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The Use of Contemporary Developments in Cost Accounting in Strategic Cost Management

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Abstract

For harmonizing production processes and providing an effective production process in industrial enterprises, the first measure to be taken is to use contemporary developments that are appropriate for the structure of the enterprise. In order for the industrial enterprises to be successful, the costing system in each production system should be determined and managed efficiently. Taking as basis the cost management system is to help maximize the profit of the enterprise. For achieving this aim, contemporary enterprises should get ready for the future by constantly renewing themselves as well as competing under today's circumstances. The fierce competition circumstances of today's world and the gradual shortening of the product life cycle compel the enterprises to simultaneously achieve their cost, time and quality objectives. The said situation requires the enterprises to launch to the market their products with a lower cost, higher quality and faster as compared to their competitors in order to meet the needs and demands of the customers, and this accomplishment can be realized by using modern costing systems in production. This study examines the use of contemporary developments in cost accounting in strategic cost management.

Keywords: Cost, Contemporary Developments, Strategic Cost, Management

1. Introduction

Since the principal aim of enterprises is to gain profit, they seek to keep costs under control by applying strategic cost management. The principal aim of the cost management system is to help enterprises maximize their profit. For achieving this aim, contemporary enterprises should constantly improve themselves and get ready for the future as well as competing under today's circumstances.

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Therefore, enterprises should achieve global competition and continuous improvement while establishing their cost management systems.

The approaches that have attracted much attention in recent years in cost management systems are modern costing approaches. The study, first, examines the contemporary approaches in cost accounting and then the use of these approaches in strategic cost management.

2. Literature Review And Hypotheses

Accounting has been the most controversial field which has drew much attention on the intellectual side. The objective of all the new accounting theories is to turn accounting data into information to be used in decision-making by the management [1].

In the early 20th Century, the financial reporting aspect of accounting, which is outside-oriented, weighed heavily and this caused the managerial aspect of accounting to be neglected [2]. Success factors of enterprises have been limited by the globalization of trade, transformation of enterprises into international companies, fierce competition, increased attention to customer satisfaction and the shortening of the product life cycle. These success factors can be listed as follows [1]:

Cost: In today’s world, enterprises are under great pressure in terms of reducing the costs of their products and services. Enterprises have to perform production at a lower cost without compromising quality in order to be ahead of their competitors.

Quality: Customers’ quality product expectations have considerably increased in recent years. Customers want to buy products that have a high quality with a cheaper price.

Timing: For instance, an enterprise must act just in time in processes involving the raw materials and materials suppliers, production and presentation of the products to customers. If there is a delay in these processes, the gap will be filled by the competitors.

Creativity (Innovation) and Differentiation: In order to be ahead of competitors, enterprises have to renew, differentiate their products and services and to develop new products and launch them on market.

3. Methodology

The developments in information technology, different information inquiries of managers and third parties and customers’ demand of products that have a high quality with a cheaper price caused enterprises deploy new applications in cost accounting. Some of the said applications are explained below [1].

Activity Based Costing (ABC): Activity based costing is the loading of indirect costs on products in a more detailed manner. The approach adopted in this kind of costing is to focus on activities and to load activity costs on cost carriers by taking into consideration the activity uses of the cost carriers that load source costs on activities by taking as basis the source usage of the activities.

As a source-usage model, activity based costing is a system that tries to find the costs of the sources used in order to perform the activities necessitated by various outputs [3].

This system is based on the two phase cost distribution. In the first phase, the sources such as energy, placement and stock-keeping are divided in terms of departments and each is delivered to cost pools in places of activity. In the second phase, the sources consumed for products are measured and the sources are loaded on the products from the related cost pools [4].

The basic difference between ABC and traditional costing is that while traditional costing assumes that products consume sources during production, ABC assumes that sources are consumed by activities rather than products and those products consume the said activities.

Benchmarking: Benchmarking can be defined as the effort to choose an enterprise with best practice in an activity as target enterprise and improve and advance that practice.

Quality Costs and Total Quality Management: This application brought forward new concepts of cost such as prevention and measurement costs, internal failure and external failure and steps have started to be taken towards flawless production through continuous improvements.

Theory of Constraints: Theory of constraints envisages that the activities, which cause bottleneck in value chain or supply chain, should be detected and corrected, or that, if correction is impossible, the activity profit should be maximized by arranging the whole system according to this bottleneck. Theory of constraints is defined as a management approach that focuses on continuous development by means of managing constraints. Theory of constraints argues that the constraints should be managed in a way so as to eliminate the constraining effects of constraints on the performance of an enterprise [5]. Theory of constraints includes best industrial practices, disciplines and philosophies of management developed for detecting and eliminating the factor that has the biggest adverse effect on the performance of a system in the phase of increasing the performance of the system.

Just in Time Production: This approach envisages the continuance of production by keeping minimum stock in each phase. It requires an effective coordination between the supplier, the producer and the customer. In this system, production is planned upon the demand of the customer, the necessary raw material and material are supplied without being stocked and delivered to production, and after the production is completed, the products are delivered to the customer without being stocked [4].

Just in time production system is the elimination of all waste in the process beginning with the purchasing of the raw material to the delivery of the product to the customer and thus the minimization of production costs by increasing quality and efficiency.

Target Costing: In this type of costing, cost is determined according to the price of the product. In other words, this approach is based on the view that the cost should not be more than what the price would tolerate. If the realized cost is greater than the targeted cost, the cost is reduced. Unless the cost is reduced, the enterprise will have to operate with a lower profit margin. The target costing approach is based on cost reduction and strategic profit planning. In this approach, cost reduction is the reduction of all costs at the level of high quality, while strategic profit planning is defined as the formulation of strategic profit plans by integrating marketing knowledge with engineering and production factors [4].

Product Life Cycle Based Costing: In this cost estimation method, all costs involved in the process from the product research and development phase to the end of the customer support are taken into consideration. The advocates of this costing method argue the following points [1]:

- Non-production costs are viewed to be among the product cost such as research and development, design, marketing, sales, distribution and customer services. If the life cycle cost system is deployed, it becomes possible to include these kinds of costs in the product costs.
- Product development is a long and high cost process. Research and development and design costs have an important share in the total cost of the product. Therefore, excluding these costs from the production cost results in incomplete cost estimation.

Performance Measurement Card (Balanced Scorecard): This is a means whereby the performance of the manager, department or enterprise is measured via both financial and non-financial criteria. Performance measurement is performed in four basic aspects: financial aspect, customer aspect, the aspect of the internal activities of the enterprise and the aspect of learning and growth.

Intellectual Capital: In recent years, the added value created by brain drain has been tried to be measured. Thus, intellectual capital will also be presented in the balance sheet. However, no result has been obtained regarding this issue. For, it is difficult to measure the added value contributed to the enterprise by the intelligence and creativity of a person.

Kaizen Costing and Improved Cost Monitoring Approach: Kazein costing is an approach used for reducing costs in the production phase and is based on detecting the target cost and continuous improvement of production costs in order to reach the target cost. Another aim of this approach is to monitor cost saving activities in each phase of production with the aim of closing the gap between the targeted profit of the enterprise and the estimated profit. In line with these aims, this approach includes activities for reducing costs in the production process of the enterprise. In the improved cost monitoring approach, valid cost information should be reported first for management purposes. The aim of this approach is to design a low-cost system with continuously improved quality features [4].

4. Analyses and Results

In today's world, since enterprises are able to achieve simultaneously and successfully the goals of low cost, high quality and shorter time, which have a critical role in the creation of competitive power, the need for certain changes has arisen out in enterprise management. In this process of change, along with the increase in the importance of the concept of strategy, strategic cost management (SCM) has come into the picture [5].

Strategic cost management, which aims at global competition, emphasizes the cost analyses and estimations in the strategic decisions to be made by the enterprise management. In this context, SCM focuses on two points: viewing the circumstances of global competition environment from a broader and long-term perspective in decisions to be made; and including strategic cost analysis in strategic plans [6].

4.1. The Definition and Aims of Strategic Cost Management

Strategic cost management is defined as the use of cost management techniques for developing the strategic position of an enterprise which views costs strategically and reducing the costs. SCM can be explained as a coherent set of cost management systems used for providing both financial and competitive advantage [7]. Accordingly, strategic cost management can be explained in different ways as an approach that provides information and guidance concerning issues such as [8]:

- Effective management of costs,
- Acting with respect to the external factors of the enterprise,
- Cost analysis including competitiveness in line with the strategies of cost leadership or product differentiation,
- Taking into consideration activities in the estimation of product costs,
- Realizing cost distribution by means of activity measurements on the basis of activities.

SCM is a method oriented to the planning and control of enterprise activities and analyses the sellers, buyers and competitors in value chain. Moreover, it covers the strategic position and cost activities of the enterprise as well as the strategic value chain [9].

The principal aim of SCM is to strengthen the strategic position of an enterprise while reducing costs. In line with the said objective, SCM differs from the traditional understanding of cost management that binds and restricts the enterprise.

In this respect, the benefits of SCM for enterprises can be listed as follows [10]. SCM provides the opportunity for

- establishing the structure in the enterprise for understanding the return of the sources and distributing sources strategically on the basis of the basic activities of the enterprise,
- defining the strategic plans and cost factors related to cost periods,
- developing the cost management processes of the enterprise by using activity based techniques.

According to the SCM approach, enterprises need to analyze cost data with the aim of providing competitive advantage if they want to be active in the competition-based environment [11].

4.2. The Scope of Strategic Cost Management

The scope of SCM includes the value chain analysis, strategic positioning analysis and cost factors analysis that exist in the strategic management literature [12].

4.2.1. Value Chain Analysis

The focus of value chain is the cost management efforts, the primary issue of SCM. Within the scope of SCM, effective management of costs requires a comprehensive analysis of the outer environment of an enterprise. The focus of value chain analysis is value creation and the aim of this analysis is to consider events from an external perspective and to divide the value chain into the respective activities related to factors from suppliers to the end user and analyze those units for providing the effective management of costs [13].

Value chain analysis is utilized also for reducing the costs. The activities performed for the production of products are analyzed and categorized as activities that add value and as activities that do not add value. Of the activities that do not add value, the avoidable ones can be eliminated and thus costs can be reduced [14].

4.2.2. Strategic Positioning Analysis

Strategic positioning, as the second important issue of SCM, is related to the understanding of the management accounting information. The role of cost analysis in SCM differs depending on the methods used by enterprises for competition [15].

Competitive advantage can be achieved if an enterprise improves the performance of its activities that add value in terms of cost effectiveness as compared to its competitors. In order to understand the differences of potential sources in value chain and the behavior of costs, interrelated activities should be approached strategically in the enterprise.

An enterprise can sustain its competitive advantage as long as it performs the said activities in a cheaper and better way as compared to its competitors [16]. Strategic positioning analysis is based on meeting the expectations of customers differently than the competitors and thus setting a higher price accepted by the user and obtaining a return over the standards in the sector [17].

4.2.3. Cost Factor Analysis

In SCM, costs are accepted to arise due to different factors that are related to each other in various ways. In SCM, cost is a factor that does not much reflect the richness of its structure [1]. Accordingly, the cost factors in SCM are categorized under two groups as structural ones and operational ones [13].

Structural cost factors result from the choices made by an enterprise according to its economic situation. The said choice is determined by the cost situation for a product group. Structural cost factors do not scale performances. Operational cost factors are factors that determine the cost situation of an enterprise and they are based on the skill to manage and operate an enterprise successfully. Operational cost factors can be scaled.

5. Conclusion

Under the increasing competitive requirements, contemporary enterprises are making efforts to increase their profitability ratios with minimum cost. These efforts compel enterprises to keep costs under control and to use the most accurate and reliable cost systems.

The rapidly increasing global and technological changes have given rise to the need of changing enterprise management. The said changes and developments have both affected the cost systems of enterprises and led to new quests for change in the existing systems.

When deprived of the competence in adapting to the rapidly changing market conditions and in obtaining the cost information of the traditional approaches, enterprises need modern costing systems that can provide the product and cost information in a more accurate, quality and fast manner.

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