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# **Cost Management in Business Activity**

Monograph



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# Introduction

In the conditions of the continuous-changing surrounding and continuous-increasing competition, the importance of cost management in a modern enterprise is systematically growing. Companies operate in increasingly difficult external conditions (progressing globalization of sales markets, shortening the life cycle of products, rapid development of information technology and technical progress), therefore they should be managed in the most effective way. Managers must give more and more attention to the optimization of costs related to their activity. Cost accounting must in the contemporary circumstances provide decision makers with complete and reliable cost data and allow control them at all management levels. The cost information provided to users should be shown in different information sheets depending on the purpose they are intended to serve. Cost accounting is necessary to perform three basic tasks in the enterprise: inventory valuation and production costs determination for financial reporting purposes, product and customer service cost estimation. Proper economic information, in particular from cost accounting, ensures effective implementation of the cost management process in a business unit. Enterprises must constantly implement and improve modern methods of cost management in order to meet the challenges of constantly progressing technological development and actually use advanced IT technologies, also in the area of cost management.

The aim of the work is to present – based on literature studies – definitions and issues connected with cost accounting and indication of key instruments of cost management in modern enterprises. There are used in the work following research methods: literature research as well as case studies.

The first chapter of the work contains an introduction to management accounting and cost management. There are presented here considerations connected with the accounting system in the management of a modern enterprise. This chapter also presents the differences between financial accounting and management accounting. The attention was paid to the functions of management accounting in business units. Next, the trends in modern management accounting are presented, including particular emphasis on the use of modern IT technologies in cost management, and the main trends in modern accounting and cost management are presented.

The second chapter is devoted to the concept and classification of costs. It attempts to explain the basic concepts related to the cost category and discusses the basic cost definitions. Subsequently, the classification of costs for reporting purposes and for various criteria for management purposes is presented.

The third chapter covers issues related to the cost calculation of production. Introductory considerations have been made regarding the issue of determining production costs in the basic variants of cost accounting. The concept of cost

calculation of manufactured goods or services was introduced. Subsequently, the basic types of traditional calculation are characterized – process costing and job costing. This characteristic has been enriched with practical examples.

Chapter four discusses costing models. The main aspects of the full and variable cost accounting and their impact on the financial results of business units were discussed. The rest of this chapter introduces the main ideas of multi-step and multi-block costing to move on to the costing considerations under the activity-based costing concept. Practical examples are provided with each of these costing models.

The fifth chapter deals with the application of cost accounting in management processes of economic units. The influence of the application of management accounting instruments on short-term decisions is presented. The issues related to the break-even point analysis, price decisions and decisions such as “make or buy” were discussed.

In the sixth chapter, an attempt was made to explain the essence of costs in planning and control processes in the enterprise. The traditional cost budgeting process was discussed, the main assumptions of the budget, the so-called “Master budget” in a manufacturing company. The concept of Beyond Budgeting was also indicated as an alternative to the traditional management method in a modern enterprise.

Chapter seven deals with selected aspects of contemporary cost accounting concepts. The chapter’s considerations focus on the most common types of modern cost accounting. Concepts such as: product life cycle costing, target costing and kaizen costing, ABM concept, JiT systems, quality costing, value chain analysis, logistics costing and a balanced scorecard are presented here.

The monograph is intended for students, postgraduate students in accounting and management, and practitioners who deal with cost management processes, including IT technologies. However, due to the great versatility of considerations, the book can be addressed to a relatively wide audience who want to expand their existing knowledge in the field of cost management. The monograph is a valuable and very useful study of the issues of cost management in a contemporary enterprise.