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## **The Cost-per-Product Management–Instrument for the Efficiency Increase of the Company’s Activity**

*A high-performance management supposes that the manager’s activity should rely on the practical and judicious performance of the product-focused, through the knowledge and study of the basic principles and notions in the field of the costs per product. For this purpose one should elaborate predictions of evolution and efficiency of costs per products, by means of analysis, planning and control.*

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### **1. The concept, issues and organisation manner of the cost-per-product management**

The cost-per-product management can be defined as the totality of the actions of planning, evidence, calculation, control and analysis of costs per products, in which all operational compartments of the company are engaged, starting from the executors, the liability for costs assuring the knowledge of deviations and their localisation, along with the indication of the causes having generated them and of the responsibility, leading to an increased efficiency of the cost-related informational system by filtering the cost-related information within the limit of each hierarchic level’s necessities. In order to reach these goals under normal conditions it is necessary that the manager, his / her immediate assistants and the personnel engaged in these actions should observe certain managerial rules aiming at assuring profitable actions for the company, the real-time awareness of the inefficient expenditure, of the causes having generated them, taking measures for eliminating them.

In order to assure the sustainability and prosperity of the company he / she leads, the manager should rely on and assure the practical and judicious performance of the product-focused management, master the basic principles and notions in the field of costs per product, and in their application they should make

appeal to the methods and techniques able to assure the increase of their efficiency.

In reaching these goals, the manager should elaborate, together with his / her specialised assistants, predictions regarding the evolution and efficiency of the costs per products by means of analysis, planning and control methods.

The cost-per-product management includes all the activities focused on collecting, processing and interpreting cost-related data, including the afferent mechanisms, as well as the control necessary in this field. The putting into practice of these activities, under conditions of high efficiency, require a thoroughly grounded organisation which should consider the methods used by the manager, the requirements of the cost-per-product management, the necessity to assure the qualitative side of these activity.

Practice proves that the success of the application of a certain costs calculation method depends first of all on the manner the calculation was organised. As perfect as a cost calculation model may seem, it will prove efficient only when it has all the organisation conditions needed for its application. The wide variety of the methods of costs calculation imposes the increase of the attention granted to organisation issues, because not any method can be efficiently applied, nor under any conditions.

The complexity of the manufacturing process leads to the situation, for instance, that in a certain company only one model of costs calculation can be applied, while in another company several models may be applied or even a combination of methods is possible, according to the purpose and the requirements of the company's management.

The organisation of the calculation of costs per product depends on several factors conditioning the adoption and application of the form of calculation. Among these, the specific features of the technological process and the manufacture organisation are prevalent, exercising the most powerful influence on the manner of organising the costs calculation in a company.

Organising the costs calculation is strongly dependent on the specificity of the technological process, according to which one should choose the most appropriate form of calculation and which influences the precision of the calculation object, calculation unit, period and moment of calculation.

Thus, in the individual or singular production, the calculation is organised per singular products, and the calculation period generally coincides with the manufacturing period, the calculation having a non-periodic character. In the mass production, the calculation has as object the respective series, aiming at determining an average cost of the product unit from the respective series, and the calculation coincides with the manufacturing period. In exchange, in the mass production, the calculation has as object the establishment of the average cost of the homogenous product, manufactured during a period of administration (month), and the calculation period coincides with the manufacturing period.

Also, under the influence of the technological specificity, in the case of the simple manufacture, the calculation should be organised in all the successive phases of the technological process until the last phase when the product is obtained, unlike in the case of the complex production, when the calculation should be organised on each element and then separated by product, in its entirety. In the complex manufacture sometimes it is necessary to calculate the cost, both of semi-products and of the finite products.

The specificity of the technological process decisively influences the organisation of the calculation and the choice of the calculation adequate to the physical features of the products they express, determining the use of certain natural or conventional calculation units, according to the structural modifications generated by its application. Thus, the occurrence of a new manufacturing technology of a product with the help of more or less raw materials than those used by the existing technology which determined, for instance, the use of a conventional calculation unit, may trigger its change into a natural calculation unit.

The production diversification leads to the necessity of calculating the product cost according to qualities also when in the production scheduling one provided the differentiation of products in establishing the cost in accordance with certain quantitative factors (raw materials, specific consumption, technological process etc.). Under these conditions, the product quality becomes object of costs calculation in all cases when, from the beginning, one can organise its follow-up through a precise delimitation. The influence of the technological process is decisive and in this respect a change of technology can modify the specific consumption and the processing cost, with implications on the organisation of costs calculation.

The organisation of the manufacturing process constitutes another influential factor of the organisation of costs calculation, which has a strong impact on the organisation of data collection from all cost-generating places.

In the company, a main stage of the organisation of costs management is constituted by the organisation of the collection of the data necessary to the calculation grounding. The collection of cost elements should be organised so that it might assure the real and complete reflection of the company's activity. It means adapting the information carriers (primary documents) and of their circuit to the organisational conditions of the manufacturing process and it raises the problem of organising the collection, sorting, systematisation, centralisation and processing of the collected data, which should take place under the conditions of an increased preparedness.

The specificity of the technological process and the organisation of the manufacturing process influence the organisation of costs calculation also under the aspect of the adoption of the calculation method. These may determine, according to the situation, the solving of costs through divisionary calculus, supplementing calculus, coefficients of equivalency etc.

In our country the organisation of costs calculation is settled in the Law of Accounting and the Regulation for its application.

These rules establish the methodology of elaborating the plan of the manufacturing cost, the organisation of manufacturing costs evidence and the methods of costs calculation[1].

Both the economic theory and practice prove that a correct costs calculation can be performed only in the context of an appropriate organisation and operation of the accounting of manufacturing costs, mainly the reflection of all the operations of collecting and distributing the expenditure by destinations, i.e. any products, works, services, orders, manufacturing stages, activities, sections etc., the clearing of the output obtained, as well as the calculation of the production cost of the items manufactured, the works executed and the services provided, including of the output under execution.

The manner of organising the costs calculation constitutes the choice of each company, in accordance with the specificity of activity, i.e. the object of activity, technological features and the manufacture organisation, the type of production, the size and organisational structure of the company, the character of the informatisation process and the degree of its informatisation etc., as well as the informational necessities of the management.

The main problems raised by the organisation of the costs management refers to the precise identification of the calculation object, the establishment of the calculation unit, the choice of the method of indirect costs distribution, the adoption of a nomenclature of manufacturing costs by economic branches and sub-branches and the adoption of the most adequate costs calculation method.

In view of improving the manner of organising the calculation of product cost and of increasing its informational role, it is necessary to organise the entire activity of planning, evidence, calculation, control and analysis of costs within a single functional compartment of costs, employing specialised economists in this field. Such an organisation assures the adoption of a unitary working conception and vision and the premises of the efficient solving of the problems raised by the costs management in its complexity, the necessity of organising certain principles able to increase preparedness regarding this problem.

## **2. The cost-per-product plan**

The cost-per-product plan is a part of the company's plan of economic and social development, entitled "Manufacturing costs". With the help of this instrument one provides the exact knowledge of the size of each calculation item and of the manner in which they participate in the formation of the unitary cost of the product.

Providing the cost-related information according to the requirements, in due time and of good quality constitutes a decisive issue, both in the short-term planning and in the long-term planning, as well as in the follow-up of costs per

products. A very important aspect is the informational circuit of costs in the stage of costs planning and follow-up.

The correct dimensioning of manufacturing costs should be based on the following considerations:

- In order to permanently reduce the manufacturing costs, they should be established for each cost element taken separately, both for the planning and for the basic periods;
- Differentiating the basic costs from the auxiliary and service ones;
- Assuring a clear and complete evidence of all costs incurred in the company;
- Grounding of the costs level in order to take into consideration the effects that may occur as a result of the application of certain technical – economic measures.

With the help of the process of costs planning by products the manager identifies the company's goals, determines the schedules, standards and budgets and chooses policies, procedures and methods, attempting to reach the pre-set goals. The managerial strategy and policy of costs by products are put into practice with the help of the planning process [2].

If one finds deviations from goals, the manager must adopt corrective measures regarding the plan or the actions through which it is implemented.

### **3. The budget of the unitary cost per product – managerial instrument in the process of the cost-per-product management**

In the context of maintaining the balance between the costs incurred by the output obtained and the level of the revenues from its sale, the issue faced by managers is to find certain methods allowing them to dimension and control the above balance relation. In this respect, the budget is the instrument meant to harmonise and especially to render more efficient the relation between costs and revenues within a company, and the costs budgeting represents a systemic economic practice which supposes the development of a formal process of allotting the financial resources with the purpose of setting certain goals formulated for the following period. Budgeting is also an instrument of short-term prediction, it takes into consideration the present conditions in which the company carries on its activity, considering the material, human and financial resources available during a year.

The characteristics of budgeting are similar to those of planning, but they are focused on the dimensioning of the generally restrictive financial resources, in accordance with the economic-social requirements of the company, in general under evolution [3].

The necessity of elaborating the budget of the unitary cost per product is triggered by the detailed analysis of costs in view of calculating the efficiency per each product taken separately, with the purpose of identifying the concrete

possibilities of reducing the manufacturing expenses and of adopting the necessary measures. The elaboration of the budget of the cost per product should be preceded by a thorough analysis of the post-calculation from the basic period, with the purpose of highlighting all its negative and positive aspects.

The cost budgeting per product unit allows the knowledge of the volume of material and salary manufacturing costs expressed under pecuniary form, necessary for manufacturing each product, the comparison with the cost realised at the same products obtained by other units, the establishment of the participation degree of different company components to the formation of the cost of the entire output and the establishment of the share of each expenditure corresponding to the product unit.

The elaboration of the budget of the unitary cost per product takes place after having elaborated the budgets of the costs places, so that the former is extracted from the latter. It means that first we must establish all the expenses of the cost-generating places traversed by the products in the process of their manufacture, which, in relation with the centre having incurred them, have the character of direct expenses, and then we should elaborate the budget of the unitary cost per product, where only part of the expenses are direct, and the others, such as the expenses with the upkeep and operation of the equipment within the centres of operational costs, general expenses of the section and the general administration expenses, as well as the sales costs within the functional cost-generating place, have the character of indirect expenses in relation with the manufactured product.

The present management also comprises the planning - scheduling - budgeting system (SPPB), which is part of the company's strategy

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