in 2003 it was decided to maintain this system until 2015 and the decision a possible extension to be taken thereafter).</li> </ul> <p>The key element of this tool is the fact the quantity of milk (which satisfy certain quality standards and a certain percentage of fat regulated by law) that can be delivered on market by (for processing or direct sales) each EU country (and each producer of Member State because national quota is composed on individual quotas for each producer).</p> <p>Each member country is free to make its policy regarding the transfers of quotas both at regional level and within categories (direct sales and deliveries to processing), the degree of freedom and mobility, according to some experts, determining the structural movements of production and processing.</p> <ul style="list-style-type: none"> <li>▪ levies (taxation) for quantities exceeding the quotas set.</li> </ul>

*Source: European Institute of Romania - Strategy studies and policies (SPOS 2008). Study no. 1. Dynamic impacts of milk quota to farmers in Romania in the context of the Common Agricultural Policy reform, Bucharest, December 2008*

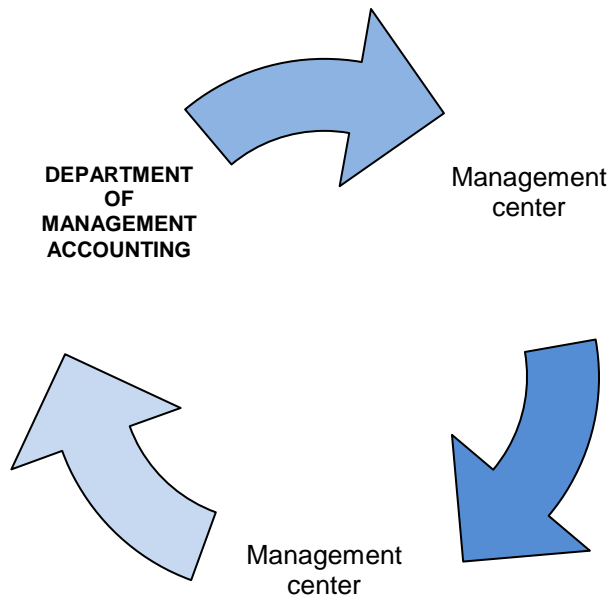
#### **4. ORGANIZATIONAL FACTORS OF MANAGEMENT ACCOUNTING AND COST CALCULATION IN THE DAIRY INDUSTRY**

Cost calculation, as ensemble of works in a particular organizational form, necessary to obtain information on costs, depends on many organizational factors such as size, organizational structure, type of production, mode of organization, production technology, production process character, degree of mechanization and automation of production process, methods and management techniques.

Being an analytical accounting of exploitation, management accounting is mainly influenced by the specific conditions of business of food manufacturing dairy products.

Company size is the factor that determines the choice of modality to organize management accounting, namely in the centralized form or decentralized form.

Management accounting is organized in a specialized department that communicates with operative management centers.



Source: Mihăiță Cristea, Ph.D. thesis, *Improvement of management accounting in accordance with the requirements of an effective leadership of the company - the example of winemaking units*, 2005 Bucharest, p 38

**Figure no.1** Integration of management accounting in the information flow of decision-making centers

Organizational structure is "focusing on the organizational and functional accounting and cost calculation"<sup>1</sup> Dairy production activity is complex, including both actual production activity and other activities directly related to it.

Production structure, part of the organizational structure, is considering the organization of production on departments / stations (cooling station, filtration, pasteurization, bottling) and workshops (thermal plant and machine shop), which represent expenses places.

The enterprises of milk processing and manufacturing various dairy products, equipped with complete technology of producing them, fit in the enterprises category with mass production involving the use of calculation method on phases.

Production technology, another important factor in the organization of cost calculation is defined "as whole successive operations which is subject raw material"<sup>2</sup> (milk in this case) "in its passage through the various stages of processing"<sup>3</sup> (cooling, filtration, pasteurization, bottling, packaging) "up to obtain the finished product"<sup>4</sup> (skimmed milk, butter, cheese, and so on).

Specifics of production technology particularly leaves its mark on the organization of budgeting, tracking and calculating production costs.

<sup>1</sup> Călin O., Cârstea Gh. – *Contabilitatea de gestiune și calculația costurilor*, Editura Genicod, 2002, București, p. 77

<sup>2</sup> Idem

<sup>3</sup> Idem

<sup>4</sup> Idem

The character of continuous or seasonal production process, given by the functioning period of production units during the year, is another important factor which influences the organization of management accounting and cost calculation in the enterprises from the industry of manufacturing dairy products.

Thus, in the enterprises with continuous activity, as in the case of those from industry of manufacturing dairy products who works all year round, unitary effective cost is calculated at the end of the activity, on the full nomenclature of articles of calculation.

Another factor of influence on the organization of management accounting and cost calculation, is the degree of mechanization and automation of production. In the dairy industry, changing the nomenclature of manufactured products through its increasing complexity and diversification has direct implications for the organization of management accounting and cost calculation. Development of technology, mechanization and automation of production, have determined the appearance large industrial units and diversification of production, which led to increasing complexity of the activity, reflected in management accounting and cost calculation by increasing the volume and share of production expenditures of products, works and services that led to these expenses.

Technical progress and the requirements of modern enterprise management raise more the problem of cost calculation organization based on certain principles aimed the efficiency of cost production calculation.

## 5. CONCLUSIONS

Management accounting has become a practice and indispensable activity of organizations because it not only allows a better understanding of cost but also because it allows determining sales prices, allows forecasts respectively provides the means and tools necessary to further implement the decisions of achievement the organizational performance.

Conceptual framework is part of the accounting policies of each organization.

The purpose and role of the conceptual framework is to "mobilize" organizations and professionals, to force them to be preoccupied both the financial accounting and management accounting because many times by the detailed spending analyse, the efficiency of process calculation, costs analysis, control and optimization depend the success of organizations.

## REFERENCES

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