

THE APPLICATION OF A COST ACCOUNTING SYSTEM IN FAMILY-OWNED SMEs AS A FACTOR TO GUARANTEE THEIR SUSTAINABILITY AND PERMANENCY

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Abstract

This research aims to analyze the barriers perceived as obstacles for the family-owned SMEs (Small and Medium-sized Enterprises) to implement and consider the use of costs accounting systems by detecting the benefits obtained when a cost accounting system is applied, as well as the relationship between the performance, utilization degree of cost management techniques, permanency and profit generation. This study was applied to 90 SMEs well known in the

commercial trade in the city of Mexicali, Mexico. The final results show that the most important barriers to implement the cost accounting and management techniques are: The perception that it increases the employees' workload and the lack of specialized people in the costs area of the company. Within the benefits expected when a new cost management system is implemented, the objective is to obtain accurate information regarding the profitability of the product and the company's cost optimization.

Keywords: Cost accounting system, family-owned SMEs, stability, permanency

INTRODUCTION

Nowadays we live in a context where due to globalization, relevant changes in the economic and financial areas are observed. Besides, it has to be considered the strong business competition factor, the cutting-edge information management, and in addition, the new marketing varieties. In this sense, the cost accounting acquires great relevancy as an instrument that contributes with useful information for the analysis and control management that can lead to cost reduction, periods of time, and a higher quality in the final products from the companies. Focusing on the family-owned SMEs, whose economic importance in most of the countries across the world, is due to their contribution in the field of employment generation and enrichment. Globally, the SMEs represent more than 95% of the total number of companies. They create between 60% and 70% of the employment and represent between 50% and 60% of the GDP (OECD, 2002). Particularly in the case of Mexico, the SMEs are an essential element related to the economic development and job generation. Considering the Micro-enterprises in the economic census applied in 2010, it is observed that they represent 99.8% and contribute with 52% to the DGP of the total number of companies surveyed (INEGI, 2010). The accounting cost system management must be highlighted in this type of organizations, for that reason, this research was relevant, since it aims to analyze the barriers that are perceived from the administrators, so a cost accounting system can be adopted by the family-owned SMEs, and at the same time, to know the benefits that the organizations will have in the companies performances. Therefore, the questions to be answered in this study and that are included intrinsically in the hypothesis are: What are the barriers and benefits perceived in the family-owned SMEs when a costs accounting system is adopted and applied? And to what extent, the "non-traditional" cost systems are used, as well as the control management systems used by the SMEs and how they affect the permanency of the companies?

THEORETICAL FRAMEWORK

It is undeniable the fact that a series of changes, related to costs, have been presented. Nowadays, the traditional costs systems are not capable to provide the administrators the necessary information to manage efficiently a company in the competitive global environment we live today. For that reason, the companies must get oriented in applying a strategic plan, which is, producing to the lowest cost with the highest quality, emphasizing at the same time the service provided to a client (Arredondo, 2009).

The cost accounting is not focused on the strictly study of cost, rather than that, it also focuses on the productivity and profits. In this sense, it can be indicated that the calculus of the costs and the productivity are not strictly an accounting issue, making precisely that the analysis of costs and productivity in the real economic order from the company belongs to the economy itself.

The reality in the daily life is the fact that the terms used by the cost accounting are very usual and generally they mix up the word cost with expense. Having it clear that the accounting difference is very easy to understand: cost is what you pay for a good or service to obtain a benefit. An expense is the distribution on any entry or exit, and at the end, when they are combined, they become the cost. Referred to Del Rio (1998), cost accounting is a general area from accountability that composes analysis, register, accumulation, distribution, predetermination, information and interpretation of the production cost. On the other side, Garcia (2008) said that the cost accounting is an information system used to predetermine, to register, to accumulate, to distribute, to control, to analyze, to interpret and to inform about the production costs, distribution, management and financing. The above is related to the accumulation, analysis and interpretation of the acquisition costs, production, distribution, administration and financing for the internal use between the companies' directives for the functional development areas such as planning, controlling, and decision making". Any system implemented can embrace the company as a whole, partially, or any subsystem including all process, activities, tasks and actions" (Mayo et al., 2000) that are carried out in all previous mentioned areas. Do not forget that when a costs system is installed, it is vital to reinforce the people in charge and involve all processes'-personnel as well as every activity from all areas related to the system that is trying to be installed. To determine the final cost of a product it is necessary to identify and analyze the costs that directly or indirectly take part in the elaboration of a product or determine service. The cost systems are: historical or real, standard or normal. In the historical area, the costs are listed as they happen. In the standard, estimations are done by knowing the production cost of a good in a specific period and the normal one, both systems are combined.

There are two known systems to have an inventory control, production process and finished products: periodic and perpetual. The periodic system consists in knowing the real inventory until the end of the period by the goods physical counting. Using the perpetual system, the company will know at any time the inventory value without having a physical inventory. Also, with this system, the company can register a special account to constantly update their balance. The key components of the cost of the production, also known as cost elements are the following three: direct raw material, direct labor, and indirect manufacturing cost (known as GIF by its English abbreviation). The cost elements must be budget at the beginning of the accounting period to determine a predetermine rate of applicability. At the end of the period, the real and applied GIFs are compared, if there is a difference, the appropriate adjustments should be done.

In case of the SEMs, it is pointed that to have a better performance, it is necessary that companies adopt sophisticated cost accounting practices in order to obtain a higher performance (Reid and Smith, 2000). Some companies have not noticed the utility of having a cost accounting and management accounting systems, since they could represent the base to gain competitive advantage. Some organizations have used these systems just for financial information, outside employment, and sometimes, just to comply with legal requirements that some government agencies demand. On the other hand, there exist investigations that analyze the relationship between the utilization degree of the cost accounting systems, management and company performance (Chenhall and Langfield-Smith, 1998b; Adler et al., 2000). The above reflects the reason why the use of a good cost accounting system, at the beginning, would seem to be a high expenditure instead of an investment that can be beneficial to the company.

The cost accounting systems provide a reference point for the companies to evaluate their performances. The analysis of variance enables companies to recognize the significant changes in the expected cost of each manufactured product. The organization can compare the real cost of production or sell each product with the resulting cost of production and sale of the goods. The difference between both costs represents the variance. A high variance means that the company is not performing as expected and requires additional investigations to find the causes. The unexplained high variances point out performance issues.

It does not exist an organization that can survive if its cost production is higher than its incomes; thus, cost management is an essential element to develop a budget plan that can help to organize and coordinate the cost and incomes functions in order to take fully advantage of the opportunities expected in a near future. If the organizations want to have an effective information system, they must adopt or implement a cost accounting system which will help

them to establish the bases to analyze and control the costs, measure the inventory, and the sold goods, as well as the generation of good quality information that will help to make the right decisions at the right moment. In regard to the disadvantages that could arise within an organization to apply a cost system, regardless of the nature of the manufactured products or the services that it offers (varied or multiple), the corresponding procedures, records, controls and reports should be set out and done in a way that they can provide control and analytic information about the products, services or about certain homogeneous groupings. The groupings must be the same type, other way, the results will be incomplete, and it would undermine the main purpose of a dynamic modern accounting system.

Certain cost systems lack flexibility, thus, companies determines the ideal moment to create an operational budget. The latter is the base to create the standard costs. Once the year starts, the company might experience some changes that would affect the products and services costs. For example, the increase in fuel prices increments the goods costs because the transportation costs are more expensive. The standard cost does not consider the impact that said increase will have on the goods' freight and shipping costs.

When the organizations find a cost system that meets their necessities, they get great benefits, not only economic ones, but a consolidation in the market. Having an ideal cost system means getting profits through a better way of doing things. Also, it can result in customer's satisfaction, cost reduction, presence and remain in the market, and generation of employment. The effective use of resources and waste reduction would be strategies to reduce costs (Porter and Van Der Linde, 1995). With all the advantages named before, the company has a bigger chance to remain in the market, to have the customer's loyalty, as well as to participate in the generation of employments. The latter demonstrates the organizations growth, and their will to fully accomplish their objectives. Companies should be aware of the importance of applying a good cost system, other way, they not only stop getting positive results, but also, it could be a risk factor that rein their competitiveness, efficiency, productivity and profitability since they do not have accounting information that supports the correct assessment of purchase costs. The above results in sale prices that do not cover the real purchase and operating costs.

METHODOLOGY

The present work is a quantitative, descriptive, non-experimental and transection research. The measurement instrument used was a questionnaire of 25 items. By using the Likert scale, the practices, processes, uses and appropriation of the cost accounting were determined. The technique used to collect information was a personal interview, which was done by the person responsible of the company. The variables considered in this research were the degree of

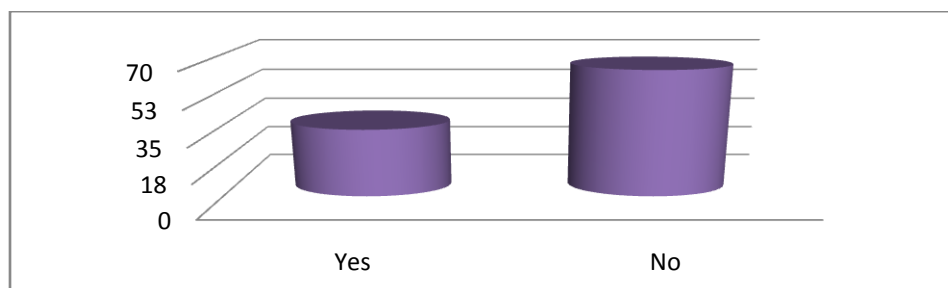
accounting systems utilization, antiqueness and sector. The measurement instrument's reliability was determined through the Cronbach alpha, resulting in a 0.95, thus, this instrument was deemed to be trustworthy. This research was done in 90 family-owned commercial turn SMEs located in the city of Mexicali, Mexico. It was considered a population of 190 companies in the Mexicali region, and by applying the formula of finite populations with a margin of error of 5%, a sample of 90 SMEs was obtained.

ANALYSIS AND RESULTS

The analysis of the results regarding the instrument application was the one expected, since the conditions and context in which the studied companies develop, and their shared characteristics within the locality are the same.

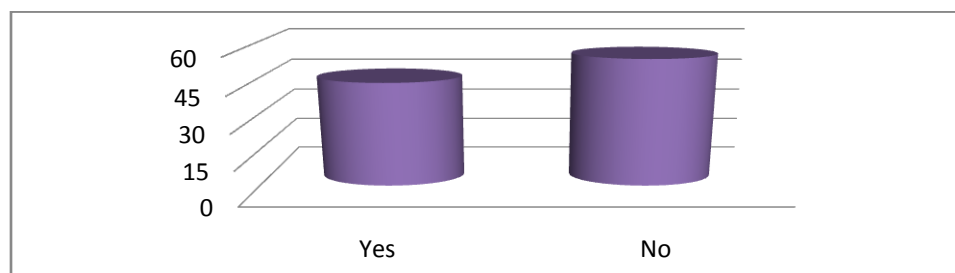
It was observed that 65 percent of the company's owners consider that cost accounting is not a priority for their operational activities. They state that cost accounting is not used by the company. On the other hand, 45 percent of the studied SMEs, uses the cost accounting as an account tool to develop their productive activities.

Figure 1. The company uses a cost accounting system



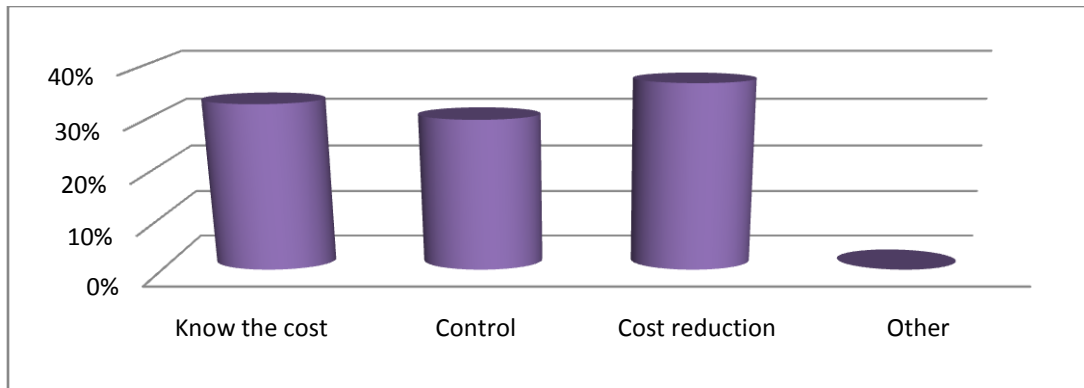
As it was identified, 55 percent of the SMEs surveyed does not know about the benefits of having a cost accounting system. This lack of information is one of the most common problems among the people in charge of the company's management or administration.

Figure 2. The company knows the implications (repercussions) of not having a cost accounting system



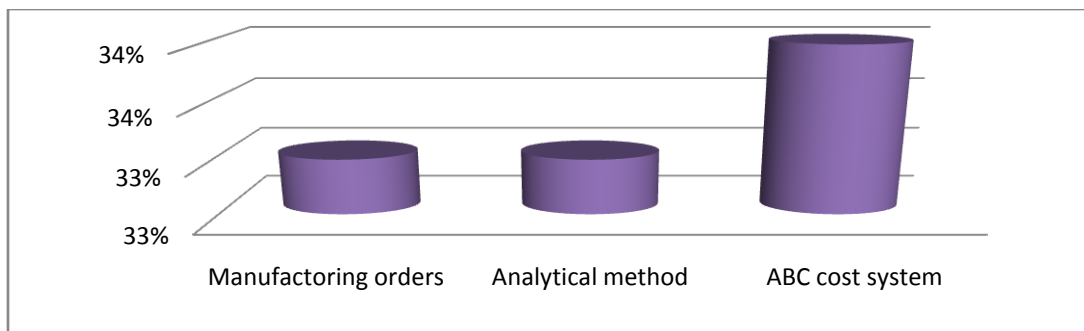
Forty-five percent of the SMEs surveyed, answered that they use a cost accounting system. Also, 37 percent of the companies claimed that they started using this system in order to reduce waste and that this would be reflected in a higher operating profit.

Figure 3. Objectives expected from the implementation of the cost accounting system



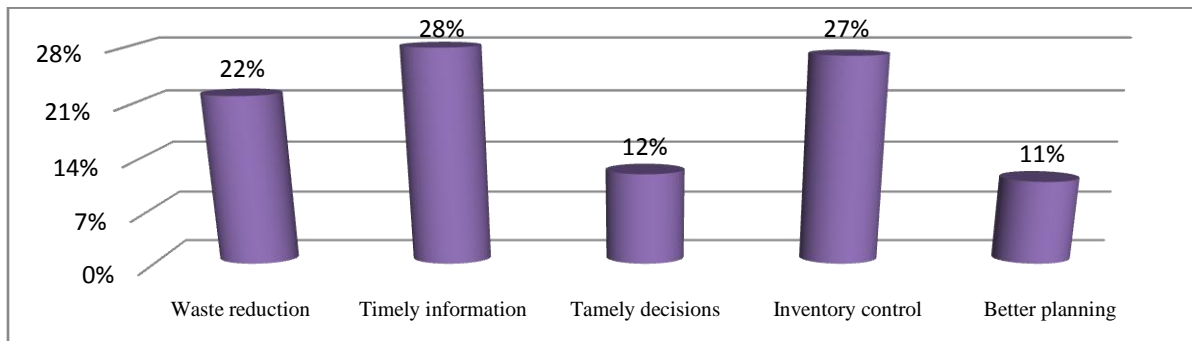
Regarding to the costing methods that SMEs applied, 34 percent answered that they use the ABC cost system. As it was said before, it consists in assign costs to each activity. The latter allows a better cost control; thus, it would be easier to identify those activities that are significant to the total cost.

Figure 4. Cost accounting methods know



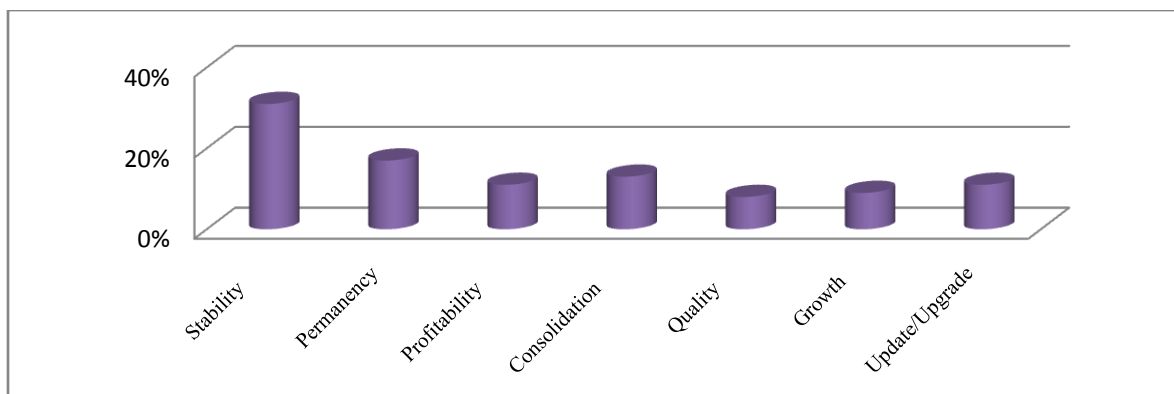
Contrary to what the SMEs administrators and managers were expecting at the moment they adopted the cost accounting system, half of those surveyed answered that applying this cost methods, has helped them to get timely information. As a result, they have been able to make timely decisions that have allowed them to maintain an optimal level of inventory. The above reflects a better liquidity and a better management for the owned goods sold by the companies.

Figure 5. Benefits obtained by application of cost accounting methods



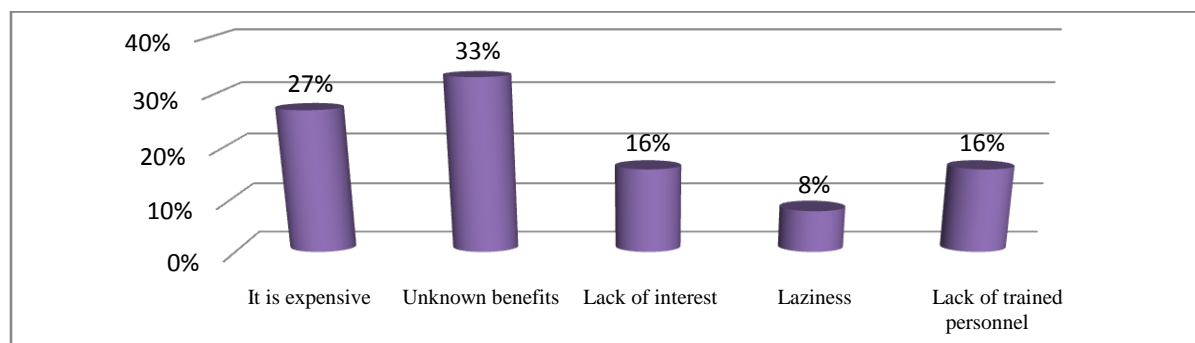
In respect of the long-term benefits that SMEs incorporate a cost accounting system to its activities are planning to get, 31 percent consider that this practice will be an accurate tool to maintain the stability of the company over the years.

Figure 6. Expected impact applying the cost accounting method



It is with regard to the 55 percent of the SMEs that have not adopted a cost accounting system, they said that they consider the application of any method must be expensive. Besides, they have not known or studied the benefits obtained by using a good cost accounting system.

Figure 7. Reasons why a cost accounting systems has not been implemented



CONCLUSIONS

At the outcome of this research, it resulted that most of the administrators, owners, or managers from the family-owned SMEs in Mexicali, Mexico, have a lack of knowledge related to the benefits generated by the uses of a cost accounting system appropriated for each organization. As it was said before, incorrectly determined costs and prices that do not cover the real costs are the result of that lack of knowledge from whom would be considered to be properly leading the company. This can be resumed in the low efficiency, productivity and profitability. The principal benefits that are perceived when adopting a model or management technique in costs are observed fundamentally to look after the major information related to the product sustainability, accuracy, information and reduction in costs. Therefore, this type of companies needs more and more to establish control mechanisms that help the manager to make the correct decisions. The strong competency that is derived by the globalization in the markets and the technological changes are motivating the SMEs to develop in the nucleus of their organization a cost accounting system (AECA, 2005). The cost accounting system allows people in charge to elaborate precise information for the decisions taking in relevance to the inventory valuation, costs control, the income measuring - benefits and analyzing the profitability of the products and markets.

The limitations to carry out the investigation were: The lack of information on the part of those responsible, which does not allow those responsible to have the basis for proper planning, control and decision-making with what Regarding the situation of the company.

The results of this research will be added up to the cumulus information that already exists to the benefits and barriers that must be observed by the SMEs, get to know their situation, appreciate their necessities, their strengths, and weaknesses that in some way they have the ones not to face the challenge of using techniques and a cost accounting system. The administrators of these companies must realize that they are more the benefits obtained when a cost accounting system well adapted is done. A culture of cost accounting system must be encouraging in all organizations, by doing so it will have a great impact to its stability and to the business permanency.

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