

The Output Oriented Management and Its Information Support[#]

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Output oriented management

This way of the management presents the traditional access to value categories with its information ensuring. Costings as instruments of the value management are instruments of the output oriented management.

Costings show, how to determine or find out costs, profit, margin, price or another value criterion on the unit of the output (product, semi-finished article, work, service, for some activity or its part, for example operation, which is necessary to make in connection with its realization, on the investment action or another physical output) sold on the market.

Costings are the most frequently perceived as assigned or found out costs on the particular product, work, service, which are realized to customers.

Method of the costing means the way, how costs are assigned or found out on the natural unit of the output. Method of costing depends on the determination of the cost object, the cost structure and methods of the cost allocation to the cost object.

All kinds of final outputs of the entrepreneurial process are considered for the cost object. The cost unit and the calculated quantity must be specified, too. The cost unit presents the quantity, time, kind, quality, customer specified unit of the output, for whose costs are assigned respectively find out. The calculated quantity creates the number of cost units, for whose total costs are assigned or find out.

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The structure of costing is given by individual conditions of each company in the connection with the decision-making task, which costing solves in many items of costs.

The method of the allocation of costs on the output unit is especially connected with classification of direct and indirect costs. It is caused by numeric technical possibilities of assigning or finding out of costs. This method of the allocation of costs in depending on the decision task is often combined with another angles of the classification of costs, namely to the way of determination of the cost target (in unit and overhead costs), according to the dependence of costs to the volume of made out outputs (fixed and variable costs), taking into consideration, whether the level of costs will be influenced by the particular decision about the cost object or not (relevant and irrelevant costs, Král et al., 2005) and so on.

Costs, which are consumed immediately during the entrepreneurial process, which is necessary for the realization of the output, are called unit costs. These costs are causally connected with the output unit. Their levels are to be assigned by the valuated norm of the consumption of economic resources in advance and their economy can be controlled by means of differences between in advance-assigned and actual costs of particular items of unit costs. Consequently savings and overruns of unit costs are found out and are determined on the output unit and as total unit costs for the responsibility centre.

On the other side the costs, which are evoked by needs of the service and management of the “rising” of the material or immaterial output and which so create conditions for a rational course of the entrepreneurial process or assure it in another way, are called overhead costs. A part of engineered costs is also often moved to them. Economy of overhead costs is controlled by differences in advance-assigned (budgeted) and actual costs for particular items of overhead costs. Then savings and overruns of overhead costs are analyzed on the output unit and as total overhead costs for the responsibility centre.

It is nature that unit costs are always direct. Overhead costs can be direct or indirect. For example time amortization of some machine, the only kind of the output is carried out on those, is direct overhead cost. As long as there are made more outputs on one machine, the question is in the case of the time amortization under indirect overhead cost, which has to be dispatched by means of the method of allocation of indirect

overhead costs chosen, as it will be further mentioned. The output amortization of the machine is the unit cost.

As far as direct costs are concerned, they have the unique numeric technical relation to the unit of the output. Because of the causality between the output unit and cost, it is possible to determine, which part of the costs was caused by the output unit. These costs can be assigned or found out relatively exactly. With in advance assigned unit costs on the base of valuated norms of the consumption of economic resources and with actual unit costs by dividing. With in advance assigned direct overhead costs according to their budgeted level and with actual direct overhead costs by dividing, too.

As to indirect overhead costs, they have no the unique numeric technical relation to the unit of the output. There exists no causality between the output unit and cost. The cause of raising of these costs is most frequently activity of some centre or security of conditions for creating of an eligible output. Indirect overhead costs on the cost unit are dispatched with the help of different methods.

When is calculated with simple dividing, indirect overhead costs are allocated considering to the count of cost units, which were made.

During costing with so-called dividing with equivalent numbers it is worked out from differing substantial parameter of cost units, for example cost consuming and so on. Indirect overhead costs are allocated into the relation of the basic equivalent number to another equivalent numbers.

For rates costing indirect overhead costs are allocated according to one (summing) or more (differentiated) financial or physical bases of apportionment (allocation bases, Houska –Šoljaková, 2003). Between financial bases belong incomes of the realization, total unit salaries, total level of the unit material and so on. To physical bases belong the number of created output units, quantity of realized output units, complete consumption of standard hours of direct work during outputs creation, total account of square meters and so on.

The accuracy of assessing or finding out of indirect overhead costs depends on the choice of the optimal basis of apportionment. As far as the “construction” of overhead rate is concerned, there should be the proportional relation between the basis of apportionment in the

denominator and indirect overhead costs in the numerator. The relation of the basis of apportionment should be ample high enough and measurable easily. The proportion between this basis and allocated indirect overhead costs should be as stable as possible in time. The allocation basis shouldn't be used as universal basis of apportionment for all groups of indirect overhead costs. It would be suitable to use individual relation values (cost drivers) according to rationally divided groups of indirect overhead costs. The meaning of the dispatching of indirect overhead costs for management increases and decreases according to the causality between allocated costs and the basis.

Traditional absorption costing of full costs (Fibírová – Šoljaková – Wagner, 2005) consists of right allocation of all items of direct and indirect costs (for example unit and overhead) per the output unit. When the costs have been increased about presupposed profit of the output unit, the price of the calculated output will get. Traditional absorption costing of the output unit will expressed as following:

$$\begin{array}{l} \text{Direct unit costs} \\ \text{Direct overhead costs} \\ \text{Indirect overhead costs} \\ \text{Costs of output unit} \\ + \text{Profit of output unit} \\ \hline = \text{Selling price of output unit} \end{array}$$

Selling price is not determined by costs of the entrepreneurial process, but the company has to cover its costs by the price in order to reach the profit of the output unit. This fact is illustrated by so-called retrograde benefit costing of the output unit (Fibírová – Šoljaková – Wagner, 2005). In this case the profit item is not optional determined on the output unit, but the profit item is the residue, when the costs of the output unit are subtracted from the selling price. Retrograde benefit costing of the output unit looks like following:

$$\begin{array}{l} \text{Selling price of output unit} \\ - \text{Discounts (quantity, season)} \\ \hline = \text{Selling price of output unit after corrections} \\ - \text{Direct unit costs} \\ - \text{Direct overhead costs} \\ - \text{Indirect overhead costs} \\ \hline = \text{Profit of output unit} \end{array}$$

These costings (absorption costing of full costs and retrograde benefit costing) ensure information for managerial decisions – for economy management of the entrepreneurial process and for the price acts. Costings of variable costs are not showed here.

Costing system in time

The company prepares more costings in respect of its entrepreneurial process. The system of all costings and relations among them is called the costing system. As to the elements of this system, they will be ordered in time horizon, which creates background for the output oriented management – strategic, tactical and operative management. Connections among elements of costing system permit to compare the costings one to another and to analyze differences raised among them.

Costing system in the short concept is primary determined for following of cost items of the output unit during its preparation and making. Costing system is used as the instrument of periodic planning of cost target in time. It must controll cost items of the output unit, too. This system of costings looks like consequently:

- estimate costing (pre-costing),
- plan costing,
- operational costing,
- actual costing.

Costing system in the extensive concept can show not only various items of costs, but also items such as are the margin, profit, price. Then the output profit is compared with costs of the output unit and with the price of the output unit.

Costing system in the short concept and in the extensive concept have the multilateral use for the management of entrepreneurial process of the company.

Using of costings for management

Possibilities of using of costings are very different in output oriented management and its control.

- Costings serve as the base for decisions concerning optimal structure of realized outputs and as well the way of their using in the situation, which requires the decision, if the outputs of the company will be secured by its own centres or will be ensured from the ambient environment.
- Costings permit to show relations between responsibility centres in connection with intradepartmental prices and the way of the motivation influence in the management of these centres.
- Costing is used as the instruments of control of the cost economy especially in the sphere of unit costs, but also in the field of other variable costs.
- Costings present the tool to necessary price decisions.
- Costings help as the base of preparing of the plan of costs, incomes and the profit.
- Costing are instruments of the valuation of intradepartmental outputs (not finished outputs, semi-finished products, final outputs).
- Costings help to long-time analysis of the cost consuming of the output unit.

Conclusions

Top management of every entrepreneurial company must go out from the suitable information of output oriented management so that could manage and decide in according to costings, costing systems in the short and extensive concept about the further development of the entrepreneurial process of the accounting entity. The output oriented management together with the responsibility oriented management and process oriented management works with information of costings, budgeting and management accounting.

References

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ABSTRACT

Managers can't use only one structure of value categories on the unit of the output (costs, margin, profit, price) for all decisions in the output oriented management. The broad variety of various costings must exist, for example absorption costing of full costs, retrograde benefit costing of the output, variable costing, costing with the stepping stratification of costs and others. Top management, it means, of the private firm, state enterprise, bank, insurance company, school, hospital or travel agency and so on, must start from information of costings, budgeting and management accounting for the suitable solution of a specific problem of company.

Key words: Output oriented management; Information support; Costings; Budgeting; Management accounting.

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