

THE STANDARD COST METHOD AND THE OPPORTUNITY TO APPLY IT TO ECONOMIC FURNITURE PRODUCING ENTITIES

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Abstract: *In order to provide rapid information on production costs and on the development of the foreseeable side of managerial accounting, it is necessary to promote a cost method based on pre-established costs. We believe that the standard cost method in the standard cost-unique option meets these requirements. Managerial accounting will thus turn from a historical structure into a modern management tool. The use of operational and predictive methods creates the possibility of comparison between the actual and the standard, giving the possibility of highlighting and analyzing the causes that led to possible deviations.*

Keyword: standard cost, enterprise, cost control

1. Why use the standard cost?

Appeared in the U.S. at the beginning of the twentieth century as the "estimated cost system", the method provides the information on production costs with a predictable and functional specificity

Starting from the complexity of the activity in the furniture industry, the central point of cost-effectiveness and control analysis is no longer the order or the manufactured product, but the department, the workplace etc. The causes that determined the level of actual costs of the products are identified by the expenditure sectors where the activities necessary to obtain those products were made. Cost control is made by

highlighting and analysing the actual cost deviations from the standard costs, at the enterprise level, by sections, by calculation and by causes.

Even if it does not neglect the precision of determining the cost of goods, the standard cost method is aimed, in particular, at providing operative information necessary to control the organization's activity. The use of the standard cost method responds to the conception that the value of accounting information and its role are determined by the extent to which it is capitalized in the substantiation of decisions in order to trigger the necessary corrective measures to increase the efficiency of future activity.

By applying the standard cost method, the computational work is streamlined by the simplification that allows the use of pre-established costs. Standard unit costs calculated with anticipation are considered as actual production costs, in which case it is not necessary to calculate the actual cost of the products. The deviation from them is passed on the financial results, and they are considered deviations from reality.

The primary objective of the standard cost method is the concern to increase responsibilities. The standard cost is determined to guide the activity of the economic entity. It is a tool for controlling the consumption of resources, allowing the calculation of deviations by analysing the effective consumption in relation to the standard consumption. Through this method, the manager receives information about each expense, about the location and manner in which the resources were consumed, about their standard level or about the deviations, having the possibility to quickly discover the causes of unnecessary expenses that need to be removed to maximize the profit.

The method can be used to incite the managers to the line of cost reduction as standards can be set as a goal, not as rules to be respected. Using practical, not ideal, standards leads to the promotion of economy and efficiency.

Standards may be the basis for providing incentives for the staff. They need to have the ability to mobilize the company's staff. Standard costs need to be set to be exciting, but they can be perceived as a source of oppression and can sometimes lead to the creation and development of resistance attitudes on the part of employees who are required to meet standards. If the company's management is concerned about increasing employees' aspirations, by taking action to adhere to the company's goals and to develop a healthy competition spirit among them, it is possible to adopt an exigency standard that will be reported for a long period of time.

As it is known, the standard cost accounting can be affected in one of the following variants: standard partial cost, single standard cost and double standard cost. In view of the positive and negative aspects of the

three variants, we believe that the standard cost-unique solution responds more to the needs of the furniture industry.

The deviations for raw materials, as well as for labour, are determined on production sites, within which the analysis is expanded on cost-specific calculations based on the standard cost method and on the basis of documents reflecting their actual value. The deviations calculated for standard overhead costs are calculated at the end of the reporting period, after the recalculation of the expenditure standards and their comparison with the actual amounts.

Strength of the standard cost method is that, although it calculates full costs using the direct and indirect cost classification, it also uses the classification of fixed and variable costs, allowing cost analysis by reference to production volume and the determination of some useful indicators decision-making.

A. Grigore and M. Radu believe that to lead the enterprise based on predetermined sizes corresponds to the objective-based method of management and gives managerial accounting, as a provider of information necessary for decisions and corrective measures, a particular importance. Under these circumstances, the role of managerial accounting is not simply to calculate the cost of production, but to control whether this previously deferred has been reassessed by those responsible for costs. This will ensure control over the costs of production by providing daily information or at the end of a short period of time regarding the deviations from the standard costs on which the decisions taken during the economic processes are based.

In addition to the many advantages it has, the method also has some limitations that we should know before implementing it. When a standard is established, it is used as a reference or objective to be achieved over a period of time. When determining the standards requires too much effort, the economic entity may tend to preserve the standards for as long as possible, thus avoiding the expenses associated with their frequent redefinition. However, if the actual conditions of the activity change significantly from those considered in the calculation of the standards, standards may lose their information competence, their value may decrease, and the deviations are no longer relevant, and can not be used in substantiating decisions and exercising control. On the other hand, if the constant adaptation to business and environment changes leads to too much revision of standards, then they will no longer play the role of leading the enterprise. In order for the standard cost method to make sense, it is necessary that they remain stable for a longer period of time.

Any standard should be reviewed. With different content, the terms of the change are different. The current standard cost is usually revised when prices or technological processes change so that standards can no longer be used as real benchmarks. We believe that once a year, before budgeting for the coming year, furniture

manufacturers need to revise current standards and the basic standard cost needs to be changed on the occasion of the radical change of production technology, enterprise capacity, and when basic standards deviate in a significant way from actual conditions, losing its meaning.

Sometimes the implementation of standards can only focus attention on deviations that are significant, leveraging the vision of the whole mechanism, with implications for the operation of the enterprise.

People who need to be involved in improving managerial accounting are managers, accountants and other specialists (technicians, IT specialists etc.) and trainers, starting from the premise that they better understand the advantages and limitations of the techniques and methods offered.

2. Types of standards

Several types of standards are used in economic theory and practice. The main criteria for their classification are explained below.

According to the calculation mode, we distinguish: ideal standards, normal standards and real standards. *The ideal standards* are established on the basis of the most efficient possible use of the factors of production, in ideal conditions for carrying out the activity. *The normal standards* are established taking into account the normal conditions of the production and sales activity. *The real standards* are developed based on actual business conditions.

According to the form of expression, we can identify: physical standards and value standards.

Physical (quantitative) standards express the quantities of raw materials or the time required to produce a complete or semi-finished product. Physical standards have a high validity over time, changing only when the production process changes. Standards for raw materials are determined by types of materials and are expressed in units of volume, weight etc. Time standards are expressed in units of time: minutes, hours, days etc. *The value standards* are the monetary value of the physical standards. They are calculated by weighing the physical standards with the standard supply prices and, where appropriate, with a standard payroll tariff. They are time-limited due to changes in prices, tariffs and changes in legislation.

Depending on the period of validity, the standards may be: current standards and basic standards.

Current standards are developed on the basis of the specific conditions for the period for which the standards are determined. They are updated when the elements determining their settings, change.

Basic standards are physical or value quantities to which they tend and are developed for a long time (5-10 years). They do not update, even if there are changes to the moments in which they were established. Given that they are not related to the concrete conditions of the activity, they remain unchanged for the whole period for which they were elaborated.

3. Stages of applying the standard cost method

The standard-cost method is not set by normative acts and does not have a single method on standard setting and drafting of accounting documents. However, this system meets the requirements of the manager, being a powerful tool for controlling the consumptions of production. In order to be effective, the standard cost should have a double role: they must mobilize and at the same time they have to be understood by those who will apply them. They will be all the more mobilizing as they were built together with those who are asked to put them into practice.

Standard costs are scientifically developed, based on information from the previous period but also on the foresight elements that are correlated with the condition in which the future activity of the enterprise is planned. Standard costs are predetermined costs that are normative, thus facilitating the assessment of an entity's performance over a given period.

The cost structure, according to the standard cost method, consists of the following calculation items:

⇒the standard cost of raw materials and direct materials, determined by weighting the standard price with their standard amount;

⇒the standard cost of direct labour, determined as the product between the standard time expressed in hours of direct labour and the standard tariff per hour of activity;

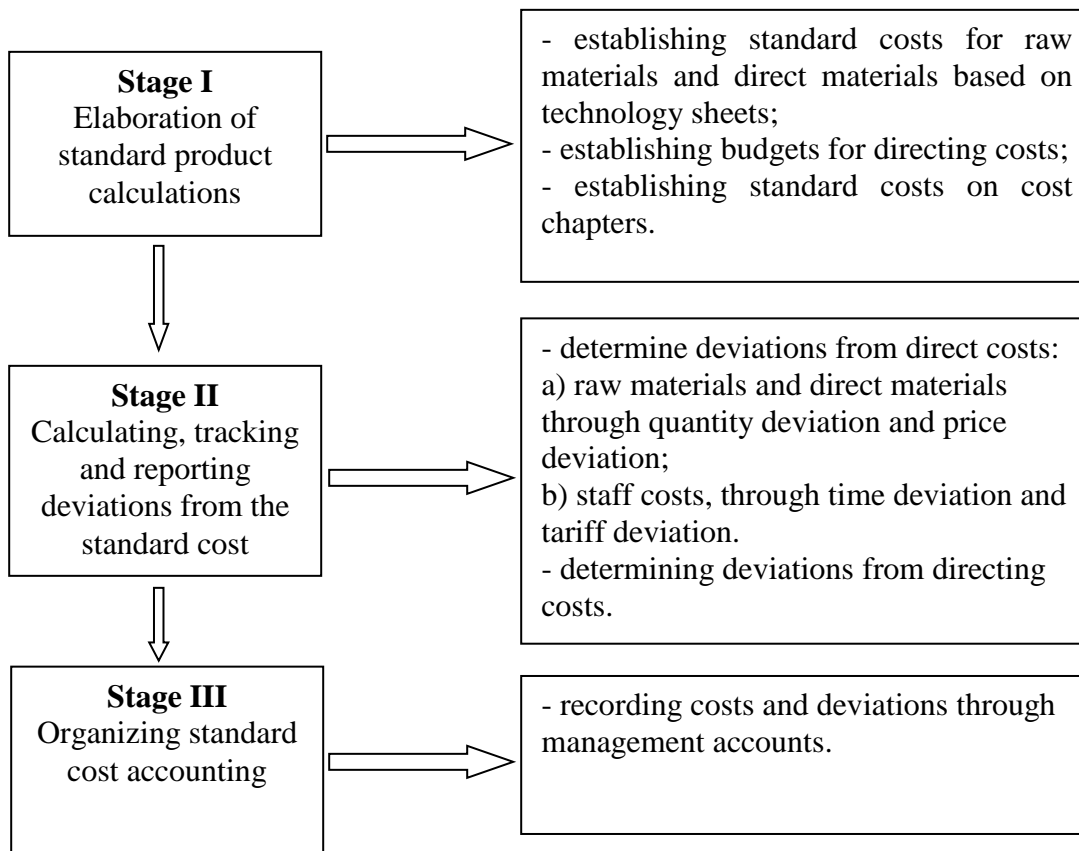
⇒standard output expenses which represents the estimated amount of variable, fixed and semi-variable directing costs.

Applying the standard cost method involves going through the following methodological steps:

1. developing standard product calculations;
2. computation, tracking and monitoring deviations from the standard costs;
3. organizing standard cost accounting.

Each stage also has several substages, shown in the following chart:

Figure no. 1. Stages of the standard cost method



Source: author's processing

Under the standard cost method, the follow-up production cost can be organized according to one of the three modes of the standard cost method (partial, single, and double). Discrepancy between these modes derive from the way in which the costs are calculated in the accounts for that are open for this purpose and from the way in which calculation and recording of deviations from standard costs is made.

Conclusions

Standard costs are the basis for setting sales prices. In order-based enterprises, standard costs allow the estimation calculations to serve as the basis for establishing the sales price. The same situation is observed in the case of the launch of new pieces of furniture not equivalent on the market: the standard cost of the new product, determined on the basis of the consumption of raw materials, consumables and means of production, serves as a starting point for reference selling price, also taking into account the marketing policy considerations.

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