Chapter 2

Target Costing and Its Impact on Business Strategy: Computer Program for Cost Accounting and Administration

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ABSTRACT

This chapter highlights aspects of the contribution of an IT program used in cost accounting and its management according to the target costing (TC) and its impact on the business strategy of an economic entity. The authors present the historical evolution of the TC, its implementation steps, and the methodological steps that go into the management accounting. The characteristics of a software program specifically designed for cost accounting and management of TC, its design, implementation stages, execution mode, are presented. The guarantee of a managerial decision is based on the provision of real, accurate, and reliable information that can be obtained and analyzed with this software program. The theoretical and methodological aspects presented are based on the existing literature, university studies, and specialty from all over the world. Through the authors’ contribution, a new conceptual-empirical framework is created to discuss issues that impact on the business environment of economic entities.

DOI: 10.4018/978-1-5225-8455-1.ch002
INTRODUCTION

This century begins with a revolution in the field of computers, especially by using and implementing computerized applications, information systems and information technology (IT) in all business practices of larger or smaller companies. The emergence and adoption of Web-based applications and technologies, information, and telecommunications has multiplied the capabilities and benefits of computers. The importance of computers and software in business can no longer be ignored or overestimated. Large, medium or small businesses use Internet-based communications technologies, networks, or programs that enable employees and professionals to quickly communicate, collaborate, and work across geographic locations across the globe, thereby contributing to streamlining workflows. Starting from the overall cost targeting framework, we focused our attention on creating an IT program able to manage the flow of financial and economic operations that took place in a small company. The program presented is an original one and is based on the technology provided by Microsoft Office through Access. The main objectives of this chapter are: (1) the presentation of some aspects of the target costing method, the implementation steps and the methodological steps in the management of a small company, and (2) the creation of a computerized program necessary for the management of the target costing accounting, adapted to the general accounting plan for managerial accounting from Romania.

BACKGROUND

Conceptual Approaches of Target Costing

The emergence and application of the concept of determining the target costing of products was found at the beginning of the 19th century at Ford in the United States and Volkswagen Beetle in Germany in 1930 (Feil et al., 2004). During this time, Americans created a concept to maximize the attributes of a product by minimizing its cost, which was later transformed into a technique called VE (Value Engineering). This technique was taken over by Japanese companies to cope with the competitive environment and was an innovative incentive for the Japanese Managerial Accounting System to implement the Target Costing approach.

VE, known as “Genka Kikako”, was used for the first time at Toyota in 1963 and was not mentioned in Japanese literature until 1978 (Tani et al., 1995) when it was called “target costing” (Kato, 1993). Its implementation as a cost management technique was carried out by Japanese accounting officers (Kato, 1993; Tani et al., 1994; Tani, 1995) and the development of the TC system was initially made by Toyota Motor Production in 1959 being the oldest and technically advanced (Gopalakrishnan et al., 2007). Target Costing has emerged as a market-oriented system that effectively manages the new costs of a product during the design and development phase and, along with the Kaizen Costing method, helps the Japanese automotive industry to achieve their goals (Monden & Lee, 1993).

As defined by CAM-I (Consortium for Advanced Management International), Target-Costing (TC) is a “a set of management tools and methods aimed to design and plan activities for new products, which provides the basis for controlling subsequent operation phases and which makes sure that the products achieve their goals in terms of profitability throughout their life cycle” (CAM-I, 1994).