

General Considerations regarding Management Accounting, Costs and their Classification

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Abstract: Modern trends in the integration of the Republic of Moldova into the European space show the need to harmonize internal accounting with the provisions of the European Union Directives and International Financial Reporting Standards. This also applies to cost accounting, which, being an integral part of the accounting system, must provide prompt and useful information in the decision-making process, starting with the composition of costs and ending with the preparation of management reports. The nominated information is used by a wide range of users to justify management decisions to determine the types of products (works, services) that will be produced (performed, provided) in the future or the production or delivery of which must be suspended, budgeting of production volumes and the results of the work of responsibility centers, as well as making decisions based on profit criteria. This indicates that the study of the methodology and practice of cost accounting, as well as the establishment of priority directions for their improvement are relevant and important both in theoretical and applied terms, which determined the purpose of the study in this article.

Keywords: management accounting; resources; production costs; cost classification; decision making

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Introduction

Accounting is a product of long-term practical and theoretical activity, which has asserted itself as a system of knowledge and management of the economic resources of the patrimonially separated society (Calin, 2003, p. 435). Today, accounting is a complex system of collection, identification, grouping, processing, recording, generalization of accounting and financial reporting². At the same time, accounting as a whole is a system of principles that underpins the accounting model of knowledge and management, and methodologically, it develops working techniques in order to become a system of collection, processing, storage, transmission and analysis of information on the assets and the obtained results (Badicu, Mihaila & Avornic, 2015, p. 277).

As a consequence of the accounting reform initiated in the Republic of Moldova at the end of the last century, a new principal accounting system was developed and implemented based on the norms and principles of international accounting standards, division of accounting into financial and

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² Law on accounting and financial reporting. Nr. 287 of 15.12.2017. In: Official Gazette of the Republic of Moldova. 2018, no. 1-6. <http://lex.justice.md/md/373601/>.

management, delimitation of financial and fiscal accounting rules and the use of a unified database for the preparation of financial statements. An indisputable success of the reform was the fact that the national accounting system has managed to adapt to the requirements of the market economy, two of which - transparency of information and data confidentiality - directly influence the organization of records, although at first sight they seem to be incompatible. This was achieved thanks to the differentiation of records in two interconnected ways - financial and management. Financial accounting is regulated by mandatory legislative and normative acts for all entrepreneurship subjects (Nederita & Panus, 2014, pp. 38-51). Management accounting, on the other hand, is the responsibility of enterprises and it is managed by them in accordance with the selected strategy and tactics of evolution (Caraiani, 2005, p. 464). The content, importance and interconnection of these principles and norms have been studied in the works of several authors such as Turcanu V. (Turcanu, 2001, p. 115), A. Nederita (Nederita, 2013, pp. 57-63), Balan I. (Balan & Frecautuanu, 2005), Stratulat N. (Stratulat, 2007), Caraman S. and Cusmaunsa R. (Caraman & Cusmaunsa, 2007), as well as other local authors.

Material and Method

In this paper the instrumental-methodological apparatus is based on the use of scientific-managerial, economic-general and special methods: abstract-logical, economic-statistical, structural-functional and constructive. In the research process, methods based on the general principles of complex systems analysis were used: systemic analysis method, forecasting method and data analysis method. The informational-empirical basis of the research was formed by the materials of monographs, articles in periodicals and special publications, scientific publications, as well as the provisions of normative or legislative acts in recent years, which directly or indirectly regulate aspects of accounting and costing.

Results and Discussions

Accounting is a discipline that respects the generally valid criteria; they individualize it in the area of social sciences: own object of study, terminology and methodology. The concepts used by other scientific disciplines can also be applied in accounting, but over the years it has created its own way of approaching its object of study, a specific method, laws and legalities that argue the qualification of accounting as a social science (Horomnea, Tabara, & Budugan, 2012, p. 17).

In the opinion of several economists both in the country and abroad one of the most important sectors of an accounting system is the management accounting, which provides information on the internal management of available resources. Management accounting is one of the levels of the current dual system.

It should be mentioned that according to the explanatory dictionary of accounting terms: “Management accounting is a system of collecting, processing, preparing and transmitting accounting information for planning, calculating costs, checking and analyzing budget execution, in order to prepare internal reports for management decisions” (Balan & Burlea, 2019, p. 116). Thus, management accounting uses its own methods and procedures, has distinctive features and forms a big number of indicators, which in turn directly influence the content and purposes of financial accounting (Garrison, Garrison & Brewer, 2009, p. 924).

But despite its importance, management accounting remains unknown to many usufructuaries, especially in the field of practical activity. In our view, this can be explained by the following causes: a large part of economic agents equals it to the notion of financial accounting; the management accounting is not regulated strictly by legislative and normative acts, thanks to which the economic agents do not have special guidelines regarding the practical development of this accounting; the study and application of the principles of management accounting have not been imposed by practical situations, although it is certain that the information related to costs is no less important than that of the financial statements.

The objective of management accounting is to provide information on the constituent elements of the costs and results of the production activity, which is of increasing interest, primarily for managers and other decision-makers (Hilton & Maher, 2000, p. 936).

It should be noted that the information in question is confidential and is intended primarily for internal users, and its publicity in terms of market relations may harm the company. In order to meet the requirements and meet the objectives in force, management accounting must adequately record the data on the basis of which the costs are to be calculated (Needles, Anderson & Caldwell, 2000, p. 1240). In turn, the way of calculating costs varies from product to product, being influenced by numerous technological, organizational, financial, etc. factors.

Historically, management accounting emerged in the late eighteenth century in Britain, as a result of industry development, due to increased competition between companies and hence to the need for detailed knowledge of the internal management of these entities through a system of recording and information. In the second half of the 19th century, in addition to accounting for wealth and income, some enterprises, most often industrial ones, began to calculate costs for management needs [8]. In 1910, the Church first mentioned the notion of indirect costs: it is customary for such a large mass of indirect expenses to relate to the costs of employees' wages or to the number of hours worked (Lucey, 2004, p. 609).

The progress of management accounting has known two periods: the first, the interwar, which aimed only at calculating the cost of production and the second, postwar, in which new concepts emerged: budget, analysis, control, decision making, based on these elements (Dutescu, 2000, p. 325).

Currently, management accounting has reached a fairly high level of development, which differs from one country to another. In the vision of Professor Diaconu P., the approaches of specialists are related to the period of economic development (Deacon, 2003, p. 328).

For example, in the Republic of Moldova management accounting has evolved as follows:

- In 2000 the work “Managerial Accounting” is launched - the first publication of local authors in this field, which fully and in many aspects examines the accumulation, control and analysis of information needed to make managerial decisions at all levels of enterprise management (Nederita, 2000).
- In 2001, Professor Turcanu V. edits the paper “Cost Accounting” (Turcanu, 2001, p. 115);
- In 2005, Dr. Balan I. publishes the first monograph on cost accounting “Consumption accounting and calculation of the cost of agricultural products (problems, concepts, directions for improvement)” (Balan & Frecauteanu, 2005, p. 218);
- In 2007, the authors Caraman S. and Cusmaunsa R. publish the didactic work “Managerial Accounting” (Caraman & Cusmaunsa, 2007, p. 188).

The importance of management accounting results from the type of connection that provides for the establishment of reciprocal links using control accounts (i.e. expenditure and revenue accounts) and direct correspondence of management accounting accounts with the respective financial accounting accounts, which is a feature of the monist (unicircular, integrated) accounting subsystem, oriented towards improving cost management. In Romania, on the contrary, the autonomous connection is used, which provides for the use of a system of managerial accounting accounts independently of those of financial accounting. These peer accounts have the same common name, but opposite structure. In our opinion, the monist subsystem is more successful, as it more harmoniously combines state regulation with the autonomy and development interests of economic agents.

The development of complicated processes in the current conditions of economic development essentially influences the change of costs, the volume of production and the evolution of the cost of products, and, therefore, it also influences the profit. In this context, the in-depth study of the economic content of costs and their reasoned classification is of particular importance.

The indispensable condition of the existence of human society, regardless of the dominant property relations, is the continuous renewal of the production process, i.e. the reproduction of material goods and premises, which contribute to the fuller disclosure of their useful properties.

At the same time, the production activity independently of the branch inevitably involves the consumption of certain human, material and financial resources. The individualized use of these resources in time, space and by objects of evidence finally takes the form of cost, the latter being embodied in the value of means and objects of work. The share of each type of costs in their total amount varies considerably depending on the obtained production and on the applied technology.

As the local economist Balan I. mentions: "... each type of resource depending on the natural and substantial form is used differently, which influences the finding, estimation and accounting of costs" (Balan & Frecauteanu, 2005, p. 218). Following this statement, the author proposes that in the case of material resources the following four groups of values with its consumption patterns should be highlighted, namely:

1. Production stocks (materials and raw materials) except for small and short-term items;
2. Inventory of low value and short duration production, technological packaging and other material values in the form of objects. The consumption of these goods takes place gradually, depending on the place and conditions of use;
3. Fixed assets;
4. Production services provided by own, leased or third-party ancillary activities.

Respectively, the inclusion of the value of the material resources used in the composition of the entities' costs takes place differently, namely: for the first group - according to the actual natural consumption of the resources; for the second group – according to the delivery from the warehouse; for the third group – according to the depreciation calculation according to the selected method and the term of the useful operation of the inventory object established by the enterprise; for the fourth group – as the services provided and the works performed are completed (received) (Balan & Frecauteanu, 2005, p. 218).

The use of labor resources takes the form of living labor costs or working time of employees, and their inclusion in costs is made as the calculation of the basic and additional salary. For productive

purposes, financial resources are used to settle debts such as: operational leasing of fixed assets; patrimony insurance; social and medical insurance contributions and premiums, etc. a. They are accounted for and included in costs as the respective obligations are calculated or direct cash payments are recorded without prior calculation of debts (Ristea & Possler, 2000, p. 390).

A significant influence on the reasoned accounting of production costs and the calculation of costs rightly is exerted by the grouping of costs according to certain criteria. Thus, in the opinion of the authors of the paper “Managerial Accounting” (Nederita, 2000) depending on the management purposes and accounting directions, the costs and expenses are divided as follows: for the evaluation of stocks and the determination of the financial result; for making managerial decisions; and for performing the control and adjustment process;

For the evaluation of inventories and the determination of the financial result, costs and expenses are classified as follows:

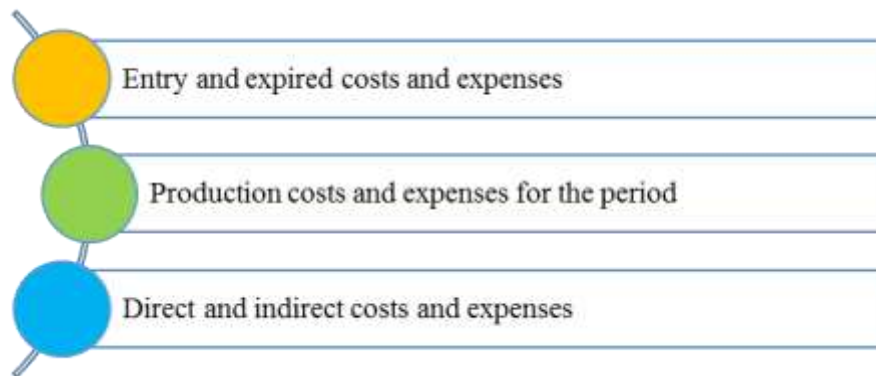


Figure 1. Classification of Costs and Expenses for the Valuation of Stocks and Determination of the Financial Result [Prepared by the Author, Adapted According to 21]

For managerial decisions, costs and expenses are classified as:

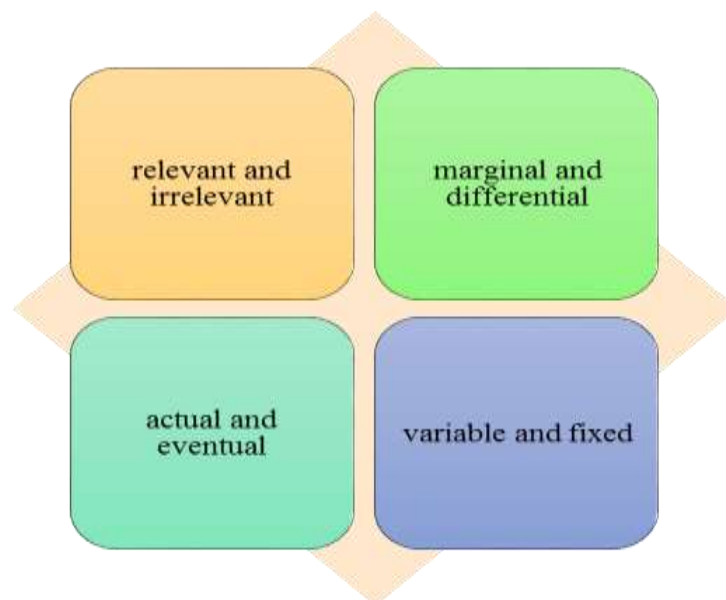


Figure 2. Classification of Costs and Expenses for Managerial Decisions [Developed by the Author, Adapted According to 11]

According to the third group, costs and expenses can be accounted for by responsibility centers, the principle is based on choosing the area of responsibility according to the organizational structure of the enterprise. The center of responsibility can be determined as a segment or subdivision where its leader is individually responsible for his work.

It should be mentioned that in the specialty literature there are several models of cost classification, but each classification model has its destination and allows directly or indirectly the improvement of the accounting organization. The way in which cost accounting is organized is influenced by the classification of costs, which contributes to solving various management problems, such as setting sales prices, planning the range of manufactured products, etc. In the specialty literature, in this context, different opinions are presented.

Thus, in the American literature, the costs are subdivided:

- depending on the connection with the production process (productive and non-productive);
- according to the period in which they are in accordance with the incomes (expired and unexpired);
- for evidence and control purposes (direct and indirect, variable and fixed, controllable and uncontrollable, differential, opportunity) (Garrison & Noreen, 2003, p. 838).

The costs are also classified in the works of Romanian economists: Epuran M., Babaita V., Grosu C. (1999, p. 407), Calin O., Man M., Nedelcu M. (2008, p. 336), Diaconu P. (2003, p. 336), Caraiani C. (2005, p. 464), Ristea M. and Dumitru C (2010).

The current accounting rules in the Republic of Moldova provide for the classification of costs according to two basic criteria (Stratified, 2007):

- 1) cost inclusion, which classifies them into: direct costs and indirect costs;
- 2) variation from production volume: variable costs and constant (fixed) costs.

In our opinion, the classification of costs into variable and fixed, being just a recommendation but without a sound scientific argumentation, makes difficult its implementation in the practice of production entities. At the same time, it is this classification criterion that serves as a benchmark in substantiating the managerial decisions regarding the production costs.

In the United Kingdom the diversity of cost classification criteria must serve the three basic functions of managerial accounting: costs for stock valuation, calculation and determination of financial result (direct and indirect; basic and direct; expired and unexpired; production and period); costs for making managerial decisions (variable and constant; marginal and differential; relevant and irrelevant; real and possible); costs for carrying out the control and regulation process (controllable and uncontrollable; adjustable and non - adjustable) (Bhimani, 2006, p. 447). This approach is also found in the works of Moldovan economists Nederita A. and Panus V. (2014, pp. 64-71).

Next, we will briefly examine some cost classification criteria that serve the basic functions of managerial accounting, in the activity of the entities and their impact on the production cost. Thus, for the evaluation of stocks, calculation and determination of the financial result, a special importance is the classification of costs in direct and indirect and basic and overhead.

The classification of direct and indirect costs is provided by the NAS¹; it is based on the criterion of how to include them in the production cost. It is known that the direct allocation of resources in cost depends on the particularities of the branch and it is possible only in cases when the consumed resources can be identified, directly in the cost of the finished product. Based on the above said, we consider that the most reasoned criterion for classifying costs arises from their connection with the technological process and involves the division into: basic costs and overhead costs.

The overhead costs are conditioned by the management and servicing of the technological process within the different structural subdivisions of the entity. With the implementation of the NAS², this term has been replaced by indirect production costs. At the same time, if we refer to their composition, many authors consider them identical. For example, the Moldovan professor Nederita A. mentions that “overhead costs are attributed to indirect production costs” (Nederita, 2013, pp. 57-63), while the English scientist Drury C. states that: “overhead costs include all types of production costs, except those referring to basic material costs, labor remuneration and any other basic costs“ (Drury, 2003, p. 552), and the Romanian economists Dumbrava P. and Pop A. claim that:” Overhead costs (expenses) depending on their importance in the production process are additional costs (expenses), which include the costs of values determined by the organization, administration and management of production “ (Dumbrava & Pop, 2011, p. 142).

Studying the opinion of several authors, we can conclude that in the basis for the division of overhead costs there are different criteria, namely: according to the connection with the technological process, importance in the production or destination process. In the current conditions of economic development, cost accounting must contribute to solving various problems, such as: setting prices for manufactured products or provided services; identification of the types of products (services) to be further manufactured or suspended; production or procurement of assembly items; accepting or rejecting special orders. In this context, cost accounting is presented both as an information tool by providing useful information on costs and results by centers of responsibility, as well as a management tool in ensuring an optimal level of activity.

Conclusions

Having studied monographs, articles in periodicals and special publications, scientific publications, as well as the provisions of normative acts in recent years, we can firmly conclude that management accounting is one of the important levels of the current dual system, which provides the opportunity to obtain timely and accurate information on the internal management of the entity's available resources. At the same time, starting from the indispensable condition of the existence of the human society of reproduction of material goods and premises, which contributes to the fuller disclosure of their useful properties, we can state that any independent activity inevitably involves the consumption of certain human, material and financial resources. The individualized use of these resources in time, space and by objects of evidence finally takes the form of cost, the latter being embodied in the value of means and objects of work. The share of each type of costs in their total amount varies considerably depending on the obtained production and the applied technology. The study also found out that there are several cost classification models, but each classification model has its own purpose and allows to

¹ National Accounting Standards, approved by the Order of the Ministry of Finance. Nr. 118 from 06.08.2013. In: Official Gazette of the Republic of Moldova. 2013, no. 177-181. <http://www.mf.gov.md/actnorm/contabil/lawcontabil>.

² National Accounting Standards, approved by the Order of the Ministry of Finance. Nr. 118 from 06.08.2013. In: Official Gazette of the Republic of Moldova. 2013, no. 177-181. <http://www.mf.gov.md/actnorm/contabil/lawcontabil>.

improve the organization of accounting directly or indirectly. In our opinion, the classification of costs directly influences the way cost accounting is organized, which ultimately contributes significantly to solving various managerial problems (setting sales prices, planning the range of manufactured products, etc.) and making management decisions based on profit criteria. Finally, we can mention that cost accounting is presented both as an information tool by providing useful information on costs and results by centers of responsibility, as well as a management tool in ensuring an optimal level of activity.

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