

# Cost Accounting - Public Enemy Number One of the Productivity

Nákladové účtovníctvo – verejný nepriateľ productivity číslo jeden

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**Abstrakt:** Príspevok sa venuje retro pohľadu na problematiku nákladového účtovníctva, ktore predstavuje podľa predstaviťa E. M. Goldratta nepriateľa číslo jedna pre produktivitu výrobných podnikov. V príspevku ponúkame diskusiu na rozličné pohľady predmetnej problematiky.

**Kľúčové slová:** nákladové účtovníctvo, logistika, Teória obmedzenia, náklady

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For more than two decades have passed since 1985, when Eliyahu M. Goldratt presented his memorable post today entitled "Cost Accounting: Public Enemy Number One of Productivity" at a meeting that was held by an organization known by the acronym IMA. Said of cost accounting that is public enemy number one in productivity was on the premises of this Institute, whose vision is to be the world's leading association for management accounting, with a bit of exaggeration, and could be compared to Galileo's statement: "It still turns". There is therefore no wonder that this contribution Goldratt aroused quite a stir not only in academia, where you suddenly got a lot of opponents, but also among corporate managers, who contrary Goldratt approach allowed to find a logical and effective solution to many problems which are today and daily struggle. Whether by some Goldratt avoided or neglected and admired by others and called the new management guru, one thing is certain - Galileo's ignoble end was spared.

During the last two decades have been published many books and articles in professional journals that deal with Goldratt approach to measuring business performance, respectively. measuring the impact of management decisions on business performance. In some of these ideas are Goldratt accepted with

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enthusiasm, others approach them with skepticism, rejection and objections not so that does not bring anything new. All these contributions except Goldratt then combines the names and place of their origin - Anglo-Saxon countries. In the literature devoted to managerial accounting can not find the name hardly Goldratt. It should add, however, that foreign "classic" literature focused on this face, as if there was Goldratt. Eliyahu M. Goldratt has gained considerable attention a year earlier than the present contribution to the above ground IMA. In 1984 is released, along with Jeff Cox Target book: excellence in production, which soon became a bestseller and to date it has sold worldwide over two million copies. Goldratt with Cox here on the story director production company show how major bottlenecks - sources whose production capacity is lower than the requirements applicable to them - affect the overall business performance. Also deduce that bottleneck company can have many sources and that the remainder must represent logically bottle neck place and have spare capacity. Based on these basic ideas then point out the fatal consequences (increase WIP, longer production lead times, lower accuracy of the estimate of delivery time, loss of market confidence and share it) that makes you focus on the highest capacity utilization of individual corporate resources - local optimization - with the main objective of the company, thus maximizing profits.

In that book, so readers could first meet with the principles and ideas of a new approach to the management organization, which its author called Theory of Constraints. The objective was primarily focused on production control in an industrial enterprise, but since its release Goldratt published many other books in which ideas and theory of constraints applied to other areas of their business. TOC so today got overlooked among other management theories. Some authors have even with the Total Quality Management and Just in Time by one of the main managerial control methods last twenty years (Basl, Majer, Settlements, 2003). In 1990 comes with a book Goldratt The Haystack Syndrome: Sifting Information Out Of The Data Ocean (Goldratt, 1990b), which describes in detail his concept of the Throughput Accounting. In this book, then using a simple example explains why traditional cost accounting to fail as a tool to support management in the effective management and why it should be understood theory of constraints as a new managerial philosophy. Goldratt (1990) emphasizes two aspects to it in his opinion, warrant the criticism of the traditional cost accounting:

1. *The use of indicators of effectiveness as a means to measure performance at the local level, traditional cost accounting which supports an increase in stocks. You of*

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*course will not only weigh the financial resources, but even worse impact is an increase in stocks in length production lead times. High inventory levels and significantly threatens the company's ability to maintain and increase its market share in the future.*

2. *Focus on cost reduction at the local level. This approach must fail, if we pursue a strategy of continuous improvement, since the costs can be reduced only to a certain minimum level (in extreme cases to zero). In contrast, a strategy based on revenue growth has increased prerequisites for continuous improvement, because they can theoretically increase to infinity. Briefly put, it is important to save, but to earn.*

Another problem is the complexity of management cost accounting outputs and easy manipulation of its results. As an example may serve affect profit through high WIP or finished goods inventory. In this situation shows a firm which at the same annual sales volume will reduce the size of these reserves, accounting profit decline.

It is obvious that this set out, must be subjected to relatively complex analysis that could determine whether the company actually achieves its goals. The strength of indicators based on these outputs are therefore for the lower levels is severely restricted, not to mention the speed of acquisition (Basl, Majer, Settlements, 2003).

Corbett (1998) further stresses that the "old" cost accounting fails as a tool for increasing the profitability of the company because it is not able to identify the product that best contribute to corporate profits. Noreen, Smith, Mackey (1995) agrees with the criticism Goldratts cost reduction at the local level, though point out that most efforts to reduce costs in the past focused on reducing product costs through the allocation of overhead costs for multiple units. If, however, these unsold only effect was an increase in stocks, which of course does not represent any real benefit for the enterprise Debra Smith in his book *The Measurement Nightmare* now in the introduction states that the traditional cost accounting, which tries to allocate costs to the product and for that purpose uses direct labor as a tool for assigning overhead costs with emphasis on the effectiveness of local workers and equipment when best irrelevant and at worst counterproductive (Smith, 2000).

Caspari and Caspari (2004) then a few simple examples show that the use of traditional cost accounting based on the concept of least-cost product is for managerial decision making "Deceptive beacon" In addition, note that if based on this concept, managers have come to the best possible decision in the moment, it

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would be just a coincidence. All of the above authors agree then that Goldratt Theory of Constraints provides good guidance on how the above shortcomings of traditional cost accounting and eliminate this new approach is then called flow accounting.

But there is no damage to note that the criticisms toward the float to a cost accounting and other authors who advocate the theory of accounting and the flow restriction is definitely not. To let us especially mention the professors Kaplan and Johnson, who in his book *The Best Lost: The Rise and Fall of Management Accounting* attention to the fact that management accounting has lost the ability to produce accurate data about product costs, began to submit a short-term financial goals and ultimately does not provide managers sufficient information to positively affect productivity or reduce costs.

Although the theory of constraints is relatively new management approaches, technical articles and publications on this subject but have released quite a lot. Mabini & Balderstone (2000) conducted an extensive survey, which aims to map all published articles and monographs on problems of theory of constraints. Their research focused on the period from 1990 to 1998 and the end of this period they were able to identify about 400 contributions, including nearly 40 books that are related to the TOC.

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