EVOLUTION OF THE NOTION OF COSTS

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Abstract: *Costs represent a notion of maximum generalization, which designates both elements involving prediction and elements materialized in official accounting documents. In the present paper, we are trying to bring arguments for the public acceptance of the phrases: cost accounting and accounting of accounting costs. By accepting the duality of the two types of costs, for example production cost and production accounting cost, anyone can understand that the first phrase refers to a predictable situation - specific for planning, while the accounting cost of production reflects the real situation of effective costs related to production, an aspect central to accounting, both as a study discipline and as a standardized work technique. As such, the formal accounting of a company is the one that reflects the accounting costs, i.e. the actual expenditure of financial means, while the cost accounting reflects possible variants of carrying out the activities. The notion of cost is very relative as it may or may not include among the possible variables the safe one, while the phrase accounting cost certainly contains the actual spending.*

Keywords: *costs, accounting, firm, expenses, production cost, production accounting cost.*

1. General information about costs and accounting

Among economists, there is enough discussion about the correlations between accounting and costs, an issue which concern both those who have a decisive influence upon it and those whom it serves.

However, “accounting” is perceived to be a field of knowledge of economic reality, related to separate economic resources. At the same time, accounting is considered to be technical, scientific and economic language, which generates sufficient inaccuracies among those who share this notion. Its technicality is frequently invoked by the established and standardized content of specialized works, because it is clear to everyone that, at least

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lately, accounting has become a specific quantitative technique - collecting, processing and analyzing information on to the economic flows specific to the economic organization and not only, but also a qualitative technique – to mirror especially the specific processes that the implicit financial transformations go through. Of course, accounting requires records and systematization to gain significance, economic flows are tracked in value terms, and analytical and synthetic documents reflect the financial situation of the company in dynamics, respecting technical algorithms with maximum generalization. As a science, accounting is individualized as the source of the definition of accounts and the establishment of their interconnection, which results in appropriate scientific theories that integrate all relevant economic analyses, which must be understood, financially, individually or in full, as appropriate, inductive approaches, deductive approaches, psychological approaches, predictive approaches and those pertaining to economic and information theories. As an economic language, accounting can be accepted as a customization of the use of specific syntax and semantics, which makes accounting a modern tool for substantiating managerial decisions.[1]

In turn, the notion of "*cost*", at least in common vocabulary, expresses something that alternates between price and expenses. Even basic dictionaries approach the notion of "cost" from two perspectives, firstly, as an expense of money that must be assumed in order to benefit from a good or service, i.e. the price to be paid in exchange for a commodity. Secondly, considered scientifically, it should be understood as a monetary expression of the efforts of economic agents for the production and sale of goods and services, as appropriate, in contexts generated by economic and environmental imbalances and the choice of business options in risky conditions. Both the manufacturer, before starting a business, and the buyer, before formulating the purchase decision, ask themselves the seemingly simple question: "how much does it cost?" But "how much does it cost?" may be a form of manifestation of the interest of third parties, whether natural or legal. As such, costs are a particularly important economic indicator in assessing the behavior of buyers and producers, as costs are a tool, a criterion or an indicator for comparing consumption and production,

[1] Niță Dobrotă, „Dicționar de economie", București, 1999, pp. 124-125.

which suggests unsuspected aspects of quality assessment, whether it is the purchase of food, the organization of rest leave, the purchase of raw materials, other materials, equipment, services, etc. That is why costs are calculated in all areas, the most common being: production costs, distribution costs, opportunity costs, salary costs, loan costs, replacement costs, maintenance costs, as well as field or category costs, which cover: education costs, administration costs, unemployment costs, health costs, research costs, infrastructure costs, etc. Economists also use the following phrases: accounting cost, economic cost, explicit cost and implicit cost. The accounting cost reflects, financially, the actual expenses incurred by the enterprise, which result from the accounting documents. Economic cost is understood as resulting from the accounting cost, to which are added those expenses that do not involve payments to third parties, are not found in accounting, but express an implicit consumption, such as: unpaid work of the business owner, interest on equity, uncollected rents corresponding to the buildings belonging to the owner, voluntary work performed by employees etc. Therefore, the accounting cost is synonymous with the explicit cost and the implicit cost is synonymous with that part of the economic cost that is not reflected in the accounting.[2]

In current speech and not only, there are some problems of comprehension and significance when the costs of expenses are used in the form of synonymous words, since the equality between expenses and production costs is equated. We consider that it would be much clearer to consider costs as a preliminary estimate of an expense that must be incurred in order to benefit from a good or service and to consider the expense as equivalent to the accounting cost. As such, the cost should suggest possible options, which can be taken into account when substantiating a business decision, while the expense should be the accounting cost found in the accounting documents. Consequently, the phrases production cost, average cost, total cost, etc., as well as the cost of administration, the cost of education, the cost of reform, the cost of change, etc. would express possible or probable variants, which should be accompanied, for the rigor of mirroring reality, by the phrases accounting cost of administration,

[2] *Ibidem*, p. 137.

accounting cost of education, accounting cost of health, accounting cost of change, etc. By accepting the duality of the two types of costs, for example production expenses and production cost, anyone can understand that the first phrase refers to a predictable, planning-specific situation, while the cost of production reflects the actual cost situation. Production-related numbers is an aspect that forms the basic object of accounting, both as a study discipline and as a standardized work technique. As such, the formal accounting of a company is the one that reflects the accounting costs, i.e. the actual expenditure of financial means, while the cost accounting reflects possible variants of carrying out the activities. The notion of cost is very relative; it may or may not include among the possible variables the safe one, while the phrase cost accounting certainly contains the actual expenditure. For example, a company aims to purchase a certain product at the average price of five lei, estimating that it will be the cost of the product in a year, operating in cost accounting, but the reality is that the average price of the product is ten lei, and the purchase of the product made at ten lei reflects the accounting cost of the product, and from the operation arises the accounting of costs. This division would exclude inaccuracies arising from expressions such as costs are collected by categories of expenses, resulting in monthly costs, annual costs, etc.

In everyday life, the literature frequently uses the phrases: cost accounting, financial accounting and management accounting. Cost accounting provides information for management accounting and financial accounting, quantifying financial and non-financial information related to the cost of procurement or use of resources in an organization. Financial accounting focuses on reporting to the outside world, quantifying and recording economic operations and providing financial statements prepared on the basis of generally accepted accounting principles. Managers of companies and administrative organizations are directly responsible for the accuracy of financial accounting for both investors and state bodies. Management accounting, also called managerial accounting, quantifies and reports financial and non-financial information that helps managers make decisions related to asset management, production design, marketing activities design, etc. Predominantly, management accounting substantiates information underlying internal reporting. The phrase cost management is widely used in the market economy and suggests all the managerial approaches that ensure the increase of the added value of the products and the continuous reduction of the production costs. Cost management does not express a distinct function of the company or organization but is a daily concern of the entire management team, being a component of general management. The value of the management team lies in the use of accounting information to meet the level of planned costs and the continuous reduction of actual production costs.

1.2. Significant moments in the evolution of costs

Like any economic entity, costs have had a certain historical evolution, determined by their concrete content, the field of reference, as well as the way in which they are found in the content of the capital to which training and management contribute. From the historic form of the appearance and characterization of the role played in the design and conduct of business, we can identify the period of secure costs, which characterizes a long period of social evolution, in which prices were relatively stable and costs and expenses could be determined in time accurately. For example, for years, a kilogram of wheat was sold at the same price; the flour obtained from it was at a relatively stable price; the bread obtained from it was also at a relatively stable price. In such situations, the total costs changed mainly by changing the volume or quantity of products purchased or sold. Even now, when production has become particularly complex, there are enough benchmarks that are characterized by cost and price stability over time.

Depending on the reference area, production costs and sales costs are detached. In production, accounting established, firstly, the correlation of total costs, variable or current costs and fixed costs and, secondly, the correlation of total costs, direct costs and indirect costs. Variable costs change in relation to the company's production, if it is produced more, less or not at all. Examples of variable costs: consumption of raw materials, consumption of materials, consumption of electricity, etc. Variable costs exist only when something happens; when nothing happens, they do not exist. Fixed costs are not influenced by production limits, regardless of whether the company has closed off or is working at minimum capacity. The maximum volume of fixed costs does not depend on the operating capacity of a company. Typical examples of fixed costs: rents, leasing rates, insurance premiums, maintenance of storage spaces, etc. The downside of fixed costs is that they are paid even when nothing is produced, and the phenomenon of lower fixed costs is based on the following economic aspect: the more pieces of production are sold, the lower the cost, or the price of a unit of production. At the same time as using variable costs and fixed costs, companies are also developing the phrases direct costs and indirect costs. Given that each product is considered a cost bearer, direct costs are given by the components that are immediately found in each product unit, and indirect costs are much more difficult to allocate. For example, staff costs, rents, depreciation cannot be immediately included in the costs of a unit of product, they form a separate chapter of common costs (indirect costs), which require special calculations per unit of product. For the sales departments, the relationship between the price of the product minus the costs per product is very important, which results in the coverage contribution, after which the profit indicators are adjusted. Such cost / expense relationships give the opportunity to sell to promote the products according to different incentive models, such as two purchased products, the third is free.[3]

The evolution of costs after the definition of capital is closely related to the points of view of the main economists who analyzed the essential aspects of the role of capital in the economic and social life. In a general sense, capital is represented by "*all assets - monetary and other - owned by a person or an enterprise, which constitute a patrimony and can bring income*".[4] The French historian Braudel F. shows that the notion of capital appeared in the twelfth century, coming from the word capital, which has its origin in late Latin, and as a genesis the term caput, in the sense of "*head*". The concept circulated in that century, as well as in the next, with several meanings, such as: fund, balance of goods, mass of money or money that brings interest. The content of the term evolved in Italy, where it was attested in 1211, and in 1283 it appeared with the meaning of capital in a craft association. Slowly, the notion began to mean „*money capital of a* craft

[3] Mircea Udrescu, Ana Popescu-Cruceru, Dan Năstase, „Logistică și subsisteme logistice ale firmei", București, 2018, pp. 77-79,91-93, 133-202, 344-492.
[4] Dicționar enciclopedic LE PETIT LAROUSSE ediția 1993.

association or a merchant."[5] Adherents of the mercantilist current believed that the goal of any nation was to accumulate as much wealth as possible in the state budget, and wealth could be maximized by state regulations, which would limit imports through taxes and stimulate export growth, including colonial. It all came down to the amount of gold and silver brought to the budget. Therefore, the mercantilists claimed that, through protectionist policies, it could be ensured to bring to the country as much wealth as possible in the form of gold and silver, because the gainful capitalization of goods ensured the entry of precious metals in the country, and the wealth and prosperity of a country. it was appreciated by the amount of gold in the country's budget. Likewise, the prosperity of a businessman was appreciated by the commercial gain transformed into gold or silver. As such, we consider that all the calculations and assessments about the enrichment processes aimed at the tangible, quantitative results, the synthesis element being constituted by the quantity of agonized gold or silver. Later, the physiocrats reconsidered the significance of capital, reducing it to advances used by agricultural producers to procure the means necessary to obtain agricultural production. These advances constituted amounts invested, which had to be recovered at the end of the production process specific to agriculture, thus establishing the circulation of capital on the basis of agricultural goods.

The circulation of agricultural goods and money was seen as a side of the process of reproduction, and not as a source of appreciation of wealth. This time everything was based on land, on the agricultural farm, on agrarian capitalism, in which capital was considered to the same extent a financial component and a material factor of production. In their economic analysis, the physiocrats introduced the phrases of initial capital or initial advances (fixed capital) and annual advances (working capital), the first category of advances gradually passing its value on the production to be marketed, while the annual advances full value on it. This time, the accounting, in its infancy, had as object of activity the expression of the available quantities - land, agricultural products, manufacturing products,

[5] Braudel F., „Jocurile schimbului", București, 1979, apud Florin Georgescu, „Capitalul în România postcomunistă", vol.1, 2018, p. 4.

but also used, borrowed or indebted capital, the incomes being appreciated from the profitable combination of advanced capitals, advances and work submitted in natural, social and economic circumstances, etc. Adam Smith, considered the father of the market political economy, provided pertinent explanations for the profitable management of wealth, through innovative opinions, which resulted in beliefs that put accounting in the position of being responsible for managing the material and financial resources of each family, of every business, of every social entity with an organization recognized as such. In Smith's view: "not gold and silver, but labor was the one that could buy, at the beginning, all the wealth of the world"… "increasing the capital of a society can be achieved only by saving; diligence provides the basis by which temperance leads to accumulation "…" the amount saved by a temperate man in one year provides means of subsistence for an additional number of productive labor in the following year and his quality of ownership of an enterprise (temperate man) will establish a stable fund to support the workforce in the future. The perpetual distribution and direction of this fund is always guarded by a very strong principle, namely the clear and obvious interest of the individual whom every piece of it belongs to forever "… in general, we do not act in the interest of society, but rather we are always in search for the greatest advantage we can get from the capital we have. But, in search of the greatest possible gain, we are in fact doing nothing but ensuring the best allocation of capital, because the citizen is led by an invisible hand to promote a goal that was by no means part of his intentions. And when millions of individuals are left to determine their own destinies, through trial and failure, they will tend to make better decisions, and the collective outcome will be much better than if society had planned from the center." […] "People are more likely to discover easier and more convenient ways to get an object than when it is dissipated in a lot of directions. In addition, when an economy becomes intensely specialized, the products not only become better and more uniform, but also cheaper, because the same amount of work can produce more objects. The division of labor makes everyone win"[6]. The social division of labor and specialization in labor have prompted people and organizations to analyze the processes of production

[6] Adam Smith, „Avuția Națiunilor", pp. 15-45.

and consumption through various correlations of costs, prices and expenses, with the aim of saving or profit. At the same time, the cost evaluation of the projected results has already become a concern of state institutions, which have had to impose accounting systems for taxation, either on fixed capital, on working capital, or on turnover or profit, either on salaries, etc.

Subsequently, leading economists in the field have adopted capital as a sum of essential goods, respectively material goods whose main characteristic is the fact that they are the result of previous work. Capital goods are reintroduced into production, which allows them to regenerate and increase by producing additional income; fixed capital serves as a point of support for human labor (machines, buildings, equipment, etc.), and working capital is consumed entirely in the production process. Overcoming Marx's view that fixed capital was in opposition to variable capital, current works equate capital, labor, and land, all of which are subsumed under the notion of factors of production. Each factor of production is detailed in sets of cost bearers, whose processing becomes value bearers, only if they satisfy desires or requirements, and only if the productive activity materializes in added value in the form of profit.

Conclusions

Cost analysis has evolved simultaneously with the evolution of the economy and as people and organizations have incorporated costs into their own decision-making processes and reporting of specific financial statements, established by administrative institutions. The cost estimate was and is an attempt to quantify the link based on past cost data and prospective cost assessments of an appropriate level of new activity. Managers are interested in estimating the functions of past cost developments due to the fact that these estimates give them the opportunity to make cost forecasts as accurate as possible for future costs. Proper cost forecasting allows managers to make better planning and control decisions. Such as drawing up the salary budget for the following periods. More successful managerial decisions, more accurate cost forecasts and more accurate cost functions depend on correctly identifying the factors that determine costs. In our opinion, as we have shown before, it is necessary to continue, for a better understanding of economic phenomena, to accept the use of the two phrases: cost accounting, as a predictive, estimative action to substantiate decisions aimed at subsequent production activities, and accounting of accounting costs, as a post-factum action, which expresses the concrete ways of achieving production goals, which makes companies accountable to government authorities and which provides an important moment to analyze past processes and, based on intrinsic conclusions, to order restructuring of the production organization.

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