

2nd World Conference On Business, Economics And Management - WCBEM 2013

Consequences of changes in public universities funding on applied financial management tools

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Abstract

The purpose of the paper is aimed at research on implementing a full cost method in public universities in the Czech Republic as a new tool of financial management applied as the consequences of changes in public funding of public universities. The first part sets out the reasons why it is important for universities to know the full cost and it further identifies the main barriers to the implementation of the full cost method. One part is focused on explaining the difference between total cost and eligible project expenditures. Another part is devoted to an explanation of the nature of the full cost method, the results of own research conducted on the implementation of the full cost method in the Czech Republic, mainly there is a recommended procedure and warning on the difficulties in implementing the full cost method and there is also explained why it is important to keep the link between sources, activities and costs. This paper includes as well the confrontation with the results of research performed by the European University Association in Europe. The final part presents results of investigation and outlines possible topics for further discussion or research.

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Selection and peer review under responsibility of Organizing Committee of BEM 2013.

Keywords: Full costs, cost-allocation base, eligible project expenditures, sources, activities;

1. Introduction

The funding of public higher education institutions (hereinafter “universities”) has experienced major changes over the last three years. The most important changes occur in funding from the Ministry of Education, Youth and Sports of the Czech Republic (hereinafter “MEYS”), when the algorithms change every year, individual input variables and their amount are being reviewed, which in consequence significantly affects the amount of contributions and subsidies that a university receives in the relevant year. Universities are thus forced to respond flexibly and adapt to sudden fluctuations in their funding sources, resulting in the increased awareness of the growing need for the implementation and use of new methods of financial management.

Basic hypotheses can be defined by the following series of questions. Can universities know the full cost of their individual activities as well as it is common in companies and thus fulfill the basic condition to use more complex controlling tools for financial management? What are the real reasons for the implementation of new controlling

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tools at public universities? And what were the obstacles or what prevented universities from using controlling tools long before?

This paper aims to answer these questions gradually. At this point, however, it should be noted that some financial management tools are commonly used by universities and are part of their everyday life. These are tools for planning, setting the goals, comparing the plan with reality, evaluating deviations and determining remedies. Nevertheless, it can be said that universities are facing difficulties to determine the full cost of individual activities, which is not a problem for companies in the private sector. These calculation methods assigning the full cost to products, services and activities are described in detail in the literature devoted to common management accounting (e.g., Abernethy, Lillis, Brownell & Carter, 2001; Al Omiri & Drury, 2007; Brierley, Cowton & Drury, 2007; Cobb, Innes & Mitchell, 1993; Drury, 2001; Garrison, Noreen & Brewer, 2010; Kaplan, 1994; Lawson, Stratton, Desroches & Hatch, 2009; Rajnoha & Zámečník, 2004; Rajnoha & Dobrovič, 2011; Shim & Siegel, 2009; Weygandt, Kimmel & Donald, 2010; etc.). These classical approaches of the above authors are generally known and therefore will not be presented here (also due to limited range of paper).

Despite the abovementioned facts, the authors resulted from publications that partially concern the issue. The issue of allocating costs to activities in the public sector was worked out by, e.g., Slavici, Mnerie, Hermann & Crisan (2011) and Cretu, Gheonea, Talaghir, Manolache & Iconomescu (2010). The funding of universities is partly addressed in publications by Talpos, Jivan & Dogaru (2010); Tanberg (2010) and Layzell (1999).

The paper is thus concerned with the issue that is relatively new. The possibility of using the Full Cost method in the sector of public as well as private universities began to be discussed in the last five years only. On this account there do not exist, except materials of the European University Association, relevant literature sources on this subject (monographs, journals), but only guidelines and manuals located on different web portals.

2. Full Cost method

Generally speaking, the main principle of the implementation of the full cost method is creation of such a method based on which the total actual cost will be identified and assigned in the full amount to individual activities.

Among the key objectives of the implementation of the full cost method is to:

- a) Provide data of sufficient quality for strategic decision-making,
- b) Establish the basis for financial management,
- c) Carry out pricing procedure for implementing on demand outputs, because even universities may, in addition to their main activities, realize an additional activity, which, however, must not compromise the main activities.

Finally, universities are given a tool enabling them to use sources more efficiently. Based on our experience, it is clear that the main problem in determining the amount of costs does not lie in assigning direct costs, but in the definition and allocation of indirect costs. In order to achieve the most realistic allocation of indirect costs, it is possible to proceed in several ways. However, the costs of implementation and maintenance of this method should not exceed the available funds to cover these costs. The intention is thus to develop such a method to be used for all activities, but not causing the university an unbearable financial burden in the long run. Nevertheless, when implementing the method of allocating indirect costs, it is necessary to keep in mind a very important rule, i.e., that it is necessary to distinguish between total indirect costs actually related to the given activity and part of indirect costs – can be specified as eligible indirect costs, for example, paid by the provider. It is therefore very important to be able to determine the actual full amount of direct and indirect costs and not to be confused with the part paid from provider's project funding sources.

The aim of research on the implementation of the Full Cost method is to define a recommended procedure to facilitate the process of implementing the Full Cost method at universities. The conducted research shows that in determining the full cost of each activity, the major problem really lies in the definition and assignment of the so-called indirect costs, i.e., part of the costs resulting from multiple activities and it is unclear what proportion of the costs was raised by each activity. The intention is to develop such a method to be used for all activities, but not causing the university an unbearable financial burden in the long run.

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