THE MANUFACTURING COST – A MANAGEMENT INSTRUMENT AT FIRM LEVEL

Univ. Lecturer Carmen Gabriela Hornet, PHD
DANUBIUS University Galatz
Ec. Analysis Expert Emanuel Ștefan Marinescu, PHD
UZINEXPORT, Bucharest

Abstract:
The cost of activities stand for one of the most important sources of information, making possible for the whole operation process to be examined in its all stages, starting with ensuring the technical operational documentation and the necessary resources and ending with product delivery or service commitment.
Costs influence the process of making economic and financial decision in many ways, the most significant being: the costs-price relationship, the costs-profit relationship, the costs-economic efficiency relationship and so on.
It is necessary for costs to be presented in the most accurate, accessible and thorough manner that should allow managers to make quick and correct decisions, subsequent to receiving brief, exact and economically real as well as relevant cost information.

Key words: cost-price relationship, manufacturing cost, decision making

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Cost is a universally accepted economic category originated in the Latin verb “Constare”, meaning “to set up”, “to establish” and “to settle”. Resource consumption operations, as they aim at obtaining a product – be it an actual material output or a service – lead to effecting that calculation necessary to summing them up, the result obtained being a synthetic indicator known as the “manufacturing cost”.

The manufacturing or production cost stands for one of the most synthetic and significant indicators to be used in the assessment of the activity within any firm. The information provided by the production cost are also made use of in obtaining the other economic and financial

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1 C. Iacob R. Drăgcea, Analytical and Management Accounting, Tribuna Economică Pbsh., Bucharest, 1998, p. 35
indicators, which derives in increasing its importance in the market mechanism\textsuperscript{2}. The cost of activities stands for one of the most important sources of information, making possible for the whole operation process to be examined in its all stages, starting with ensuring the technical operational documentation and the necessary resources and ending with product delivery or service commitment. The cost level is a barometer that provides information on the conditions in which a specific production activity is performed, this allowing the decision makers to watch, analyse and direct the concerned processes towards a more reasonable use of economic means and resources; the cost level does also provide useful information on planning as well as working out cost budgets.\textsuperscript{3} In order to correctly assess costs, certain elements, such as the organizing of service-providing activities, the level of workers qualification, the working rates and the problem of tariffs, must be minutely considered in all technical aspects.

In the context of a modern market economy, manufacturing costs have certain functions, among which the most significant are:

- the actual knowledge of material, financial and human resource consumption in providing each and every service and in carrying out all activities;
- the register and control, as they measure material and labour force consumption;
- the calculation of important indicators to further be made use of in expressing the activity performed within all service providing companies (total and material expenses at a RON 1,000 production, the manufacturing cost per type of service and the rate of return);
- the influence exerted upon the level of profitableness, as these costs do express in monetary terms the level of expenses made to obtain every type of service and to assist the entire activity. Firm capacity to obtain a profit is first and foremost influenced by the level of manufacturing costs.

Subsequently the manufacturing cost is a valuable leverage made use of as an incentive for company employees in stimulating firm activity, its use definitely deriving in an efficient economic performance. Thus, the less the manufacturing cost contribution to service price, the more efficient and profitable is the firm activity.

\textsuperscript{3} M. Epuran, V. Băbăită; C. Grosu, \textit{Accounting and Management Control}, Ed. Economică Pbsh., Bucharest, 1999, p. 379
A cost may be dealt with as a way of arranging or rearranging expenses, according to several criteria, the combination being as numerous as in a build-up game.\(^4\) In order to work out a cost strategy, the firm has to ensure the recording and arrangement of expenses that constitute the manufacturing cost. It is in this way that several complex economic and financial analyses are likely to be worked out, and the possible differences between firms performing similar operations may be detected. The arrangement and record of expenses included in the manufacturing cost, according to various criteria, ensure the necessary data to be used in choosing and carrying out a certain strategy as well as in relating the production cost to the Revenue and Expenditure Budget.\(^5\)

Service-providing harbour-activity costs are classified as follows:

- **According to their depending on the variation of the activity level:**
  - **Variable costs**, which stand for the expenses that vary within certain limits and in the same direction with the level of the activity having engendered them, as for instance: the costs with the directly productive staff labor, the full expenses, the technology or power expenditure;
  - **Fixed costs**, which stand for constant expenses, no matter the volume of the services provided. Such costs that range with the most significant service-providing harbour-activity expenses are: the wages of administrative staff members and of decision makers, the tangible fixed assets, amortization, the lighting and heating expenses, etc.

- **According to the way of identifying resource consumption elements, there are:**
  - **Direct costs**, i.e expenses that can be easily and unambiguously identified as connected to specific services provided, such as: expenses on materials to be used in mooring operation or the wages of directly productive personnel for a specific type of service a.s.o.
  - **Indirect costs**, or the expenditure impossible to identify in terms of the type of service but observing subsequent calculations of earmarking and charging operations, such as: total repair expenses their paying off, the expenditure on administrative and management personnel wages, etc.

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According to the comprising sphere of the expenses included in the services, there are:

- **The whole cost**, which comprises the entire expenditure included in the cost of a service, and divided in direct and indirect cost.
- **The partial cost**, which comprises only one category of expenses i.e. variable costs or indirect costs.

The cost is also influenced by a series of factors which may either increase or decrease the level of the activity. Among the most influential factors that are likely to cause a decrease in the level of the activity, there are:

- the firm’s being specialized in providing certain specific services;
- the level of variable and conventionally-steady costs;
- the cut in reserve assets.

Other factors liable to lower the activity level are:

- the existence of climate factors influencing the activity;
- the market spreading area;
- the power of competitors;
- non-proficient management.

Costs influence the process of making economic and financial decision in many ways, the most significant being: the costs-price relationship, the costs-profit relationship, the costs-economic efficiency relationship and so on.  

Knowing the contents of the manufacturing cost does also mean considering a relationship between this cost and the sale price. It is between these two magnitudes that an element-entirety relationship develops in terms of its standing for only one segment of the sale price i.e. for only the funds or capital expenditure carried on by the company. Consequently, even if in practice there is a tendency of economic agents to settle exaggerated prices which are not mostly related to the consumption of production factors, a real competition is definitely connected to the interdependence between prices and costs, hence the necessity of economic agents to know and also direct their costs.

The problem of costs is highly complex, its first-rate significance residing in its relationship with the administration of any business. The

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7 F. Pârvu, op. cit., p. 21
manager or the superintendent must always be interested in the costs of the goods and services produced and in how turning them to the best account. Service-providing harbour-firms’ competitiveness mainly depends on the level of costs. Scientific researches do mention that over 70% of bankrupt firms’ situation derives from their lack of knowledge of such an economic issue as costs.  

The apprehension of cost structure and of each cost-type influencing factors, the mastery of all specific mechanisms concerned in working out cost budgets and of the latter’s controlling stratagems, and the possibility of identifying cost information-system problems are as many rudimental or elementary elements to be carefully considered by any manager.

Service and tangible good producers are concerned in exactly knowing the expenses that have been made, so as to act towards reducing them and increasing the profit here involved. The cost is, thus, becoming an instrument, which founds decision both at the level of the firm and at that of any particular sub-branch.

Cost is consequently connected to the entire act of production and management. The diagram below depicts the relationship costs, on one side, and the decision-making leadership, on the other:

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10 F. Pârvu, op. cit., p. 13
At the level of harbour service-providing companies, knowing and comprehending the meaning of costs can be noticed to have a great deal of significance in so far as costs:

- do stand for pure information to use in calculating the economic and financial indicators of the firm;
- are essential elements to use in finding the level of production and the selling price;
- stand for the reference basis exploited in setting up service-providing contracts;
- ensure information on identifying the steps to take so as to turn firm activity to the best account;
- are elements to consider in informing decision makers and in substantiating decisions on firm progress.

It is necessary for costs to be presented in the most accurate, accessible and thorough manner that should allow managers to make quick and correct decisions, subsequent to receiving brief, exact and economically real as well as relevant cost information. Thus managers of service-providing harbour-working companies receive important information on grounding the decision to make, in terms of their competence and responsibility.

Elements of bibliography


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