

THE IMPORTANCE OF THE COST INFORMATION IN MAKING DECISIONS

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Abstract

The cost information system plays an important role in every organization within the decision-making process. An important task of management is to ensure the control over operations, processes, activity sectors, and not ultimately on costs. Although in reaching the goals of an organization compete many control systems (production control, quality control and stocks control), the cost information system is important because it monitors the results of the others. The detailed analysis of costs, the calculation of production cost, the loss quantification, the estimating of work efficiency provides a solid basis for the financial control

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1. The cost efficiency of the information system

Knowing the costs represents a decisive factor for making decisions or planning future activities. The record and the analysis of data regarding the past activity costs are only one side of the cost accountancy. The managers are also concerned about costs that will arise in the future, their level that stands as basis for supply and production decisions as well as for pricing policies.

A factor that needn't to be neglected is **the efficiency of the cost information system**. So, *if the offered information is not useful for decision support, nor for the control or for the planning, then what is its value?* In order not to reach such situations, the system must meet the following requirements:

- ◆ is it the suitable system for the organization in terms of the manner production of goods and / or to provide services?
- ◆ do the reports, responses to questions, the analysis contain relevant information for the intended purpose?
- ◆ do these outputs appear at regular intervals and small enough to ensure their effectiveness?
- ◆ are these reports, statements, analysis, responses to questions addressed to those people responsible for making decisions?
- ◆ is the information presented relevant, and sufficiently detailed and precise for the aimed purpose?

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After browsing among these requirements it results that *each information system of costs will be unique*, because it will have to correspond to the demands of certain organizations.

In general, the managerial accountancy covers a wider scope and uses, more advanced techniques than the cost calculation. However, a basic requirement for the managerial accountancy is the existence of a solid information system of costs, able to provide basic data.

Beyond these considerations, we should note that both the whole management accounting and the information system of costs are directed towards the providing of information, often with a high degree of detail, in supporting of planning, control, decision foundation, focusing on the product cost, of the activities and functions.

The decision process is an action that occurs at all levels of the organization, covering both short-term perspective and the long term one. The plans are activated by decisions and at a significant number of decisions is needed the contribution of financial analysis or of a quantitative one, as appropriate, in order for the rational conclusions to be reached. Therefore, the practice of the management of accounting is deeply involved in the decision process.

An important part of evaluating alternatives during a decision process is the one related to assessing risk and uncertainty. Uncertainty is always present, as well as its consequences, because the entire decision process refers to the future. *Decisions under uncertainty conditions* are a crucial factor of maximum importance in management. For example, it may happen that, by replacing a “nerve” subset of a machine while manufacturing it with a redesigned unit, the cost of the equipment may slightly.

A good manager must know how to act promptly under conditions of uncertainty, and for this he needs a *decision model*.

Basically, such a model is made of a decision formula support, often based on quantitative techniques. *The decision model includes the following elements:*

- a *selection criterion* (objective function), which is objective that can be quantified. Usually, this objective is represented by the cost reduction;
- a set of *alternative decisions* from which the purpose can be achieve;
- a set of *relevant decisions* that may affect the results. These events, taken together, must be exhaustive (to cover all possible situations), taken individually, they must be disjointed;
 - a *set of probabilities*, of presenting relevant events;
 - a set of *possible results*, which measures, in terms of the objective function, the expected consequences of different possible action combinations and events. Each such result depends on a specific event and on a specific action.

2. The basic rules of making decisions are:

a) The estimated monetary value. How relevant are these *alternative decisions*? The answer is obvious: accounting, which by definition operates with a standard monetary norm, needs an indicator to show whether a decision (or a scenario) could be more advantageous than another one. This indicator is the *estimated monetary value*.

It is calculated as a weighted average of the results (expressed in money) with the probabilities of each of these results. Also, this being a process of mediation, it can be used where the alternatives under consideration generate two or more results, in an objective or subjective manner, and a probability is assigned to the results.

In the foundation of the decision, several steps are followed:

1. choosing the objective: maximizing the profit;
2. identifying the possible actions, namely: a1) using an external services provider; a2) using the owned maintenance and repair department;
3. identifying the relevant events;
4. establishing the probability of achieving the events;
5. identifying the possible results, when a new event occurs. For this a decision chart can be built (just like the one below), or even a decision tree.

b) The maxim rule, also called "the best of the worst possibilities" it is a preventive decision rule, based on the maximization of the lose minimization that may occur.

Observation: it would be better to choose the alternative of the lowest lose level.

c) The maxim rule, also called "the best of the good possibilities" it is an optimistic rule, it increase the maximum fact that can be obtained.

Observation: it would be better to choose the alternative of the biggest profit.

Generalizing the examples, a consultant or an expert may be perceived as an information system. The decision-maker action will depend on the message or on the signal (in our case the best estimation of the number of interventions) provided by the system. But the decision maker factor acquires the system without knowing the future signals.

We shouldn't consider everything as absolute: in practice managers never confront a single decision, and the information system provides a wide range of information. Therefore, cost-benefit approach should be focused on the collective effect of decisions in a company. For example, a complex and expensive information system for accounting can provide sufficient data and even functionalities to prepare budgets.

In simpler situations (let's say the establishment for the supplies), a cheap application implemented on a microcomputer or even a model designed by the user in a typical development environment may provide enough data to base their decisions in terms of economic efficiency.

In conclusion, the choice of an information system depends on the nature of the decision. More precisely, it depends on the existing information, the table or the decision tree implemented, on the cost of information system and on the optimum condition monitored by the one who makes the decision.

Andrew Carnegie (1872-1902), the founder of the giant American steelworks "Carnegie Steel Company", believes that managers must focus their efforts on the cost because *if they controlled the costs, the profits would appear by themselves.*

The cost information is articulated with the managerial accounting by an integrated part of it. In essence, the role of cost information system is "the

establishment of budgets, standard costs and actual costs of operations, processes, activities or products and of employees' analysis, profitability or operating funds."

Although original (now more than a century) the cost calculation only included productive activities, today it has expanded also on unproductive activities, such as finance and banking, government agencies, health care institutions, etc.

The cost information system is a "primary stone" of the financial accounting information system in an organization. Some information and their possible use by management of the organization are presented in the table below:

The possibility of using the type of cost information by the management

The information provided by the cost information system	Possible uses of such information by the management
I. The unit cost of a product, work or service	<ul style="list-style-type: none"> ◆ Decisions on determining the selling price, the production planning and the cost control ◆ Decisions regarding the purchase, the manufacture or the abandonment of a product ◆ Decisions regarding the portfolio administration of products (substitutions, redesign and product elimination) ◆ The evaluation, measurement and performance administration
II. The cost of a department or a factory	<ul style="list-style-type: none"> ◆ Decisions regarding the structure, improving the production process and the activity control
III. The wage expenses regarding a product lot or a period	<ul style="list-style-type: none"> ◆ The planification of the production, the salary policy
IV. The volume of waste and the technological loses	<ul style="list-style-type: none"> ◆ The planification of the production, the control over materials
V. The costs related to the number of activities	<ul style="list-style-type: none"> ◆ The estimation of profit, decisions of "make-or-buy" type (externalization) and the cost control ◆ Decisions regarding the ways for the company's growth
VI. The cost analysis	<ul style="list-style-type: none"> ◆ Decisions regarding the reduction of cost ◆ Decisions regarding the management of the products and of the customers, (maintenance, elimination) ◆ Decisions regarding the ways growth of the company's performance ◆ The evaluation of effects, of the measures taken / expected by the manager upon costs

Making decisions is a difficult task; the costs are a fundamental factor of the decision. For this are calculated and used several categories of costs. Therefore, **in order to make a decision, four information are always important on the costs**, namely:

What costs are influenced by the decision needed to be taken?

When making a decision not only costs that change should be considered depending on the approach taken on its time. Not all costs are basis for making decisions, but only the relevant ones. A cost is *relevant* if it is developed at the right time for the right decider with an appropriate and satisfactory precision for it. So the relevant cost also called the expected cost is the *additional* cost entailed by the decision. A cost that is represented in an alternative (solution), but misses from the others is a differential cost. The differential method is essential in the decision and can be used for both short-term decision and long term ones.

The costs that can be avoided, influenced, are relevant to the decision. An *avoidable* cost is what can be eliminated entirely or partially as a result of an alternative choice of several, during the development of decision.

But there are also unavoidable costs, called also irrelevant or indifferent costs that do not differ from one alternative to another. They are the past costs, historical ones, on which we cannot make any future decisions.

In the literature it has been and currently are concerns towards the use of appropriate terminology in the relevant costs.

These costs can be determined by making references to: the costs calculated in the previous reporting period, the same costs up to date, competitive rates, costs calculated from a technical and economic analysis, the same costs calculated in connection with an operating budget and resulting from it.

3. The influence power of the manager on costs is determined by the possibility of knowledge the field of cost application, as well as identifying the costs that it can control or not.

From this point of view the following types of costs can be distinguished:

■ **The reversible cost and irreversible cost.** A cost is irreversible when he can no longer return to his employment decision, whatever solution is adopted. Otherwise it will therefore be reversible. So, the decision to install a machine, is irreversible, its decision of working overtime hours is reversible

The controlled cost and the administrated one. A cost is controllable when the decision maker has full power on the occurrence of this cost (e.g., hiring an employee). The cost is administered when the decision maker is required from outside the company (e.g. social spending, tax, royalties). The costs increase mainly on the account of wage costs.

■ **Determined costs and discretionary costs.** One cost is determined when there is a clear relationship between it and the effect produced (e.g., consumption of raw materials that is related to the production).

One cost is discretionary when its relationship with outcome is more "discreet", that will be hard to find a correlation between the administrative burden and consumption of office supplies. Unlike the determined costs, called *mandatory costs* (due to the contractual obligations, company's policy, etc.) the discretionary cost volume can be changed easily (advertising, sponsorship volume);

■ **visible costs and hidden costs.** A hidden cost is already generated (being a passed cost) and it cannot be avoided, whatever the manager decides which action to perform.

One cost is visible when the decision-maker can know the volume of actual costs that have been included in it;

■ **internal and external costs.** The external costs (outsourced) are costs that are transferred to third parties - for example, environmental costs have a social character, are not covered (fully) by the pollutant agent.

Their opposites are the internal costs, consisting of all production costs related to the company's activities.

From this brief overview upon costs results that authority of the decision-maker is limited to all internal costs, manageable ones. It will be strongly visible on costs, reversible and determined. On the other hand, the decision-maker influences only very little on administration costs and outsourcing.

4. The management and the costs

The **opportunity cost** or of **choice** is the appreciation that an economic entity offers to the opportunities forgone when making the choice. It is the loss resulting from waivers involved in any option. The managers try harder and harder to integrate the opportunity costs in the economic analysis of management problems, there are mostly *social opportunity costs*, such as a conflict or social climate degradation, as sources of loss. The opportunity cost is achieved, more as a waste of resources, rather than a proper cost.

Within the identification of the avoidable costs (differential), specific to a decision that needs to be made, the manager follows the next steps:

- association of total costs with each alternative ones (differential)
- the elimination of the attached costs;
- the elimination of the costs that do not differ between alternatives;
- the development of the decision based on the remaining costs.

These are avoidable or differential costs.

We consider that understanding the behavior of costs, of *the marginal contribution* (amount equal to the difference between turnover and marginal cost) and of marginal calculation principles, generally represent a challenge for any manager who wants a meaningful decision. The marginal cost arose from the need to explain the reaction of costs in relation to the changes of physical volume of production and prices, also known as the "*additional cost*" or "*differential cost*". Especially in a competitive environment, *for making a decision is considered the relevant marginal cost.*

What is given up to if a solution is chosen instead of another (deciding meaning giving up)?

Making a decision involves choosing a solution to the detriment of another. Professor Henri Bouquin says that "every decision is a sacrifice, and every sacrifice is

an opportunity cost. The opportunity cost is, therefore the sacrifice in real terms that is faced by an economic agent that makes a choice between several possible actions”.

How will behave the costs involving the options considered after making the decision? What is the logic, what laws will they follow?

For choosing, a solution of the cost behavior in each case must be tested. Knowing the cost behavior in all its theoretical and practical complexity is a tool to reach the managers and is used to increase the economic entity's performance.

The term of costs behavior refers to the level of costs within the costs from an economic entity respond to a change of activity that takes place in an entity. An understanding of the behavior of cost structures and ability to provide cost behavior in a given situation is essential for planning, making decisions and control activities requiring an understanding of the relationship of input – output.

We may say that an increase of the physical increase of the production also determines an increase of the total cost. At a decrease, however, production volume to a certain extent, lower to a lesser extent level than where they increase production volume that has increased in that proportion. It is very important, therefore to make a classification of the costs into variable and fixed ones.

The variable costs allow the calculation of a *margin over the variable cost*, on each product, by lowering the variable cost from the company's. The size of the variable cost margin is a valuable piece of information that a manager can use as a decision support to offer or not different products, namely to increase sales to the cost on the most profitable ones and to lower the costs on the non-profitable ones.

Other developments of this classification divided the costs into: *variable costs*, *specific fixed costs* (direct) and *common fixed costs* (indirect). This will allow the determination of both *the variable cost margins* and *margins specific costs*.

The margins referred to “specific costs” indicate to what extent the products/services contribute to the common fixed costs. Therefore, it is assured by this calculation, a more relevant analysis of the profitability of different products and avoiding wrong decisions that could be take on the complete costs.

How can we interfere upon costs?

The opportunity to influence upon one cost means to influence on the causes operating the process (activities) consumed in its organization, which meet the needs of the organization and the capacity costs that it involves. In the future we would not be able to make changes upon previously decided costs (on the irreversible ones). Expanding the volume on irreversible costs reduces the range of the decision-maker. For this, costs must be identified before they can become real, since the decision that will activate them. Thus, it was observed that in certain productive sectors, *the moment of influencing costs is the one of the product designing*. Once activated the production process, *costs will be incurred* (costs determined by previous decision), without being able to act on them. These costs may be affected only by changes in the company policies.

As a result, all these considerations have resulted in costing methods such as: Target Costing and Kaizen Costing.

The cost type information should be considered tools for creating value at a lower cost. Also, this approach shows the *cost information system capacity to provide relevant information* to serve several purposes, namely:

- *their usage in financial accounts* (purchase cost, cost of production or processing of inventory, the full cost, cost of sales and cost of the period);
- *their usage in making decisions* (opportunity cost, relevant costs, irreversible cost);
- *their assessment (measurement) and performance management* (hidden costs, controllable costs, outsourcing costs).

Most of these costs affect the quality of sold products, the company's image and therefore its performance. As a result, they are particularly important for managers in making decisions.

5. The costs relevance

One of the main goals of management accounting is the calculation of costs. However, some authors, especially those in the Anglo-Saxon field, see the *cost accounting* as part of managerial accounting (logical, because the cost primarily interested in business management). In that light, cost accounting results in an interface between financial accounting and management accounting. At the microeconomic level, the company's primary objective is represented by the minimized costs and the maximized profits. As a result, the periodic comparison of actual costs with those provided will allow deviations from the budget analysis and corrective decisions. In this context, controlling costs becomes a matter of utmost importance and other factors responsible for managing a company. Accounting management as a tool of management control is an information system. Yet such a system for processing results, to be effective, must meet the objectives and needs expressed by its users. Therefore, the information system of costs will provide the deciders "the best cost", the most appropriate for the management problems that need to be solved.

The best cost for a firm is not necessarily the lowest, but the one that occurs at the appropriate time and place and that which provides the user the desired accuracy.

At this subjective juncture we can talk about *the relevance of costs*, which varies from one company to another, determining the choice of the optimal method of calculation. The relevant costs relate to future costs on which we may act and can be used in making decisions.

In specialized literature, the relevance of cost is considered taking into account *four criteria* of assessment, namely:

- × *The evolution of prices and salaries;*
- × *The level of activity of the company;*
- × *The exploitation efficiency;*
- × *The identification of responsibilities.*

The relevance of different types of costs

No	Assessment criteria	Calculation Methods			
		Complete costs	Variable costs	Specific costs	Rational imputation
0	1	2	3	4	5
1.	The evolution of process and salaries	All methods are able to give the necessary elements. The problem lies not in choosing the method of calculation, but in establishing a sufficient analytical framework (detailed cost elements, the choice of activity centers).			
2.	The level of activity of the company	Inappropriate methods because it does not make the difference between fix expenses and variable ones.	Operated the difference between fix expenses and variable ones, but it is not visible the influence of under-activity (or in some cases of an over activity).		The method suits perfectly under this aspect.
3.	Exploitation efficiency	The specifications from the first criterion are available.			
4.	Identifying the responsibilities	Because all the expenses could be found in one place, it is difficult to influence one of them. The general expenses are divided at random over the main centers of activity; the responsibility suffers some kind of dilution.	Only the variable expenses are kept, that are easily identified and controlled. It is even the case of auxiliary expenses, for which a logic division criterion could be found.	The mentions from the method of variable costs are available. Even more, in this case the fixed expenses are often influenced by the responsible.	The method allows all types of analysis. The variations of the activity level influence the level of variable expenses, that can be measured with accuracy. The fixed expenses are included in costs, only then when they correspond to the real activities of the main centers.

The concept of "relevance" is different from that of "accuracy" of the cost. The accuracy refers to the validity of arithmetic calculations that allowed the determination of costs. The "accuracy" is, however, a cost. The degree of accuracy of calculations can sometimes be obtained only with the "price" of certain prohibitive costs to access the information, in relation to the profit made by precision calculations. In this context, it is best to determine an estimative cost at the right time than a strict exact cost, but a late one.

6. The marginal cost and the management

Using the marginal cost in the accounting management allows the study of variations of all types of expenses, depending on the fluctuations in activity, for assessing the impact to the overall outcome. The marginal cost is not a method itself. Using this tool allows answers to some management problems such as:

In economics, the term of "incremental costs" was the significance of the maximum allowable costs for certain goods with the lowest efficiency of the production factors.

- ◆ at what price can be accepted an additional order? and if so,
- ◆ how to maximize the outcome in this case?

The marginal cost concept was originally defined in the classical microeconomic theory. Later marginal costing theory and extended to the entire industry and have been applied in reality the economic entity, of course, in a modified sense.

Knowing the nature of production costs and how to change the total and per unit costs of each product, according to the modification of the physical volume of production is essential, both in the decision making process and in the management control.

Before the definition of marginal cost, it is important to note that an economic entity does not change the production volume for a single unit, but for larger groups or series of products.

The consumer needs are greater now because more units produced are made. So the marginal cost arose from the need to explain the response costs in relation to changes of physical volume of production and prices, it is also known as the "additional cost" or "differential cost".

The marginal cost is defined in the literature as "the difference between overall manufacturing costs required for production data and the amount of expenditure required for the same volume of production, plus or minus one unit"². Therefore, when production volume is increasing, we may talk of a "**marginal cost of development**" and regarding the reducing production volume, of a "**marginal cost regression**".

Being the cost the last produced unit, namely the cost of additional production, **the marginal cost (C_{ma})** will represent the difference between the total cost for **n+1** produced unit (**C_{n+1}**) and the total cost for **n** units of goods (**C_n**), which could be expressed by the relationship:

$$C_{ma} = C_{n+1} - C_n$$

² Budugan, I.; Georgescu, I.; Berheci, I.; Bețianu, L., Management Accountancy, CECCAR Publishing House, Bucharest, 2007, pages. 412.

By dividing the marginal cost of the series to the number of units of the precise unit, **the unitary marginal cost** can be determined by the relation:

$$C_{\text{man}} = \frac{C_{n+1} - C_n}{Q_{n+1} - Q_n}$$

The cost of the last produced unit includes, just like all costs, expenses of different nature, namely:

- variable costs required for its production;
- fixed costs, if the new series determines an enhancement of the existing production capacity.

The comparison of the marginal cost to the average cost total or unitary) can be made either by arithmetic or a graphic method.

7. Hidden costs of the company

Knowing the cost is a decisive factor for making decisions or planning future activities.

Analysis and recording of data on costs of past is only one side of cost accounting. Managers are also concerned about costs that will arise in the future, their standing on the basis of supply and production decisions and pricing policies.

In order to have a better activity and to obtain optimal results, the changing strategies used by a company must rely on the human potential and to be part of an economic evaluation. In addition to positive results, the company may record and loss of energy, human and material resources, these also **the hidden costs**. An effective management can only be achieved by reconciling the economic and social dimension of the company through **the cost method - hidden performance**³.

Hidden costs and very little or no identified at all by the classical information system, being determined by known as visible cases, although their size is "invisible" because it is included in other costs.

The actual size of a hidden cost can never be isolated. If a *visible cost* can be called, measured and therefore followed, a *hidden cost* has none of these features. However, identifying and monitoring these costs is very important because they have a direct impact on the performance of the company⁴. By nature of their activities, the companies accumulate failures, excessive operating expenses, poor productivity, and etc. namely hidden costs.

³ **The costs-performances method** was proposed in 1973 by **Henri Savall** and then **developed within ISEOR** (he economic-social institute of companies and organizations) by several practical experiences and by those over 100 PhD thesis, prepared within this institute.

⁴ Albu, N.; Albu, C., *Instruments of managing the performance*, Vol. I, Management Accounting, Economical Publishing House, Bucharest, 2003, pages. 228. The cost method - hidden performance was proposed in 1973 by Henri Savall and then developed in ISEOR (Institute of economic and social enterprises and organizations) in many practical experiences and parents over 100 doctoral dissertations prepared at this institute.

After **H. Savall and V. Zardet**, the *dysfunctions* generated by anomalies, disturbances or deviations between the functionality required by the company and t constant one, are five, namely: *absenteeism, labor accidents, staff rotations, quality faults and the reduce of direct productivity*.

All this occurs in six areas of organizational fields: **working conditions, work organizing, time management, communication - coordination - the objectives, integrated training and strategic organization**.

These six areas of functioning are both explanatory variables and sources of firm resolve to diagnosed disorders.

Failures have significant financial results, called hidden costs. However, any company does firm not evaluate, for example, the total costs due to absenteeism. In this case, the company's manager would need to consider, in addition to wages paid to absent, and those due to their prospective substitutes, the lost work products due to their lack of experience and the late fulfillment of the tasks undertaken by them.

Hidden costs are the translation of monetary adjustment activities and for their evaluation are identified **five components**, namely:

✓ *Component 1 - over salaries* - generated by the absenteeism that will cause deviations of salaries when the activity will be conducted by a single person with a higher salary than the replaced person, or by an additional staff;

✓ *Component 2 - overtimes* - corresponding to regulate activities (training a replacement, telephone calls etc.);

✓ *Component 3 - overconsumption* - generated by the quantities produced and consumed from own production and valued at their actual cost incurred by the company;

✓ *Component 4 - non – production* - namely the under activity generated by the failure of the equipment, labor accidents etc.;

✓ *Component 5 - non - potential creation* - caused by the lack of orientation of investments, because those involved were in regulating the dysfunctions and had no time to certain long-term activities.

The optics for seeing the **evaluation model of hidden costs** can be followed in the table below:

Components Indicators	Oversalaries (1)	Overtimes (2)	Overconsumption (3)	Non-production (4)	Non-potential creation (5)	Total hidden costs (1+2+3+4+5)	Risks
Absenteeism						Hidden costs regarding absenteeism	
Labor accidents						Hidden costs regarding labor accidents	
Staff rotation						Hidden costs regarding the staff rotation	

Components Indicators	Oversalaries (1)	Overtimes (2)	Overconsumption (3)	Non-production (4)	Non-potential creation (5)	Total hidden costs (1+2+3+4+5)	Risks
Quality faults						Hidden costs regarding the quality of products	
The reduce of direct productivity						Hidden costs regarding productivity faults	
TOTAL	Over salaries generated by the 5 indicators	Overtimes generated by the 5 indicators	Overconsumption generated by the 5 indicators	Non-production generated by the 5 indicators	Non-creation of potential generated by the 5 indicators	Total of hidden costs	Risks generate by the 5 indicators
Economic concepts	Historical concepts			Opportunity costs			
Accountancy concepts	Over-expenses			Non-products			

The general model for calculating the hidden costs

We can notice that *each of the five indicators is associated with five components hidden costs, actually incurred by the company's corresponding regularizations*. Also, *the model contains not only the quantity dysfunction (ex. number of errors), but its regularization cost, namely the cost of retouching*.

The basic idea is a simple model: establishing a link between: on the one hand, the costs - hidden and performance, on the other hand, costs - visible performance identified by the company through its results.

Through the obtained results, the hidden costs are very important for the companies and therefore there are, now solutions for minimizing them. Therefore, companies must implement a socio-economic interference and to seek the causes of dysfunction. The staff has an important role in reducing hidden costs; development of human potential represents a strategic task for the company. All the company's employees are potential generators of hidden costs as all may cause failure. Employees must be aware that their failures, and their regulation consume resources and energy and therefore the prevention and control are important.

The human regulate activities, expressed in terms of time, money assessing the contribution margin hourly variable costs, resulting overtimes that corresponding to certain regularization activities (e.g., training a replacement), non-production due to accidents, staple stocks, over salaries etc.

The evaluation of hidden costs is an extra-accountancy procedure because it is not part of any analysis of accounts, of expenditure and revenue. It is based on very precise determination of dysfunctions and their consequences, as the inside by those concerned. As a result, the manager of a company decides to gather additional information (due to malfunction) will induce additional costs incorporated into the company's expenses (Class 6 – "*Expenditure Accounts* "). They may also be affected all

the revenue accounts (Class 7 – “Revenue Accounts”), because **non-incomes** are assessed: the total of such costs is reduced by the existence of non-revenue that diminishes the income.

With all the advantages of related to the calculation of a performance hidden cost more "flexible", the method of hidden-performance is difficult in every day practice. The difficulties lie in the very precise determination of dysfunctions and their consequences, so, in fact, the method retains a great deal of arbitrariness. Therefore, few companies get to use it in practice.

8. As a conclusion, *the hidden cost – efficient method, also called the socio-economic method, tries to reconcile economic and social dimension of the company, seeking a more efficient management. The concept of efficient-costs allows the company to discover greater internal resources, without social performance decline and without additional external funding sources.*

The hidden costs management approach should be included in the short-term administration of the company (indicators in the board of control in order to quickly seize significant effects. Even today this area has obvious small inertia, but the improvement of the hidden cost-performance method represents a constant challenge for the accounting management.

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