

ANALYSIS OF THE PRODUCTION CAPACITY AND COSTS AT S.C. CATALI SHOES S.R.L. PITEȘTI

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This article is a study carried out within the company CATALI SHOES of Pitești concerning the production capacity and the situation of the costs of this organization. S.C. CATALI SHOES S.R.L. is a dynamic company which continuously developed its production capacity during the 15 years of activity and which proves to be highly professional in managing costs and profit margin.

Key words: production, costs, analysis, S.C. CATALI SHOES S.R.L

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1. Introduction

In the specialty literature cost is defined as a sacrifice made with the purpose of holding a product or a service. This sacrifice is measured using the amount of money spent, the transferred property, the offered services etc. In the management accountancy cost is defined as follows²²⁵:

- the amount of money spent for producing or buying a good, for carrying out a work or for delivering a service; a resource sacrifice;

- a synthetic indicator by means of which we characterize the quality and efficiency of the economic activity.

Florica Badea defines cost as :”all the expenses made for carrying out the production process (personnel and materialized work expenses) represent the production cost of an industrial production unit; this economic category is obtained after carrying out a certain production volume and emphasizes the fixed assets use efficiency degree²²⁶. Managers and organizations need information related to costs for the main management activities such as²²⁷:

- Planning- in order to know to what level we need to reasonably set the future expenses;

- Control- so as to identify costs that cause expense exceeding so that we can pay attention to them;

- Elaborating decisions- so as to decide what price we should ask, for instance, for providing certain services, by knowing which are the costs engendered by them;

- Administrative responsibility- so as to be able to justify the expense purpose so that the financial statements be able to offer a real and correct image of the organization to those persons from outside and from within the company who are interested in its functioning.

2. OVERALL PRESENTATION OF THE COMPANY CATALI SHOES

CATALI SHOES PITEȘTI is a limited liability company which has been set up according to law 31/1990 republished, with the prior modifications and completions.

S.C CATALI SHOES S.R.L. was set up in 1994 . According to the company articles of association, the main object of activity consists of: production and purchase in order to industrialize or semi-industrialize finished products resulting from manufacturing leather shoes; services – shoe repairs; wholesale and retail trade through its own stores, through stores belonging to other companies, in fairs or in other especially designed places.

The secondary activity (building works) consists in building a dwelling building Ground floor + 6 floors. This project is situated in a residential area of Pitești – Găvana district, on a piece of land having an area of 2.676 sq. m. in Ion Minulescu street. The area is considered to be one with real estate development potential. The location has all the necessary utilities being integrated in the city utilities and energy network.

225 Pocatilu P., Software Testing Costs

<http://www.biblioteca-digitala.ase.ro/biblioteca/pagina2.asp?id=cap4>

226 Badea Fl. Production Management (Revised ed.), http://www.biblioteca-digitala.ase.ro/biblioteca/pagina2.asp?id=studii_22

227 Financial Management, BZT 643, vol. 3, Costs and financial decisions, CODECS – The Open University, 2002, p.8

In the beginning S.C. CATALI SHOES S.R.L. had a small number of employees who worked in rented premises; the production process related to the cutting and pulling activities used to be made by hand so the production level was quite low – approximately 50 pairs/day.

During the last 5 years the company had an explosive development and the production got ten times bigger in this period.

S.C. CATALI SHOES S.R.L. Pitești has an organizational chart which correspond to the company needs as we can see below in table 1.

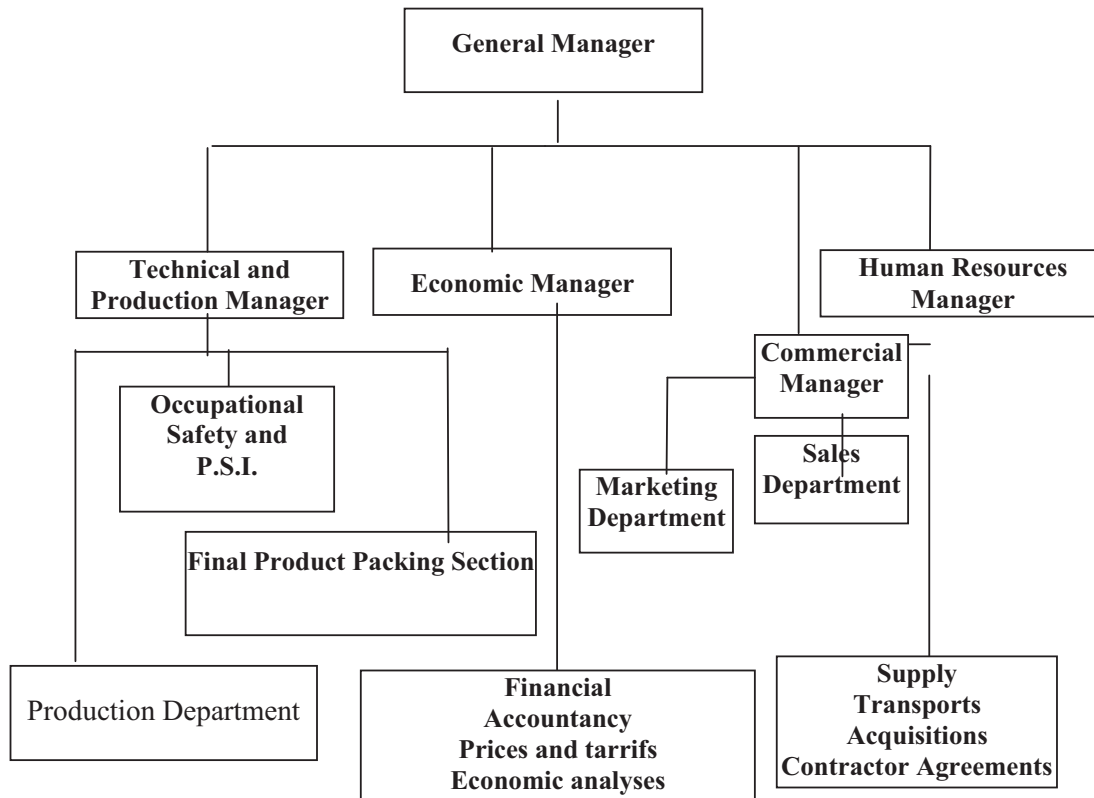


Image 1. Organizational chart of S.C. CATALI SHOES S.R.L

Source: S.C. CATALI SHOES S.R.L.-Human Resources Department

The company has a total number of 110 employees distributed as in table 1.

Table 1: Personnel Structure.

Personnel category	Number	Share
Total	110	100%
Out of which:		
Management / TESA Personnel	15	13,6%
Productive stuff - Total		
Out of which:		
- directly productive	95	100%
- indirectly productive	-	-

Source: S.C. CATALI SHOES S.R.L.-Human Resources Department

CATALI SHOES is among the most significant Romanian companies that produce shoes and in continuous course of development and modernization.

The products manufactured by the company are sold both on the internal market (300 clients) and to the export - Portugal, Sweden, Spain, Hungary, Croatia.

The materials necessary for production come from Romania or are imported – Italy and Turkey. The company has its own distribution system through which we sell 60-70% of the manufactured products.

From a functional point of view, the entire activity of S.C. CATALI SHOES S.R.L. is managed by the General Manager (unique associate).

The unit has specific premises for production, storing and internal services in its own building which was first used in 2002, having a production capacity of 12.000 pairs/month.

The production process was retechnologized in 2001, 2002, 2003 through the acquisition of new imported technological equipment (Italy and Czech Republic).

3. PRODUCTION CAPACITIES AND TECHNOLOGICAL ENDOWMENT

The production capacity in physical units is of 15.000 pairs/month.

At present, the production activity and the annexed activities are carried out in its own buildings which dispose of all the necessary utilities for the correct functioning of the activity.

The company is endowed with fixed assets necessary to the production activity in the specific field, represented by:

- technological equipment and machines;
- special plants;
- transport means;
- other household inventory means.

The production process is carried out in a mechanized form and the three main activities: cutting, sewing, pulling-soling-finishing are situated in distinct workshops. The three workshops are endowed with modern equipment purchased within the last 2 years from import – Italy and Czech Republic (Molina-Bianchi, Durkopp-Adler, Minerva) their total number raising to 70.

The company also has its own transport park which includes four ware transport vehicles and also a mechanical workshop where we do the cutting knives as well as the current and capital repairs of the equipment.

The production activity is organized on workshops and is coordinated by employees having specialty diplomas.

The economic-administrative activity is divided into departments: acquisitions, sale, transports, financial-accounting, personnel, administrative and is also coordinated by employees that have specialty diplomas.

The manufacturing technologies used for the main activity which is shoe production are classical, they present the advantage that they are relatively simple but they depend on human operators and on the quality of the operations performed by them. The fluency of the operations carried out by the company ensures the fact that the used technologies are in accordance with the specific fabrication requirements and the position on the market specifies the fact that the products are of quality.

The technological flow supposes:

1. Preparing the production: participating in fairs, exhibitions and specific manifestations, prospecting the market; own creation – modelling, model selection.

2. The fabrication process:

- The cutting operation – an operation carried out by means of specialized equipment (cutting devices) – we produce the shoe faces;
- Pulling and soling – mixed, manual operation carried out with specialized equipment (presses and rotating machines) – an operation through which we apply and fix the product sole;
- Finishing – shoe finishing operation through external uniformization operations, wax and polish application, final finishing;
- Final checking, storing.

4. COST ANALYSIS

The analysis made based on the average price calculation to men shoes revealed the following structure:

Table 2: Cost Structure at S.C CATALI SHOES S.R.L.

	%
Raw material	68.40
Consumables	3.90
Energy	1.00
Direct and indirect labour	13.60
Equipment amortization	1.60
Transport and third party services	5.00
Other direct and indirect expenses	6.50
The share of direct expenses in the total production cost	84.50
The share of the indirect expenses in the total production cost	15.50
Average profit cost	18.00

The production price is set based on the price calculations and production reports, the final sale price being adjustable from profit shares for placing within the market margins, according to the specific market manifestations.

The market prices are set based on the market conditions as they represent a significant element as compared to the specific product consumers.

As we can notice from the structure, the production cost is dominated by the expenses related to raw materials and consumables, with a share of over **72%**.

Taking into account the fact that the company has an equilibrated policy concerning stocks (the company only purchase raw materials in direct correlation with the orders for finished products and with the production program), it comes out that it is easy to hold control over the production cost structure as compared to the production program.

The second element with a share of **13.60%** is labour expense, the direct labour obtaining a percentage of 80% in the structure from the total labour (including expenses with meal tickets granted to the employees).

Comparing the production cost to the value of the finished products in a normal production month, determined based on the average sale price indicated an average profit margin of 18% (a value comparable to the result of the gross margin determined in the financial analysis for 2008).

The policy of the analyzed company, of adaptation to the market events and price level engenders a significant support of the sale policies and reveals the existence of a performant management which is very aware of the economic environment. The stock policy adopted by the business managers is coherent; also we can notice the correlation of the production program and implicitly of the purchase program with the orders which offers a direct control of the production costs and implicitly flexibility as compared to the market conditions.

5. Conclusions

After the study carried out at CATALI SHOES the following things came out:

- S.C CATALI SHOES S.R.L. was set up in 1994, having as the main object of activity: production and purchase in order to industrialize or semi-industrialize finished products resulting from manufacturing leather shoes; services – shoe repairs; wholesale and retail trade through its own stores, through stores belonging to other companies, in fairs or in other especially designed places.
- Raw materials necessary for the production are purchased from Romania or are imported from Italy and Turkey.
- The products are sold both on the internal market (300 clients) and for export - Portugal, Sweden, Spain, Hungary, Croatia.
- The company is endowed with fixed assets necessary to the production activity in the specific field such as: technological plants and equipment; special devices; transport means; other household inventory means.
- The production process is carried out in a mechanized form and the three main activities: cutting, sewing, pulling-soling-finishing are situated in distinct workshops. The three workshops are endowed with modern equipment purchased within the last 2 years from import – Italy and Czech Republic (Molina-Bianchi, Durkopp-Adler, Minerva) their total number raising to 70.
- The production cost is dominated by the expenses related to raw materials and consumables, with a share of over **72%**.
- The company has an well-balanced policy concerning stocks (the company does not purchase raw materials but in direct correlation with the finished products orders and with the production program); as a result it is easy to hold control over the production costs structure as compared to the production program.

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