IMPORTANCE OF INFORMATION SYSTEM OF COSTS ON DECISION MAKING AN ENTERPRISE

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***Abstract**:*
Evolution of Romanian companies in recent years clearly indicates that more work should be oriented management client to change. In the context of economic globalization, and thus the development of competitive environment, the management process is revealed to be particularly complex at all levels. Therefore, to ensure the conduct of business enterprises in terms of competitiveness and profitability should be carrying out organizational actions able to enable the best use of modern management methods and techniques, which can be done but only under an informational support appropriate and first, the information about costs.

***Key words**: cost, information system cost, cost management, opportunity cost, decision making*

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Between information and decision there is a relationship of interdependence in the sense that the information used for decision making provided leadership and they, in turn, once submitted system implementation, information becomes [1] In the literature, the decision is defined as a rational process for selecting a line of action, based on analysis of several solutions based on a rich informational material in order to achieve a certain objective.

Decision making requires knowledge of an organization has a wealth of information concerning the activity carried out by them, which shall be developed, delivered, read and strictly controlled to ensure efficiently in achieving objectives.

Cost is one of the most important synthetic indicators characterizing economic activity and has a crucial role in ensuring the efficiency and competitiveness of organizations to base decisions.

Knowing the cost is a decisive factor for making decisions or planning future activities. Under the double effect of increasing competitive pressure and increasing the number of products and production processes, companies are forced to consider more than costs to determine the highest precision achievable sales prices and margins for each product. Knowledge of data is necessary and appropriate decision making and monitoring their execution, such as:

- business influences on business activity,
- extent that costs are competitive enterprise,
- profit margin of the company according to its production structure,
- costs - related to developments in production and other factors influence
- cost components on which to act,
- rationality development costs and measures may be taken;
- size indicators of deviations from the budget and their influence on business in general and production margins in particular.

Efforts must therefore move to cost because if they can control costs, profits will defend themselves.

In such contexts can highlight some features of the concept of cost:

- *expresses the cost of resource consumption.* Such costs include consumption of production factors, i.e. raw materials, fuel, energy, water, labor inputs, external services and other inputs;
- *cost includes expenditure* by the enterprise to obtain manufactured goods, works or services performed for either domestic consumption or disposal;
- *consumption of resources are measured in monetary units.* The monetary expression, the cost is the number of currency units required replacement of resources consumed and incorporated into the value of goods and services provided by company;
- *cost is part of the sales price* is the product.

The cost information is a "cornerstone" of managerial accounting, rather it is integral. Although initially (now more than a century), costs calculation relate solely to productive activities, today it has extended to non-productive activities such as field financial and banking government institutions, health care establishments, etc..

Cost management as a tool of managerial accounting, is more than measuring and reporting costs. It is a philosophy, an attitude, a set of techniques to create more value at lower cost. It is a set of techniques that form the system operating cost calculation to assist in decision making, to achieve the aim and activities.

Throwing a flashback, we noted that the change in the expenditure on cost management was a first step in concept. The new approach led to the distinctive use of information about direct costs in the daily activity management. The transition from cost management to strategic management of costs is the current stage of development of the concept. This will serve in future as a foundation for other changes.

Type cost information is important for managers of the existence of several reasons:

- cost is decided based on the acquisition, construction or abandonment of a product;
- costs can provide a basis for substantiation of prices;
- the cost analysis to identify needs for improved product design or production process;
- cost is the starting point in determining and estimating firm performance and increase their routes;
- cost is determined by the nature of client relationships.

In making the decisions managers must always consider four information on costs, namely:

- ✓ What costs are influenced by the decision to be taken?
- ✓ What is waived if a solution is chosen instead of another? The decision means giving up?
- ✓ How will behave costs rise options considered after the decision? What is the logic, what laws to follow them?
- ✓ How to act on them?

In its decision, the key word is relevance.

The costs used in making decisions must be made up of only the **relevant costs**. Cost is irrelevant if developed at the right time for appropriate decision-maker and a satisfactory precision for it. So called relevant cost and cost estimate, the additional cost of making the decision. Avoidable costs, influenced, are relevant to the decision. Thus, the relevant cost is a future cost that will be changed by a decision. Relevant cost is the difference between future cash flows under the circumstances and future cash flows under a decision. A relevant cost is a cost alternative. This is a problem in making decisions, choosing appropriate cost for a particular decision.

Example: for a car, the cost of insurance is irrelevant; the relevant cost is the cost of fuel or the cost of options. The decision is linked to the relevant cost choice when buying a car.

The difference between the two relevant costs associated with the second alternative is called incremental cost or net relevant cost.

Relevant costs are studied in conjunction with other cost categories. It is generally considered to be relevant and marginal variable costs. However, these costs are carefully because in certain situations (e.g.: starting a new project, setting the hourly rate), variable costs are losing their relevance.

Total relevant cost includes:

- contribution best alternative use of resources;
- variable cost of limited resources used (typically, the amount paid for purchase them).

Relevant costs can be determined by appealing to:

- costs calculated during the previous administration;
- costs to date;
- competitive rates;
- calculated from a technical and economic analysis;
- costs calculated in connection with an operating budget

The power manager influence on costs is determined both by the possibility of knowledge of the scope of cost and by identifying costs that can control or not. From this perspective the following **types of costs**:

a) cost reversible and irreversible cost.

Cost is irreversible when he can no longer return to his employment decision regardless of the solution adopted.

Otherwise would be, therefore, reversible. Thus, the decision to install a new machine is irreversible, whereas the decision to work overtime is reversible.

b) cost controllable and uncontrollable costs.

Cost is controllable when the decision-maker has a total power of these costs (e.g. hiring a worker).

Uncontrollable is cost which falls outside the responsibility of the manager and occurs when decision-maker is imposed from the outside (external cost - for example: social spending, tax, fees). This includes the costs imposed as such by the public authority through legislation and relate to fees, taxes, etc.. Therefore, a significant proportion of costs beyond the control of management, and legal regulations that determine such costs for the enterprise, enhance, usually share uncontrollable elements and limited character field default decision.

c) costs determined and discretionary costs.

Cost is determined when there is a clear relationship between him and the effect produced (e.g. consumption of raw materials is the production-based).

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 costs involved, called mandatory costs (due to contractual obligations, company policy, etc.) discretionary cost volume can be changed easily (advertising, sponsorship volume).

d) costs visible and hidden costs.

Hidden are costs that were created in the past and can not be changed by any future decision. The peculiarity is that hidden costs are incurred without any official proceeding and that, however, to sometimes quite high amounts (examples: cost of low quality, cost of damage company image market, the cost of stock breaks etc.). This cost is dependent on five factors: absence from work, accidents, staff turnover, quality of services/products and direct productivity. A hidden cost is a cost not relevant for decision making. For example: depreciation of a car can not be changed by any future decision, so it's a hidden cost.

Cost is visible when the decision-maker can know the amount of actual expenditure being included therein. Visible costs have three characteristics, namely: having a specific name, normalized and recognized, measured by precise rules and known, are subject to regular monitoring, periodic check their progress or irregularity in relation to a previously set goal.

e) internal costs and external costs.

External costs (outsourced) are costs that are transferred to third parties-for example, environmental costs have a social, not supported (full) by the operator pollutant.

Opposite are the internal costs consisting of all production costs related to business activities.

From this brief overview of the costs that the decision-maker is limited to all internal costs manageable. It will show strong visible on costs, reversible and specific. On the contrary, decision affecting not only very little on administration costs and outsourced.

The power of decision-maker on costs is therefore limited.

Note that, although not irreversible costs should be considered in the decision because you can not return to their rough, you can not underestimate the importance of their opportunity cost, or in other words, what can be achieved in the future (if they can not be resold, their opportunity cost is zero).

Making a decision means choosing a solution at the expense of another. For example, obtaining a particular product or a certain volume of production can be achieved in many technical, economic and other costs for any decision taken in this regard is a sacrifice and any sacrifice represents an opportunity cost. The cost of opportunity is thus sacrifice in real terms that it shall bear an economic issue to a choice between several possible actions.

An **opportunity cost** is a cost slaughtered, the cost measured the best opportunity lost or sacrificed when a decision involves a waiver alternative. It is clear that the company will choose those options that lead production at minimal cost. As a result, cost is a basic criterion in choosing alternative, technical solutions, whether aimed at business investment or the current operation or actual production.

Both the relevant costs and opportunity costs focuses mainly on limited resources. A resource scarce, limited resource may be a material, labor, time of operation of equipment which is purchased in quantity less than that required for existing conditions in order to effectively exceed the total resources available. Decision-maker can be put in a position to choose the use of scarce resources. Thus, the following situations may arise:

- cost of using excess cash paid for acquisition of resources;
- resources can be used for other purposes to make further profits.

Contribution obtained from the existence of alternative called *opportunity internal cost.*

Opportunity cost to consider, therefore, more than likely a loss of resources than the actual cost. Value Missed opportunities can not be explained by the recording of expenses, but by no earnings.

The identification of avoidable costs (differential) of a specific decision taken, the manager deals with cost analysis, the following steps:

- association with total costs of each alternative considered;
- disposal costs attached;
- eliminating costs that do not differ between alternatives;
- decision on the remaining development costs.

Knowledge of cost behavior throughout his theoretical and practical complexity is a key instrument to reach managers and is used to increase the economic entity's performance.

The term behavior refers to the extent the cost of the costs of an economic entity responding to a change in the activities taking place in that entity. An understanding of the behavior of cost structures and ability to provide cost behavior in a given situation is essential for planning, decision making and control of activities and requires an understanding of input-output relations, ie between the inputs and outputs.

It can be said that an increase in physical volume of production are increasing the total cost. The decreased, but the production volume to a certain extent, lowering costs to a lesser extent than that when they increased production volume has increased in that proportion. It is very important in this regard, the classification variable and fixed costs.

Variable costs allow calculation of a margin over variable cost for each product, net of variable cost of turnover of the company.

Size margin on the cost variable is a valuable information that a manager can be used as decision support to provide or different products, namely to increase sales to the cost and suppress them (quit) on the unprofitable (for which the margin the cost variable is negative).

Other developments of this classification divided costs: variable costs, fixed costs (direct) and common fixed costs (indirect). This will allow the determination of a margin over variable cost and a margin on the specific costs.

The margin referred to “specific costs” indicates to slow as the products / services contribute to the common fixed costs. Shall, therefore, by this account a more relevant analysis of the profitability of different products and avoid wrong decisions that could take on the full costs.

Stated that, understanding the behavior of costs, the marginal contribution (equal to the difference in tooth size turnover and marginal cost) and marginal calculation principles generally represents a challenge for any manager who wants a relevant decision.

Marginal cost is defined as "the difference between total manufacturing costs required for production data and the amount of expenditure required the same volume of production, plus or minus one unit". So the marginal cost arose from the need to explain the cost reaction volume changes physical production and prices, is also known as the "additional cost" or "incremental cost". Especially in a competitive environment, decision making is considered relevant marginal cost.

Type cost information should be considered tools for value creation at a lower cost. Also, this approach show cost information system capacity to provide relevant information to serve several purposes, namely:

- ✓ use in financial accounting (purchase cost, cost of production or processing of inventory, total cost, cost of sales and cost of the period);
- ✓ use decisions (opportunity cost, relevant costs, cost irreversible);
- ✓ assessment (measurement) and performance management (hidden costs, controllable costs, externalized costs).

Costs must be identified before they can be, since it will trigger the decision. Thus, it was observed that in certain productive sectors, when it can act on costs is the design of the product. Once triggered the production process, costs will be incurred (ie costs due to a previous decision), without being able to take action. These costs can be affected only by major changes of policies firms. Therefore, these considerations have resulted in costing methods such as target cost and cost determined by the Kaizen method.

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

For a given product variety in each market the market and costs, influence costs and financing needs in many ways. They put the game merchandising, logistics and customer service, storage and financial consequences for the function through customer payment terms. Analysis of production costs in view of the market and customers can generate different situations, namely:

✓ whether the company pursues a strategy of domination by costs, it can occur on non-production costs;

✓ if it pursues a strategy of differentiation, development of services offered customers may slightly increase costs related to them;

✓ law of homogeneity of the cost of a product that cost is a significant information to management unless it is substantially different vision which is sold to customers or distribution networks that will transit;

✓ in other cases, a product cost analysis should act ahead and summarize differences in the diversity of clients and networks. Makes sense unit cost of product "P" sold customer "C" via network "R", not the average cost of "P".

The cost information is a "cornerstone" of financial accounting information system in an organization. Traditional management accounting is built into the annual records, but without taking into account the lifetime of the product. The new "weapon" of modern management (total quality analysis and activity-based management) involves a global cost management. Masaaki Imai, Kaizen costing method theorist says that "Japanese industry's competitiveness on the world market due to a process-oriented thinking". It's about consistency between the vision in terms of activity and the savoir (know how), a convergence between management, work analysis, planning and quality. This approach is based on cost optimization techniques, from the design phase and continuing through the entire life cycle, not just maintain (control) costs The instruments used are grouped under the names: Life Cycle Cost, the Target Cost, continued cost management (Kaizen Cost).

In the life cycle of a product there are three stages: the planning stage, stage production and abandonment phase.

Lifecycle cost is used mainly in the planning stages to estimate the cost of the product during its lifetime.

Target cost is used in the planning stages to choose design products and processes to allow production at a cost, leading to an acceptable level of profit (derived from the market price) in a volume of sales and the expected functionality.

Kaizen is a method of obtaining benefits by eliminating the loss of significant improvement of its process by using continuous observation and statistical data systematically, continuously changing (if necessary) tools and techniques used. In terms of cost Kaizen method is oriented towards identifying opportunities improvement during the manufacturing cost.

Each of these methods has a distinct perspective and a different meaning.

Therefore, information system costs and cost knowledge plays an important role in every organization, in decision-making process. In fact, in American literature, the role of cost has been described as an information manager. Information system costs must meet the following requirements:

• be fit for the organization in terms of its activity can be: production of goods and/or provision of services;

• reports, statements, responses to questions, tests which are the outputs of the information system contains information relevant to the intended, and these exits occur at regular intervals and small enough so as to ensure their effectiveness;

• these reports, statements, analysis, answers to questions be addressed to those responsible for making decisions;

• information presented is relevant and sufficiently detailed and precise purpose.

From reading these requirements that each information system cost will be only because he will have to meet the needs of a particular organization. Beyond these considerations, keep in mind that the whole management accounting in general, and information system costs are aimed at providing information, often with a high degree of detail in support of planning, control, grounding decisions, focusing on product cost, activities, function.

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