Concept Of The Accounting System Of Costs For Activities And Processes

Igor Zdravkoski PhD[1] **Miroslav Andonovski PhD[2]**

Ljupce Markusheski PhD[3] **Pece Nikolovski PhD[4]**

[1]University "St.Kliment Ohridski" – Bitola, Faculty of Economics – Prilep, igorzdravkoski@gmail.com

[2]University "St.Kliment Ohridski" – Bitola, Faculty of Economics – Prilep, miroslav.andonovski@uklo.edu.mk

[3]University "St.Kliment Ohridski" – Bitola, Faculty of Economics – Prilep, ljmarkusoski@t.mk

[4]University "St.Kliment Ohridski" – Bitola, Faculty of Economics – Prilep, nikolovskipec@yahoo.com

Abstract: Costs are present everywhere. The size and scale are different, but their impact is a factor in conceptualizing many of the work plans. Undoubtedly, tracking, recorded and controlled costs are a requirement for successful action.

In fact, the cost estimation is very important. Through it we can easier find a way to reduce them.

Namely, each company offers certain products or services to satisfy certain groups of customers.

Also, in the production or conversion process, each unit of product or service generates specific costs. It is known that the accounting information system for companies is a complex system that collects, classifies, processes and reports on the overall business operations of the business entities.

In fact, this system offers the opportunity to perceive the costs incurred.

Namely, in the functioning of factories through processes and operations in which products pass through, it is necessary to control the activities and costs. Of course, this includes service companies that offer and fulfill their obligations in certain steps.

Here, the need for controlled steps must not be omitted, which makes it easier to determine the price of a certain service.

In fact, companies need to improve the quality of products, the quality in the operation of employees, reducing production time, and so on. Which means, through the records of the costs of processes and by activities, as well as by the condition and number of work orders, an additional cost estimate is also achieved. Standardized and rational costs affect the success of each company's operations. Hence, we come to the process analysis and control of the work.

Namely, the individuals - cost accounting system managers - have the task of monitoring the movement of costs from one process to another and from one activity to the next.

In fact, records need to start from the entry itself (beginning), to the ultimate goal i.e. the realization of products and services.

Keywords: estimation, cost, process, control, improvement.

INTRODUCTION

Production or processing are operations that take place in batches. While the services last a certain number of steps. But these are uninterrupted processes in industry, trade and are practiced continuously. Also, serial production is a model where products go through several stages of processing. Of course, this requires standardization of the system given the amount of the same (standardized) products. In view of this, standardization applies to service companies.

Namely, these companies, such as banks, insurance companies, consulting firms use a system for calculating the costs according to accounting for activities. The common feature of manufacturing and service companies is that operations are always carried out in a sequential way.

Here, we must note that each process involves a set of different activities. Basically, the manager in charge of realizing and controlling these processes needs to understand and determine the costs that are incurred and included in them. Namely, process production is increasingly using automated machines that aim to reduce production costs without affecting the quality itself.

In fact, the serial operations represent each process as a separate production part.

This means that they are interconnected because each subsequent production part accepts the output effect of the previous one. For example, if we have a raw material, a material (wood and timber). And suppose the process is a five-step series. In the end, we realize that only in the first step (the input process), the material has not been processed.

While in the second step the material is taken from the first. In the third step it is taken from the second step, etc. Every step represents a separate department of process production. By repeating these steps, a series of standardized products and services are obtained. Similarly, we can have a similar example if we assume that a fast-track service company provides delivery to a home address. The first step would be to take the shipment, while the second would be the classification and provision of the shipment.

Namely, transport to the designated place (home) is the third step. And, the fourth step is handing the shipment to the recipient and charging/ receiving payment. Here it is necessary to determine how the costs are determined?

In fact, experience and practice show that the costs that occur in each process individually, they shift from one step to another. Hence, the accumulated costs in the final process are calculated on the final product or in the final step of the service.

ACCOUNTING ACTIVITY AND DETERMINATION OF THE COST PRICE

The accounting of activities is characteristic of the fact that it is a management accounting system. It is also a system for determining the cost of the effects. It is also a system for planning, for measuring the results, etc.

In fact, the accounting of activities of one department for a certain period includes four analytical steps:

- ★ physical flow analysis (inflow);
- ★ analysis of the equivalent units;
- ★ an analysis of the cost price of the equivalent units;
- ★ Analysis of cost allocation and alignment.

Namely, the accounting system of activities needs to enable clear monitoring of the activities in the process that generate costs. In this way, you can see the reasons that cause costs which need to be controlled. In the production process, the products themselves create the need for indirect activities (quality control, design, marketing, etc.).

Hence, we emphasize that the more activities a product requires, the higher the costs it causes. Cost allocation needs to be done on the basis of the number of activities of a particular product or service they cause. In fact, based on the recorded costs, this system represents an established form - a way of managing costs. Through the system we create the basis for a real cost estimate. We create a plan and opportunity to reduce the cost price, as well as better competitiveness on the market. In fact, we create an accounting report for accountants' accounting systems of the costs in processes called a production report.

Its' presentation is customary for each process or for each department separate. With the production report, each department manager and other managers control the employees and the execution of the tasks. Additionally, this higher-level management report gives a separate picture of the success of managers by departments.

At the same time, with the help of the production report, accurate information is obtained in the preparation of the total financial statements. The report itself describes, in particular, the costs per department, representing the equivalent units of production achieved in a particular department, as well as the general costs.

Table 1. example of a transfer of costs[1]

Purchase costs …….600.000 den.
Number of orders ……2.000

[1] Markovski, Nedev, Managerial Accounting, pp.315.

Cost per order ……300 den.		
	Product A,	Product B
Production volume ……..600		6.000
Number of orders ……10		100
Costs for procurement ……..3.000		30.000
Costs per unit of output ……5		5

From table 1. we needs to understand the following: procurement costs of 600,000 MKD refer to the total purchases, ie the total number of orders for one accounting period.

Namely, they also apply to all products produced in the entity (enterprise).

From the example it is clear that on the basis of the total costs and total orders, the costs for one order are calculated. Also, based on the established costs for one order, the cost of procurement for individual products is calculated (A + B = 33.000 den.). While the remainder is 567.000 den. refer to other products.

ACCOUNTING FOR THE COST OF THE PROCESSES

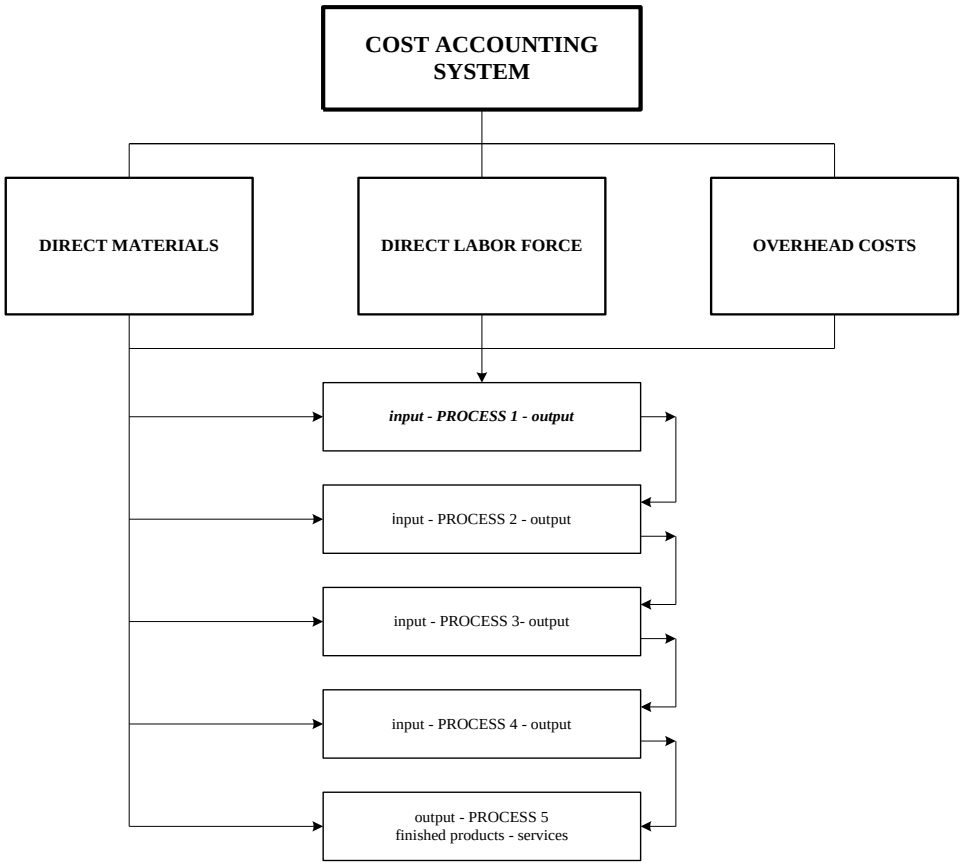
The production processes include materials, labor force and overheads.

In fact, tracking the costs per department is a complex moment. Therefore, it is first necessary to calculate the costs per activity, and then total after a certain department (process).

Namely, the accounting system for the costs in the processes calculates the direct materials, the direct labor force and the cost amount for a certain period.

Thus, the identified total costs associated with the processes are divided by the number of units - products that have passed through them and receive an equivalent price.

Figure 1. Cost accounting system.



Presentation of direct and indirect costs is useful because all materials and labor that can be accounted for by certain processes calculates direct costs. While indirect costs that can not be tracked are channeled into overhead costs. In a serial operation, each process is identified as a separate work center.

Through figure 1. one can see that direct materials, direct labor that cause direct costs, participate in the production process.

But, consequently, each output (output) for the next department is input (input) where the indirect costs are caused, that is, the overhead costs are included. Of course, we will emphasize that the cost records begin even when the materials are purchased, their transport ie. arrival and accommodation in a warehouse.

Then, the moment of their exit from the warehouse and entering the operational production process is followed. In processing the products and completing the costs of the direct workforce it is necessary to include salaries where taxes are included. Naturally, these represent direct costs.

However, the logistics of employees coming from the administrative part (office services - email, documenting, orders, sales, computer tasks, etc.) are not direct costs. This means that they represent an indirect workforce and the costs arising from them need to be included in the record of the overheads of the company. Also, the costs of insurance of capital, (construction objects, use of services, equipment, etc.) represent overheads.

That is, the records in the cost accounting complete the Report on spent materials and auxiliary raw materials.

This report and its importance are inevitable and indisputable, because through it we have an insight into which, how many materials have been issued, in which department what material has been delivered, the period in which it is received, etc.

DISTRIBUTION OF COSTS BY LEVEL

The distribution of costs through the accounting system of activities is mainly done by products or by business processes that we call centers of activity. And this is a traditional system that represents the first degree of cost allocation.

Whereas, in the second instance, the costs are divided into two groups, 1. the allocation of costs according to the centers of activity where products are the cost drivers, and 2. the allocation of costs by the centers of activity where the cost drivers are purchasers.

Namely, the centers of activities are activities for serving the customers, or they act homogenously in the processing (production of parts, various purchases, sales, etc.).

In fact, the measures of the activities used to allocate costs to the centers of product or purchasing activities are the causes of the costs in the second instance. Here we include direct wages, direct materials, duration in working hours and more. Also, it is necessary to use bases such as: number of preparations, number of orders, working hours, etc.

The cost allocation is multiplied. Which means that costs are created at multiple levels. Determining costs by level is understood to determine the cost per activity.

In fact, if a particular product is required to take certain steps before starting its production it is necessary to prepare the machines. But also design should be determined, which is a separate level that causes costs. Which means, sometimes there may be some changes or deviations from the plan.

Therefore, the cost-level separation is very important. It is, then, easier to make an additional calculation of costs where there are deviations, while the other levels remain unchanged.

Here if the question arises: why all these calculations, divisions and allocations of costs are needed?

The answer is: because of the need to make different types of decisions.

Usually, product activities generate costs.

For example, if it is a set of parts that create one whole (one product) it needs its assembly (assembling, assembly), but also it takes a certain time for the preparation and putting into use of the same product. While the activities with the buyer are calculating, they start the cost with the order. Starting with the receipt of the order, preparation, transportation and delivery.

CONCLUSION

Through the elaboration of the content in the paper we can emphasize that the process production creates (produces) large quantities of similar or identical products. They certainly go through a series of specific processes or services that are offered in a series of steps. Also, the process operations include direct materials, direct labor and overhead costs. Of course, it is also necessary to emphasize the importance of accounting for activities that have an organized advantage. Because costs and costs are generated in the processes of production and provision of services.

Which means, the accounting system of activities allows to clearly define the processes and activities on which the costs are incurred.

All these costs, irrespective of their type, extent and level at which they are caused, are methodologically and accurately recorded.

Accounting activities through equivalent production units measure activity in a given process in number of units. This measurement allows for the calculation of the costs by equivalent units.

At the same time, the transfer of costs in the storage of finished products, but also on the inventory of goods in the work processes.

In this part of the paper it is necessary to note that the accounting of activities determines the steps of the production activities for a certain period.

Accounting of activities is a complex system of multiple subsystems:

* accounting system of management,

* system for measuring the results,

* system for planning and control,

* system for determining costs and cost, and

* inventory valuation system.

Of course, we will also emphasize the importance of the production report, which presents the activities of a process for a certain period.

Namely, its ultimate goal is to facilitate the management of costs.

In fact, with managers, the production report creates a clear picture of the situation, provides increased control, and also supports the reliability of the final financial statements. In addition, the paper emphasizes the need for a certain distinction between the accounting system of costs in processes and costs by orders.

Namely, the measured focus in the first system is the process itself and the manufactured standardized units. And, in the second system, the measurement focus is on an individual or a certain set of tasks performed.

REFERENCES

1. Aceski, B. (1997). “Management Accounting”, Faculty of Economics – Prilep, Republic of North Macedonia.
2. Horngren, C. T., Sundem, G. L., Elliott, J. A., & Philbrick, D. (2010). "Introduction to Financial Accounting", 9th edition, (translation into Macedonian), Magor doo, Skopje, Republic of Macedonia.
3. Horngren, Foster, Datar,. (2000). "Cost Accounting", 10th edition, Prentice Hall, New Jersey, USA.
4. Markovski, S., Nedev, B., (2003) " Managerial Accounting ", Faculty of Economics – Skopje, Republic of North Macedonia.
5. Milicević, V. (2000). “ Cost accounting and business decision making”, 1st edition, Faculty of Economics – Belgrade, Serbia.
6. Stevanović, N., Malinic, D., (2003). “Management Accounting”, Faculty of Economics – Belgrade, Serbia.
7. White, G.I., Ashwind, S.C., Fried, D. (1998). “The Analysis and Use of Financial Statements”, 2nd edition, (translation into Macedonian), Securities and Exchange Commission of the Republic of North Macedonia.
8. Wild, J. J., Shaw, K. W., & Chiappetta, B. (2010). "Fundamental Accounting Principles", 19th edition, (translation into Macedonian), Akademski pecat – Skopje, Republic of North Macedonia.
9. Zdravkoski, I. (2007). “Standardization and application of the financial statements”, Faculty of Economics – Prilep, Republic of North Macedonia.

10. Zdravkoski, Z. (1993). "Costs - prices - business results (factors and practice)", 2nd edition, Metafora, Prilep, Republic of North Macedonia.