

OPINIONS CONCERNING THE ORGANIZATION OF STANDARD COSTS ACCOUNTANCY

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Abstract: The main purpose of this research is to present a way for organizing the accountancy under the conditions of applying the method of standard costs, such that to allow both the registration of standard and effective costs and the separate registration of the deviations from standard costs. Making some pertinent and performance decisions is mainly influenced by the quality of the information provided to managers and by the promptitude they are sent. This desiderate is not possible if using classical methods for calculating costs, reason for which it is mandatory to organize and implement a managerial accountancy, based on using a modern method, namely the method of standard costs. The main implications of this method consist of establishing a pertinent cost, orientated towards the entity management, regardless the activity domain where it is implemented. The carried out study concerns only one of the phases performed for applying the method of standard cost, respectively the organization of the standard costs accountancy.

JEL classification: M41, M49

Key words: method of standard costs, costs centers, cost of the secondary activity, management accounts, standard costs.

1. INTRODUCTION

Classical methods for calculation currently used in most entities from our country economy: overall method, phase method and the orders method, present a series of deficiencies, among which the historical feature, the lack of operability and foresight.

Taking into account that the entities currently operate in a competitive market where prices are established depending on the ration between request and offer, and mastering costs is one of the factors able to ensure the achievement of the proposed performance, it follows that it is absolutely necessary to introduce a modern method, respectively the method of standard costs aiming to provide the management process at the level of entities with operative and pertinent economical information.

For recording costs in the accountancy according to the requirements of the method of standard costs, it is necessary to mainly provide some conditions for preparing and processing the documents, as well as an accounting technique, such as¹:

Ilacub C., Ionescu I., Goagăra D. - Management accounting in line with international practice, Universitaria Publishing House, Craiova, 2007, page 171.

- recording standard costs in all documents, for assessing the consumed quantities;
- preparing some distinct documents for the quantitative deviations at materials and maneuver;
- determining the expenses value and the deviations related to the production based on the consumption documents, depending on the production feature;
- distinctly collect the overhead expenses and distributing them depending on the established criteria.

2. OBJECTIVES

From the perspective of costs optimization for increasing the performance of economic entities our study aims to improve the current methodology of costs reflecting, by introducing an advanced method of calculation, more flexible and more efficient for the entity management.

After the carried out researches, we concluded that the most appropriate method for achieving the pursued objectives is the method of standard costs, due to multiple advantages provided in comparison with the classical methods currently used.

3. METHODOLOGY

To conduct this study, the actual conception on the managerial organization within the economic entities was analyzed.

The main research methods used for carrying out the scientific approach was the analysis and synthesis, as well as the qualitative research. Information about this subject were obtained by studying the literature in the country and abroad, by analyzing the legislation in force related to the domain.

4. WAY OF PRESENTING THE MANAGEMENT ACCOUNTING

According to the current accounting regulations, the management accounting may be organized in one of the following variants:

- by using some specific accounts;
- by developing the accounts from the financial accounting;
- by way of technical operative records, using a system of collection situations and expenses distribution of expenses and calculation of the unit cost.

For conducting this study it is important to refer to the first variant of organization, respectively the organization of the management accounting by means of costs from class IX "Management accounts", in a simplified form rendered by the current PCG as mentioned are not mandatory.

The accounts from class IX are featured by the fact that they operate only between them and therefore, at the end of the month do not have balance reason for which they do not appear in the balance sheet and the functionally can be analytically developed by cost categories².

As the management accounts are built they present a series of deficiencies, in the sense that on the one hand, a large number of accounts groups with roles and well defined accounting functions is missing: accounts for reclassifying the expenses and revenues; stock accounts; costs accounts related to the sold production; accounts for separating the costs related to the normal activity from the sub activity costs; accounts of management accounting results etc., and on the other hand, the accounts system proposed by PCG does

² Iacob C., Ionescu I., Goagăra D. – Op. cit., page 29.

not provide the image of a costs calculation, but only of a expenses collection at the level of the entire merchandise or overall productions.

But, using the management accounts, as well as their analytical symbolization may be performed such that the storing and accessing system of the obtained information to be flexible and to allow a large range of options. The list of management accounts may be adapted depending on the pursued purposes, respectively: highlighting the costs flow, determining the costs related to the stocks, determining the revenues and overcomes depending on the activity they generate, performing forecasts etc., as it shall discussed below.

5. ORGANIZING THE COSTS ACCOUNTING UNDER THE CONDITIONS OF THE STANDARD COSTS METHOD

When approaching this issue, it shall start from the relation standard costs – effective costs and to see to what extent the two calculations are needed on products, standard calculation and post calculation.

The acceptance of standard costs as being the only real costs on product may lead us to the conclusion that we may renounce to the second calculation orientated toward the product, namely the calculation of the effective cost. But this may happen when the following conditions are met:

- the calculation of standard costs shall be thoroughly grounded and the obtained costs to be rigorously designed;
- the conditions of effective development of the production shall be as close as possible or identical to those forecasted when the costs standardization was carried out, and the deviations to not sensitively influence the cost on the product unit.

If related to the first condition there are no problems, meaning that it can provide a rigorous scientific sizing of the standard cost, it is difficult to suppose that the second condition may be always met, due to some phenomena and factors dependent or independent of the entity activity, changing the conditions of production development, related to the forecasted ones.

Under these conditions, we appreciate that it is necessary to prepare the calculation of the effective costs by product, but at greater periods of time (quarterly), starting from the standard costs which are corrected with the deviations, based on the relation:

$$C_e = C_s \pm A, \quad (1)$$

where:

C_e = effective cost by product;

C_s = standard cost by product;

A = deviations of the effective cost from the standard cost.

As the standard costs may be known in advance, question is which of the two elements – effective costs and deviations – shall be followed by the operative and accounting record system and which are resulted from the other elements of the equality.

As for us under the conditions of automatizing the works of records, calculation and analysis of deviations they shall become the center of the costs accounting activity, such that the expenses accounting to be transformed in a production management accounting.

The current operative control carried out by comparing the effective costs with standards costs, and on this basis the transformation of standard costs and deviations in sizes of accounting settlement, rises before the accounting the problem of finding the model for organizing the information on the production expenses. By its structure, this model is different from the classical one, by the fact that the place of effective expenses is

taken by standard expenses and deviations from these expenses. From a mathematical point of view, the effective cost is transformed in a derivate size and shall be calculated by correcting the plus or minus standard cost with the deviations of the effective expenses compared to the standard ones.

As one of the objectives pursued by implementing the method of standard costs is to increase the operability and to simplify the works of costs calculations, we appreciate that the organization of the expenses accounting may answer to this purpose if it shall be orientated towards the following directions:

- organizing the expenses records by their homogenous components, as well as by costs centers, ignoring the calculation objects in the activity of collecting the production expenses, namely changing the information “preferences”: instead of costs by products, expenses by articles of calculation and centers of costs;

- operatively following the deviations by each article of calculation, by means of the technical and operative records and therefore obtaining relevant information regarding the place, causes and costs bearers to which they were produced. But the settlement by costs bearers of standard expenses and deviations is carried out by the calculation accounts from accounting, where it shall also established the results in sheets open by bearers. So, standard expenses and total deviations are highlighted in the expenses accounts, and a very detailed record of deviations by causes shall be kept by the technical and operative record.

In terms of applying standard-cost calculation method, the accounting becomes part of the calculation, in all its phases, having a highly active role. By the organization conception, the synthetic and analytic accounting shall solve a series of issues, among which: collecting and delimiting by calculation articles of standard expenses; distinct record of deviations compared to the standard expenses; registering the carried out production, evaluated in standard costs.

For meeting these requirements it is necessary to take some measures regarding the preparing and processing of documents, establishing a traffic graphic of documents recording the deviations, by setting terms and responsibilities and highlighting them by types and causes.

In this context, collecting direct expenses on the basic production shall be carried out by means on the account 921 “Expenses of the main activity”, which is analytically developed by sections and within them by productive centers of costs, as real places of expenses, by means of the post calculation sheets, where, on each article of calculation, shall mention the expenses, both at the standard level, and the deviations of the effective level compared to the standard level, on distinct columns, and by the algebraic summation of the two elements, it shall obtain, in another column, the effective level of expenses.

Collecting the indirect expenses occasioned by the main activity is carried out by means of the account 923 “Indirect expenses of production”, which shall be analytically developed be sections, within them by productive centers of costs, for the expenses with the maintenance and operation of the equipment and by related centers of costs, for the general expenses of the section, and further, each of those analytics shall be sub analytically developed by types (articles) of expenses. For recording theses expenses it may use budgetary sheets or summary statements open for each center of cost and within it by each article of expenses, with separate columns for standard expenses, deviations from the standard expenses and effective expenses.

For the auxiliary activities, collecting the production expenses is carried out by means of the calculation account 922 “Expenses of the auxiliary activities”, which is analytically developed as follows: for the auxiliary sections with varying production, by

workshops – for direct expenses – a distinct analytic for the indirect expenses at the level of the workshop and another distinct analytic for the indirect expenses at the level of the section, and the auxiliary sections with homogenous production, by each section and a distinct analytic for the indirect expenses at the level of the section (if appropriate). For highlighting the expenses occasioned by these sections it may use the same models of account sheets used for the main sections for direct and indirect expenses.

Regarding the records of the expenses caused by the administrative and management department of the entity, it may be achieved within the account 924 “General expenses of administration”, by means of some budgetary sheets or summary statements which are analytically open by types (articles) of expenses, with distinct columns for standard expenses, deviations from standard expenses and effective expenses, as well as for the account 923 “Indirect expenses of production”.

From an accounting point of view, the first two distinct columns of the accounts sheets (standard expenses and deviations), represents two synthetic accounts of level II, which are created within the management accounts of the group 92 “Accounts of calculation” of the general accounts plan.

For example, within the synthetic account of level I 921 “Expenses of the main activity”, we will have the synthetic accounts of level II: 9211 “Expenses of the main activity – standard level” and 9212 “Expenses of the main activity – deviations”.

The collection of the expenses by articles of calculation shall be based on the documentation of standard expenses grounding, recalculated in comparison with the effective manufactured production, and the deviations – data bases of deviations calculations.

After collecting standard expenses and deviations, at the end of the month it shall carry out the centralization and settlement actual of the production costs by cost center, but totally removing the distribution operations (with the conventionalism and their great time consumption), because this phase does not follow the calculation of the product unitary cost, but only the effective total cost of the entire overall and merchandise production.

Periodically, if desired the calculation of the effective cost by products, it needs to distribute the indirect expenses from the centers of costs by products, following the methodology specific to the calculation of the standard cost by product. The distribution shall be carried out both for the standard level of expenses, recalculated in comparison with the effectively achieved production, and for the deviations from the standard expenses, by each article of calculation.

Within the model proposed fir organizing the records of production expenses and the calculation of costs, the principle schema of the accounting records, for the main activity is developed as follows:

- the collection during the month of the standard level of expenses related to the achieved production:

	%	=		(2)
9211			901	
“Expenses of the main activity - standard level”			“Internal settlements related to the expenses”	
9231				
“Indirect expenses of production - standard level”				
9241				
“General expenses of administration -				

standard level”

Each of the accounts which are debited is analytically developed by centers if costs and each of those analytics are further sub-analytically developed by articles of calculation or by types (articles) of expenses, as appropriate.

- registering the deviations from the standard expenses, during the month, for simple articles of calculation and at the end of the month, for the complex articles of calculation:

$$\begin{array}{rcll}
 & \% & = & 901 & (3) \\
 & 9212 & & \text{“Internal settlements related to the expenses”} & \\
 \text{“Expenses of the main activity -} & & & & \\
 \text{deviations”} & & & & \\
 & 9232 & & & \\
 \text{“Indirect expenses of production -} & & & & \\
 \text{deviations”} & & & & \\
 & 9242 & & & \\
 \text{“General expenses of administration -} & & & & \\
 \text{deviations”} & & & &
 \end{array}$$

Each of the accounts which are debited is analytically developed in a similar way as mentioned in the previous accounting formula.

- periodically distributing the indirect expenses by cost bearers, when calculating the effective cost by product, at the standard level of expenses:

$$\begin{array}{rcll}
 & 9211 & = & \% & (4) \\
 \text{“Expenses of the main activity -} & & & 9231 & \\
 \text{standard level”} & & & \text{“Indirect expenses of production -} & \\
 & & & \text{standard level”} & \\
 & & & 9241 & \\
 & & & \text{“General expenses of administration -} & \\
 & & & \text{standard level} &
 \end{array}$$

- distributing the deviations from the standard level of the indirect expenses, by costs bearers:

$$\begin{array}{rcll}
 & 9212 & = & \% & (5) \\
 \text{“Expenses of the main activity -} & & & 9232 & \\
 \text{deviations”} & & & \text{“Indirect expenses of production -} & \\
 & & & \text{deviations”} & \\
 & & & 9242 & \\
 & & & \text{“General expenses of administration -} & \\
 & & & \text{deviations”} &
 \end{array}$$

- registering the standard cost of the achieved finished products:

$$\begin{array}{rcll}
 & 9311 & = & 9211 & (6) \\
 \text{“Cost of the finished products”} & & & \text{“Expenses of the main activity -} & \\
 & & & \text{standard level”} &
 \end{array}$$

As the control function concerning the inclusion in the standard level of the production expenses is taken from the account 9212 “Expenses of the main activity - deviations”, it shall not be necessary to further use the account 902 “Internal settlements related to the achieved production”.

- registering the deviation from the standard cost:

$$\begin{array}{rcll}
 & 9031 & = & 9212 & (7) \\
 \text{“Differences of prices to finished} & & & \text{“Expenses of the main activity -} &
 \end{array}$$

products”

deviations”

In order to assess and unitarily and exactly highlight the volume of activity for each center of cost and respectively the activity efficiency, we propose the development by synthetic accounts of level II of the accounts from group 93 “Cost of production”, as follows:

931 “Cost of the achieved production” shall consist of the synthetic accounts of level II:

- 9311 “Cost of the finished products”
- 9312 “Cost of the semi-products”
- 0313 “Cost of the auxiliary sections performances”
- 9314 “Cost of the secondary products (residual)”
- 9318 “Expenses entering in the costs of products”
- 9319 “Expense of the sub-activity”

Accordingly to this development, the account 903 “Internal settlements related to the differences of price”, shall include the following synthetic accounts of level II:

- 9031 “Differences of price for the finished products”
- 9032 “Differences of price to the semi-products”
- 9033 “Differences of price to the performances and services”

- it shall register the interface production costs – expenses:

901	=	9311	(8)
“Internal settlements related to the expenses”		“Cost of the finished products”	

- it shall close the deviations compared to the standard cost:

901	=	9031	(9)
“Internal settlements related to the expenses”		“Differences of price for the finished products”	

If the production capacity is not integrally used, it occurs the cost of the sub-activity, which, in the conception of the standard cost calculation method is represented by the deviation of capacity. Related to this cost, it shall also carry out the following accounting records:

- separation of the sub-activity cost:

9319	=	%	(10)
“Cost of the sub-activity”		9232	
		“Indirect expenses of production – deviation”	

9242

“General expenses of administration - deviations”

- closing the sub-activity cost:

901	=	9319	(11)
“Internal settlements related to the expenses”		“Cost of the sub-activity”	

6. CONCLUSIONS

Designing the record of production expenses in the presented manner, highlights the following issues:

- costs accounting may be conducted using the current accounts existing in the accounts plan, without being necessary to introduce new accounts, but only analytically develop some of them;
- expenses of production may be registered in the accounting before carrying out the economical processes which caused them, leading to the replacement of the post-operative accounting of costs with a forecasting accounting of costs;
- the operations related to the calculation of costs in all phases of calculation are simplified, determining the increase of the costs accounting role by providing some operative information during the management process;
- it creates conditions for improving the analysis related to the economical and financial results obtained by the entities.

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