

An Analysis of the Romanian General Accounting Plan. Opportunities for Adaptation to the Activity-Based Costing (ABC) Method

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Sorinel Căpușneanu

Artifex University, Bucharest

Irina-Alina Preda

Tzar Metalcom SRL, Bucharest

***Abstract.** In this article, we analyze the causes that have led to the improvement of the Romanian general accounting plan according to the Activity-Based Costing (ABC) method. We explain the advantages presented by the dissociated organization of management accounting, in contrast with the tabular-statistical form. The article also describes the methodological steps to be taken in the process of recording book entries, according to the Activity-Based Costing (ABC) method in Romania.*

Key words: Activity-Based Costing (ABC); general accounting plan; cost accounting; methodological steps; dissociated organization.

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JEL Codes: M41.

REL Codes: 14I, 14K.

The limits of the Romanian general accounting plan

The structure of management accounts – as stipulated in the general accounting plan of Romania – reveals the absence of a large number of groups of accounts, with different uses and accounting functions. The current accounting system does not offer the picture of a complete costing – which is necessary for the determination of product unit cost – but rather of an overall collection of expenses. The analytical accounts contained in the general accounting plan are still informationally limited. It is precisely for this reason that the Public Finance Ministry specifies that they are non-compulsory. The enforcement rules for the accounting law in Romania allow companies to introduce further accounts or to detail analytically the existing accounts, according to the necessities and goals of every company.

The economic content and accounting correlations between the accounts of class 9 “Management Accounts” (standardized by the Romanian accounting regulations) can only meet the structural requirements of the full costing methods – and less the practical demands of partial costing methods.

What organizational structure do we opt for in cost accounting?

This is a question we will try to answer, starting from the existing cost accounting structural forms. During their evolution, management and cost accounting methods have taken different forms and structures, being shaped by the specific technological process and manufacturing type. The general accounting plan only came to simplify the

recording technique and the mode of establishing costs for products, works and services. The main problem remains the correct representation of economic and financial operations within the company flows. Consequently, we argue for a dissociated organization of the Activity-Based Costing (ABC) method.

Why did we choose the dissociated organization of the ABC (Activity-Based Costing) method?

The double flow accounting system represents the organization form that allows a split between financial accounting – which is liable to normalization – and management accounting, for which the basic rule is “no admittance except on business”, but which is also liable to accounting normalization. The dissociation (splitting) process is based on the informational pluralism, according to which accounting information is directed towards several users, such as: the state, the company management, investors, etc. Internal informational needs are fulfilled by management accounting, whose main objective is the internal analysis of the results (according to organizational structures).

The selection of the dissociate organization in management accounting (through the use of accounts) allows us to structurally join the French accounting system. At the same time, it manages to capture its specific economic and financial flows, enables us to follow the entire operational process at company level. The use of accounts makes it possible to notice much more concrete aspects related to the material and cash flows. It also enables us to detect some deviations and to easily establish their causes.

Why did we not use the tabular-statistical form specific to German accounting system?

Unlike the tabular form, the dualist form ensures the identification, recording, allocation and highlighting of indirect product costs (such as prime costs, direct costs or overheads) according to activities. In order to emphasize them, we use the accounting system specific to the 9th class (“Management accounts”). This way, we can have a much clearer picture of the manner in which the manufacturing costs of products, works and services are structured and recorded in the accounting system. By means of the accounts used, we can also get a better idea of the cost flow process.

Both the tabular and the dualist organizational forms of cost accounting require the determination of the allocation quota and offset of activity costs⁽¹⁾, according to cost bearers and depending on the cost drivers used, which express a causality relation between expenses to be allocated and their allocation bases.

According to the tabular form, some costs cannot be separated from the start, (according to the documents), into processes or activities, because they are indirect with respect to both the products (cost bearers) and the processes and activities involved. To this end, it is necessary to use some conventional techniques and procedures. The tabular form offers the example of cost allocation over products by means of tables or other tabular-statistical types of reports. We can safely say that there is a similarity between the two organizational forms, with the mention that the dualist form uses the system of accounts to distinguish among

these techniques. The same thing can be noticed in establishing the deviations for products (cost bearers) or activities.

What are the main arguments for choosing the dissociated organization of the ABC method?

In conclusion, the main arguments for choosing to introduce the system of accounts as a way to use and implement the Activity-Based Costing (ABC) method refer to the fact that the dualist system in management accounting has had a long tradition in Romania: it was used both during the centralized economy and it has also been used after 1994, when the general accounting plan was adjusted to the French model. This tradition has since continued in two directions:

1. *The use of double entry accounts.* Most of the accountants have been accustomed to an accounting system based on an accounting plan and so they continued to use it, because of the multiple advantages it offers (as previously shown).

2. *The use of software based on the double entry accounting.* In order to simplify accountants’ work, IT specialists have created software based on the double entry accounting – instead of mathematical spread sheets, as it is the case of the cost offset tabular sheets. This type of software is easy to use, especially because of the large volume of data that can be computer-processed in this way.

Considering the deficiencies of the Romanian accounting system and their analyzed causes, as well as the main arguments that favor the dissociated structure of the Activity-Based Costing (ABC)

method, we opt for the developed version of double entry management accounting, as emphasized by Professors Klaus Ebbeken, Ladislau Possler and Mihai Ristea in their seminal work “*Cost Calculation and Management*”⁽²⁾.

Given the proposed version for calculating the analytical result and the alterations adopted according to the specifics of the ABC method, the new accounting plan will have the following structure:

90 Group “Internal offset”

- 901 “Internal offset for expenses”
- 902 “Internal offset for manufactured output”
- 903 “Internal offset for cost differences”
- 904 “Internal offset for sales”

92 Group “Calculation accounts”

- 921 “Main activity expenses”
- 923 “Indirect expenses/Overheads”
- 924 “General management expenses”
- 925 “Marketing and sale expenses”

93 Group “Production cost”

- 931 “Finite production cost”
- 933 “Work- in-progress cost”
- 935 “Sold output cost”

95 Group “Analytical result accounts”

- 951 “Analytical result”.

Before beginning the general presentation of the 9th class (“Management accounts”), we should mention that the symbols and names used for the following accounts: 904 “Internal offset for sales”, 935 “Sold production cost” and 951 “Analytical result” belong to the authors of the above-mentioned work. In order to determine the costs and results for products and/or activities, accounts 921, 931, 902,

903, 904, 951 will be analytically structured according to products (cost bearers), while accounts 923, 924, 925, according to processes and activities. Account 901 is run according to cost types.

A general overview of the 9th class of accounts (“Management accounts”)

Group 90 “Internal offset” is one of the most important group of the 9th class (“Management accounts”). Besides the accounts receivable and payable, we also have bi-functional accounts. The adjustment to the specific of the ABC method have required changing the names of some of the accounts, precisely to make them more flexible in pinpointing, on the one hand, the recorded expenses and on the other hand, the obtained earnings.

901 “Internal offset for expenses” is a bi-functional account, but it functions as an account payable. In this account, we record the offsets related to direct expenses (main activities) and activity-based expenses (production overheads, general management expenses and sale expenses). These outgoings (expenses) are taken over (according to the expense transposition chart) from financial accounting (6th class) and transposed into management accounting (9th class). They ensure the interface between the two types of accounting, by emphasizing the actual cost of the finite manufactured output.

It is credited during the month, when we offset the running expenses according to destinations (products or activities) through the debit of the following accounts: 921 (“Main activity expenses”), 923 (“Indirect expenses/Overheads”), 924 (“General

management expenses”, 925 (“Marketing and sale expenses”). It is debited at the end of the month by the actual cost of the finite production, through the credit of account: 935 (“Sold production cost”). It has no balance.

902 “*Internal offset for manufactured output*” is a bi-functional account. It is used for recording:

- internal offset of the manufactured output cost during the month, at record price;
- internal offset of the manufactured output cost at the end of the month, at actual cost.

When the actual cost is higher than the pre-calculated cost, the difference is unfavorable, signifying a negative deviation (exceeding) from standard costs. When the actual cost is lower than the pre-calculated cost, the difference signifies a positive deviation (savings) from standard costs.

It is credited during the month by the record price of the finite manufactured output through the debit of account 931 (“Finite production cost”) and, at the end of the month, by the cost differences (actual cost – pre-calculated cost) corresponding to the manufactured output and represented in the debit of account 903 (“Internal offset for cost differences”).

It is debited, at the end of the month, by the actual cost of the manufactured output, through the credit of account 921 (“Main activity expenses”).

It has no balance. Analytically, this account details calculation objects (orders, products, works, services etc.).

903 “*Internal offset for cost differences*” is an account receivable and it records the

cost differences (calculated at the end of the month) between the actual and the standard cost of the manufactured output.

It is debited at the end of the month, when (favorable or unfavorable) cost differences are established and recorded, through the credit of account: 902 (“Internal offset for manufactured output”).

It is credited at the end of the month, when (favorable or unfavorable) cost differences are offset through the debit of account 931 (“Finite production cost”).

It has no balance. Analytically, this account details calculation objects (orders, products, works, services, etc.).

904 “*Internal offset for sales*” is an account payable. It is used to record (at the end of the month):

- earnings obtained from selling the finite products at sale price;
- the offset of the actual cost and the result obtained after selling the finite production.

It is credited at the end of the month, when we offset the actual cost of manufactured and sold output and the result obtained after selling the finite production, through the debit of account 951 (“Analytical result”).

It is debited at the end of the month by the value of earnings resulted from selling the finite products, through the credit of the (same) account 951 (“Analytical result”).

It has no balance. Analytically, this account details calculation objects (orders, products, works, services, etc.).

Group 92 “Calculation accounts”

This group is homogeneous from the point of view of the economic contents and accounting function. It is worth noticing the

absence of account 922 (“Auxiliary activity expenses”), which, according to the principles of the ABC method, is not to be found at the level of activities.

921 “Main activity expenses” is an account receivable. It is used for keeping record of the company’s main activity expenses. It is debited:

- during the month, when we collect the direct expenses resulted from the main activity, through the credit of account 901 (“Internal offset for expenses”);
- at the end of the month, when we allocate the shares of overheads (taking into account the activity-specific cost drivers), through the credit of accounts: 923 (“Indirect expenses/Overheads”), 924 (“General management expenses”) and 925 (“Marketing and sale expenses”).

It is credited at the end of the month by the actual cost of the manufactured output, through the debit of account 902 (“Internal offset for manufactured output”).

It has no balance. Analytically, this account details calculation objects (orders,

products, works, services, etc.), calculation items (raw materials and direct salaries, including direct labor accessories). It may also be analytically detailed at section level, depending on the manner in which we identify finite cost bearers.

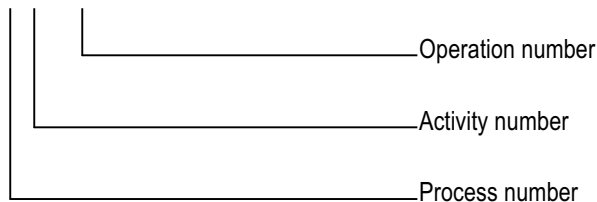
923 “Indirect expenses/overheads” is an account receivable. It is used for keeping record of activity-centered expenses (production overheads).

It is debited during the month, when we collect production overheads, through the credit of account 901 (“Internal offset for expenses”).

It is credited at the end of the month, when we allocate the shares of expenses resulting from the main activities (production overheads), based on specific cost drivers, through the debit of account 921 (“Main activity expenses”).

It has no balance. Analytically, this account details processes, (production) activities and operations. Account 923 can be analytically and digitally coded in the following manner:

923. XX..XX..XX



Example: 923.01.1 „Indirect expenses/Overheads” – Supply Raw material supplying

924 “General management expenses” is an account receivable. It is used to record expenses resulting from management activities.

It is debited during the month, when general management expenses are collected, through the credit of account 901 (“Internal offset for expenses”).

It is credited at the end of the month, when we allocate the shares of the main activity expenses (general management overheads), based on specific cost drivers, through the debit of account 921 (“Main activity expenses”).

It has no balance. Analytically, it details processes, (general management) activities and operations. The same rules apply for the analytical digital coding of account 924 as in the case of account 923 above.

925 “*Marketing and sale expenses*” is an account receivable. It is used to record expenses resulting from commercial activities (it contains marketing and sale expenses, packing expenses, etc.).

It is debited during the month, when commercial activity expenses are collected, through the credit of account 901 (“Internal offset for expenses”).

It is credited at the end of the month, when we allocate the shares of expenses resulting from the main activities (indirect marketing and sale expenses), based on specific cost drivers, through the debit of account 921 (“Main activity expenses”).

It has no balance. Analytically, this account details processes, (marketing and sale) activities and operations. The same rules apply for the analytical digital coding of account 925 as in the case of accounts 923 and 924 above.

Group 93 (“Production cost”) is the group that distinguishes the aspects of production cost from two points of view: the finite production and the sold production. The accounts described below are both accounts receivable and accounts payable.

931 “*Manufactured output cost*” is an account receivable. It is used to record finite

production, consisting of finished products, work performed and services provided to third parties, own investments or other activities.

It is debited during the month, by the record price of manufactured output, through the credit of account 902 (“Internal offset for manufactured output”) and at the end of the month by the difference between the actual cost and the record cost of finite products, through the credit of account 903 (“Internal offset for cost differences”).

It is credited at the end of the month, by offsetting the actual cost of finite production, through the debit of account 935 (“Sold production cost”).

It has no balance. Analytically, this account details calculation objects (orders, products, works, services, etc.).

935 “*Sold production cost*” is an account receivable and it keeps record of the finite production to be sold (orders, products, works and services for third parties, own investments or other activities), at sale price.

It is debited at the end of the month, by the finite production entry at the actual cost, through the credit of account 931 (“Finite production cost”).

It is credited at the end of the month, by offsetting the actual cost of manufactured output on the account 901 (“Internal offset for expenses”).

It has no balance. Analytically, this account (just like the previous one) details calculation objects (orders, products, works, services provided, etc.).

Group 95 “Analytical result accounts” is the group that contains result accounts, which represent the difference between earnings and outgoings/expenses (resulting from the finite production of a company).

951 “Analytical result” is a bi-functional account. It is used to record the analytical result obtained from selling the finite products.

It is credited at the end of the month by the (sale price) value of sold production, through the debit of account 904 (“Internal offset for sales”).

It is debited at the end of the month by the actual cost of finite manufactured output

and by the result obtained as the difference between recorded earnings (at sale price) and the actual cost of sold production, through the credit of (the same) account 904 (“Internal offset for sales”).

It has no balance. Analytically, this account details calculation objects (orders, products, works, services, etc). It can also detail analytical results referring to customers or categories of customers.

Notes

- ⁽¹⁾ Cost driver – repartition base.
- ⁽²⁾ According to Ebbeken, K., Possler, L., Ristea, M., (2000). *Calculația și managementul costurilor*, Editura Teora, București, pp. 159-162

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