

ANALYSIS OF THE ELEMENTS OF THE PRODUCTION COSTS

Daniela SIMTION

Lucian Blaga University, Faculty for Agricultural Sciences, Food Industry and Environmental Protection, 7-9, Dr. Ion Rațiu, Sibiu, Romania, Mobile: +40721435221, Email: simtiondaniela@yahoo.com

Corresponding author: simtiondaniela@yahoo.com

Abstract

Classical methods for calculating costs underlay the organization activity of measuring costs and have maintained due to the existence of basically the same technical, technological and organizational production structures. Of course, technical progress has brought a number of changes in the productive structure, this is the reason due to which the classical methods of calculation have evolved while preserving their essence and becoming basic methods of cost management. This paper present a study case regarding analysis of the items of production costs in order to set the strategy of the company for reducing production cost.

Key words: cost, production, expenses, incomes, result

INTRODUCTION

Cost analysis represents an important area in the effective functioning of the enterprise in conditions of limited resources, its task consists in supplying the information required by managers in order to develop strategic decisions.[2]

The relative cost position of a company is dependent on "the forces driving significant cost" [3]. "The measuring function of expenses necessary in order to obtain production and the correlations that may arise between efforts - costs and effect - produced goods. Through this function, cost expresses its character of important economic quality indicator. [1]

MATERIALS AND METHODS

In order to analyze the cost elements and the production cost, we have studied data from the annual financial statements of SC "BETA" SRL whose main activity is printing standard and untyped prints, the production of this firm consists of printed sheets.

The analysis of company indicators is being realized based on "The profit and loss account" that allows determining the final outcome of the activity by measuring the effect reflected in net turnover with the effort

reflected in the costs of consumption of material resources and manpower. "The profit and loss account" brings together over a given management period all economic flows that generate revenue (as a source of enrichment) and expenses (as a source of impoverishment).

RESULTS AND DISCUSSIONS

Material expenses and other direct material expenses, direct wage expenses and indirect expenses are those components of cost of production whose evolution over the analyzed period 2013-2015 is presented in Table 1.

The largest share in the production cost structure have material and other direct material expenses for the entire period taken into account, recording the following values: in the fiscal year 2013 the level of 70.51% was above average with 7.53%, in 2014 it registered a value of 66.02%, which was below average by 3.38%, reaching in 2015 62.04%, close to the average of the three years analyzed by 62.98%.

We note that the company followed constantly to reduce material costs by modernizing and upgrading production (purchase of modern machinery), which led to lowering expenses determined by the loss through scraps recorded by the manufacturer.

The rate of direct wage expenses on production cost reached in the analyzed period an average value of 14.01%. In the years 2013 and 2015, the rates have recorded values below the average value, respectively 13.12% and 13.70%, in contrast to 2014 when the rate has reached the value of 15.09%, higher than the average of the period by 1.08%. Even if turnover and production cost have evolved proportionate in the three years, the share of direct wage costs in the production cost has increased in 2014 compared to 2013 by 1.97% due to the higher number of directly productive employees from 25 to 32 (28%) and is higher than in 2015 by 1.39%, but the reason behind this high value was the protection and social security policy, which had as an objective reducing the employer's contributions in 2015.

Table 1. The production cost elements

Nr. crt.	Indicators	Period			Average value
		2013	2014	2015	
1	Net turnover	13,858	20,840	34,634	23,111
2	Material expenses and other direct expenses	6,560	9,378	14,569	10,169
3	Direct wage expenses	1,221	2,144	3,218	2,194
4	Indirect expenses	1,524	2,683	5,697	3,301
5	Production cost	9,305	14,205	23,484	15,664
6	Gross profit related to net turnover	4,553	6,635	11,150	7,446
7	Administrative and distribution expenses	557	762	2,019	1,113
8	The exploitation result	3,996	5,873	9,131	6,333
9	(Full) Commercial cost	9,862	14,967	25,503	16,777
10	Commercial rate of return	28.84	28.18	26.36	27.40
11	The weight of the cost elements in the production cost				
	Material costs and other direct expenses / production cost	70.50	66.02	62.04	64.92
	Direct wage expenses / production cost	13.12	15.09	13.70	14.01
	Indirect expenses / production cost	16.38	18.89	24.26	21.07
	TOTAL	100,00	100,00	100,00	100,00

Further we explore the direct wage expenses. If we apply the lowest rate of 13.12% to the average production cost for the three years analyzed (15,664 thousand lei) an estimate of the direct wage expenses would be 2,055 thousand lei, instead of an actual of 2,194 thousand lei with a shortfall of 139 thousand lei or in percent 6.8%.

If we apply the highest rate of 15.09% to the average production cost for the three years, the result would be 2,363 thousand lei, which means a plus of 169 thousand lei or 7.16% over the real direct wage expenses. This indicates that the lowest estimated rate would be below 6.8% and the highest rate would lead to an increase of 7.16% of the production costs. These factors represent the maximum limit in the use of calculating rates in the estimation/ planning process based on existing data.

Analyzing indirect expenses as they appear in the table, we determined their average rate on the production cost of 21.07% for the period of three years. We note that in the first two years analyzed developments have not increased dramatically compared to 2015 when the share was 24.26%, being with 3.19% above the average. If we analyze the indirect expenses of the financial year 2015, we see an increase in depreciation expenses due to the acquisition of tangible assets according to the modernization and refurbishment production policy.

The lowest rate was with 4.69% below the average period, and the highest rate was with 3.19% above average.

Analyzing the relationship between indirect expenses incurred over a period of three years and the total production cost in the relevant period of time provides management with a basis to design indirect expenses as a percentage of the total cost if that value is predicted in advance and overall as a share sales; if indirect expenses are budgeted (planned) in detail (which takes place before finalizing the budget), then the total budget of indirect expenses can be compared with historical experience, as a percentage of the production cost for determining the allowable character based on the past.

Considering these two points of view

regarding indirect expenses, we can say that determining the rate indicates management:

- if the rate is too high related to the market (or possibly too low);
- usefulness in predicting and fixing the price for the products / contracts;
- main items to be revised in the budget plan of indirect expenses;
- controls are needed for certain indirect expenses;
- projections of indirect expenses available within operational objectives.

The objective of using the rates of indirect expenses is to determine their usefulness in cost analysis, to determine and establish variations compared to the planned budget for indirect expenses and their cause, and to provide a realistic basis for planning future indirect expenses.

CONCLUSIONS

Information obtained from cost analysis are used in developing company strategy. The strategy of domination through costs is the most widespread of all strategies at microeconomic level. The aim of this strategy is determining a lower cost and therefore finding those ways of achieving savings in the costs field.

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