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Analysis of the Possibility to Organize the Management Accounting through the Target Costing (TC) Method in the Romanian Entities

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Abstract. *This article presents a way of organizing the management accounting and cost calculation through the Target Costing method. There are treated the development stages of Target Costing method, and the role of the management accountant in the development and implementation of this method. The causes behind the choice to adapt the principles of Target Costing method to the Romanian General Accounting Plan and the operation of accounts used in highlighting economic and financial operations at the entity leve have been analyzedl. There are treated theoretical and applied the methodological steps taken in the management accounting and cost calculation. The article ends with the conclusions of the authors about the possibility of adapting the principles of Target Costing method to the Romanian General Accounting Plan and the advantages offered by this method.*

Keywords: target costing; management accounting; accounting plan; implementation; profit margin.

JEL Codes: M21, M41.
REL Codes: 14I, 14K.

1. Introduction

The article refers to the analysis of the possibility of organizing the management accounting and cost calculation through the Target Costing method in industrial entities in Romania. It was considered the correct understanding of the methodology for applying the principles of Target-Costing method, based on various theoretical approaches of professionals and managerial accounting restatement information to determine the target cost proposed by an entity. The focus is on trying to adapt the Romanian General Accounting Plan to the specific of Target Costing method and to highlight the advantages of its use in industrial entities in Romania.

2. The current stage of knowledge

In the specialty literature, most specialists have approached the Target Costing method from different points of view meant to point out the advantages or disadvantages of its use. Worldwide, this method was studied very carefully, especially by CAM-I[(1)], whose results were published and showed the real usefulness of this method in terms of continuing the reduction of costs, along with Kaizen Costing method. We have chosen the way of organizing managerial accounting, the use of 9 Class "Management Accounts" variant. After consultiations with experts in the field, it was made possible a variant of organizing managerial accounting using certain specific accounts whose content and operation have been carefully analyzed. The results of our research in adapting the General Accounting Plan to the specific of Target Costing method are presented through a case study example, meant to demonstrate the usefulness of this method in the current economic situation of Romania.

3. The stages of Target Costing method (TC)

According to the definition of CAM-I, Target Costing is "*a set of management tools and methods designed to direct the design and planning for new products, which provide a basis for subsequent exploitation phase control, and ensuring that their products achieve their goals of profitability throughout their life cycle.*"[(2)] The goal of Target Costing method is to identify the production cost for the intended product, to sell it, therefore, to generate the desired profit margin. The Target Costing method focuses on reducing the cost of a product through changes in its design, being applied during the design phase of life cycle product.

In the speciality literature, the specialists have identified the following general steps underlying the performing of Target Costing method:

1. *Setting the target price depending on the market and competitive environment context*. The target price is set by the study techniques such as: assessing the market needs, competitive analysis or preliminary plans of the entity to provide a new or modified product with certain features or characteristics. The essence consists in the fact that entities which use the Target-Costing method for setting their target price on the market depending on competitive conditions and long term prices depending on market penetration objectives.

2. *Setting the target profit margin*. The target profit margin results from the strategic and financial long-term objectives of the entity as a result of efforts to plan a profit. General equation is as follows:

$$\text{Target price} - \text{Target profit margin} = \text{Traget cost (allowable)} \qquad (1)$$

where:

The allowable cost may be composed of: *variable production costs* (raw materials, direct wages), *unit production costs* (development, depreciation, investigation), *other costs* (general manufacturing, administrative), *investment costs* (inventory, equipment, installation).

3. *Determining the estimated cost and the target cost*. If the product proposed is a modification of an existing product, an entity already has the base cost from which can determine which could be the potential costs of the new proposed product, if the new product specifications and method of manufacture are similar. Next, one can determine the costs of a new product or *engineering costs* (*current costs, estimated*) using the avaible product specifications and manufacturing processes. General equation is as follows:

$$\text{Target price} - \text{Target profit margin} = \text{Target cost } (\textit{current cost, estimated cost}) \qquad (2)$$

$$\text{Target Price} - \text{Target profit margin} = \text{Target cost, estimated (Kaizen Costing subject)} \qquad (3)$$

The estimated cost is reduced by using the Kaizen Costing technique to achieve the target cost proposed by the entity.

4. *Calculation of the estimated cost of products and estimated activities*. It is determined by adding the direct costs and the indirect costs allocated to the products.

5. *Calculation of target cost, the amount by which costs should be reduced*. If the estimated cost is greater than the target cost proposed by the entity, it shall be reduced by applying the engineering cost. This involves bottom-up adjustment of the componence of the estimated cost that is the indirect costs allocated to the bearer of cost and the direct costs, if there are any.

4. The role of the management accountant. Adaptation of the Romanian general accounting plan to the specifics of the Target Costing method

In the contemporary period which incurs major changes in the global and competitive business environment where prices are set by the market or competitive pressures or aggressive politicies of the entity management for the penetration of certain target market segments, the Target Costing method brings a new life in cost management, encouraging the management accountants to adopt and implement it to solve the above mentioned problems.

The management accountant has a very important role in the preparation and achievement of long-term financial objectives of the entity. Being an educated and experienced person, accustomed to analyzing and reporting financial statements, he is the main observer of the impact that environment has on competitive market, the increase or decrease of price, respectively, of costs. Therefore, the management accountant must pass all these signals to the entity's management. The management accountant should read the speciality literature all the time, to be aware of any changes that the entity might benefit from on long-term. In this sense he must familiarize himself and the management of the entity with the principles and benefits of the Target Costing method.

In the implementation of the Target Costing method, the management accountant must have the support of the entity's management. Having already acquired knowledge, the management must be involved in this process. With a pilot implementation project, well thought out, the entity's management becomes a central pillar of the correct implementation and ensures profitability, which will determine the future position on competitive markets. Also, the management accountant must be credible for the other heads of departments of the entity providing multi-level involvement. It should highlight how Target Costing method affects the entity's functions and how other department leaders must face the changing competitive environment, experiencing the implementation of the method and its advantages.

The appropriateness and the responsibility of writing the pilot implementation of the Target Costing method lies with the management accountant that must ensure proper training of people involved the awareness of application of this implementation process, with all the necessary support from the management of the entity. Implementation of the Target Costing method in an entity represents a major change that will affect not only the internal organization but also the future thinking of all those involved in its good running.

Another very important task of management accountant is to adapt the General Accounting Plan to the specifics of the Target Costing method. The General Accounting Plan in Romania does not provide the image of a total cost calculation to determine the product costs, but rather a collection of global expenditures. The economic content and the accounting correspondence between the accounts of the 9th Class "Management Accounts" standardized by the Romanian accounting rules only meet the needs of absorbent (total) type cost calculation organization methods and less the partial methods type. The analytical accounts included in the 9th Class "Management Accounts" remain limited in terms of their informational content and their mode of construction reveal the deficiency of a large number of accounts with defined roles and accounting functions. According to the Regulation of enforcement of the accounting law in Romania, according to the needs of each entity and its purpose by them, other accounts may be introduced or the analytical plan of accounts required by their beneficiaries may be expanded.

In our attempt to adapt the principles of Target-Costing method to the specific technological process and manufacturing types existing in the industries in Romania, taking into account the life cycles of the products, we are hereby presenting our arguments in favour of the organization of management accounting by using the accounts of the 9th Class "Management Accounts". In our opinion, the General Accounting Plan will not do anything but simplify the recording technique and determination of the product costs, the unique problem remaining only the correct representation of the economic and financial operations in the entity's circuit. The management accounting organization is subject to accounting normalization and it is based on pluralism information according to which the accounting information is aimed at several types of users: the state, entity management, investors etc. The internal information needs are satisfied through management accounting which aims at analyzing the outcome of the internal organizational structure. The option of choosing the management accounting organization by using accounts allows its comparison with the French system and also manages to capture its specific economic and financial flows, allowing the representation of the entire operational process in an entity. Using accounts allows capture of more specific issues regarding the material and the money flows for each phase of the life cycle of manufactured products, as well as the target prices and the target profit margins aimed at by the entity, thus helping to identify the target costs for those phases.

Regarding the choice of system of accounts for the use and implementation of Target Costing method (TC), the most solid argument is the tradition preserved in Romania to use the dual system of management accounting which focused on two directions: (1) *accounts based on double entry* and (2) *software based on double entry*. Most accountants in Romania are accustomed in using an accounting system based on an accountant plan, and now they continue using it because of the many advantages presented above. Computer programmers have created software based on accounting records thus facilitating the work of the accountants. Due to the increased quantity of data processed by computers, the software created today is becoming more advanced and easy to use by accountants.

To meet the mentioned above and to try to adapt the Romanian General Accouting Plan, we chose to develope the double entry accounting management variant(3). Given the proposed variant to determine the target profit, target profit margins and establishing the target cost according to the specific of TC method, the new accounting plan will present 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"
924 "General management expenses"
925 "Marketing and sale expenses"

93 Group "Production cost"

931 "Finite production cost"
935 "Sold output cost"

95 Group "Analytical result accounts"

951 "Analytical result"

Accounts of the 9th Class "Management Accounts" will function as follows:

Group 90 "Internal offset". The adjustment to the specific of the Target-Costing method have required changing the names of some of the accounts, precisely to make them more flexible in pinpointing the recorded expenses and 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 indirect expenses (production overheads, general management expenses and sale expenses). It is credited during the month, when we offset the running expenses according to their purposes (products or job costs) through the debit of the following accounts: 921 "Main activity expenses", 923 "Indirect expenses", 924 "General management expenses" and 925 "Marketing and sale expenses". It is debited at the end of the month by the actual cost of the sold 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 the internal offset of the manufactured output cost at the end of the month, at actual cost. It is credited during the month by the estimated cost of the finite production through the debit of account 931 "Finite production cost". It is debited, at the end of the month, by the target cost of the production output, through the credit of account 921 "Main activity expenses". Analytically, this account details calculation objects (orders, products, works etc.).

903 "Internal offset for cost differences" is an account receivable and keeps track of cost differences calculated at the end of the month, between the new calculated effective cost due to compliance with the criteria imposed by the customer and the actual cost of production obtained in the entity. It is debited at the end of the month, in determining and recording the cost difference (favorable or unfavorable) through the credit of account 902 "Internal offset for manufactured output" and debit the account 935 "Cost of production sold". It has no balance. Analytically, this account details calculation objects (orders, products, works etc.).

904 "Internal offset for sales" is an account payable. It is used to record:

- 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 target cost of manufactured and sold output and the target profit margin from the sale of production, through the credit of the account 951 "Analytical result". It is debited at the end of the month, with the value of the sold output, through the credit of the account 951 "Analytical result". It has no balance. Analytically, this account details calculation objects (orders, products, works etc.).

Group 92 "Calculation accounts" is homogeneous from the point of view of the economic contents and accounting function.

921 "Main activity expenses" is an account receivable. It is used for keeping record of the entity'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 specific cost drivers), through the credit of accounts: 923 "Indirect expenses", 924 "General management expenses" and 925 "Marketing and sale expenses".

It is credited at the end of the month by the target 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).

923 "Indirect expenses" is an account receivable. It is used for keeping record of indirect production expenses. 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 indirect production activities.

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 general management activities.

925 "Marketing and sale expenses" is an account receivable. It is used to record expenses resulting from commercial activities. 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 marketing and sale activities.

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 receivable accounts.

931 "Finite production cost" is an account receivable. It is used to record finite production, consisting of finished products. It is debited during the month, by the record price of manufactured output, through the credit of account 902 "Internal offset for manufactured output". It is credited at the end of the month, by offsetting the target 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 etc.).

935 "Sold production cost" is an account receivable and it keeps record of the finite production to be sold (orders, products), at sale price. It is debited at the end of the month, by the finite production entry at the estimated (target) cost, through the credit of account 931 "Finite production cost". It is credited at the end of the month, by offsetting the estimated (target) cost of manufactured output on the account 901 "Internal offset for expenses". It has no balance. Analytically, this account details calculation objects (orders, products etc.).

Group 95 "Analytical result accounts" is the group that contains result accounts, obtained as difference between earnings and expenses resulting from the finite production of an entity

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 target 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 target cost of finite manufactured output and target profit margin obtained as difference between earnings recorded at target sale price and target 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 etc.).

5. Methodological steps of management accounting and cost calculation through TC (Target Costing) method

Based on the ongoing stages of Target Costing method, the management accounting has the following steps:

I. Recording the turnover at target selling price. It is made by debit of 904 "Internal offset for sales" and credit of the account 951 "Analytical result".

904 "Internal offset for sales"	=	951 "Analytical result"

II. Establishing and recording the estimated profit margin (target). It is made by debit of 951 "Analytical result" and credit of the account 904 "Internal offset for sales".

951 "Analytical result"	=	904 "Internal offset for sales"

III. Calculation and recording the estimated cost (allowable, target). It is made at standard cost by debiting 931 "Finite production cost" and crediting the account 902 "Internal offset for manufactured output".

931 "Finite production cost"	=	902 "Internal offset for manufactured output"

IV. Establishment of the estimated cost purposes (allowable, target). At this stage there is the distribution of the total cost amounts allowable to purposes, job costs (processes, activities) and carrying costs by using cost drivers or specific weights determined by the implementation team of Target Costing method. It uses the same allocation methodology as for the ABC method (Activity-Based Costing). Total cost allocated is taken into account credit 901 "Internal offset for expenses" and assigned the accounts of group 92 "Calculation Accounts".

921 ”Main activity expenses” 923 ”Indirect expenses” 924 ”General management expenses” 925 ”Marketing and sale expenses”	=	901”Internal offset for expenses”

Analytical accounts can be opened for the following direct costs: raw materials, direct wages and other direct costs. For indirect costs, accounts can be opened for each type of analytical activity individually highlighted in the corresponding process.

V. Allocation of indirect costs related activities on the products and works performed by using specific cost drivers (a list of specific cost drivers of each type of indirect expense shall be drawn or the weights determined by the implementation team shall be used).

921”Main activity expenses”	=	923 ”Indirect expenses” 924 ”General management expenses” 925 ”Marketing and sale expenses”

VI. Calculation and settlement of effective cost. It is achieved by debiting 902 "Internal offset for manufactured output" and account 921"Main activity expenses". It produces no changes as against the traditional methods of cost calculation.

902 "Internal offset for manufactured output"	=	921"Main activity expenses"

VII. Calculation and recording the cost differences between the new effective costs established as result of the recommendations made based on customer requests and the actual cost established on components inside the entity.

903 "Internal offset for cost differences"	=	902 "Internal offset for manufactured output"

VIII. Settlement of effective costs of sold production. It is made to the debit of account 935 "Sold production cost" and the credit of account 931 "Finite production cost".

935 "Sold production cost"	=	931 "Finite production cost"

IX. Distribution of cost differences on sold production.

935 "Sold production cost"	=	903 "Internal offset for cost differences"

X. Settlement of effective costs on the target result. It is made to the debit of account 951 "Analytical result" and credit of the account 904 "Internal offset for sales".

951 "Analytical result"	=	904 "Internal offset for sales"

XI. Closing the expenditures accounts (cost-production interface). It is made by debit of 901"Internal offset for expenses" and credit of the account 935 "Sold production cost".

901"Internal offset for expenses"	=	935 "Sold production cost"

6. Applied case study

An entity that performs product *A* annually wants to improve the product and to launch this product on the market under the name *Super A*. Estimates made by the experts of the entity show that the life of the new product will be three years and will have three phases: *launch*, *growth* and *maturity*. The entity is considering a functional decomposition based on product analysis, taking into account the repeated needs of the client. The situation of the production capacity, estimated selling prices, covered profit margins is as follows:

Explanations	Phase 1 *Launch*	Phase 2 *Growth*	Phase 3 *Maturity*
Predicted quantity (pieces)	10,000	10,000	12,000
Unit target selling price	800	750	700
Unit target profit margin	64	60	42
Unit target cost	736	690	658
Target turnover	8,000,000	7,500,000	8,400,000
Target profit margin	640,000	600,000	504,000
Target cost	7,360,000	6,900,000	7,896,000
Share of profit margin in turnover	8%	8%	6%
Target cost share in turnover	92%	92%	94%

Situation of unit target costs on components and phases, also the share in the cost of products is as follows:

Cost component	Share in the cost of product (%)	Target cost per unit component and phase (RON/pcs.)		
		Phase 1 *Launch*	Phase 2 *Growth*	Phase 3 *Maturity*
Raw materials	20	147.2	138	131.6
Direct wages	10	73.6	69	65.8
Maintenance	25	184	172.5	164.5
Montage	20	147.2	138	131.6
Management groups	15	110.4	103.5	98.7
Publicity	10	73.6	69	65.8
Total	100	**736**	**690**	**658**

Effective costs recorded during the tree years are: 750 RON, 710 RON, 670 RON. The entity's management wants to present the evolution of the target cost of the *Super Alpha* product during the three phases of engineering performance value for reducing costs in each phase. The management of the entity wants to supply the information necessary to make correct decisions and robust policy that will impact on manufacturing, competition policy and estimates of future benefits.

Based on the above presentation, the situation in the three years is as follows:

Cost component	Share in the cost of product (%)	Target cost on cost's component and phases (RON)		
		Phase 1 *Launch*	Phase 2 *Growth*	Phase 3 *Maturity*
Raw materials	20	1,472,000	1,380,000	1,579,200
Direct wages	10	736,000	690,000	789,600
Maintenance	25	1,840,000	1,725,000	1,974,000
Montage	20	1,472,000	1,380,000	1,579,200
Management groups	15	1,104,000	1,035,000	1,184,400
Publicity	10	736,000	690,000	789,600
Total	100	**7,360,000**	**6,900,000**	**7,896,000**

The phase deviations determined after comparing the effective cost (unit and total) with target cost (unit and total) is as follows:

Cost component	*Phase 1 Launch*					
	Effective cost		Target cost		Deviations	
	unit	total	unit	total	unit	total
Raw materials	150	1,500,000	147.2	1,472,000	2.8	28,000
Direct wages	75	750,000	73.6	736,000	1.4	14,000
Maintenance	187.5	1,875,000	184	1,840,000	3.5	35,000
Montage	150	1,500,000	147.2	1,472,000	2.8	28,000
Management groups	112.5	1,125,000	110.4	1,104,000	2.1	21,000
Publicity	75	750,000	73.6	736,000	1.4	14,000
Total	**750**	**7,500,000**	**736**	**7,360,000**	**14**	**140,000**

Cost component	*Phase 2 Growth*					
	Effective cost		Target cost		Deviations	
	unit	total	unit	total	unit	total
Raw materials	142	1420000	138	1380000	4	40000
Direct wages	71	710000	69	690000	2	20000
Maintenance	177,5	1775000	172,5	1725000	5	50000
Montage	142	1420000	138	1380000	4	40000
Management groups	106,5	1065000	103,5	1035000	3	30000
Publicity	71	710000	69	690000	2	20000
Total	**710**	**7100000**	**690**	**6900000**	**20**	**200000**

Name of cost's component	*Faza 3 Maturity*					
	Effective cost		**Target cost**		**Deviations**	
	unit	**total**	**unit**	**total**	**unit**	**total**
Raw materials	134	1,608,000	131.6	1,579,200	2.4	28,800
Direct wages	67	804,000	65.8	789,600	1.2	14,400
Maintenance	167.5	2,010,000	164.5	1,974,000	3	36,000
Montage	134	1,608,000	131.6	1,579,200	2.4	28,800
Management groups	100.5	1,206,000	98.7	1,184,400	1.8	21,600
Publicity	67	804,000	65.8	789,600	1.2	14,400
Total	**670**	**8,040,000**	**658**	**7,896,000**	**12**	**144,000**

In consultation with customers, the entity decides to reduce the costs components, and the new cost effective resulted is as follows for the three phases:

Name of cost's component	*Phase 1 Launch*					
	New effective cost		**New target cost**		**Deviations**	
	unit	**total**	**unit**	**total**	**unit**	**total**
Raw materials	151.2	1,512,000	138	1,380,000	13.2	132,000
Direct wages	75.6	756,000	69	690,000	6.6	66,000
Maintenance	178.5	1,785,000	172.5	1,725,000	6	60,000
Montage	145.8	1,458,000	138	1,380,000	7.8	78,000
Management groups	102.3	1,023,000	103.5	1,035,000	-1.2	-12,000
Publicity	66.6	666,000	69	690,000	-2.4	-24,000
Total	**720**	**7,200,000**	**690**	**6,900,000**	**30**	**300,000**

Name of cost's component	*Faza 2 Growth*					
	New effective cost		**New target cost**		**Deviations**	
	unit	**total**	**unit**	**total**	**unit**	**total**
Raw materials	138	1,380,000	130.64	1,306,400	7.36	73,600
Direct wages	69	690,000	65.32	653,200	3.68	36,800
Maintenance	170	1,700,000	163.3	1,633,000	6.7	67,000
Montage	136	1,360,000	130.64	1,306,400	5.36	53,600
Management groups	102	1,020,000	97.98	979,800	4.02	40,200
Publicity	64	640,000	65.32	653,200	-1.32	-13,200
Total	**679**	**6,790,000**	**653.2**	**6,532,000**	**25.8**	**258,000**

Name of cost's component	*Faza 3 Maturity*					
	New effective cost		**New target cost**		**Deviations**	
	unit	**total**	**unit**	**total**	**unit**	**total**
Raw materials	131.6	1,579,200	125.96	1,511,520	5.64	67,680
Direct wages	65.8	789,600	62.98	755,760	2.82	33,840
Maintenance	160	1,920,000	157.45	1,889,400	2.55	30,600
Montage	128	1,536,000	125.96	1,511,520	2.04	24,480
Management groups	94	1,128,000	94.47	1,133,640	-0.47	-5,640
Publicity	62	744,000	62.98	755,760	-0.98	-11,760
Total	**641.4**	**7,696,800**	**629.8**	**7,557,600**	**11.6**	**139,200**

In managerial accounting were made the following accounting registrations:

1. Recording the turnover at target selling price.

7,500,000	904 "Internal offset for sales"	=	951 "Analytical result"	7,500,000

2. Establishing and recording the estimated profit margin (target: 8% x 7500000 lei).

600,000	951 "Analytical result"	=	904 "Internal offset for sales"	600,000

3. Calculation and recording the estimated cost (allowable, target).

6,900,000	931 "Finite production cost"	=	902 "Internal offset for manufactured output"	6,900,000

4. Estabishment of the estimated cost destinations (allowable, target).

2,268,000 4,266,000 666,000	921 ”Main activity expenses” 923 ”Indirect expenses” 924 ”General management expenses”	=	901”Internal offset for expenses”	7,200,000

5. Allocation of indirect costs related activities on the products.

4,266,000	921 ”Main activity expenses”	=	923 ”Indirect expenses”	4,266,000

666,000	921 ”Main activity expenses”	=	924 ”General management expenses”	666,000

6. Calculation and settlement of effective cost.

7,200,000	902 "Internal offset for manufactured output"	=	921 ”Main activity expenses”	7,200,000

7. Calculation the cost differences (between the new effective costs and the actual costs).

300,000	903 “Internal offset for cost differences”	=	902 "Internal offset for manufactured output"	300,000

8. Settlement of effective costs of sold production

6,900,000	935 "Sold production cost"	=	931 "Finite production cost"	6,900,000

9. Distribution of cost differences on sold production

300,000	935 "Sold production cost"	=	903 “Internal offset for cost differences”	300,000

10. Settlement of effective costs on the target result.

6,900,000	951 "Analytical result"	=	904 "Internal offset for sales"	6,900,000

11. Closing the expenditures accounts (cost-production interface).

7,200,000	901”Internal offset for expenses”	=	935 "Sold production cost"	7,200,000

In the other two phases (*growth* and *maturity*) of the product, the same value engineering procedure will apply to achieve the new target cost, taking into account the recommendations of the customers. In management accounting, the same methodological steps above mentioned will be applied.

7. Conclusions

The Target Costing method requires a major change in the mentality of many industrial entities in Romania, managers and management accountants, used to operating in a business that accepts regular price growth in previous years. These entities are most affected by industrial growth and global pressures; meanwhile, the competitive environment could respond more quickly to the approach and to the benefits of the Target Costing method. These entities that apparently, do not seem affected, can fall or can react as soon as possible by obtaining benefits through the previous costs planning, especially cost management, namely by studying their impact on profitability and market position. The main reason for the adoption of the Target Costing method is its use in the planning and design of products costs before manufacturing the products and ensuring that products whose margins generate insufficient profits in manufacturing are not included. Other benefits identified include:

- to identify problems in the acquisition, focusing on a broader spectrum of supply;
- to improve understanding of product costs by allowing early identification of problems that may occur in the reduction of costs;
- to focuse on end users products;
- In the cost analysis are involved the staff from all departments, thus encouraging the responsibility for cost management;
- impact analysis may be carried out on their new products on the market and competitive environment. By taking into account the full product lifecycle, the total cost of the manufacturer and the customer is significantly reduced;
- to provide satisfactory financial performance by developing specific and real objectives.

We hope that what we presented and argued for in this article will be a starting point for professionals and entities in understanding and correctly applying principles of the Target Costing method. Also, the possibility of adapting the accounting plan and the advantages of this method is a trump for specialists to think about a high-performance management considering the continuosly cost reduction opportunities, especially in the current business and competitive environment which is becoming increasingly fierce.

Notes

(1) Consortium for Advanced Manufacturing International.
(2) Idem.
(3) Ebbeken, K., Possler, L., Ristea, M., (2000). *Calculation and cost management*, Teora Publishing House, Bucharest, pp. 159-162.

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