The European Proceedings of
Social & Behavioural Sciences
EpSBS

ISSN: 2357-1330

https://doi.org/10.15405/epsbs.2019.10.02.29

ISMC 2019
15th International Strategic Management Conference

ALTERNATIVE APPROACHES TO BUSINESS COST MANAGEMENT IN THE SLOVAK REPUBLIC

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Abstract

In a context of increasing complexity of enterprise systems and their surroundings, a system that integrates not only information processing, scheduling, but also analysis and control processes is an essential basis for the success of each journey. The ability of businesses to make quick and correct decisions and thus reduce the likelihood of potential risks and dangers to a minimum is also important.

Nowadays, managers like to use various tools in order to support the management processes. Cost calculations represent one of value management tools. They are also the oldest and most used tool. However, they are constantly evolving in order to reflect current business environment conditions. Cost calculations are used, to large extent, by managerial accounting. Managerial accounting replaces traditional cost calculation methods by more progressive ones. The paper deals with possibilities how to improve, modernize and apply e business activities in challenging competitive conditions, with using the managerial accounting as a management support tool.

Keywords: Management, costs, controlling, managerial accounting.

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1. Introduction

In the context of dynamic globalisation and its consequences, it is irrelevant whether the companies produce goods, or provide service. Changes in external environment evoke a need of reaction – changes in internal environment. That is active in many functional areas which are more or less under the influence and manageable. It is necessary to innovate the scope of the value-forming area, which produces consumption paradigmatically and consequently value-added. In each company, creating the value-added is difficult and in transport companies, it is even more difficult. The reason for that is the product itself and its specific characteristics which considering the nature of transport services restricts a great deal of production rules, and as well decreases attractiveness of a product in consumers` eyes who are influenced by globalisation. In addition to this, the need for management innovation is also fuelled by the continued use of traditional value-added management tools (such as financial accounting), in the form of a basic purpose-based, often only operational cost accounting and costing system, as a tool for managing them, also based on traditional costing methods and methods.

However, it should be recalled that financial accounting is insufficient for various reasons. It does not deal with issues of corporate governance or the management of its organizational units. It does not provide a sufficient portfolio of information for value-added management and therefore it is hard to look for innovative tools to support value-added management. Wide ranges of criteria, determinants, or impacts that demonstrate the position of an enterprise are used to assess business success. It depends on the purpose, for which the success of the business is judged. One option is the value-creation process and the quantities that characterize it. Decisions in this context include business costs. They are a significant factor directly affecting the transformation process in an enterprise. Their effective management is crucial and involves several tools forming the business information system.

2. Literature Review and Theoretical Framework

The individual subsystems cooperate, are interconnected and use their own principles, procedures, or approaches for common benefit. Some are different, in others some parallels may be found. For most, however, as claim Valmorbida, Ensslin and Enssli (2018), it is true that „among the difficulties observed and which stand out are the activities in the phase when the evaluation system is thought and structured“. The characteristics of their interconnection are based on the knowledge of the development of managerial accounting, which, in the past, especially in the Anglo-Saxon area (Germany, Austria), addressed displaying reality.

Managers considered accounting information to be a rear-view mirror, and the content of accounting was eliminated only for cost-benefit analysis. The name Managerial accounting, as we know it today, was not used. According to Čechová (2006) „…the opinion on the function of accounting with and gradually changed.“ In the German-speaking countries, the concept of controlling began to be used in the early 1970s, and it began to gradually fill the gap between displaying reality and prediction of development. In the first publications (for example, Hauschildt) controlling tasks involved financial accounting, planning, control, advice of the company's Governing Board on improvements to the information system, and drafting proposals for the revision of tolerable and unacceptable deviations. The first author was Chmielewicz. He proposed „the need for integration of controlling and decision making

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and considered this integration to be important in accounting" (Deyhle, 1992) on the other hand Reichmann and Heigl considered „the procurement, processing and coordination of information as the main controlling tasks" (Deyhle, 2011; Drury, 2006). At the turn of the 20th and 21st centuries, much more activity was mentioned in the context of controlling. Weber and Bűltel analysed the development of controlling requirements. In the course of this analysis, they found that in the 1950s and 1960s, the controlling role was to compensate for the deficit accounts, while at the beginning of the eighties, this task changed into analysis of a company's performance by comparing, analysing deviations and controlling costs, which requires analytical ability of controllers. In addition, controlling has expanded its functional and institutional roles. In this context, information technology has been also playing an increasingly important role. "Without their support, the information could not be recorded and processed, so controlling in the business would have no meaning" (Drury, 2008).

Controlling is a functionally integrated, planning, control and information system. It is characterized by a cooperative nature of activity and is beneficial to other businesses for other benefits. This is evidenced by various studies and research. One of them is a survey conducted in Poland and Croatia focusing on the contribution of controlling to effective entrepreneurship. Its results show that „businesses feel more manageably more effective after the introduction of controlling, mainly by identifying risk and eliminating management decisions" (Sebastian, Capasso, &, Dimitriu, 2019)

3. Research Method

The starting material to write this paper is mainly drawn from the interim results of research tasks Department of Economics FPEDAS, ZUZ in Zilina aimed at information support of costs management in enterprises and analysis of the current state of information systems for value-management and their improvement. In order to evaluate different costs and its elements and benefits, various literature sources were used. All relevant secondary information concerning development and basic characteristic of the costs topic were used for the final comparison and conclusion about advantages and disadvantages of costs elements and its characteristics, especially according to comparation of traditional categories and managerial accounting categories. Concerning methods, I used analysis, synthesis, abstraction and deduction with application of comparative analysis.

4. Findings

The formation of controlling was therefore a response to the increasingly intensive needs of managers in a complex business environment to acquire information not only about reality but also about the desirable development and their mutual comparison. In particular, the efficiency of the accounting management system and the efficiency of the information system became problematic. The efficiency of the management system cannot be increased, at present, only by improving its partial functions but primarily by interconnecting these parts and by their effective coordination and purposeful concentration for the predetermined and limited management purposes.

In this context, it is important to best define the relationship between management accounting and controlling. P. Horvátha defines controlling as a "management tool, which has the task of coordinating the planning, control and provisioning of an information data base so to improve the company's results "1.

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This definition implies the need for further investigation. It is important to realise the fact that management accounting is "only" an information tool of the management, and the controlling integrates considerations about the functional coordination of all the functions of the management system. Therefore, the relationship can only be found within the management accounting and controlling information tools (not in the controlling itself). Managerial accounting is solely based on value characteristics, and only in the context of operational management, it comes from natural values. Controlling, however, works with a much wider range of values, including non-monetary ones. As stated Bhimani, Dai, Sivabalan and Tang (2018): „When accounting centricity and institutional potential align to the dictates of the higher implementing body, accountability remains high, notwithstanding the absence of enforcement“. Apart from the scope of management accounting, it is possible to include the part of controlling that focuses on managing the intrinsic, natural aspect of the business process. In terms of phases of the decision-making process, controlling defines the part of the information that is intended for management. However, from a managerial accounting viewpoint, such information is essential and vital that assist managers in deciding on the future. Managerial accounting and controlling combines understanding of the accounting as a top-level information tool, which promotes the internal coordination of all the management system functions. Evidence of this argument is the fact that the gradual implementation of the company's strategic objectives and the analysis of the deviations are based on the synthetic information of the balance sheet, the profit and loss statement and the cash flow statement (either budgeted or for the past accounting period). The challenging conditions of the current business environment place increased demands on managers in taking decisions. Decision-making about the future, complicating the variability of the business environment, given by its high complexity and dynamics, is particularly difficult.

4.1. Managerial accounting as a cost management tool

In the framework of the economic information system, the management accounting works as a supporting tool serving management needs. From the relationship between management and accounting, the first two of the sub-tasks of the managerial accounting (fact-finding and controlling the feature, analysis and processing of output information) are also financial accounting tasks, in which information about the feature under consideration is to be investigated. As a part of the financial accounting, this feature is also being reviewed and analyzed. However, tasks are implemented to meet the information needs of external users. The last of the sub-tasks (preparation of information for the specific decision-making and determination of the tasks resulting from the decision taken) is the domain of managerial accounting, which mainly fulfils it with an emphasis on the internal management and the requirements of managers. The detection of facts about the feature, as well as its control and processing of outputs, are carried out within management accounting with an emphasis on in-house corporate governance and they are closely interconnected. In the context of performing the sub-tasks, the management accounting focuses on providing information on the cost structure (outputs) where the greatest attention is paid to generic costs and the costs classified by purpose. Both categories are known to all users of the economic statements and appear in the financial statement (profit and loss account), and further information on individual departments. Here it fulfils a role for providing information on where the costs arise. Incorrectly establishing the origin of costing negatively affects the determination of cost items in

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calculations (especially overhead), the latter being creation and/or interaction with the calculation system, in which the calculation itself is not primarily task of the calculation (although it may sometimes be the case). However, the improvement of the calculation procedures, the designing of specific methods for specific decision-making tasks, and the support of the higher informative calculation value for decision-makers. The last is the interaction with the budget. Budgeting serves as a source of information, suggesting that its mistakes can have very negative consequences. Budgeting also includes directories and center budgets. Expression and measurement of costs in management accounting differs from that of other components of the accounting information system, and the issue involves a threefold-perceived cost.

Financial concept of costs – is applied to the largest extent in financial accounting and is based on the principle of money means circulation. The reason is the perception of costs as a market-proven spending of money, and the fact that the final sense of the money cycle is a market-tested cash refund. Costs are therefore money invested in performances that provide for a refund of their original amount. The financial concept of costs would not be fully utilized in the management accounting because of the following: only the costs that are based on real money expenditure can be viewed as consumed economic resources. These are direct costs in cash, and the costs in the form of consumption or utilization of energy sources. The costs are valued at actual acquisition prices.

Value concepts of cost - its application is, to the greatest extent, possible within cost accounting, which processes information portfolios for common business process management. Only the costs that exist at the time of the relevant business processes are considered when expressing the consumption or utilization of economic resources. The greatest benefit is the processing of the information portfolio of the economic resources cycle in actual time, and not when the economic resources were acquired. For this reason, an subject of displaying are also the costs that do not have an adequate equivalent in the form of money expense but have a clear impact on the economic reality of the business process.

Economic concept of costs - is fully applied in managerial accounting, which focuses on creating information support for managers for the future, in particular. Cost perceptions in this context must therefore necessarily correspond to the requirement to generate adequate information for the management of real-life business processes as well as for decision of optimal future variants. Costs are therefore characterized as the maximum value that can be created depending on the alternative (or variant) chosen. In more detail, the costs in the management accounting are classified as follows:

Relevant costs are therefore valid for the intended alternative; others have an irrelevant relationship. These costs represent the expected cash flows resulting from the implementation of a decision reflecting the conditions for this implementation and they differ according to potential alternatives. Managerial accounting utilises the relevant costs category because it also contributes to managerial decisions support. The most important features of relevant costs include their ability to highlight the complexity of a given decision, the ability to express the conditions currently at the time the decision is made (technology used, funding sources, operating costs, sales prices, etc.) and the ability to assist in choosing variants they will make a change in business activities.

Irrelevant costs are those that are not important for decision-making. When deciding on the variants of the solution to the problem, they do not change. They are further subdivided into influenced, non-influenced, and postponed. Irrelevant influenced costs are those costs that can be changed in the context of variants. Irrelevant non-influenced costs are those costs that cannot be changed in the context

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of variants. Irrelevant postponed costs are costs that can arise in a later period and are not included in the decision-making process. When applying the relevant cost category, the following principle must be applied: not only the costs with immediate impact but also those.

4.2. Controlling as a cost management tool

In addition to the classification of costs, which is often referred to as traditional (Table 1), costs are divided into:

Table 01. Different cost concepts

Cost concept	Financial	Value	Economic
relation to the accounting system	financial accounting	cost accounting	management accounting
relation to the displayed reality	display the transaction in the parameters that was valid before its execution	display the transaction in the parameters that would currently apply	Display the transaction by comparing it with another relevant variation (alternative)
relationship to profit	profit is measured on the principle of nominal preservation of capital, i.e. the company achieves a profit if its own - the financially expressed capital at the end of the period is higher than at the beginning of the period	profit is measured on the principle of material retention of capital, i.e., an enterprise generates profit after the reproduction of own capital, which is measured and valued by the production capacity or business capacity	profit is measured on the principle of material retention of capital, so its level being further reduced by the opportunity costs and by potentially increasing revenues.

Costs by responsibility - Differentiation of business activities should be considered not only for the cost classification accordin to a place of origin but it is also applicable to the cost-by-responsibility category. It is about the responsibility for the following activities - technological, service and management. A difference is that one or more persons may be responsible for each activity.

Costs by decision-making - In order to characterize costs in terms of decision-making, it is necessary to recall the fundamental concept of managerial accounting, or even to the concept of management as such. Searching for a parallel between financial and managerial accounting through costs is only possible for some cost items; in general, if the costs are to be used only for the purposes of collecting information about past events and activities. Business management at present is, however, primarily about a development prediction, which requiring appropriate information resources of a quantitative nature. Their availability then enables to make the right decisions. Decision-making also requires cost and revenue information, which adequately reflects the extent of the problem being addressed, accurately reflecting the future conditions of each option/alternative of problem solving and ensuring comparability of costs in each of the alternatives in order to be optimal. The decision-making process and the portfolio of necessary information are eliminated to the extent required by the management accounting. Managed accountancy

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information is then used by controlling. It has specific cost categories, such as relevant / irrelevant costs, decision-bound costs, incremental costs and difference costs.

5. Conclusion and Discussions

The development of controlling and management accounting in Slovakia does not have far-reaching history, and in our conditions we have only begun to meet this concept when political and economic conditions have changed. After 1990, many management support tools came from Western Europe and Overseas to us. Most often, foreign companies have brought here not only capital but also their own management methods when setting up their subsidiaries. Even controlling has proved to be well-founded, it was a period of its introduction into corporate practice, especially in large enterprises, often over their national borders. The turbulent developments on the world market, the cyclical crises on the financial markets have become a good reason for creating such tools that, under tough conditions, support decision-makers. However, the trend of large enterprises is still to a small extent followed by small and medium-sized enterprises with predominantly domestic capital and their management of controlling does not show sufficient interest. This is because the functioning of controlling supports the relevant information system, the acquisition and operation of which requires considerable financial investment. Some businesses often do not have it at all or do not want to make such an investment. Another reason is the preference of their own knowledge, experience or intuition of managers who have been running their businesses since the beginning, and often do not even acknowledged management training. They believe only themselves.

Despite the above, it can be said that the economic information system becomes a fully functional tool for effective value-driven management. It covers the interests of all stakeholders, creating managers the opportunity for a manageable and decision-making information portfolio. The accounting information subsystem is oriented to external users who require comparable and comprehensible information. However, an important source of information is also available to internal users; it is a subsystem of management accounting and controlling. Their benefit is compatibility. Each other they create input and output of information, converted into knowledge, needed for the effective decision-making.

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