INFORMATION ON THE COST AND MANAGERIAL DECISIONS IN THE COMPANIES IN THE BAKING INDUSTRY

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Abstract: Management accounting has evolved in recent decades from a supplier of financial information to a tool system used by the company management to make decisions both at strategic as well as at operational level, to relate with the external environment and to make economic forecasts. Companies in the baking industry operate nowadays on a competitive market in which prices are set by the market and cost control is one of the factors that can make sure that the proposed performance is reached. The information on costs influence the decisions made based on the cost-price, cost-profit, cost-economic efficiency relationships. In this context, management accounting should not be limited to a mere calculation, but allow decision makers within the company to act on costs wit the purpose of mastering them, in order to achieve the desired performance. The appropriate organization of the management accounting and of the cost calculation can be a valuable tool in the cost reduction strategy.

JEL classification: M41, M42

Key words: information, cost, calculation, bakery, management accounting

1. INTRODUCTION

The complexity of the economic life, the financial and economic crisis and the social and environmental and the social and environmental issues increase the economic role of financial information in decision making. The effective management of any business entity is based on the existence of a well-structured economic information system, based on managers' information needs, whose main component is accounting.

The information provided by the accounting information system is used both for the substantiation of current decisions as well as for setting the strategies of the company, which confirms the importance and the necessity of information that can be processed at a higher quality level and that must be opportune in terms of their operativeness in time.

The management and the managerial accounting are closely related, is difficult to say exactly where management ends and managerial accounting begins.

2. OBJECTIVES

Managerial accounting, as a tool available to managers, should contribute to the fulfilment of the functions of the management, as follows:

- prediction - management accounting provides information oriented both towards the past and especially towards the future. The budgeting process takes placed based on this information;

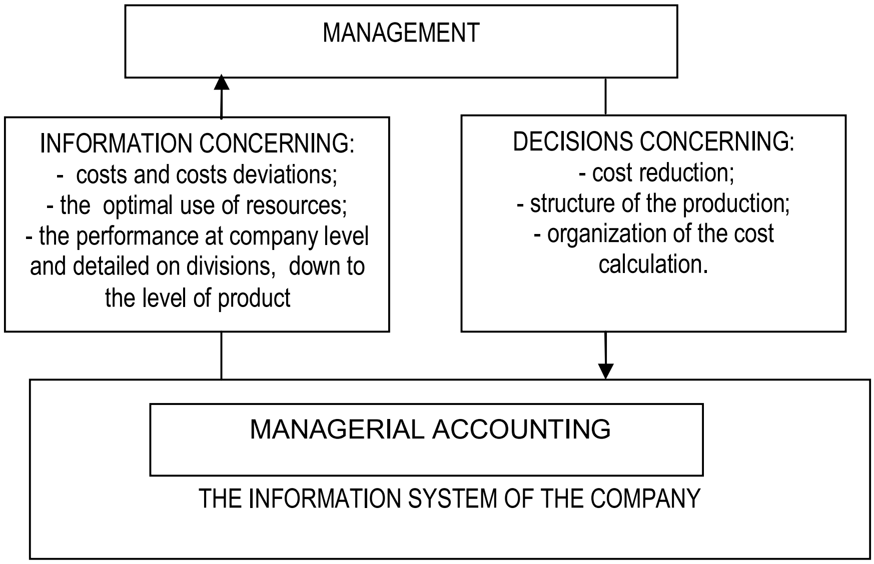
- organization - managerial accounting is the result of the design and implementation of an accounting information system;

- coordination – the information supplied by the managerial accounting helps the manager in the coordination of the activity of the company;

- training – by setting standards all staff can be trained to observe them;

- control - management accounting supports the verification of the manner and degree of achievement of the proposed objectives.

The relationship between management accounting and company management is shown in Figure 1.



Source: prepared by the author

Figure 1. The relationship between managerial accounting and company management

Managerial accounting provides the information necessary for the analysis of deviations and for making corrective decisions. In other words, managerial accounting "assists" the control function of management by identifying the activities with "problems" of the company, as stated by S. Căpuşneanu (2008)[1].

F. M. Sgărdea (2009)[2] points out that before making a decision it is necessary to study four problems:

- what costs are reached by making the decision?;
- what is renounced if such a solution is chosen, to the detriment of another (deciding means renouncing)?;
- how will the that determine the decision making behave?;
- how can we act upon them?.

[1] Căpuşneanu, S. – Contabilitate managerială aprofundată, ASE Publishing House, Bucharest, 2009, p. 13

[2] Sgărdea, F. M. – Contabilitate managerială aprofundată, ASE Publishing House, Bucharest, 2009, p. 78

In relation to the first problem, in the analysis of a decision it is important to know what changes following the chosen solution. F. M. Sgărdea (2009)[3] believes that decisions concerning company management occur at three levels: strategic, current and execution. At the strategic level decisions are made by the senior management of the company. The competitiveness of the company can be based on two fundamental types of strategy:

- the strategy of domination by cost requires the company to manufacture at lower costs than the competition. Knowing the costs, the company can take steps to reduce them.
- the differentiation strategy involves providing different products as compared to the competition. Customers will pay more for features that differentiate the products.

At the tactical level decisions are made in the short term and are made by the direct responsible persons of the decision centres. In order to make decisions managers use a method called decision model.

The use of such a model requires that the manager know aspects concerning relevant and irrelevant costs. In order to be relevant, the costs and incomes must be generated in the future and to be different according to various alternative options of action.

3. USE OF COSTS IN THE DECISION-MAKING PROCESS

3.1. Relevance of costs for the decision

The data concerning the expenditure are processed observing the management accounting principles, using specific calculation techniques and procedures and applying a particular method of calculation, leading to information about their products costs, the works and / or services performed. In the decision-making process we distinguish between relevant and irrelevant costs. Relevant costs must be[4]:

- future costs;
- incremental (the amount with which costs and incomes respectively will change as a result of a decision);
- they must involve cash flows (amortization and gains or losses from the disposals of assets are ignored).

The following categories of costs are deemed relevant:

- avoidable costs – are costs that through the adoption of a decision could disappear. Avoidable costs are typically associated with divestment decisions. By eliminating a sector or divesting an activity, the related costs would cease to exist.
- the opportunity cost is the benefit to be waived by choosing one alternative over another.
- controllable costs can be influenced by budget controllers and cost centre controllers.

The costs that are irrelevant for the decision-making process do not involve cash flows or are engaged irrespective of the decisions made. The following are deemed irrelevant costs:

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[3] Sgărdea, F. M. – Control de gestiune, ASE Publishing House, Bucharest, 2009, pp. 50-53

[4] Dumitrana, M., Caraiani, C. (coordinators) – Control de gestiune, Universitara Publishing House, Bucharest, 2010, p. 178

- sunk costs - historical cost of assets used in the production process;

- costs incurred – even if they involve cash flows, they are based on the existence of contracts (e.g. leasing instalments), they can not be changed regardless of the decision;

- fixed costs are those that do not change regardless of the decision;

- the costs claimed and which were previously distributed are sometimes considered arbitrary.

The quality of cost type information depends on the method of calculation applied by the company, which is an additional reason for choosing the method that best meets the current and future information needs.

3.2. The cost type information and setting the selling price

Setting the price is one of the main usages of the cost type information. In the contemporary market economy characterized by competition among manufacturers, the price of a product is determined according to the relationship between supply and demand. The supply and the are influenced by three factors: customer, competitor and costs. The influence of the customers on price takes place through the effect exercised by them on the demand for a certain product. A high price may cause customers to switch to the products of other companies or substitution products.

The company must consider the direct and indirect actions of the competitors, domestic and foreign as they affect the market position of the company. Costs influence prices because their level affects the offer. The lower the ratio between the price paid by the customers and the cost for manufacturing a product, the higher the offer of a company.

The lack of proper cost calculation is the main cause of the wrong determination of prices. This error can even result in the bankruptcy of the company, either because of the managers' belief that the company sells for a profit, or because the very high level of the price set chases customers away.

The relationship between price and cost is influenced by the type of product or service, the type of competition and by the strategy adopted by the company.

In order to set the prices in long term there are two approaches, as outlined by N. Albu and C. Albu (2003)[5]:

a. The cost plus margin approach starts from the assumption that the price must be high enough to cover all costs of production, administration, sales (fixed and variable) and to generate a satisfactory return for shareholders.

b. The target-price approach is applied to competitive markets where the market price is determined by subtracting from this the percentage of the expected margin.

Given the specific conditions of the bakery products market in Romania, we believe that the target-price approach is the more adequate for the companies in this industry.

In certain circumstances companies have more freedom concerning the determination of the price:

- the big demand for products;
- the products are sold in less competitive markets;

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[5] Albu, N., Albu, C. – Instrumente de management al performanței. 1st Volume – Contabilitate de gestiune, Economic Publishing House, Bucharest, 2003., pp. 260-263

- the products have a special character.

We believe that in the case of the bakery industry only the first condition is observed, therefore companies have less freedom in setting prices. On the bread market buyers are mostly end customers, so their power is limited. Big manufacturers in the bakery industry should be aware that any price increase initiative on their part will be followed by a migration of the towards small manufacturers and black market manufacturers, that operate at much lower costs and in inappropriate conditions.

3.3. The cost type information and the management of the portfolio of products

In relation to the management of the portfolio of products, R.S.Kaplan and A.A.Atkinson (1998)[6] believe that managers make decisions on:

a. the substitution of products

The selection of choices with lower costs is the alternative to the decrease of prices for small volumes or special orders. The determination of prices and the substitution of products are complementary actions. For example, customers may like that sliced 300-gram white bread but the company may propose sliced 500-gram white bread which is produced in larger quantities and at lower costs.

b. redesigning products

High costs of products are caused by their design. The design phase of products is the best time to reduce the cost of products through design. In the case of biscuits, in order to reduce costs, one may choose to eliminate certain models appearing in them. It is questionable whether more simple biscuits will have the same success to consumers.

c. the elimination of products

If the decisions on price changes, product substitution, redesign or investments in technology do not generate the desired results, the last solution available to managers is to eliminate the product. In the case of bakery companies such decisions occur frequently, especially in pastry.

3.4. Other decisions based on cost

Managers must often make buy-or-make decisions. These decisions involve selecting one of two possible alternatives regarding the implementation of an activity, process or subassembly: purchase from third parties or manufacture within the company.

In making this decision, the manager must consider two aspects:

- if the option to purchase certain goods is temporary or permanent;
- if there is a capacity of production available in the present, but also in the future.

If suppliers specialised in a certain activity or certain products, with a high elasticity in the adjustment of the production are used, a positive effect can be obtained concerning the high quality services and in the availability of internal resources. For example, if the company is unable to provide the necessary flour because it used the entire milling capacity, in the short term it will have to use suppliers, and in the long term, the manager will have to consider other options such as investments for the development of the production capacity.

If the company has a satisfactory production capacity and internal resources,

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[6] Kaplan, R.S., Atkinson, A.A. – Advanced Management Accounting, third edition, Prentice Hall International, 1998, pp. 160-163

the attention of the management will be directed mainly to use them effectively. There is also a "medium" alternative which involves combining the use of internal resources with the acquisition from third parties for the optimization of the profit obtained by the company. The "special order" type decisions are the situations in which the question whether to accept or to reject an order for a lower price than the usual one is raised. According to the author A.Pelin[7], "the profit increase in short term is the finality of such decisions".

Another category of decisions managers must make are the "sale or further processing" type of decisions. In the case of bakery companies, this applies especially for bakery and confectionery products.

4. CONCLUSIONS

In our opinion, the action of improvement and diversification of the cost calculation methods in the bakery industry must take into account two fundamental aspects. The first aspect is related to the reduction of workload for obtaining information on production costs and thus the reduction of the cost of obtaining this information. The second issue concerns the exploitation of the complex information obtained. The capitalization of the information means to provide the management with a tool to support them in making decisions, resulting in the increase of the accountability of all decision-making factors.

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[7] Pelin, Andrei – *Managemetnul costurilor*, Mirton Publishing House, Timişoara, 2009, p. 102