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Calculations in Managerial Accounting

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Abstract

Nowadays, managers like to use various tools in order to support the management processes. Cost calculations represent one of value management tools. They are also the oldest and most used tool. However, they are constantly evolving in order to reflect current business environment conditions. Cost calculations are used, to large extent, by managerial accounting. Managerial accounting replaces traditional cost calculation methods by more progressive ones. This paper deals with the ABC calculation and especially with benefits that it offers to management compared with traditional cost calculation methods.

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1. Introduction

Economic information system of a company comprises different special-purpose elements which according to their specialisation and content support company management performance in such a way that it fulfils its objectives on time. One of the most important elements is the cost subsystem, accounting information subsystem, cost calculation subsystem, controlling subsystem etc. All elements of economic system are interconnected and cooperate with each other.

In this context, managerial accounting plays an important role and existing financial accounting completes important information for decision making process in the accounting information subsystem. Therefore, company management has by Kral, (2001) a support tool for decision making concerning future orientation of the company.

In addition to traditional cost calculation method, a very important tool of managerial accounting is the activity-based cost calculation method (the ABC cost calculation method). This method has been developed from disadvantages of traditional cost calculation methods that have started to emerge at the beginning of the 80s.

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Emerging globalisation leads to the creation of intense global competition. As a consequence, active participants of global market started thinking about creating more precise and more objective cost calculation methods, about updating performance standards and competition strategies. Globalisation has brought by Majercak et al. (2001) many changes in manufacturing conditions and company management. The main determinants of these changes were by:

- Intensifying globalisation and competition pressure
- Substitution of manpower by automation of manufacturing and activities
- Continual performance and technology innovations
- Much attention given to quality and product customisation, shorter product life cycles
- Increase of support activities
- Cost structure changes – increase of indirect costs
- Orientation to customer.

Pioneers in the field of activity based cost calculations were Cooper and Kaplan from Harvard Business School. They invented new cost calculation method which was first published in 1988. Its main contribution is the capacity to eliminate disadvantages of cost calculation methods used up to that period. The ABC cost calculation method deals with matching overhead cost with outputs. Basically, it consists in matching used resources with activities, with gathering operations into activities and subsequently matching activities with cost objects.

Cooperation of facts incurring changes of cost calculation methods led to the necessity to search for link between cost creation and company existence. The closest link is between outputs whose realisation incurs specific activities and at the same time incurs resource consumption. This relationship is the main idea of ABC cost calculation method. The reason why costs incur is activities and not specific output. Practical use of the ABC cost calculation method requires detailed knowledge of different activities and processes in the company.

2. Methods

In order to evaluate different cost calculation methods, various literature sources were used. All relevant secondary information concerning development and basic characteristic of both cost calculation methods were used for the final comparison and conclusion about advantages and disadvantages of both methods. Concerning methods, we used analysis, synthesis, abstraction and deduction with application of specific mathematical calculations.

3. Comparison between traditional cost calculation method and ABC cost calculation

3.1. Traditional cost accounting method (TCA method)

When using the TCA method, the company in general carries out its activities within well defined organisational units. Organisational units can be distribution unit, sales units, production units, support units and other. In this case, it is necessary to transform company costs from the company level, in other words from financial accounting to organisational units. Organisational units represent cost calculation units. In managerial accounting and cost calculations costs are divided in direct and indirect ones. The problem comes with unambiguous matching of costs with specific outputs. In order to solve this problem, overhead costs contain a portion of direct costs in addition to all indirect costs. In addition to the breakdown of costs by categories in the case of overhead costs, it is necessary to introduce the following categories of overhead costs:

- Overhead costs generated by real produced quantity and structure of performed activities (overhead activities) which depend not only on capacities and technical characteristics but also on performance and discipline of workman working in the organisational unit.
- Overhead costs related to the existence of the organisational unit, e.g. insurance, depreciation, rent which are determined by the role of the specific organisational unit and can not be influenced by a particular employee of that organisational unit.

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