European Journal of Accounting, Finance & Business

Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

DIRECTIONS OF IMPROVEMENT AND ORGANISATION OF MANAGEMENT ACCOUNTING BASED ON ABC-COSTING METHOD APPLIED IN MOLDOVAN MANUFACTURING ENTITIES

Svetlana MIHAILA[1]*
[1] AESM, 61 Banulescu-Bodoni Str.; MD-2005 Chisinau , Republic of Moldova, E-mail: sv_mihaila@yahoo.com

Abstract

The purpose of this article is to describe and present the main features of ABC-costing method, as well as the key elements, such as activities, resources and cost drivers. The article enlarges upon the stages of application of such method in the Moldovan manufacturing businesses and brings forth some examples of internal reports used both for a simple analysis and for management decision-making purposes. The article also focuses on a comparison between the traditional costing methods and ABC-costing method. The applicability of ABC-costing method is proven by way of a practical example; the information generated by such method are analysed and interpreted; and the conclusions are focusing on the need for applying it so as to achieve cost-optimisation and improvement of management decision-making process.

Keyword: Activity-Based Costing; management accounting, costs, expenses, calculation, method, managerial decisions, indirect costs

JEL Classification: M41

*Corresponding author: Svetlana MIHAILA , E-mail: sv_mihaila@yahoo.com

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

I. Introduction

At present, given the rather advanced stage of the market economy, businesses have to face competition in the market. Therefore, they need to make efforts to diminish the costs. To get important and qualitative information, businesses may use various costing methods depending on the goals set by the business's management and on the possibilities for their application.

The costing methods analysed by the competent experts have both advantages and disadvantages. Some experts have pointed at the low usefulness of the classical costing methods as they do not provide accurate and relevant data, and they gave priority to modern methods as they are more adjusted to market conditions. We consider that, in fact, modern costing methods are not the ideal solutions for all the cases; every business needs to act according to its goals, kind of activity, possibilities of application, intellectual factors etc.

It should be noted that one of the managers' tasks is to choose the best variant of cost management and to keep under control the analysis of the obtained results so as to avoid any present or future deviations. We are inclined to consider that the large number of methods, the conditions of their application and their impact on the decision-making process have determined their division into costing methods and cost management methods.

In the theory of economics and economic practice, there are several costing methods, which are examined by a number of economists in their works (Căpşuneanu S., 2008, p.96), (Caraiani Ch. and Dumitrana M., 2008, p.49), (Salahova Ă., 2011, p.169), (Ţurcanu V., 2001, p.6), (Hlaciuc E., 1999), (Grabarovschi L., 2013, p.100), (Caraman S. and Cuşmăunsă R., 2007, p.121).

Researches in the field of modern costing and cost management methods, particularly ABC-costing method, have lead to a new division of costs. We deem appropriate classifying the costs based on their destination into activity-based costs and operation-based costs. Activity-based costs include the costs divided based on business's functions, such as supplying, manufacturing, distribution, management, while operation-based costs relate to the operations performed in the course of the activities.

A basic issue arising in manufacturing businesses is related to the cost management and their range of products, and consists in providing extensive and up-to-date information about the product cost for decision-making purposes, so that the

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

business's management know the total amount of costs and expenses related to a product – from the moment of supplying the raw material until its selling – in order to assess the financial results per such product and the efficiency of its manufacturing. At present, the accounting records provide information about the production cost of a product and do not display the expenses related to the selling of such product; yet, it is not enough for making decisions. All the costs and expenses related directly to a given product should be known.

Furthermore, there have been identified certain deficiencies related to the fact that many indirect costs are distributed and included uniformly in the product cost at the supplying or manufacturing stage, even though there is no direct connection with such product, while in fact such consumption is carried out differently and non-uniformly. In light of the above, the accounting has to deal with the analysis of the possibilities of applying new costing and management methods that make the information more accessible to the managers who are not familiar with the tools and, sometimes, the accounting terminology.

II. Description, comparison and application of ABC-costing method as compared to the traditional methods

In our opinion, a solution for all the existing issues and the information analysed above can be developed within the framework of modern costing methods. One of such methods is ABC-costing method which represents a new approach to the costs incurred by the manufacturing businesses. We deem it appropriate as the businesses are using now the global method or combined methods (phase method, normative method), which fact involves a huge amount of work required for the elaboration of the consumption norms, as well as the monitoring of the modification of such norms and departures thereform.

The essence of ABC-costing method lies in the identification of the cost blocks or activity centres of a business; following such identification, the costs of products and services are distributed based on the amount of events and transactions involved in the process of creating/delivering a product or service (Caraiani Ch. and Dumitrana M., 2008, p. 213). The operation-based cost method is oriented towards the distribution of the indirect production costs and also aims at displaying the relationship between the indirect costs and all the generated activities.

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

The activity-based costing (ABC-costing) is an approach to the distribution of costs which helps identify the main operating activities, locate all the costs (expenses) per activities, reduce or eliminate the activities that do not generate added value, and distribute the costs (expenses) based on the activity generating such costs.

We can state that despite some similarities between ABC-costing method and the traditional costing methods, the differences are rather considerable (Fig. 1).

An essential difference between the traditional methods and ABC-costing method consists in the fact that the latter is both a calculation and management method.

The business's management needs information about all the costs and consumed resources in relation to a specific product – starting from the moment of supplying until product selling. Therefore, in accordance with such method, all the costs are collected in relation to all the activities, while IAS 2 only provides for the inclusion of the costs of production in the product cost. It is rather obvious that both in the traditional costing methods and in ABC-costing method, part of the costs are included directly in the product cost, while the other costs are distributed according to a distribution base.

The most obvious differences are related to indirect costs. Under the traditional methods, such costs are being accumulated per responsibility centres and are included in the cost of the manufactured product according to the distribution bases (workers' salaries). As far as ABC-costing method is concerned, indirect costs are being distributed per types of activities and are included in the manufactured product cost depending on the cost driver based on the cause and effect relationship. The traditional methods use one or two bases of indirect cost distribution expressed in man/hours or staff workers' salary, while ABC-costing method uses several bases of distribution per each item of indirect costs (amount of operations, amount of orders, amount of invoices, amount of hours etc.)

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Figure 1- Traditional Costing Methods as compared to ABC-Costing Method

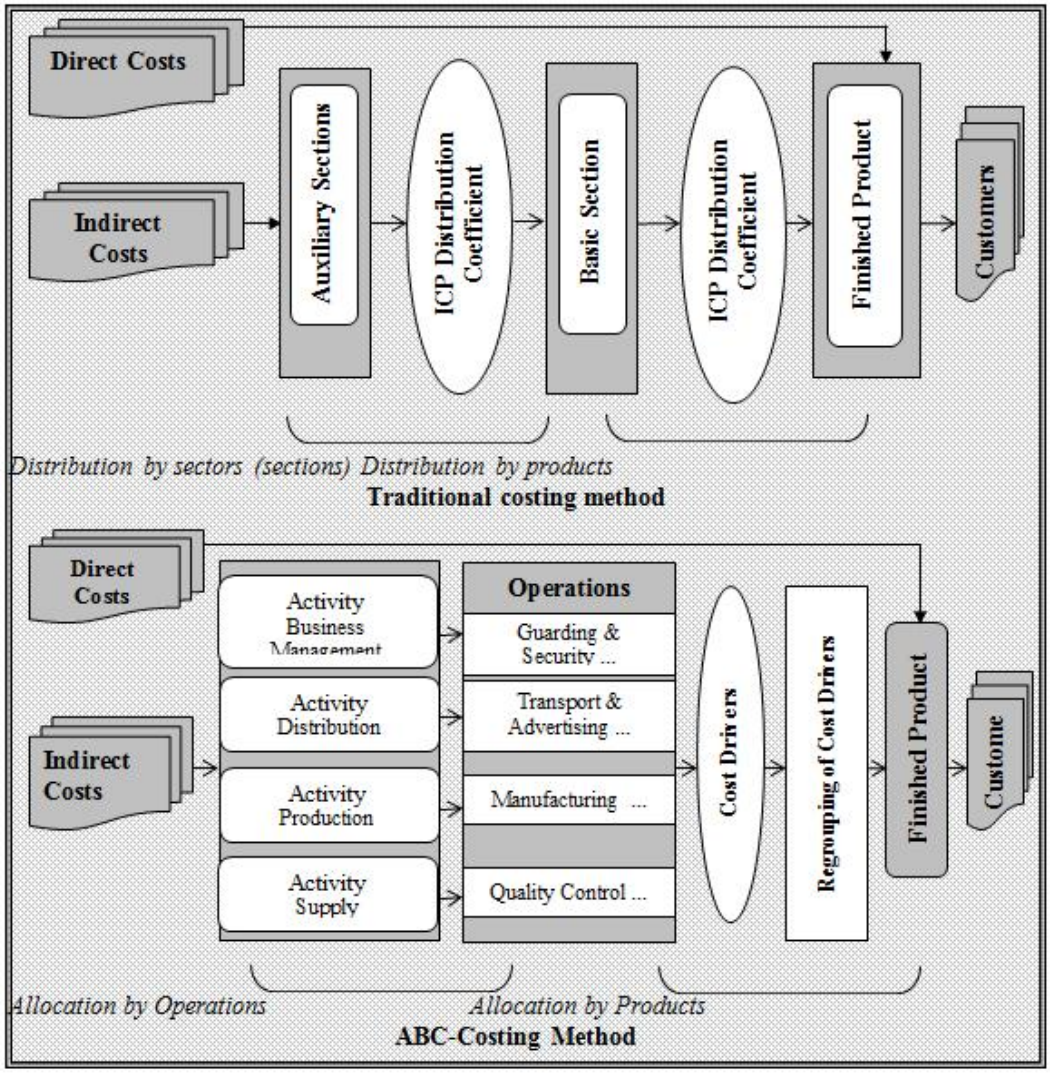
Criterion	Traditional Costing Methods	ABC-Costing Method
Included Costs	Total costs related to the manufacturing process	Total costs related to the manufacturing process, selling, management and supply
Area of Applicability	Calculation of the product cost Making decisions on manufacturing and pricing	Calculation of the product cost Making more decisions on more extensive issues (formation of the selling price, financial structure optimisation)
Indirect Cost Distribution	Proportionately to basic costs, payroll costs, material-related costsetc.	Proportionately to the costs of activities and processes based on specific cost drivers
Division into Fixed and Variable Costs	Available	The division does not influence the pricing
Classification of Costs Analysed and Included in the Price	Direct costs and indirect costs of production	Direct and indirect production, administrative, commercial costs
Provided Indicators	Financial indicators	Financial/Non-financial
Level of Cost Accuracy	Average	High
Advantages	Accessibility of initial data; simplicity; low effort	More accurate calculations Diversity of provided data Control throughout the value chain
Disadvantages	Low level of costing accuracy per unit	Complexity Major effort during application

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Another conclusion on the obtained results consists in the fact that the traditional methods only calculate the product cost for the manufacturing phase, and does not take into account the related costs arising throughout the value chain, which fact allows the application of ABC-costing method (Fig. 2).

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Figure 2 - Pricing based on traditional costing methods and ABC-costing method in manufacturing businesses



Consequently, the information under ABC-costing method is more detailed only if related to a specific product, which fact implies that a cost is determined with a higher degree of accuracy.

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

The basic elements of ABC-costing method.

1. One of the basic elements of ABC-costing method is the identification of activities, sub-activities and operations. An activity "is a set of operations performed by one or several individuals, which give rise to some utilities based on certain resources, operations that are uniform in terms of cost behaviour and performance. In their turn, the activities are re-grouped into operations" (Ionașcu I. and Filip A. and Stere M., 2006, p. 57), (Bouquin H., 2004, p. 98), (Dumitru C. and Ionaș C., 2005, p. 348), (Tabără N. and Briuciu S., 2012, p. 162). The operations "are the working elements or operational stages required for the performance and completion of an activity" (Dumitru M. and Calu D., 2008, p. 185).

2. Another basic element of ABC-costing method is the determination of factors generating ICP, also called cost drivers (Bouquin H., 2004, p. 98), (Dumitru M. and Calu D., p. 186). When analysing the reverse process of a product's chain value and the pricing, it appears that the clients generate the occurrence and existence of products, services, works etc. (cost objects), which, in their turn, generate resource-consuming activities.

3. The resources are also an element of ABC-costing method. They are economic elements (production factors) that contribute to the performance of operations (financial / human resources, equipment, transport etc.). In the long run, there is a re-orientation from the 'manufacturing' to 'selling', that is, to the client. The cost-related information flow chain under ABC-costing method is the following: the consumption of resources generates costs, the activities consume resources, and the finished product (the cost object) consumes activities. Thus, ABC-costing method focuses on a manufacturing cycle, based on the fact that the resources form an important element during the activities performed by the enterprise; and those resources are consumed by the activities and convey their value, via the inducers, to the cost of the manufactured products (cost object). When a business decides to use ABC-costing method, most of the changes will occur at the level of information processing as more detailed information will be required in regard to the utilisation of resources by types of activities. Based on such information, the costs will be distributed within the value of the manufactured products/services, depending on the cost drivers; and then the results and efficiency of the utilisation of resources will be determined.

Having analysed the specialised literature, we should note that several authors expressed their opinions on the stages of ABC-costing method implementation. As a

Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

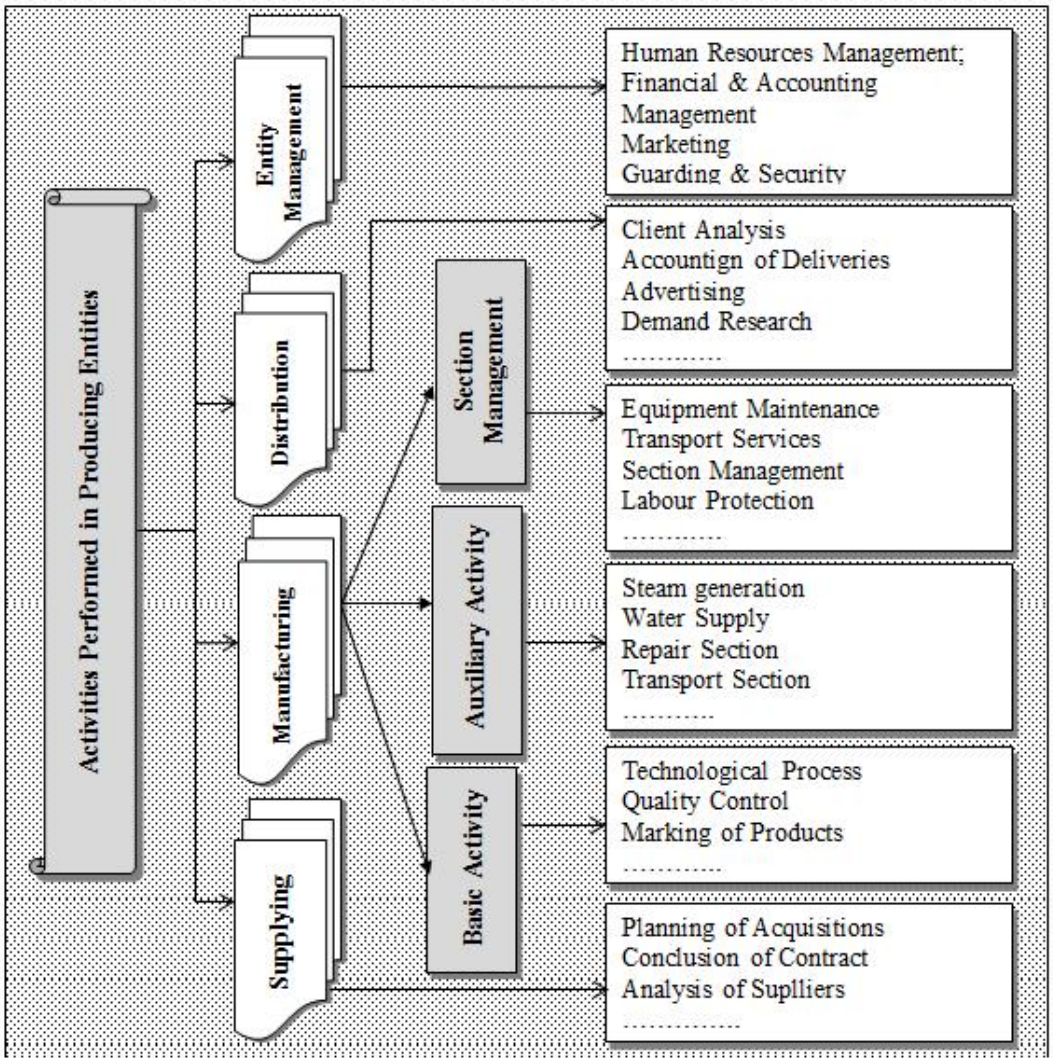
synthesis of what has been analysed, we recommend considering the following stages, the sequence of which needs to be considered so as to ensure the outmost effect upon cost calculation and management.

Stage I. Determination of the structure of the activities, sub-activities and their related operations according to the responsibility centres. At this stage, it is necessary to determine the existing basic activities and operations. The economic events and processes can be structured in the form of a tree (organizational chart), with every level being allocated 3-5 activities. This fact will allow cost distribution by activities. We recommend considering the following factors: the degree of influence of the activity on the costs, the organizational peculiarities of each business, such as marketing / prospective clients research and development of strategies in this respect, customer servicing policy, analysis of human resources / financial resources / environmental protection management system, advertising etc.

Under the provisions of NAS "Inventories" and IAS 2 "Inventories", the costs of activities that are not related to the manufacturing process must not be included in the product cost; however, from the perspective of the economic management, such costs are to be included, based on ABC-costing method, in the final cost of the product or service and need to be taken into account at the determination of such cost. We have grouped the entities' activities, as shown in Figure 3 below, into 1) Supplying; 2) Manufacturing (which includes the sub-activities of the Basic and Auxiliary Sections, and the Section Management); 3) Distribution; 4) Business Management.

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Figure 3 - Correlation among activities, sub-activities, accounts and sub-accounts of the manufacturing businesses



Stage II. Identification of cost drivers per activity. The cost drivers, also called as cost stimulators, are reference amounts for the distribution of indirect costs of production ("ICP").

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

The cost drivers point at the cause (explanatory factor) of the variations in the consumptions of resources and are regarded as tools for measuring the volume of output (Caraiani Ch. and Dumitrana M., 2008, p. 218).

The cost drivers have the same functions as the traditional distribution coefficients (bases). In addition, they must meet specific requirements in order to be easily identified and used; they must indicate the reason of the occurrence of indirect costs; and they must be accessible.

Cost drivers are listed in two groups:

traditional cost drivers (man/hours, equipment/hours, cost of consumed raw material, amount of products);

modern cost drivers (amount of supplied orders for materials or products, amount of elaborated plans, amount of controls, amounts of manufacturing orders etc.)

Stage III. Determination of the list of synthetic and analytic accounts in correlation with activities, sub-activities and economic operations.

At this stage, the accounts are opened; the sub-accounts and analytic accounts are structured into 8-class management accounts so as to ensure the collection and accurate recording of the costs by the types of activities listed in Stage 1. The existing chart of accounts is not adapted for the utilisation of ABC-costing method; all the more it is a total costing and management method.

Therefore, further research should be carried out in the field of the accounting and distribution of indirect costs by activity in order to ensure the application of such method, which is treated in the specialised literature in a varied manner.

Stage IV. Making up the scheme of account correspondence and cost analysis. The scheme of account correspondence, in ABC-costing system, is worked out at the beginning of the utilisation of such method, and presumes the accounting of all the costs, the distribution of indirect costs and the product pricing.

It should be noted that, in our opinion, in ABC-costing method, the product costing is carried out for the managerial decisions and includes the following:

1) indirect costs; 2) indirect and supply costs; 3) indirect and production costs; 4) indirect costs related to selling; 5) indirect costs related to business management.

The indirect costs occurring upon each activity are distributed throughout the following steps:

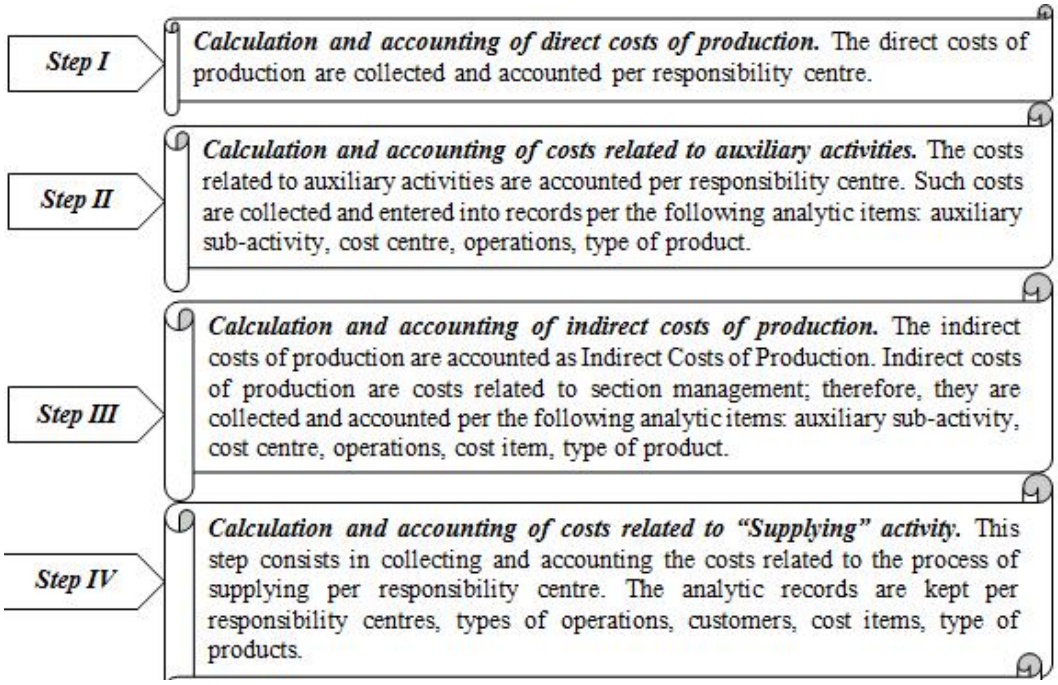
- Step I. Distribution of costs related to auxiliary activities;
- Step II. Distribution of indirect costs by activities;

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

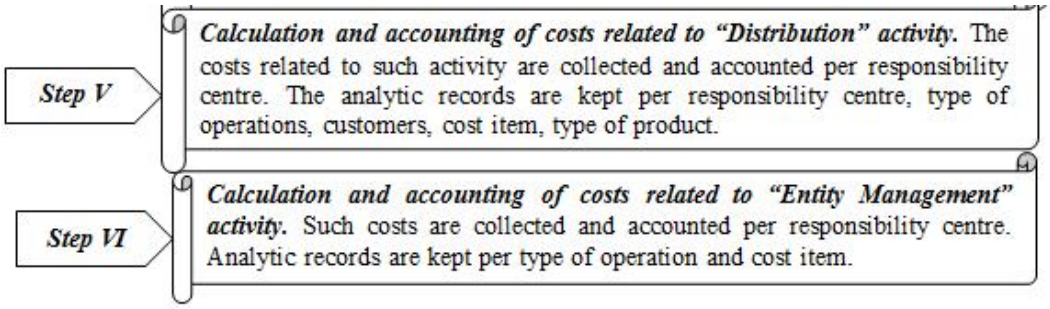
• Step III. Distribution of activity costs by products;

• Step IV. Inclusion of direct and indirect costs in the cost of the manufactured products.

Stage V. Activity-based costing. This stage includes the accounting and collection of costs per activity. The manager's objective is not only to keep accounting records of the costs, but also to try to reduce and identify the unneeded costs, and to find out the reasons giving rise to costs per activity, that is, to identify the cost drivers. The cost drivers ensure the connection between the business's costs and the completed operations. In case of other operations, a direct measurement can be made. For instance, the energy consumption can be established by calculating a rate per operation. At this stage, the basic difference can be noted between ABC-costing method and traditional methods. That difference lies in the fact that the traditional methods collect the indirect costs by responsibility centres in general, while ABC-costing method collects them by type of operations within the centres. This fact contributes to the delimitation of the costs among activities, which allows calculating the cost by activities. Thus, Stage V includes the following steps:



European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X



Stage VI. Calculation and accounting of the unit cost of the cost drivers.

Each activity generates costs as they give rise to products and services. A business may perform multiple activities. In cases where the activities are specific to a certain product/service, their related costs are allocated directly to the respective product. If the activities are related to several products/services, the costs must be distributed based on the unit cost of a cost driver per activity and the volume of output. Therefore, the costing formula for a cost driver is the following:

Unit cost of the cost driver = cost of resources per activity / volume of the cost driver.

The unit cost of the cost drivers is determined for the following items:

- auxiliary activities, the cost of which is to be distributed and included in the cost of the basic and ABC activities;
- indirect costs, which are distributed and included in the cost of ABC activities;
- ABC activities, which subsequently serve as a base for their distribution and inclusion in the product cost.

Stage VII. Calculation and accounting of cost of activities and their distribution. The fundamental idea of ABC-costing method consists in the distribution of the costs generated by activities per type of products depending on the frequency of utilisation of such operation by the cost driver. The accuracy of such calculation depends on the correlation between the cost of resources per activities and the volume of the used driver costs. The cost of the activity is determined as follows:

Cost of activity = Unit cost of cost driver x Volume of cost drivers used in such activity (at the manufacturing of a product).

In light of the above, the author suggests making the following steps at this stage:

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Step I. Calculation of the unit cost of the cost drivers for the auxiliary activities, calculation of the cost of the auxiliary activities and their distribution through inclusion in the cost of ABC activities.

Step II. Calculation of the unit cost of the cost drivers for the activities related to the management of the manufacturing sections, calculation of the costs of such activities and their distribution through inclusion in ABC activities.

Step III. Calculation of the unit cost of the cost drivers for ABC activities, its distribution and inclusion in the cost of products.

Stage VIII. Calculation and accounting of the output cost. At this stage, the cost is calculated per each type of product by summing up the direct and indirect costs: materials consumed for the operation, repair, maintenance of fixed assets; salaries calculated for auxiliary workers and administrative staff from the manufacturing sub-divisions; the value of the energy resources used for the general needs of the manufacturing unit etc.

Stage IX. Calculation and accounting of the cost of products in progress. At this stage, the cost is calculated for each type of product that has not gone through all the manufacturing stages.

The table below shows the application of ABC-costing method, based on the data of "Basarabia Nord" JSC (Table 1).

Table 1 - Initial data regarding the costs (excerpt)

Indicators	"Preferat din carne de porc" [pork sausage]	"Molocinaia (Lacta) C/S"	Total
Produced amount, kg	2141,2	5087,8	X
Direct Costs, MDL:			
basic material	87123,03	152112,1	239235,13
auxiliary material	7501,54	29686,73	37188,27
membrane	8935,82	11990,74	20926,56
clips	1041,68	2594,37	3636,05
electricity	4002,95	11969,61	15972,56
salaries, social and health care contributions calculated for the workers	5819,85	14794,73	20614,58
Total Direct Costs	**114424,87**	**223148,28**	**337573,15**

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Total Indirect Costs per business, MDL:	-	-	**2200240,8**
activity "Supplying"	-	-	42418,8
activity "Manufacturing"	-	-	368666,1
activity "Distribution"	-	-	677387,3
activity "Business Management"	-	-	1111768,6

The calculations and the accounting records have been made for the products "Preferat din carne de porc" and "Molocinaia (Lacta) C/S", provided that the entire lot is manufactured and sold so that no production in progress is recorded.

The costs related to the activities "Supplying" at Basarabia Nord JSC cover for sub-activities, which include several operations. The indirect costs per cost item are collected per operation within the responsibility centres. The table below shows a model of indirect cost collecting note for each activity, such as "Supplying" (Table 2), as recorded within the responsibility centres, per cost item and separate operations. The costs of each operation will be subsequently distributed between the products "Preferat din carne de porc" and "Molocinaia (Lacta) C/S".

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Table 2 - Breakdown of ICP per activities and operations within the activity "Supplying" (MDL)

Responsibility centres and cost emerging areas	Cost items	Sub-activities								
		Supply management		Work with suppliers			Acquisition of raw materials (storage)			Total
		Operations								
		Planning of acquisitions	Accounting and reporting of supplies	Conclusion of contracts	Control of performed contracts	Analysis of suppliers	Own transport activity	Material unloading works	Materials quality control	
Department of Supplies	Salaries	2740	1260	840	840	840	2140	680	754	10094
	Social Insurance Contributions and Medical Insurance Premiums	726,1	33,9	222,6	222,6	222,6	567,1	180,2	199,81	2674,91
	Materials	64	80	75			455	201,6	985,6	1861,2
	Other costs	7519,4		2926,5	52		2711,6	848,09	1245	9311,29
Central warehouse	Salaries							2400	1850	4250
	Social Insurance Contributions and Medical Insurance							636	490,25	1126,25
	Materials								1980,6	1980,6
	Other costs								11120,55	11120,55
Total per operations		**7852,6**		**6241,3**			**28324,9**			**42418,8**

The costs related to each activity are indirect costs and include several operations, the distribution of which is shown in Table 3 below.

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Table 3 -Breakdown of costs related to the activity "Supplying" (excerpt)

No	Indicators	Activity-related operations			
		Supply management	**Work with suppliers**	**Acquisition of raw materials**	**Total**
A	B	1	2	3	4
1	Costs per responsibility centres (MDL), including:	**7 852,6**	**6 241,3**	**28324,9**	**42418,8**
2	Cost drivers	ore	Amount of orders (placed)	ore	x
3	Amount of inductors, including:	437	115	2062	x
3.1	Sausage "Preferat din carne de porc"	75	5	96	x
3.2	Sausage "Molocinaia (Lacta) C/S"	138	11	202	x
4	**Cost of a cost driver, MDL (1/3)**	**17,9693**	**54,2722**	**13,7366**	**x**
5	Activity cost (MDL), included in the cost of sausages:				
5.1	"Preferat din carne de porc"	**1 347,70**	**271,36**	**1205,63**	**2824,70**
5.2	"Molocinaia (Lacta) C/S"	**2 479,77**	**596,99**	**2530,89**	**5607,65**
	Total	**3 827,47**	**868,35**	**3736,52**	**8432,35**

The costs of this activity were not distributed to the total amount based on the salary, unlike under the traditional method; the cost of each type of operation was distributed based on the cost drivers indicated in line 2 of Table 3, which are the amount of hours worked by the employees in charge with supplies, and the amount of concluded contracts.

It appears that in the analysed period 115 contracts for supply were concluded, amended and re-negotiated. The costs related to their conclusion amount to MDL 6241,3, and are formed of the costs collected per responsibility centres and cost items, such as: materials, staff-related costs, amortisation etc. The cost related to a contract, that is the cost of the cost driver is of MDL 54,2722 (6241,3 : 115). Accordingly, the total costs related to this activity were distributed as follows: costs included in the cost of the sausage "Preferat din carne de porc" – MDL 2824,7, and costs included in the costs of the sausage "Molocinaia (Lacta) C/S" – MDL 5607,65.

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Identical calculations have been made upon the distribution of costs related to the activity "Manufacturing" (Table 4 below).

Table 4 - Breakdown of costs related to the activity "Manufacturing" (excerpt)

No	Indicators	Operations within "Manufacturing" activity					
		Cutting	**Boning**	**Salting**	**Mincing**	**Other operations**	**Total**
A	B	1	2	3	4	5	6
1.	Costs per responsibility centres, MDL	**20384,2**	**36584,1**	**12415,2**	**37154,6**	**262127,8**	**368666,1**
2.	Cost drivers	Equipment/hour	ore	ore	ore	Ore	x
3.	Amount of cost drivers, total, including:	334	313	223	498	1505	x
	Sausage "Preferat din carne de porc"	8	6	3	5	50	x
	Sausage "Molocinaia (Lacta) C/S"	17	13	8	8	106	x
4.	**Cost of cost driver, MDL (1/3)**	**61,03**	**116,88**	**55,67**	**74,61**	**174,17**	**x**
5.	Activity cost included in the cost of sausages, MDL:	x	x	x	x	x	x
	"Preferat din carne de porc"	488,24	701,29	167,02	373,04	11295,93	13025,52

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

	"Molocinaia (Lacta) C/S"	1037,52	1519,47	445,39	596,86	23798,9	27398,13

Identical calculations have also been made upon the distribution of the costs related to the activity "Distribution" and "Business Management" (Table 5).

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Table 5 - Breakdown of costs related to the activity "Distribution" and "Business Management" (excerpt)

Following the distribution of the indirect costs of each activity, the unit cost and

Indicators	Operations within "Distribution" Activity				Operations within "Business Management" Activity"			
	Distribution Activity Management	**Preparation of Delivery Reports**	**Other Operations**	**Total**	**Human Resources Management**	**Accounting**	**Other Operations**	**Total**
A	1	2	3	5	6	7	8	12
1.Costs per responsibility centres, MDL	**34281,2**	**87451**	**555,655,1**	**677387,3**	**217697,6**	**231664,5**	**662406,5**	**1111768,6**
2.Cost Drivers	ore	ore	ore	x	ore	ore	ore	x
3.Amount of Cost Drivers, total, including:	2019	4426	28498	34943	5507	3211	11889	x
Sausage „Preferat din carne de porc"	164	76	195	435	24	44	186	x
Sausage „Molocinaia (Lacta) C/S"	187	94	302	583	42	74	213	x
4.Cost of a Cost Driver, MDL (1/3)	**16,98**	**19,76**	**19,60**	**x**	**39,53**	**72,15**	**55,71**	**x**
5. Activity Cost Included in the Costs of Sausages, MDL:	x	x	x	x	x	x	x	x
„Preferat din carne de porc"	2784,60	1501,64	3889,37	8175,62	948,75	3174,47	16092,75	20215,98
„Molocinaia (Lacta) C/S"	3175,13	1857,30	5980,82	11013,24	1660,30	5338,89	18190,78	25189,97
Total	**5959,73**	**3358,94**	**9870,18**	**19188,86**	**2609,05**	**8513,36**	**34283,54**	**45405,95**

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

the total cost of the output are calculated by summing up all the direct and indirect costs (Table 6).

Table 6 - Total costing of sausages "Preferat din carne de porc" and "Molocinaia (Lacta) C/S" based on ASBC-costing method, MDL

Indicators	"Preferat din carne de porc"	"Molocinaia (Lacta) C/S"
Direct Costs	114424,87	223148,28
Indirect Costs related to Supplies	2824,7	5607,65
Indirect Costs of Production	13025,52	27398,13
Indirect Costs related to Business Management	20215,98	25189,97
Indirect Costs related to Distribution	8175,62	11013,24
Total Costs	**158666,69**	**292357,27**

ABC-costing method presumes the costing of a product by summing up any costs that have influenced directly or indirectly the product. Table 7 below shows the costing for the sausages "Preferat din carne de porc" and "Molocinaia (Lacta) C/S" through the accumulation of all the costs.

Table 7 - Total & unit costing (extras)

Indicators	Products		Total
	"Preferat din carne de porc"	"Molocinaia (Lacta) C/S"	
A	1	2	3
1. Direct Costs (MDL)	114424,87	223148,28	337573,15
2. Indirect Costs per Operations within "Supply" Activity, (MDL): • total • per unit	 2824,7 1,32	 5607,65 1,10	 8432,35 x
3. Indirect Costs per Operations within "Manufacturing" Activity, (MDL): • total • per unit	 13025,52 6,08	 27398,13 5,39	 40423,65 x
4. Indirect Costs per Operations			

European Journal of Accounting, Finance & Business
Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

within "Distribution" Activity, (MDL): • total • per unit	8175,62 5,14	11013,24 2,1	19188,86 x
5. Indirect Costs per Operations within "Business Management" Activity, (MDL): • total • per unit	20215,98 9,44	25189,97 4,95	45405,95 x
6.Total Indirect Costs (MDL)	44241,81	69208,99	113450,8
7. Total Cost (1+6) (MDL)	**158666,68**	**292357,27**	**451023,95**
8. Unit Cost (MDL)	**74,1**	**57,46**	**x**

According to the traditional methods, the indirect costs related to the above-mentioned activities are distributed based on the salaries of the staff workers or on other distribution basis. The distribution of indirect costs related to the activities analysed above is shown in Table 8. The above calculations allow us to compare the indirect costs distributed among products based on both methods – traditional and ABC-costing methods (Table 9). When analysing the data in Table 9, it can be stated that the total and unit costs, as determined under the traditional method, differ from the costs calculated under ABC-costing method. As per the traditional method, the cost of 1 kilogramme of sausage "Preferat din carne de porc" is MDL 68,60, while according to ABC-costing method it totals MDL 74,10. Accordingly, the cost of 1 kilogramme of sausage "Molocinaia (Lacta) C/S" under the traditional method is MDL 59,77, while it totals MDL 57,46 under ABC-costing method.

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Table 8 - Breakdown of indirect costs under the traditional method

Product	Amount of product, kg	Distribution base	Supply, MDL			Manufacturing, MDL			Distribution, MDL			Business Management, MDL		
			Coefficient	Unit cost	Total	Coefficient	Unit cost	Total	Coefficient	Unit cost	Total	Coefficient	Unit cost	Total
Sausage "Preferat din carne de porc"	2141,2	5819,85	0,4090	1,11	2380,60	1,9609	5,32	11412,29	0,9308	2,5300	5417,34	2,2026	5,9867	12818,88
Sausage "Molocinaia (Lacta) C/S"	5087,8	14794,73	0,4090	1,18	6051,75	1,9609	5,70	29011,36	0,9308	2,7067	13771,52	2,2026	6,4049	32587,07
Total	**7229**	**20614,58**	**0,4090**	**x**	**8432,35**	**1,9609**	**x**	**40423,65**	**0,9308**	**x**	**19188,86**	**2,2026**	**x**	**45405,95**

Table 9 - Product costing under the traditional method and ABC-costing method

European Journal of Accounting, Finance & Business

Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

Product	Output, kg	Indirect Costs related to "Supplying" Activity, MDL				Indirect Costs related to "Manufacturing" Activity, MDL				Indirect Costs related to "Distribution" Activity, MDL				Indirect Costs related to "Business Management" Activity, MDL				Direct Costs, MDL		Total Cost, MDL			
		per unit		total		per unit		total		per unit		total		per unit		total		per unit	total	per unit		total	
		traditional method	ABC method	traditional method	ABC method	traditional method	ABC method	traditional method	ABC method	traditional method	ABC method	traditional method	ABC method	traditional method	ABC method	traditional method	ABC method			traditional method	ABC method	traditional method	ABC method
Sausage "Preferat din carne de porc"	2141,2	1,112	1,3192	2380,60	2824,7	5,330	6,083	11412,29	13025,52	2,530	3,818	5417,34	8175,62	5,987	9,441	12818,88	20215,98	53,44	114424,87	68,605	74,102	146898,085	158666,69
Sausage "Molocinaia (Lacta) C/S"	5087,8	1,189	1,1022	6051,75	5607,65	5,702	5,385	29011,36	27398,13	2,707	2,165	13771,52	11013,24	6,405	4,951	32587,07	25189,97	43,86	223148,28	59,776	57,462	304125,875	292357,27
Total	7229	x	x	8432,35	8432,35	x	x	40423,65	40423,65	x	x	19188,86	19188,86	x	x	45405,95	45405,95	x	337573,15	x	x	451023,96	451023,96

European Journal of Accounting, Finance & Business
Volume 2/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

The above-mentioned cost differences are likely to influence the management's decision regarding the formation of the selling price. Thus, the cost of the sausage "Preferat din carne de porc" is actually higher; that is why, the mark-up cannot be increased, given the competition in the market. On the contrary, in case of the sausage "Molocinaia (Lacta) C/S", the product is contributing a lot to the profit growth; that is why, in case of market crises, reserves are available to cut the mark-up.

III. Conclusion

The accounting of costs under the traditional accounting and costing methods ensures an insufficient control of the indicators, staff motivation and financial forecasting of activity due to the fact that the accounting is less oriented towards ensuring the control of the costs and results in the areas of their occurrence. A topical issue in the manufacturing entities is the fact that the traditional costing methods are oriented towards the information needs in regard to the production cost and are focused mainly on costing. On the other hand, the new strategies for the development of entities impose not only the costing but also their analysis, control, management, and correlation with the business's strategy and performances. We believe that there is a need for the application of a modern costing method, which would allow a more accurate assessment and distribution of indirect costs and would have an influence on the process of making adequate decision in regard to the formation of the selling prices.

References

Books

1. Bouquin H. Contabilitatea de gestiune [Management Accounting]. Iaşi: Publ. TipoMoldova, 2004. 361 p.
2. Caraiani C., Dumitrana M. Contabilitate de gestiune & control de gestiune [Management Accounting & Management Control]. Bucharest: Publ. Universitară, 2008. 421 p.
3. Caraman S., Cuşmăunsă R. Contabilitate managerială: Note de curs [Management Accounting: Course Notes]. Chişinău: Tipografia Centrală, 2007. 225 p.
4. Căpusneanu S. Elemente de management al costurilor [Elements of Cost Management]. Bucharest: Publ. Economica, 2008. 302 p.
5. Dumitru C., Ionaş C. Contabilitatea de gestiune şi evaluarea performanţelor [Management Accounting & Assessment of Performance]. Bucharest: Publ. Universitară, 2005. 381 p.
6. Dumitru M., Calu D. Contabilitatea de gestiune şi calculaţia costurilor [Management Accounting & Costing]. Ploieşti: Publ. Contraplus, 2008. 240 p.

7. Ionaşcu I., Filip A., Stere M. Control de gestiune [Management Control]. Bucharest: Publ. Economică, 2006. 271 p.

8. Hlaciuc E. Metode moderne de calculaţie a costurilor. [Modern Costing Methods] Publ. Polirom, Iaşi, 1999, 216 p.

9. Horngren C., Datar M., Foster G. Contabilitatea costurilor, o abordare managerial [Cost Accounting, a Managerial Approach]. Chişinău: Arc, 2006. 939 p.

10. Tabără N., Briciu S. Actualităţi şi perspective în contabilitate şi controlul de gestiune [Current and Prospective Aspects in the Field of Accounting and Management Control]. Iaşi: Publ. TipoMoldova, 2012. 626 p.

11. Ţurcanu, V. Calculaţia costurilor [Costing]. Chişinău: ASEM, 2001. 115 p.

Article from journals

12. Căpusneanu S. Factorii si principiile reorganizării transversale a întreprinderilor din industria textilã din România pe baza metodei ABC (Activity-Based Costing) [Factors and Principles of Transversal Reorganisation of Romanian Textile Enterprises Based on ABC (Activity-Based Costing)] [online]. In: Economie teoretică şi aplicată [Theoretical and Applied Economics], 2007, no.4. Available at: http://www.ectap.ro/ articol.php?id=42&rid=2 (visited on 16.01.2013).

13. Салахова Э. Теоритические и практические аспекты проблем калькулирования себестоимости продукции [Salakhova E. Theoretical and Practical Aspects of the Issue of Product Costing]. In: Каспийский регион: политика, экономика, культура [Caspian Region: Politics, Economy, Culture], 2011, no.2 (27). p. 167-174.

Article from conference volume

14. Grabarovschi L. Concepte contemporane în gestiunea şi contabilitatea costurilor [Contemporary Concepts in Cost Management & Accounting]. In: Analele Academiei de Studii Economice a Moldovei [Annals of the Academy of Economic Studies of Moldova]. Chişinău: ASEM, 2013. Issue IX, no.2 p. 100-104.

15. Grabarovschi L. Direcţii de perfecţionare a contabilităţii costurilor de producţie [Directions of Improvement for Manufacturing Cost Accounting]. In: Integrarea europeană şi competitivitatea economică: simpoz. Intern [European Integration and Economic Competitiveness: International Symposium]. Chişinău: ASEM, 2004, vol. 2, p. 28-30.

Legislation

16. IAS 2 Stocuri [Inventories] [online] available at: http://www.scritube.com/economie/contabilitate/ Standardul-International-de-Co123192138.php (visited on 26.10. 2014).

17. Ordinul Ministerului Finanţelor nr. 118 din 06.08.2013 privind aprobarea Standardelor Naţionale de Contabilitate [Order no.118 dated 06 August 2013 of the Ministry of Finance

Volume **2**/2014 ISSN 2344-102X
Issue (2)/ June 2014 ISSN-L 2344-102X

approving the National Accounting Standards]. In: Official Gazette of the Republic of Moldova no.177-181 of 16.08.2013.