

THE SYSTEM OF COSTS BOOK-KEEPING AND CALCULATION ON PRODUCTION COMMANDS

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The costs are registred in an accounting system in order to help managers in process of taking the various decisions. The costs objects (products and sections) illustrate two goals of internal book-keeping administration, thus: informations supply for plann and control and compute of products cost. In the system of costs book-keeping and calculation on production commands, the object cost is illustrated by one or many various units from a product or a service, named production command. In order to compute costs on production commands is used the effective costs method, which use effectives quotations for allotting the indirect costs and normal costs method, which used budgeting quotations in order to allot the indirect costs; the direct cost are assigned to the commands in the same manner. The costs calculation on commnands is useful in some services companies, such as expert book-keeping and consulting firms, advertising firms, car fixing workshops or hospitals.

Keywords: costs objects, indirect costs, direct cost, effectives quotations, budgeting quotations

The calculation on production commands

In order to compute costs on production commands is used the effective costs method and normal costs method.

The effective costs method is a calculation method based on production commands which use the effective costs in order to establish the cost of various commands. Acordingly to this method, the direct costs are allotting to cost object by multiply the unit effective quotations of direct cost with effective quantities of production factors having direct cost and indirect cost are allotted to cost object based on the effective quotations of allocation for indirect costs, multiply with effective quantities of allocation cost's bases.

The computation of assigned costs allotted to a production, trade or specific services command, follows these phases:

- Identify the command which represents the choosen cost object(for example an equipment manufacture);
- Identify the direct costs of command (for example: the cost of direct raw substances and direct production work);
- Choosing of allot bases for indirect costs on the command (for example: the effective quantity of direct labour hours, hours-machine);
- Identify the indirect costs affiliated to every allocate base, named total/general production expenses(for example: the electric power costs, heating costs, repairs costs, surveillance costs);
- Calculation of unit allotting quotation of indirect costs on command(of choosen allotting base unit qotation), thus:

$$\text{The effectiv quotation for allocate the indirect costs} = \frac{\text{The effective total costs from indirect costs plot}}{\text{The effective total quantities from allocate costs base}}$$

- Calculation of indirect costs allocated to command:

The indirect cost of command =

= The effective allocate quotation of indirect costs x The effective quantities of costs allocated bases

- Total command cost calculation by adding all the direct and indirect cost allocated and distributed to command.

Based on the achieved result, the calculation system of effective costs illustrates an absolute gross margin and a percentage gross margin, in order to compare the efficiency of various production commands, to determine why some commands have a low efficiency degree and to proceed to future improvements.

The normal costs method is a calculation costs method in which the direct costs are assigned to cost object by multiply the unit effective quotations of direct costs with effective quantities of product factors with direct cost and indirect costs are allocated on cost object, based on budget quotations of indirect costs, multiply by effective quantities of allotting costs bases.

If we use the previous phases, could illustrate the normal costs method in this manner:

- Identify the command which represents the chosen cost object (for example an equipment manufacture);
- Identify the direct costs of command (for example: the cost of direct raw substances and labour of production);
- The choosing process of allocation bases for indirect costs of command (for example: the budget quantity of direct labour hours, machine-hours);
- Identify the indirect costs associated to every distribution base, named general production expenses (for example: the electric power costs, heating costs, repairs costs, surveillance costs);
- Calculation of unit allotting quotation of indirect costs on command(of chosen allotting base unit quotation), thus:

$$\frac{\text{The budget quotation for allocate the indirect costs}}{6} = \frac{\text{The budget total costs from indirect costs plot}}{\text{The budget total quantities from allocate costs base}}$$

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- Calculation of indirect costs allocated to command:

The indirect cost of command =

= The budget allocate quotation of indirect costs x The effective quantities of costs allocated bases

- Total command cost calculation by adding all the direct and indirect cost allocated and distributed to command.

By comparison the two methods it can be noticed that, the production cost of command depends on the allocated base used and the value of distribution quotations of indirect costs.

Managers and book-keeping persons collect the information which follow to be registred in evidence and calculation costs system through the *justificatory documents*. In calculation system costs based on production commands are used the following justificatory documents:

- *cost centralizing on production command, named also the calculation costs command memorandum slip*, in which are noticed and gathered all the allotted costs, distributed to a specific command, from the moment of starting production;
- *consumption raw materials bill*, which contains informations related to consumption of direct raw materials by proceeding a specific production command in a specific unit. By adding the cost derived from consumption raw materials bill it is obtaining the effective total cost of raw materials, written in command production costs centralizing;
- *work time evidence bill*, which contains informations related to work time consumption in order to execute a specific production command from a specific section.

As a habit, the information gathered from commands costs centralizing are finding again in an analytic record/register. Syntetic account „Goods in progress” from the General Ledger reflects the bounded totals by all unfinished commands, taken from these centralizings or analytic on various commands account bills.

The analytic bills in order to evidence the commands costs and the syntetic account „Goods in progress” registered all the commands costs from starting moment until to completion moment.

The companies pay a lot of attention to justificatory documents corectness, thank to the fact that d commands costs calculation bills fiability depends on informations related to the production factors used.

In many evidence and costs calculations systems doesn't extant anything else except the justificatory documents on computers. The code bars and other methods to information recording in real time decrease the human intervention and make easier the process to obtain a high degree of exactness for dates related to raw materials consumption and work on production commands. The modern informative technologies supply fast and exact information to managers, regarding the products costs, making easier the adminstration and production commands control.

The indirect budget costs regularized at the exercise's end

Using the method of normal costs presents the advantage that we are able to distribute to indirect costs to individually method in a continous manner and to right time, not only to the end of accounting exercise, when we know the effective level of costs. The method's disadvantage is given by the inexact budget quotation, due the fact that is based on estimations made since 12 months before proceeding of effective expences made; to year's end, we can appreciate that the indirect costs sum disitributed is different by the effective indirect costs sustained by the company.

The underneath-distributed indirect costs appear when the indirect distributed costs sum for an accounting exercise is lower then the effective abide costs sum. **The super-distributed indirect costs** appear when the indirect distributed costs sum in the frame of an accounting exercise is higher then the effective abide/support costs sum.

The underneath-distributed indirect costs (super-distributed) =

$$\text{Indirect effective costs} - \text{Indirect distributed costs}$$

Accounting regularize from exercise's end are recorded accordingly to the following accounting major methods: the adjust distribution quotation method, the proportional repeat distribution method and the method to transfer entirely on expenses in the inventory account „Sold goods cost”.

The adjust distribution quotation method computes again all the accounting articles related to general expenses recorded in the General Ledger and in analytic evidences, using the effective quotations of costs distribution replacing the budget quotations. To year's end are made the following phases:

- is calculate the effective distribution indirect costs quotation;
- is calculate again the indirect costs distributed to every command during the year, by using the effective distribution quotation (replacing the budgetone);
- is registred the accounting articles of exercise closing;

As result, each analytic evidence command costs bill and the cost registred on the finish goods, also the final account balances of syntetic inventory accounts „Goods in process”, „Finished goods” and „Sold goods cost”, illustrates exactly the indirect costs abide by the company. The general adopt of accounting systems on computer decreased the cost related to using the method of distribution quotation adjust.

The proportional revised distribution divides the general expenses sum of underneath-distributed or super-distributed between the final account balance of inventory accounts „Goods in process”, „Finished goods”, and „Sold goods cost”. Due the fact that to raw materials stocks are not allot production general expenses, this inventory account is not included in proportional repeat distribution.

By using this method are obtained the same final accounting balances of inventory accounts from the General Ledger such as the account balances obtained through the adjust distribution quotation method only in case that the ratio of general production expenses in total costs is teh same for all three accounts.

The proportional revised distribution based on final inventory balance accounts is often used esed, beeing a method less complex which approximate the results achieved by using the shares of internal distribution costs.

The method to transfer entirely on expenses in the inventory account „Sold goods cost”. In this case, the total sum of underneath-distributed or super-distributed general expenses is recorded in balance account of

the inventory account „Sold good costs” from the year in progress. This method is the easiest manner to regularize the general production expenses underneath-distributed or super-distributed.

Accordingly to the manner to use the resulted informations, the managers choose the right method, thus:

- if they intent to realize the most elaborated accounting evidences of costs for every command, then is recommended the adjust distribution quotation method;
- if the managers goal is limiting just to present the exact dates regarding the stocks and sold goods costs in financial situations, then is recommended to use proportional revised distribution based on general production expenses distributed from final accounting balances method, due the fact that this method adjusts the accounting balances to the level that would have been registred if it had been used the effective costs method.

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