

## Expense – Cost – Price Into the accounting and the policy of the company

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*The cost, besides some others variables such as: the level and the dynamics of the price that is set on the market, the forms and the intensity of the concurrence, constitutes the basis of determining the value of the product that will be found at its selling price on the market. The present article reflects the trying of noticing these notions and the connections between them, which are reflected in the company prices policy.*

**Key words:** price policy, expense, cost, value

The general concept of cost is relatively recent; it appears in industrial enterprises practice and in the accountancy papers since 19th century as a result of the industrial revolution, even if it was used in a restricted way by some companies from 17th century. The industrial revolution is not the only reason which led to generalize this concept, the concurrence between firms increasing its development significantly. The cost can be considered as any

regroupation of accounting expenses that is pertinent to be done, for taking some decisions in the company, or to ensure the control of a part or of the entire organization.

The cost represents an expense or an amount of associated and recognized expenses of a consumed resource, an activity place, a product that is realized or a management period. The characteristics of "cost" are: the resources consumption, the connection with the

realizations and the evaluation in monetary expression. If management expenses and marketing expenses are added to the cost of production the complete cost is obtained.

The cost is an evaluation. It could be considered the value of the future chances of use, the cost having a different value from person to person; for example the purchasing of a ground. The same ground can have different uses for different persons. For some of them the ground can represent a good location for a villa, for others – headquarters or maybe a sports ground (base). The cost that we support will be determined by its alternative chances for use.

Another example is the inclusion of the associate's possible salary in the enterprise expenses, respectively in the asset's cost in case the complete cost is used. It is the case when the associate, who is the owner of the firm, does not earn a salary for the administrative activity he realizes. From the customer's point of view the good obtained by the company has the same quality even if the company registers or not the eventual salary of the associate. From the associate's point of view, the eventual salary although it represents a cost, it is not registered as expenses if there are no necessary documents for proving that the associate is engaged. If there are such acts, these expenses must be registered. Therefore the total cost of a product can represent the value of all chances that must be given up in order to obtain that product.

The financial accounting measures the performance of the company, but does not show how this performance has been realized. In order to support this measure we use the management accounting that proposes necessary techniques for managers to take decisions depending on the last performances. For this reason a series of methods for costs evidence can be used. The most part of the incorporable expenses into costs are provided by the financial accounting. There are differences between the expenses registered in financial accounting and the incorporable expenses into costs. We talk about:

- the unincorporable expenses;
- the suppletive expenses;
- the substitution expenses.

The unincorporable expenses are those that the financial accounting registers in the 6th class of the General Plan of Accounts, but they are not considered by the management accounting because they do not really correspond with the normal conditions of functioning and realization of the company activity object. The amortization of constitution expenses (without the amortization of bonuses regarding the bonds reimbursement, which can be compared to financial expenses); the exceptional expenses which are mostly included in the category of exploitation expenses now, the expenses with benefit tax – are generally excluded from the costs calculation.

The suppletive expenses correspond to the goods and the services consumptions, but which the financial accounting does not register as expenses because of juridical or fiscal reasons although they represent the remuneration of those factors that contribute to the good functionality of the company. Considering these expenses, the management accounting permits the comparable costs calculation among competitive companies that are different as juridical form and financing type.

The most usual suppletive expenses are those regarding the remuneration of the appropriate capital, expenses that are added to the remuneration of the borrowed capitals and that are measured by means of financial expenses interests allow the taking into consideration of the entire financial structure cost. Thus the comparison of the exploiting conditions of two companies that differ only through their level of obligation is ensured. This thing does not realize in financial accounting, but only in management accounting.

The substitution expenses involve the expenses taken into consideration in management accounting at a different amount of that registered in financial account. There is the case of the digressive depreciation exceeding in comparison with the linear depreciation as well as any difference among expenses registered in financial accounting respecting juridical or fiscal reasons and the amounts corresponding to economic reasons. These expenses are not needed

anymore in accounting according to IFRS, where the transactions registered in accounting are based only on economic reasons not on fiscal reasons.

We should take into account the difference between the notion of expense and that of cost, regarding the relation between financial accounting and management accounting, from the point of view of reference period. This distinction implies the delimitation between the expenses that can not be considered costs yet, and the costs that can not be considered expenses yet. Within the category of the expenses that are not costs yet are included the expenses registered in advance and expenses for distributing on more exercises. The category of the expenses that are not costs anymore contains the expenses effectively established for which the documents of establishment have not been received until the closing of the reference period. Another difference between expenses and costs, noticed considering the relation between the financial accounting and the management accounting, is analyzed through the method of evaluation in monetary expression. Thus, in financial accounting, the assets are estimated to the historical cost, while in management accounting, the assets are estimated to the replacement cost in order to maintain the proper capital. But, in the case when the accounting is based on IFRS, the assets registered to the historical cost will be brought to their present value by means of reevaluations

in the case of value increases or by means of adjustments, in the case of value decreases, and the distinction mentioned above is not well-grounded anymore.

There are differences between "cost" and "value". These two notions are often confused. The value is generally defined as an amount of costs. Actually the value is made by the market, the client being the one who establishes the value, by appreciating the product. For an existing product on market there is always a value: the selling price. The distinction between cost and value is expressed on one hand by the hidden costs as: the excessive terms, the defects and the absenteeism. All these do not make value for the client, but they represent costs for the company. On the other hand, we could ask: which is the value produced by the administrative service? Which is the value produced by a research that has no result? The answer: there is no value, there is only cost. But the value is not an objective measure, but a judgment, because the buyer doesn't really know the measure of the value of his acquisitions, as for example the way we measure the temperature. There hasn't been written a law scientifically confirmed that could determine the real value of the things.

Some specialists consider that the value can not be measured, and consequently we should learn to administer it. To calculate a cost is good, to diminish a cost is better. We should focus not on the calculation accuracy, but on its pertinence. A cost is pertinent if it

corresponds to the users' needs and if it is determined in time and with the necessary accuracy. A cost, even an approximate one but obtained at the right moment will always be preferred to an accurate and late cost. A cost is never perfect or absolute because it comes from a modeling of the enterprise and from different conventions, such as the charging of certain expenses.

For instance, the cost calculation of an order is necessary when orders for which there is not a price on the market are carried out and we are ones that establish the price autonomously. Then our calculation is settled from bottom to top, in the sense that we determine the production costs and we raise the covering contributions over the level of production costs. In the case of the prices present on the market, it is unfit to establish by ourselves another price of the market and to make a retroactive calculation. This means that we subtract the established production costs from the price that we can get and we compare the difference with the necessary covering contributions.

The price is a strategically variable of the enterprise. It reflects the product utility perceived by the customer. The decision of buying depends not only on the product characteristics, but also some other factors can be taken into consideration, as the company's image, the customer evaluating the connection quality/price all the time. Relying on the guide cost – price – value, the enterprise is performative if it is profitable, compe-

titive and offers to the customers quality products.

A company is profitable when it establishes a selling price bigger than the cost of product. But for being competitive, the company should establish the selling price under the value attributed to the product by the client. But the profitability and the competitiveness assures the performance only for shareholders. In order to be performative also for clients, a company should offer quality products.

Regarding the price policy of the company, the price asked by the producer is situated into an interval of value limited by the size of the cost at the inferior level and by the estimated value accepted for the product by the buyers, at the superior level. Establishing a price under the unitary cost leads to the impossibility of the company economic survival, at the same time, establishing a price for a product over the value perceived by the buyers leads to the cessation of selling and to the loss of demands.

Knowing the costs' structure has a major importance in the substantiation of the price decision. In the case when the biggest proportion in cost formation is represented by the fixed expenses, the company can establish as price policy objectives: the fixed costs retrieval and the price establishment which would assure the maximal utilization of the capacities. The firm will register losses until the volume of sales incomes will be superior to the volume of fixed costs.

From the moment of covering the fixed expenses, each sold additional unit of product will contribute to the increase of the profit. But, if the biggest weighting in the structure of the cost is requested by the variable expenses, the objective of the price suggested by the company refers to the security of the variable costs and maximizing the margin of the variable costs. The costs calculations should provide information regarding the cost per product / service used as a limit of inferior reference of the prices. The problem of setting the prices by cost calculation is out of discussion.

The price is determined firstly by the request, not by the cost. The request is the concept that connects the quantities that are bought with the sacrifices that should be done in order to obtain these quantities. A raise of price represent for the buyer an expense while the provider, it is a benefit. There are costs that represent expenses for the buyers, but they are not benefits for the seller; for instance the cost of staying in a queue.

From one hand, the rising of the profit comes from the rising of sold quantities; from the other one, it comes from the rising of the profit margin. Setting a price for a new product is obviously an important variable of company strategy. The company could not be interested in setting a high price, in order not to lose the buyers and not to encourage the new competitors offering them very comfortable margins. The margins for the new products are often

higher than those for older products, sometimes deliberately sacrificed.

The price policy of the company, excepting the cost, also takes into consideration other variables, especially the level and the dynamic of the price established by the market, the forms and the strength of the competition.

The objectives of the price policy, achieved by a superior price level to market price, refer to:

- The protection of the old products sales in case of new product entries;
- The profit maximization on short term, on the activity abandon case;
- The creation of a "price umbrella" for protecting the competitors with bigger prices.

The objectives of the price policy, achieved by an inferior price level to

market price, refer to:

- Increasing the market segment of the company;
- Attracting an important order or a new client;
- Entrance barriers in the branch for potential competitors;
- Preventing a competitive attack.

As a conclusion, under risks and uncertainty conditions, maximizing profit is not the only major objective of the company. It can be correlated with other objectives, such as company long term surviving, maintaining this position on the market, rising the turnover, innovation, risk maximizing. In this context, setting the price on a cost basis and determining the profit become a very complex assignment.

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