

THE PARTICULARITIES OF THE COST CALCULATION METHOD ON COMMANDS IN FURNITURE INDUSTRY

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(Received May 2014; accepted August 2014)

Abstract:

The paper presents the importance of the method on commands in cost calculation and the particularities of the cost calculation method on commands in the furniture industry. This paper presents a hypothetical study on the method on commands, considering the observations made during 2013-2014, on how it is organized and managed accounts management using method on commands. By presenting this hypothetical model about the accounting in management accounting using the method on commands, the paper contributes to the correct application of this method in practice, specifically in management accounting in companies from the furniture industry. In my opinion the method on commands is an appropriate method for achieving management accounting for companies that have as main activity the production of furniture. When applying the method on commands in cost calculation and in management accounting, the companies must consider the particularities of the cost calculation, in the furniture industry, like: technical and economic factors from this sector, the technical details of each command, the codification of the commands, planning materials and labor costs for each command, monitoring and recording production costs, registration of the direct costs, distribution of the indirect costs on commands, registration of the indirect costs and registration in management accounting.

Keywords: accounting informations, cost calculation, management accounting, direct costs, indirect costs.

JEL Classification: M41

Introduction

From accounting management the companies can get informations to ensure efficient management of assets, namely: information on the cost of goods, works, services for legal persons performing manufacturing, services, and the cost of goods sold for legal persons engaged in trade; information underlying the budgeting and control of operating activity; information necessary in financial analysis to base management decisions on the management of internal activity and other information required by the achievement of a performance management (OMFP 1826/2003).

In Romania, management accounting is regulated by OMPF 1826/2003 for the approval of the Regulations on measures related to organizing and management accounting. According to this order costing can be performed by the following methods: standard cost method, the method on commands, phase method, the global method, direct costing method or other methods adopted by the legal person

according to the organization of production, specific activity, particularities of the process and their needs (OMFP 1826/2003).

The paper aims to contribute to the knowledge, understanding and correct application of the cost calculation method on commands in the furniture industry.

Literature review

In the literature from the field of management accounting, a number of specialists such as Burns J., Scapens R., Baldvinsdottir G., M. Jarvenpaa, B. Pierce and T. O'Dea, mentioned the importance of managerial accounting and the necessity to help organizations to change (J. Burns, R. Scapens, 2000 J. Burns, Baldvinsdottir G., 2005, Jarvenpaa M., 2007, Pierce B., T. O'Dea, 2003).

J. Burns, says that management accounting must be a permanent participant of the decision-making process.

In the authors' opinion Falconer M., T. Malmi and M. Grandlund management accounting research should clarify and improve existing practices within organizations and must propose solutions to solve problems encountered in practice (Falconer M., 2002, Malmi Grandlund T. and M., 2009).

The same opinion is expressed by Matis D. who says financial accounting and management accounting are tools in knowledge of economic reality. In the opinion of Lepadatu V. Gh., method on commands is a part of the classical methods specific to management accounting and costing, together with the global method, the method steps and calculation method based on normative costs (Lepadatu V. Gh. 2010).

Also, the authors Oprea C. and Cârstea Gh. assert that the method on commands is applied to individual production companies or series production, which presents production on progress and sometimes semifinished production. The same author points out that this method is applicable to the firm in the electrical industry, furniture, clothing, car industry (Oprea C., Cârstea Gh., 2002).

The method on commands shows some particularities compared to other specific methods of management accounting. The most important feature is that, in method on commands cost carrier is the production released with a command. Subject differs for individual production commands when the expenditure of production is organized with production on progress or serial production when the expenditure can be organized both in version with production on progress or without production on progress.

In method on commands, the unit cost is calculated at the end of the command, by dividing the total costs for each command at the amount of finished products resulting from a command.

In the method on commands, the general model for calculating the unit cost varies depending on the organization of production and whether it applies or not version with production on progress or without production on progress. Calculation of unit cost in the case of version without production on progress is achieved by adding the direct and indirect costs on items costing and dividing the quantity of products obtained. When applying version with production on progress, is calculated the

unit cost for each item, part, subassembly entering the structure of the finished product by simple division process.

The organization of the cost calculation with this method assumes using in the account 921 "Activity based costs" in the analytical on commands, within each commands the costs are revealed on places where they are carried out (costs sectors, production units, production workshops) and also in costs articles. In the account 923 "Indirect production costs" will be analytical on costs sectors where they will be then distribute on realised commands, in the corresponding with analytics of account 921 "Activity based costs" (Sabou F., 2007).

For distribution of the indirect costs on activities, on costs sectors and on costs carriers is used supplementation procedure. Specialized literature called this procedure also increase method or the addition indirect costs method (Oprea C., Cârstea Gh., 2002).

Methodology and data

This paper presents a hypothetical study on the method on commands, considering the observations made during 2013-2014, on how it is organized and managed accounts management using method on commands, in three companies in the furniture industry from Maramures county.

The main research methods used in the study were observation and documentation.

Result and discussions

Following observations have reached a number of conclusions and I made a lot of recommendations for the correct application of the method on commands in the furniture industry, with the best results.

Method on commands is often used in Romanian companies working in the furniture industry. When applying the method on commands in cost calculation and in management accounting, we meet a lot of particularities of the cost calculation, in the furniture industry. First, the formation of the commands for the beginning of the production is a process through coordination and combination of technical and economic factors. Technical factors are represented by the use of full and permanent production capacity and labor, specialization of the employees in operations, providing technical performance of products. Economic factors are represented by honoring contracts, while reducing consumption of materials and labor, providing the conditions for proper delineation and production costs on commands and correct determination of effective costs.

Products commands received from customers are launched in production after knowing the technical details of execution. Formed commands require some preparation time and putting into production. It is recommended that each command to receive a numerical symbol before launching production, from the commands register.

The codification of the commands within a company in the furniture industry, can be made according to the following structure:

- first group of numbers is the year of command placement in manufacturing;

- the second group of numbers represents the company which runs the command launched in manufacturing;

- the third group of numbers designating the order placed into production;

After codification of the commands, the responsible for the design, preparation and production scheduling will made for each command a list of consumption norms and time, laid down in the technical data sheets. By making of this list are planning the most important costs, which holds an important share in the cost structure, it creates a way to control these costs and avoid the possibility of moving to consumption of materials and labor from a command to another.

The codification of the command is included compulsory in all primary documents for correct collection and recording expenditures products on commands.

For the commands placed in manufacturing, analytical sheets are open for monitoring and recording production costs. These sheets carry the analytical command referred to, in them shall be recorded during production direct costs, using the primary elements used by the company.

Registration of the indirect expenses of production sectors is based on documents and supporting statements.

The actual cost of each command is calculated at the end of the reporting period, in which the command was finished.

If at the end of the management period some commands are unfinished, expenditure incurred shall be deemed fully controls the production in progress.

Recording of the products is made at cost effective at the end of the command.

Registration in management accounting under this method, for a hypothetical company from the furniture industry, that launches manufacturing two commands, in december 2013 - january 2014, is as follows:

Highlighting the accounts of all operations in December 2013:

Collecting direct costs:

921.1 C1=901

921.2 C1=901

921.3 C1=901

921.4 C1=901

921.5 C1=901

921.1 C2=901

921.2 C2=901

921.3 C2=901

921.4 C2=901

921.5 C2=901

912 Account is opened in analytical on commands and on calculations items, thus:

921.1 – materials;

921.2 – salaries;

921.3 – fuel, energy, water;

921.4 –works, services performed by others;

921.5 – amortization;

921.6 – other costs;

Collection of indirect expenses on commands, placed in manufacturing:

923=901

Distribution of the indirect costs: for allocation indirect expenses collected from 923 account, the company uses as a basis for allocating total salary costs, allocated costs are represented by debiting account 923.

Nr.	Calculation items	Commands	
		C1	C2
1	Basis for allocating		
2	Cost that will be allocated		
3	Additional coefficient		
4	Allocated costs		

% = 923

921.6 C1

921.6 C2

Collection of general administration expenses:

Collection of indirect expenses on commands:

924=901

924=901

Distribution of the general administration expenses: for allocation indirect expenses collected from 924 account, the company uses as a basis for allocating cost production, allocated costs are represented by debiting account 924.

Nr.	Calculation items	Commands	
		C1	C2
1	Basis for allocating		
2	Cost that will be allocated		
3	Additional coefficient		
4	Allocated costs		

% = 924

921.6 C1

921.6 C2

Registration of the production in progress:

933.C1= %

921.1 C1

921.2 C1

921.3 C1

921.4 C1

921.5 C1

921.6 C1

933.C2= %
 921.1 C2
 921.2 C2
 921.3 C2
 921.4 C2
 921.5 C2
 921.6 C2

Highlighting the accounts of all operations in january 2014:
Taking over of the production in progress at the end of december 2013:

 % =933.C1
921.1 C1
921.2 C1
921.3 C1
921.4 C1
921.5 C1
921.6 C1

 % =933.C2
921.1 C2
921.2 C2
921.3 C2
921.4 C2
921.5 C2
921.6 C2

Collection of the direct costs:

921.1 C1=901
921.2 C1=901
921.3 C1=901
921.4 C1=901
921.5 C1=901

921.1 C2=901
921.2 C2=901
921.3 C2=901
921.4 C2=901
921.5 C2=901

Collection of the indirect costs:

923=901

Distribution of the indirect costs: for allocation indirect expenses collected from 923 account, the company uses as a basis for allocating total salary costs, allocated costs are represented by debiting account 923.

921.6 C1= 923

921.6 C2= 923

Collection of the indirect costs:

924=901

Distribution of the general administration expenses: for allocation indirect expenses collected from 924 account, the company uses as a basis for allocating cost production, allocated costs are represented by debiting account 924.

921.6 C1=924

921.6 C2=924

Registration of the products at effective cost: the actual cost is the total direct and indirect costs allocated, less general administration expenses that the company does not include in the costs.

931.C1=902.C1

931.C2=902.C2

Clearance of accounts management for january 2014:

- settlement of expenses of finished products obtained:

902. C1=	%
	921.1 C1
	921.2 C1
	921.3 C1
	921.4 C1
	921.5 C1
	921.6 C1

902. C2=	%
	921.1 C2
	921.2 C2
	921.3 C2
	921.4 C2
	921.5 C2
	921.6 C2

-recording of the price differences:

903.C1=902.C1

903.C2=902.C2

- closing the accounts 931 and 903 through account 901:

901= %
903.C1
931.C1

901= %
903.C2
931.C2

Concluding remarks

By presenting this hypothetical model about the accounting in management accounting using the method on commands, the paper contributes to the correct application of this method in practice, specifically in management accounting in companies from the furniture industry. This paper is a guide for companies who want to apply the method on commands.

In my opinion the method on commands is an appropriate method for achieving management accounting for companies that have as main activity the production of furniture.

Applying the method on commands in furniture industry ensure a maximum individualization of direct costs, a good location for indirect costs, which lead to the establishment of the exact cost of products made.

In conclusion, when applying the method on commands in cost calculation and in management accounting, the companies must consider the particularities of the cost calculation, in the furniture industry, like: technical and economic factors from this sector, the technical details of each command, the codification of the commands, planning materials and labor costs for each command, monitoring and recording production costs, registration of the direct costs, distribution of the indirect costs on commands, registration of the indirect costs and registration in management accounting.

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