



Analyzing Costs and Making Decisions by Using the Standard Cost Method within the Enterprises Operating in the Treatment and Coating Metals Industry

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Abstract: The enforcement of the standard cost method involves the following aspects: on the one hand, making the calculations of the standard costs for the products which will be manufactured in the following year, while on the other hand calculating, monitoring and controlling the deviations from the standard costs – these being the most important actions. Not least, it is also important to monitor the costs according to the requirements in the field. Carrying out an analysis process of the costs involves, first of all, determining the necessary data and providing it to the analysis instruments. The data related to the consumption of resources, energy, plants and equipment, as well as to the technological control (and others) must be available for a comparative analysis between the costs of the basic production and the alternative ones proposed. Once this data is determined, the direct and indirect cost are calculated, being followed by the actual analysis. The use of an adequate method for calculating costs involves for the project team to select the long-term financial indicators which explain the cash flows necessary to the activity of an organization, by using some analysis instruments enforceable to typical information. Therefore, our aim is to get to know the content of the method discussed here, the possibility to apply it in a certain field and, not in the least, to elaborate some thoughts on the scope of the chosen method.

Keywords: costs analysis, standard cost method, metals treatment and coating manufacturing industry

Classification JEL: M41

Introduction

The metal treatment and coating manufacturing industry can be found among the NACE Codes (*Classification of Economic Activities in the European Community*) at section C, point 25 “Manufacture of metal constructions and fabricated metal products, except machinery and equipment”; this class includes metal coating, anodic treatment of metals, heating treatment, the operations for removing ridge, sanding and cleaning metals, the painting and engraving of metals, the covering of metals with non-metals, like: plasticizing, enameling, lacquering and hardening of metals.

The new orientations in the field of management accounting are determined by the following aspects: the apparition of some new methods for organizing production; the change of market policies, as an effect of the transition of the economic power from the producers towards the consumers and the focus now put on the client; the increase of the role and importance of the activities taking place before and after the actual production; the decentralization of the activities and the emergence of another type of management, whose



needs have considerably evolved when it comes to costs related information; the need of objective knowledge and the mastering of all types of costs, in order to act towards reducing them and increasing profitability; the need to have a complete set of coherent indicators, expressed both at a monetary and non-monetary level; the necessity to benefit from knowledge in real time, through the management control system of malfunctions, in order to step in and remove them.

We consider necessary making a couple of mentions regarding the analyzed context: thus, the enforcement of the standard cost method concerns the increase of the role of the productions costs necessary for achieving the budget objectives, but also of the general costs, in relation to the increase of the performance throughout the entire enterprise. The main purpose calculating costs by using a method is to operationally provide the information needed for having the control of the activities within an enterprise. The analysis of the costs has precisely the scope of monitoring the contribution of the activities performed, pursuing at the same time the best results taking the form of profit.

Any activity which an entity performs in order to make a product must bring an added value. If for some activities customers are willing to offer a certain price, be it smaller or bigger, the strategic decisions which are to be adopted are essential for an enterprise. At the same time, it must also be taken into account the strategic horizon aimed when calculating and analyzing costs. The information offered by the costs accounting and analysis are, therefore, necessary when it comes to defining the sale prices, as these prices are decided only after costs are identified and calculated; they must also be correlated to the market prices.

Organizational features of the system analyzing the costs used by the metal treatment and coating manufacturing industry

Performing a costs analysis process means first of all determining the necessary data and providing it to the analysis instruments. It must be mentioned that the data must be available for a comparative analysis of the basic production costs with the alternative ones proposed. This data can be: the consumption of resources, energy, plants and equipment, the technological control and so on. Then follows the calculation of the direct and indirect costs, the latter being qualified by the specialized authors as “hidden costs”, since they are sometimes omitted by the costs analyses and allocated to general costs. The subsequent phase, of the actual analysis involving an adequate costs calculation method, involves for the project team to select the long term indicators explaining the cash flows essential for the activity of the company, by using some analysis instruments enforceable to the typical information.

The classification of costs within the manufacturing industry companies is done by taking into account the activities of the company, which are in strong connection with its functions, namely: production, sales, management and research-development. As for the production process, the following activities can be identified: the purchase of raw materials, finished or semi-finished, with the aim of reselling them; the transformation of raw or semi-finished materials in finished products; the assembling of finished products in products which will be resold; the placement of the products made; the service provided. The production



activity is done on several sectors: exfoliation-calibration; rectification; the sectors of small pulled bars; mechanical manufacturing; chroming.

The costs registered for these activities contribute to the cost of the assets sold, which are divided in 4 lines within the profits account: direct materials, direct labor force, fixed production cost and variable production cost. In accordance with these, we can make a classification of the costs incurred by a company: costs for producing the goods, costs for selling the goods, management costs and research and development costs. The cost of the assets sold involves all those occasional costs for the assets ready to be sold or for the services provided. In the balance-sheet, these assets which are to be resold are registered as inventory and placed as finished products. More precisely, the costs of the assets sold include all the costs involved by the production component: the purchase of raw and semi-finished materials and of products which will be resold (by transforming them or just by assembling them, up to the point where those assets will be shipped from the production area to the finished products warehouse and/or sent to the sales department). The purchasing of raw materials involves fixed costs both for the raw materials and for the finished or semi-finished products. The conversion, assembling or placement of assets, as well as the services provided, are activities referring to the production process for all the enterprises within the metal manufacturing industry. All these activities register costs, be them direct or indirect.

Speaking of the enterprise discussed here, the calculation of costs is done by taking into account the activities mentioned before, laying emphasis on grouping the costs in relation to their evolution as to the physical production volume. This physical volume is correlated to the value of the various expenses which are contained by the productions costs. The metals chroming – which is the main activity within the enterprise– involves costs registered in the analytical accounting as: direct costs (expenses with direct materials, expenses with direct labor) and indirect costs - grouped in fixed and variable costs¹. Variable costs are described by the legal literature as those indirect costs varying throughout production: direct, approximately direct and in cycles. Some costs differ strictly according to the production volume, while others not in accordance to that, faster or slower. These expenses can be generated by: electricity, water, sewage, consumables or other tools used in the production process. Fixed costs are indirect costs or overheads, being reasonable no matter the level at which production is. More precisely, these costs are borne even if nothing is produced. These costs also include those incurred with the employees who are not involved in the production activities (in other words, with the direct labor force). Fixed costs include: the performance of services, the taxes on salaries, the salary benefits, lighting, rents, licenses, copyrights for certain inventions, consultancy and so on. Other costs which fixed costs use and which are very important are those related to sales (marketing). These costs can include advertising expenses, promotional offers and expenses generated by the transport and delivery of finished products. The fluctuations of the total cost generated by the production level replicate, in consequence, the variations of the variable cost. The marginal cost is determined too by the evolution of the variable costs. The theory of the marginal cost brings an added value when investigating the rational character of the resources consumption. This type of cost

¹ F. Pottier, *Analyse de coûts*, Ed. Economica Publ. House, Paris, 2005, p. 19.



can be easily mistaken with the variable one, if the new production does not bring an increase of structural expenses and if the unitary variable expenses are constant². Total costs, classified in fixed and variable ones, can be expressed per product unity, being named also unitary or medium costs. As a consequence, in order to make a correct budget and to control costs efficiently, it is mandatory to classify them: fixed and variable costs, direct and indirect costs, products related costs and period related costs.

Analyzing costs and taking decisions by using the standard cost method within the enterprises operating in the metal treatment and coating industry

Enforcing the standard cost method involves the following aspects: making the calculations of the standard costs for the products which will be manufactured during the following year; calculating, monitoring and controlling deviations from the standard costs, as the most important actions; monitoring costs according to the requirements in the field. For manufactured products, the standard cost is calculated, so that at least a pre-calculation is made. Making a calculation of the product costs involves certain standard measures. These can be quantitative – expressed in technical measurement units – or natural – like the consumption of materials and resources, temporal standards and value (financial) standards, expressed in money. The costs established in advance lay emphasis on a vision of making provisions and subsequent comparisons of deviations registered with what has been accomplished, therefore establishing the logics of the budgetary control. Before calculating the pre-established and the standard costs, but also their deviations, it is important to establish the performance level which a company wants to achieve. The higher the standards, the greater are the demands of efficiency, whereas the chance for negative deviations to appear is an increased one.

For production units, Standard Cost is a method of allocating expenses on different production units. With the evaluation of the standard cost, both the stocks and the margins of standard variables can be kept away from the influence of price variations. Variations can be interpreted separately, but they will be included in the cost of the sold products, in order to reflect the weight of the current cost, to a certain extent. It must be mentioned that the enterprise uses both products purchased directly, by considering them semi-finished, and products manufactured in its own regime, which it transforms throughout the production process, by considering them new products. Improving the organization of the accounting related to the expenses made with raw and direct materials involves calculating in advance the costs of the programmed production within the enterprises where metals are treated and coated, in the context of the standard cost method. The first phase of the standard cost method enforcement involves determining the unitary standard cost. The practical activity of the economical-financial analysis – a major component of the internal management of a company – can be oriented towards the totality of expenses or towards the analysis of the unitary cost. According to the aspect previously pointed out, the following indicators were calculated and inserted in the chart: the cost of the raw materials, of direct materials, of labor and of fixed and variable expenses, which all make up the standard cost.

² C. Goujet, C. Raulet, *Comptabilité analytique et contrôle de gestion*, Dunod Paris Publ. House, 2001, p. 184.

Table 1 Standard cost per product

No.	Item Code	Cost of raw materials/purchased products	Cost of direct labor	Cost of variable labor	Fixed Costs	Variable Costs	Total standard cost
		-RON-	-RON-	-RON-	-RON-	-RON-	-RON-
1.	0080 0001	0,86	0,13	0,09	0,11	0,16	1,35
2.	0338250	3,11	0,37	0,22	0,39	0,64	4,73
3.	10021476	20,23	1,09	1,46	1,08	0,07	0,20
4.	2525 1700	14,95	0,55	0,35	0,70	1,19	17,73
5.	286314000130960	0,74	0,21	0,13	0,22	0,35	1,65
6.	Total	39,89	2,35	2,25	2,5	2,41	25,66

(Own processing)

We should make the following mention: the production costs have an important role when it comes to the activity of an enterprise being performed, as they determine the economic-financial indicators taken into account when determining the production and sales level, so that the most precious information is pointed out, in order for management decisions to be made. In the context of the current market economy, the unitary cost is the bottom limit up to which the sale price of a product can go down, without endangering the activity of the enterprise. It is necessary to calculate the variable costs, as the production volume is dependent on them.

When referring to industrial enterprises, it is interesting explaining the change of the medium rate of expenses through the standard cost method, as a synthetic expression of the resources consumption efficiency overall or per certain structures involved in the calculation. Being an efficiency indicator, the medium rate of expenses is determined as the ratio between the level of total expenses and a results indicator. By starting from the way it is calculated, we can evaluate the influence of factors upon the deviation of the medium rate of expenses within an enterprise. The expenses rates are calculated on the basis of the budget and are used for calculating the standard cost of the products, but also for calculating the cost of new products.

The analysis of the costs can be done by using the rates method or of the main expenses categories. We shall subsequently exemplify the use of the expenses generated by materials and of the expenses generated by labor, in order to calculate the expenses rates for the most important operations within the activity of the enterprise. Please see the following Table 2.

Table 2 Fixed salary expenses and variable production ones

No.	Workshop	Operation Name	Time	Direct Labor	Variable Labor	Variable	Fixed	Total
			(Hour)	(RON)	(RON)	(RON)	(RON)	(RON)
0	1	2	3	4	5	6	7	8
1.	5028	Gliding	0,0330	0,01	0,01	0,00	0,02	0,04
2.	5022	Assembling	2,1000	0,56	0,43	0,21	1,12	2,32
3.	5028	Polishing	0,3500	0,09	0,07	0,04	0,19	0,39
4.	5015	Stamping	0,0300	0,01	0,02	0,09	0,07	0,19
5.	5022	Assembling	2,1000	0,56	0,43	0,21	1,12	2,32
6.	5028	Polishing	0,3500	0,09	0,07	0,04	0,19	0,39
7.	6004	Laser Cutting	0,1000	0,03	0,05	0,15	0,07	0,29
8.	5022	Packaging	0,3000	0,08	0,06	0,03	0,16	0,33
9.	5028	Gliding	0,0330	0,01	0,01	0,00	0,02	0,04
10.	5028	Polishing	0,3500	0,09	0,07	0,04	0,19	0,39

(Own processing)

After filling in the forms related to the measurement of the working hours in the first trimester, it can be noticed that the standard time has been met per operations, an aspect which can be noticed in the 3rd column. This can contribute to an easier hourly calculation of salaries.

It can be noticed that the assembling operation registers bigger expenses in comparison with the other operations like stamping, pressing, zinc coating and so on. Another observation refers to the fact that the time allocated to labor is bigger or more or less equal in the various workshops, so that minor fluctuations of expenses are registered from one workshop to another.

Table 3 Expenses with raw materials

No.	Workshop	Operation Name	Consumption	Price of Raw Materials	Standard Cost of Raw Materials	Margin	Gross margin of raw materials
			(piece)	(RON)	(RON)	(RON)	(RON)
1	5028	Gliding	1,0000	0,80	0,80	25%	0,20
2	5022	Assembling	1,0000	18,10	18,10	25%	4,53
3	5028	Polishing	1,0000	0,10	0,10	25%	0,03
4	5015	Stamping	1,0000	0,41	0,41	25%	0,10
5	5022	Assembling	1,0000	0,22	0,22	25%	0,06
6	5028	Polishing	0,2040	3,25	0,66	25%	0,17
7	6004	Laser cutting	1,0000	253,84	253,84	10 %	25,38
8	5028	Gliding	2,0000	0,10	0,19	25%	0,05

No.	Workshop	Operation Name	Consumption	Price of Raw Materials	Standard Cost of Raw Materials	Margin	Gross margin of raw materials
			(piece)	(RON)	(RON)	(RON)	(RON)
9	5028	Polishing	3,0000	0,07	0,21	25%	0,05
10	5022	Assembling	1,0000	0,13	0,13	25%	0,03

(Own processing)

By using the term of gross margin, we consider necessary mentioning this: the gross margin represents the result of calculating columns 5 and 6, by multiplying the standard cost with the positive margin percentage, which was established in accordance with the purchasing price. It can also be noticed that, for the laser cutting operation, taking into account that the price of the raw material was high, the margin percentage was lower, more precisely 10%. It is at the same time obvious that, when it comes to the polishing operation, the standard cost has been modified by the price of the raw materials, meaning that when the standard cost is lower than the price of the raw material, the gross margin increases, while when the same standard cost is higher than the price of the raw materials, the gross margin decreases. For the rest of the operations, the standard cost has preserved the initial price of the raw materials. This means identifying the standard cost as to the effective one. By starting from a budget established for year Y, we shall calculate the rates for the raw materials, direct labor, variable labor, fixed and variable production costs, and we shall compare them with the rates from the previous year. Moreover, we shall identify the variations of all indicators for the two reference years, X and Y.

Table 4 Budget allocated for X and Y

Year	(Raw) Materials	Direct Labor	Variable Labor	Total Variable Costs	Total Fixed Costs
	(RON)	(RON)	(RON)	(RON)	(RON)
	1	2	3	4	5
X	31.721.980	3.681.948	2.710.348	4.151.603	6.243.377
Y	31.721.980	3.513.100	3.565.296	4.376.307	6.972.601

(Own processing)

We can notice that the budget established for the two reference years has been the same for the raw materials. For the other indicators – more precisely fixed costs, variable cost and labor – insignificant variations have been registered, which means that the calculations which were made in advance are more or less similar to the effective ones. The following charts shall reflect the expenses rates grouped per items and the costs corresponding to the indicators for the 5 products, as it follows:

Table 5 Expenses Rates for X

No.	Item	(Raw)	Direct	Variable	Var.	Fxd.	Total
		Materials	Labor	Labor	Cost	Cost	
		%	%	%	%	%	%
	1	2	3	4	5	6	7
1	Blocking bolt 100 pieces/box	0,07	0,11	0,24	1,42	0,07	0,11
2	Chromate hook 338 d250	0,18	0,67	0,80	5,25	0,18	0,67
3	Lock LI 242017u2080-1	1,27	0,67	2,02	25,37	1,27	0,67
4	Chromate stop G2525 170 mm	0,21	1,09	0,96	17,78	0,21	1,09
5	CS Stop plate with plastic insertion	0,09	0,30	0,37	1,71	0,09	0,30

(Own processing)

Table 6 Expenses Rates for Y

No.	Item	(Raw)	Direct	Variable	Var.	Fixed	Total
		Materials	Labor	Labor	Cost	Cost	
		(%)	(%)	(%)	(%)	(%)	(%)
	1	2	3	4	5	6	7
1	Blocking bolt 100 pieces/box	0,86	0,13	0,09	0,11	0,16	1,35
2	Chromate hook 338 d250	3,13	0,45	0,27	0,45	0,71	5,00
3	Lock LI 242017u2080-1	20,23	1,09	1,46	1,08	1,45	25,32
4	Chromate window stop g2525 170 mm	14,95	0,55	0,35	0,70	1,19	17,73
5	Cs Stop plate with plastic insertion, no brand	0,74	0,21	0,13	0,22	0,35	1,65

(Own processing)

For any enterprise, this one included the expenses with the raw materials or with the materials have a significant weight in the total of the operational expenses, so that it is absolutely necessary to carefully analyze the weights of such expenses. As it can be noticed in this case too, the biggest weight when it comes to expenses is the one involving the expenses generated by raw materials.

Table 7 Comparison of items

No.	Item	Cost rates Y	Cost rates X	Variation Y/X	Sale price Y (rates Y)	Sale price X (rates X)	Variation Y/X	Current calculated cost
		(RON)	(RON)	(%)	(RON)	(RON)	(%)	(RON)
	1	2	3	4	5	6	7	8
1	Blocking bolt 100 pieces/box	1,35	1,42	-5%	1,49	1,48	1%	1,22
2	Chromate hook 338 d250	5,00	5,25	-5%	5,36	5,57	-4%	5,25
3	Lock LI 242017u2080-1	25,32	25,37	0%	29,83	29,18	2%	23,76
4	Chromate window stop g2525 170 mm	17,73	17,78	0%	20,68	21,02	-2%	18,17
5	CS Stop plate with plastic insertion	1,65	1,71	-3%	1,62	1,68	-3%	1,72

(Own processing)

By making the comparison that we have referred to before at chart 7, we can notice insignificant variations of the costs corresponding to year Y, compared with the previous year X. This thing leads to the idea that the prices related to the purchase of raw materials or salaries have not undergone changes.

By using the expenses rates, we will be able to therefore calculate the variation of labor and of variable and fixed costs for the two years taken into account, having the workshops as central cost.

Table 8 The variation of costs of certain indicators typical to the Standard Cost method

Indicators	Amount -RON-	Variation	
Sales			
Exchange Rate			
at the current price	5.172		
at the listed price	5.348		
impact		-176	negative
Transfer price			
at the current price	5.172		
IGT policy	5.300		
- impact		-128	negative

Indicators	Amount -RON-	Variation	
Production			
Direct Materials			
- current	2.931		
- standard	3.033		
- impact		102	positive
Labor			
- current	728		
- standard	787		
- impact		59	positive
Variable Costs			
- current	588		
- standard	611		
- impact		23	positive
Fixed Costs			
- current	632		
- standard	816		
- impact		184	positive

(Own processing)

According to the chart above, we can notice on the one hand positive variations, while on the other negative ones, of the main production and sales activities. Here are the arguments of this conclusion: the fact that within the production activity variations are positive involves a gain, while on the other hand the impact of the transfer price and of the exchange rate involves losses due to the depreciation of currency or to the legislative provisions when it comes to the transactions made towards foreign partners.

In order to clear out what has been previously stated, we consider necessary mentioning that, in the circumstances of the current economy, where the price and fees changes are frequent, the value standards can no longer be stable in time, as a value and physical expression³; consequently, the standard purchase prices are calculated in accordance with the medium purchase prices for the previous period. At the same time, in accordance with the production volume and the period of time taken into account, production costs have a different behavior. It is precisely because of this that the evolution of costs is analyzed and monitored both on a short and long term; the marginal cost is an important indicator to be followed too when doing an economic analysis of the society.

It must be therefore underlined that the analysis of the product cost follows its deviation from a planned cost or from the previous year and must culminate with identifying the possibilities for constantly reducing costs,

³ Magazine *Gestiunea și contabilitatea firmei – Efectele variației cursurilor de schimb valutar*, Tribuna Economică Publ. House, March 2007, p. 20.

maintaining or even improving products quality⁴. As a result, the scientific determination of standard costs involves for them to be assessed as “normal”; for this reason, any deviation noticed during the production cycle shall be considered a deviation from normality and shall have a direct impact upon the financial results of an enterprise. Going back to the difference between the standard and the effective cost, this difference represents a “cost variation” or a “deviation”. An unfavorable deviation exists when the effective cost overcomes the standard one, while the favorable one the other way round. Deviations from the standard costs are identified according to their causes and are registered as distinct accounts within accountancy, as it follows: deviations from materials, labor and overheads. Moreover, the standard cost – just like all the other historical costs – reflects a progressive accumulation of the costs generated by the resources used⁵. In other words, deviation must “tend towards zero” or we should have one rather unfavorable (meaning positive) than a considerable favorable one (meaning negative); the latter one means that an exaggerated budget has been allocated to a product, while the resources were unsuitably distributed.

Table 9 Costs variations

Reference year	Direct Materials	Labor + direct labor	Variable production costs	Fixed production costs	Turnover
	(RON)	(RON)	(RON)	(RON)	(RON)
	1	2	3	4	5
Y	31.721.980	6.392	4.376.307	6.243.37	53.970.855
X	31.721.980	7.078	4.151.603	6.972.60	52.832.350
Calculated cost variation	0%	11%	5%	12%	2%

(Own processing)

The deviation was calculated according to the following model:

$$GD \text{ (global deviation)} = \text{Total production cost} - \text{Pre-established production cost}$$

It can be noticed a cost variation amounting to 0% for direct materials, meaning that the budget was correctly allocated and that the price of the materials was correctly calculated in advance. Yet, it must be mentioned that the standards regarding the costs for raw materials and direct materials constitute variable expenses. As for the labor, the variation percentage is a favorable one (negative), making so that it has a value of about 12% within the turnover. This can be generated by the weak performance of the employees, by their lack of qualification or by the improper distribution of labor hours. The persons responsible for this negative aspect will be both the personnel manager or the production manager, The variations of the fixed and variable

⁴ C. Alazard, S. Sépari, *Contrôle de gestion, Cas pratiques*, Paris, 2001, p. 109.

⁵ M. Lebas, *Comptabilité analytique de gestion*, Nathan Publ. House, 1986, p. 218.



costs can allow in the same context the analysis of the costs in relation with the production volume, but also to establish some reference values to express as best as possible the normal activity conditions; as a percentage in the turnover, they register a percentage of 8%.

If we are to analyze the variation of the turnover, we can notice an insignificant percentage, meaning that the indicators analyzed determined neither an increase nor a diminishment of sales. Moreover, depending in this variation, we can determine or control whether the persons in charge with several activity sectors reached their objectives. When it comes to assessing an enterprise, the first thing to be taken into account is the sales of goods, works and services constituting its object of activity, that is the turnover. The analysis model of costs that we use is the comparison method that we have referred to during the present research. In order to make a correct assessment of the commercial performance in time of the enterprise analyzed, we should correct the turnover with the index of the prices within the activity field, in other words to evaluate it at comparable prices.

Depending of the result of the turnover expressed in comparable prices, we can have two conclusions: if the values of the turnover are bigger than the turnover in current prices, then the enterprise has registered this increase on the basis of the increase of the quantity sold, having positive effects upon the market share; by comparing the increase index of the turnover within the field analyzed with the index of the sales within the market of the sector of activity, we obtain a favorable/unfavorable difference of the sales of the enterprise, compared with the dynamics of the sector, a difference which shows the strengthening or the weakening of the position of the enterprise on the market. The calculation of the increase or decrease of the sales volume of the enterprise is done by comparing those sales with the total ones existing on the market. The undergoing production or the finished production, registered at a standard price, do not remove nonetheless the possibility to actually calculate the unitary costs per certain periods of time, by distributing deviations upon the finished production or the undergoing one. After the reinstatement of the budget and variations, the following phase involving the production launch can be started.

The main purpose of calculating costs through the standard cost method is, in conclusion, that of operatively providing information on the budget, evaluation, coordination and control of the activity, before launching a fabrication lot. To briefly recap the enforcement of the standard cost method, here are the main steps of it: making the standard calculations for the next production (Y in comparison to X), calculating, monitoring and controlling the deviations from the standard costs; monitoring costs according to one's own requirements, in order to justify the decisions made.

Conclusions

The main advantages of the standard cost method presented here can be synthesized in the following way: the effective results can be immediately compared with the standards calculated in advance, thus showing the favorable and unfavorable deviations; deviations can be analyzed in detail, in order to notify the managers about them, and to allow for the possibility to be investigated. Will therefore be discovered the flaws in the labor, use of the materials or machine handling; will be pointed out the gains and the losses due to the



fluctuations of the price of raw materials on the market, independently from the gains or losses caused by the industrial conversion (transformation); will be rapidly pointed out the effects upon costs generated by the deviations in the price of the use of materials, salaries, production volume and modified expenses.

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