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PRODUCT TOTAL COST (WORK, SERVICE): ORGANIZATIONAL AND METHODOLOGICAL ASPECTS OF ITS FORMATION

Abstract. It has been found in the article that information about total cost influences informed management decisions on assortment policy, pricing, marketing policy, but the lack of normative regulation of the formation of this indicator leads to discussions in the terminological field and the subjective nature of its calculation. It is proved that costs included in the total cost of production (works, services) should be divided into the following three groups: by way of attribution to cost (direct, indirect), by the degree of influence of production on the level of costs (fixed, variable), by relation to the economic process (main, overhead). It is argued that not all overhead costs are indirect, so it is advisable to use the term «indirect costs» when allocating costs that cannot be directly attributed to a particular cost object. It is proposed to allocate indirect costs in the scale of the following five steps: division of costs into direct and indirect costs; grouping indirect costs into homogeneous groups; setting a materiality threshold for indirect costs; allocation of indirect costs between cost centers; selection of distribution bases and allocation of indirect costs between types of products (works, services). It is recommended to establish indirect cost allocation bases according to the following procedures: 1) identify those cost groups for which the selection of the allocation base is obvious or clearly recommended by experts; 2) to allocate those groups of costs, the magnitude of which is insignificant and there is no obvious distribution base. In this case, the most objective of the allocation base is to choose the amount of direct costs, taking into account the costs of maintenance and operation of the equipment; 3) if the magnitude of a specific group of indirect costs accounts for a large proportion of the total indirect costs and there is no apparent logical factor affecting their change, then it is appropriate to use correlation-regression analysis. As a result of validation of the calculation of the full cost of the proposed steps and rules, the possibility of obtaining the most correct value of its value, while optimizing the resources expended to perform the relevant calculations, was proved.

Keywords: total cost, indirect costs, overhead, base of distribution, stages of distribution of indirect costs.

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ПОВНА СОБІВАРТІСТЬ ПРОДУКЦІЇ (РОБІТ, ПОСЛУГ): ОРГАНІЗАЦІЙНО-МЕТОДИЧНІ АСПЕКТИ ФОРМУВАННЯ

Анотація. Установлено, що інформація про повну собівартість впливає на ухвалення обґрунтованих управлінських рішень щодо асортиментної політики, ціноутворення, маркетингової політики, проте відсутність нормативного регулювання формування цього показника зумовлює дискусії в термінологічному полі та суб'єктивний характер його розрахунку. Доведено, що витрати, які включаються у склад повної собівартості продукції (робіт, послуг), доцільно поділяти за такими трьома групами: за способом віднесення на собівартість (прямі, непрямі), за ступенем впливу обсягу виробництва на рівень витрат (постійні, змінні), за віднесенням до господарського процесу (основні, накладні). Аргументовано, що не всі накладні витрати є непрямими, тому при розподілі витрат, які неможливо віднести безпосередньо до конкретного об'єкта витрат у момент їх виникнення, доцільно застосовувати термін «непрямі витрати». Запропоновано розподіл непрямих витрат проводити в межах таких п'ятьох етапів: поділ витрат на прямі та непрямі; групування непрямих витрат в однорідні групи; встановлення порогу суттєвості для непрямих витрат; розподіл непрямих витрат між центрами витрат; обрання баз розподілу та розподіл непрямих витрат між видами продукції (робіт, послуг). Установлення баз розподілу непрямих витрат рекомендовано здійснювати, виходячи з таких процедур: 1) виокремити ті групи витрат, для яких обрання бази розподілу є очевидним або чітко рекомендованою фахівцями; 2) виділити ті групи витрат, величина яких є несуттєвою і очевидної бази розподілу немає — у такому разі найоб'єктивніше за базу розподілу обирати величину прямих витрат з урахуванням витрат на утримання та експлуатацію обладнання; 3) якщо величина певної групи непрямих витрат займає значну частку в загальній величині непрямих витрат і немає видимого логічного фактору, що впливає на їхню зміну, тоді доцільно застосовувати кореляційно-регресійний аналіз. У результаті апробації розрахунку повної собівартості за пропонованими етапами та правилами доведено можливість отримання максимально коректної її величини з одночасною оптимізацією витрачених ресурсів на здійснення відповідних розрахунків.

Ключові слова: повна собівартість, непрямі витрати, накладні витрати, база розподілу, етапи розподілу непрямих витрат.

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ПОЛНАЯ СЕБЕСТОИМОСТЬ ПРОДУКЦИИ (РАБОТ, УСЛУГ): ОРГАНИЗАЦИОННО-МЕТОДИЧЕСКИЕ АСПЕКТЫ ФОРМИРОВАНИЯ

Аннотация. Доказано, что расходы, включаемые в состав полной себестоимости, целесообразно разделять на: прямые, косвенные; постоянные, переменные; основные, накладные. Аргументировано, что не все накладные расходы являются косвенными, поэтому при распределении расходов, которые невозможно отнести непосредственно к конкретному объекту расходов в момент их возникновения, целесообразно применять термин «косвенные расходы». Предложены этапы распределения косвенных расходов: разделение затрат на прямые и косвенные; группирование косвенных расходов в однородные группы; установление порога существенности для косвенных расходов; распределение косвенных

расходов между центрами затрат; избрание баз распределения и распределение косвенных расходов между видами продукции (работ, услуг). Определен порядок установления баз распределения косвенных расходов. В результате апробации формирования полной себестоимости по предложенным этапам и правилам доказана возможность получения максимально корректной ее величины с одновременной оптимизацией затраченных ресурсов на осуществление соответствующих расчетов.

Ключевые слова: полная себестоимость, косвенные расходы, накладные расходы, база распределения, этапы распределения косвенных расходов.

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Objectives setting. The purpose of entrepreneurial activity of economic entities is to achieve economic and social results and profit. The profit of the enterprise depends on its income and costs. If the volume of income is significantly influenced by the market environment, then the costs can be managed within the enterprise, using resources rationally, improving production processes, cooperating with reliable counterparts and more. However, the effectiveness of costs management largely depends on the quality of information support in terms of their size by type of activity, the level of costs per unit of production (work, services), the amount of production costs in the context of costing items and the amount of costs period. At the same time, importance is attached to the estimation of the total cost of production (works, services), which influences the making of informed decisions in terms of assortment policy, pricing, marketing policy and resource saving. However, the order of formation of full cost is not regulated by legal acts, which results in a discussion of the types of costs that should be included in its composition, unreasonable distribution of indirect costs, etc. The foregoing testifies to the relevance of the chosen research topic.

Research analysis and assignment setting. Nowadays a number of scientists are studying the problems of forming the full cost of products (works, services), the distribution of indirect (including overhead) costs, the value of management accounting in the information support of costs management. Among them, it is advisable to point out Agliata F. [1], Atamanov D. [2], Bezverhiy K.V. [3], Golov S.F. [4], Davyduk T.V. [5], Drury C.J. [6], Ivanyuta O.V. [7; 8], Len V.S. [9], Napadovska L.V. [10], Ostapenko T.M. [11], Pashkevych M.S. [12], Tuccillo D. [1] and others. However, the discussion of the structure of total cost, the method of its calculation, the grouping of operating costs creates significant problems in terms of information support for cost management, which deepens in times of crisis in the economy.

In spite of considerable achievements of scientists in the part of the order of formation of the full cost of production (works, services), it is necessary to improve the grouping of costs in order to further form the indicated indicator, establish the order of distribution of indirect costs, the argumentation of the choice of bases for the distribution of such costs.

The purpose of the article is to improve the order of formation of full cost of products (works, services) in the management accounting system by submitting proposals for grouping costs that are part of it, setting limits to the application of the terms «direct costs», «indirect costs», «overheads», etc., identifying organizational stages of indirect costs allocation, and providing guidance on establishing indirect costs allocation bases.

Research results. The costs of the enterprise play an important role in the economic activity of the enterprise, since optimization of their size and proper management of them ensure the efficiency of the enterprise, achievement of the planned goals.

Costs information is generated in the accounting and management system. However, accounting cannot provide a sufficient level of detail for the costs of an enterprise management. Therefore, an important role in this case is management accounting, which produces a large amount of information for further informed operational and strategic management decisions, and is an integral link between the economic activities of the entity and the decision-makers. We agree with S.Ya. Babinska, that «management accounting is an integral part of management, which includes strategy, tools and various mechanisms for planning and coordinating processes» [13].

For the proper organization of the management accounting system as a whole, as well as for the purpose of sound costs management, Accounting Regulations (hereinafter — P(C)BO) 16 «Expenses» [14] present the costs structure is not exhaustive and does not create a proper information field to manage the business. Thus, in the mentioned standard two such indicators are distinguished, as production cost of production (works, services) and cost of sales (works, services). There is no information regarding the formation of full cost of products (works, services) in this standard, which causes certain consequences. The calculation of total cost plays an extremely important role in the enterprise, in particular, creates information support for current and strategic management, making decisions on the range of products (works, services), pricing, allows making informed decisions about marketing strategies.

Although the concept of «total cost» still lies in the plane of management, but the related terminology and mechanisms for its calculation must be declared in accounting regulations. Among the international accounting standards there is no analogue of P(C)BO 16 «Expenses». Some aspects of inventory cost are defined in International Accounting Standard (hereinafter — IAS) 2 «Inventories», which describes the concept of inventory cost, which includes all acquisition costs, processing costs and other costs incurred in delivering inventories to their current location and bringing them to their present state [15]. Other costs outlined above include non-manufacturing overheads or product design costs for specific customers. That is, the standard allows administrative overheads and distribution costs to be included in the cost of inventories, but to the extent that they have been incurred in delivering inventories to their present location and bringing them to their present condition. It should be noted that this Standard also defines terms such as «fixed production overhead», «variable production overhead», «non-production overheads». Separate aspects of cost grouping are defined in IAS 1 «Presentation of Financial Statements», where it is advisable to disclose costs in either the costs nature or the costs function method.

The terms «direct costs», «indirect costs», «variable costs» and «fixed costs» are, to varying degrees, found in national and international accounting standards. Domestic P(C)BO 16 does not include the concept of «overhead», but it is often used in the scientific literature on accounting, analysis, management, etc. In our opinion, in order to determine the full cost, there should be a clear understanding of the nature of the above terms and their structure, since depending on which group the appropriate type of costs is assigned, the expediency and order of their inclusion in the cost of products (works, services) is established.

In the scientific literature, as a rule, two main positions on the components of the full cost of products (works, services) are highlighted: in the first, it is recommended to include direct costs, general production costs, administrative costs, sales costs; the second — direct costs, overhead costs, administrative costs, sales costs; other operating expenses. According to T.M. Ostapenko [11], it is advisable to include financial expenses in full cost. D. Tuccillo and F. Agliata define full cost as overall cost equal to the sum of industrial costs (direct production costs and overhead) plus commercial, administrative, financial and tax costs [1, p. 129].

In our opinion, as a part of total cost, it is necessary to take into account all costs that are in one way or another the consequence of the main activity of the enterprise, namely: 1) direct costs; 2) production costs; 3) administrative costs; 4) sales costs; 5) other operating expenses in terms of expenses resulting from the formation of management decisions within the main activity of the enterprise (costs for research and improvement of existing types of products (works, services); operations within the main activity; amounts of deductions to the reserve of doubtful debts and bad accounts receivable, recognized fines, penalties, penalties resulting from the main activity of the enterprise; depreciation and depreciation of inventory within the limits of natural loss)).

Allocation of direct and indirect costs is crucial for the calculation of the cost of products (works, services), including full, since direct costs are included in its composition without prior distribution. In this part, the cost will be accurate. Indirect costs require allocation, which can distort the cost of products (works, services) and lead to wrong management decisions. Even the most reasonable basis for the distribution of indirect costs cannot fully ensure the exact calculation of full cost, as is possible with direct costs. Therefore, at the enterprise, first of all, it is necessary to

distinguish all costs that can be included in this indicator on a direct basis, and then to carry out the distribution of indirect costs on the basis of reasonably selected bases of distribution.

As scientific literature in different fields of knowledge and specialties often uses the concept of «overheads», it is advisable to define their components, which are within the full cost of production (works, services).

O.V. Ivanyuta notes that overhead costs are indirect and include overheads, administrative and sales costs [8, p. 207]. The same overhead structure is allocated by O.I. Emets [16, p. 243]. N.S. Priymak [17, p. 63] somewhat narrows the structure of overhead costs, dividing them into production (maintenance and operating costs of equipment and overhead) and non-overhead (general economic expenses). Another overhead component is identified by K. Bezverhiy, noting that the term «indirect costs» is much broader than «overhead»; to the overhead costs the author does not include part of the overhead costs, namely: depreciation of production equipment, maintenance and repair of equipment, energy costs of equipment, the cost of services auxiliary productions for the maintenance of equipment and jobs, wages and deductions for social security of workers etc., which includes the production costs of production management, administrative costs and sales costs [3, p. 109]. C. Drury points out that sometimes instead of the term indirect costs, overhead is used [6, p. 57]. The scientist actually points to the identification of these two concepts. M.S. Pashkevych and A.A. Makurin include overhead, administrative, sales and other operating costs to overheads [12].

It is generally accepted that all costs that are direct are accounted for in the «Production» account and that other costs are indirect. However, as evidenced by the practice, the costs of marketing and other operating expenses may be costs that can be attributed to a particular cost object at the time they are incurred, that is, which are inherently direct. For example, it is appropriate to attribute the costs incurred to advertise a particular type of enterprise product to the full cost of the product, rather than to distribute it among all types of products produced by the entity. If there has been a deterioration of raw materials within the limits of the natural loss, which is used only for the manufacture of a particular product, then this cost should be included in its full cost. The same applies to bad receivables for products (works, services), costs for improving a particular type of products (works, services), costs for packaging products, etc. That is, if the occurrence of costs is a consequence of the manufacture and sale of a certain type of products (works, services), then the entire amount of such costs must be included in the full cost of the latter, otherwise there will be a distortion of the value of this indicator.

In addition, it is advisable to divide marketing costs into variables and fixed, as this will influence the choice of the basis for the distribution of such costs. Administrative and other operating expenses are generally fixed or contingent.

An important component of the management accounting system is the allocation of indirect costs between types of products (works, services) to form its full cost.

In the scientific literature, different stages of organization of the process of distribution of indirect costs are distinguished. O.V. Ivanyuta initiates that the following organizational measures will contribute to the efficient allocation of overhead costs: the choice of cost factors for each activity; formation of requirements for the system of document circulation, development and registration of primary documents in accordance with the requirements of functional approach; the procedure for collecting and grouping cost indicators for each activity; distribution of responsibilities of accounting and analytical staff to determine the list of activities; calculation of rates of cost factors in terms of transactions by each activity (functional cost factors); distribution of overheads by objects according to the actions taken [7, p. 98]. C. Drury identifies a two-step cost-sharing process: in the first stage, overhead is allocated to cost centers (also called cost pools); in the second stage, the costs accumulated in the cost centers are allocated to the target costs using the appropriate distribution bases [6, p. 62]. O.I. Emets also provides a two-stage procedure for the distribution of overhead costs: 1) the distribution by production and service centers; redistribution of overhead of centers into centers of production costs; 2) attribution of overhead costs to specific products [16, p. 245]. M. Kulynych defines the advantages of the ABC method in cases where

significant overhead is occupied by indirect overhead. It identifies two stages of calculating: stage I — the grouping of overhead costs into homogeneous sets of factors; stage II — distribution of overhead costs and their inclusion in the cost of products [18, p. 130]. T.V. Davyduk also indicates the expediency of using the ABC method in industries with a greater share in the cost of production of overhead distributed costs [5, p. 11]. However, we support D. Atamanov's opinion that it is advisable to use the ABC method when simpler tools are exhausted [2].

When defining the author's position regarding the order of distribution of indirect costs (Fig.), first of all, we propose to adhere to the principle of «economy». According to L.V. Napadovska, the costs of creating a management accounting system should not exceed the benefits received from its use [10, p. 180]. S.F. Golov states that the results of management accounting are estimated based on the value added to them based on judgments about the prospects of using these results by users [4, p. 18]; and when addressing the issue of attribution of costs to a particular object it should be guided by the principle of cost-benefit [4, p. 63].

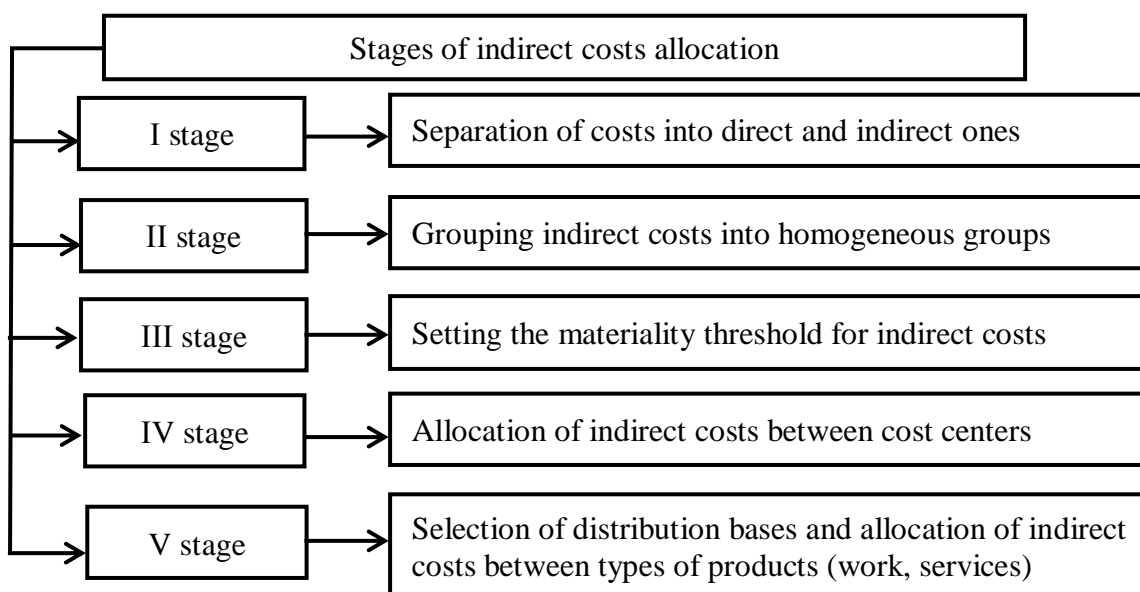


Fig. The proposed procedure for the distribution of indirect costs for the formation of the full cost of products (work, services)

Source: Developed on the basis of [4; 6; 7; 16; 18].

Therefore, indirect costs should be grouped into homogeneous groups in the optimal amount, taking into account the criterion of materiality. It is possible to choose a distribution base for each lowest cost group of indirect costs and to obtain the most accurate value of the full cost of production (works, services). However, the time and resources involved in calculating it will be relatively significant, which may not result in the expected economic effect.

The allocation of indirect costs between types of products (works, services) should precede the distribution of such costs between cost centers. Indirect costs that are attributed to a specific cost center are directly attributed to that cost center. Indirect costs associated with multiple cost centers are subject to apportionment between the respective cost centers. At the same time, as S.F. Golov points out, «The attribution of costs to direct or indirect depends on what is the cost object; the same costs can be both direct and indirect for different objects [4, p. 63, 64]. Thus, the wage costs of the shop manager are direct when localized by cost centers (cost center is a shop), but indirect to certain types of products.

Following the above procedures, the allocation pools should be selected for the previously allocated cost groups. When selecting the indirect cost allocation base, the most appropriate is to use correlation-regression analysis, which allows to establish the dependence of a certain group of indirect costs on the selected distribution base. However, in practice, it is not always possible to find specialists in economic and mathematical modeling. In addition, establishing a link between

the variables being studied is a laborious process. In this regard, in selecting the indirect cost allocation base, we believe that the following three steps should be identified:

1) to distinguish those groups of costs for which the choice of distribution base is obvious or clearly recommended by experts (the recommended bases for the distribution of indirect costs are shown in *Table 1*);

2) allocate those groups of costs that are insignificant and there is no obvious base of distribution. In this case, as the practice shows, it is most objective to choose the amount of direct costs, taking into account the costs of maintenance and operation of equipment, as the base of distribution;

3) if the magnitude of a specific group of indirect costs accounts for a large proportion of the total indirect costs and there is no apparent logical factor affecting their change, then it is appropriate to use correlation-regression analysis.

Table 1

Proposed bases of distribution of individual types of indirect costs

Indirect costs group	Distribution base
Maintenance and operation of equipment	Work hours (machine hours)
Expenditure on labour protection and workers safety	Direct labor costs
Buildings and factories maintenance costs	Area occupied by the costs center; direct costs, including the cost of maintaining and operating the equipment
Other types of overhead costs	Direct costs, including the cost of maintaining and operating the equipment
Administrative expenses	Direct costs, including the cost of maintaining and operating the equipment
Wages and commissions to sellers and sales agents	Volume or value of their sold products (work, services)
Retention of fixed assets, other tangible fixed assets related to the sale of products (work, services), the cost of employees' business trips, advertising and market research costs	Number or cost of concluded contracts
Costs for transportation of finished products	The cost of these products
Deduction to doubtful debt reserve	Cost of sales

Source: Developed based on [4; 5; 7; 9; 12; 16].

We agree with C. Drury that where the bases of distribution are significant (largely affecting the value of costs), it is advisable to use the term «cause and effect distribution»; and where the base of cost sharing is less obvious — «conditional distribution» [6, p. 57].

Here is an example of the formation of the full cost of the three types of products manufactured by Dzherela LLC, based on the traditional method (*Table 2*) and based on the proposed methodology.

Table 2

Formation of total costs according to the traditional method

Indicator	Product A	Product B	Product C	Total
Direct costs, hrn.	327600	309400	124025	761025
Maintenance and operation of equipment (products A — 43 machine hours, B — 99 machine hours, C — 53 machine hours), hrn.	—	—	—	328210
Other overhead costs, hrn.	—	—	—	106708
Administrative costs, hrn.	—	—	—	116920
Sales costs, hrn.	—	—	—	142640

Other operating costs	–	–	–	66400
Total indirect costs, hrn.	–	–	–	432668
Maintenance and operation of equipment, hrn. (partition coefficient: $328210/195=1683,128$)	72374	166630	89206	328210
Indirect costs, hrn. (partition coefficient: $432668/761025=0,56853$)	186252	175904	70512	432668
Total costs, hrn.	586226	651934	283743	1521903
The volume of production, units	420	340	205	–
The total cost of a unit of production, hrn.	1395,78	1917,45	1384,11	–

Source: Calculated based on practical business data.

Table 3 shows the details of the period costs of LLC *Dzherela*.

Table 3

Additional information on the enterprise's particular period costs

Indicator	Product A	Product B	Product C	Total
Distribution costs, hrn. namely:	–	–	–	142640
– advertising costs for all products;	–	–	–	12440
– advertising costs for product B;	–	4250	–	4250
– warranty repair costs;	–	6700	2790	9490
– packaging materials costs;	4270	9990	6130	20390
– Other sales costs.	–	–	–	96070
Other operating costs, hrn., namely:	–	–	–	66400
– research costs;	–	47200	–	47200
– allowance for doubtful debts.	–	–	–	19200
Cost of contracts, hrn.	380700	570300	350680	1301680
Cost of sales, hrn.	725650	790500	495200	2011350

Source: Based on practical business data.

Among the costs of the period at the investigated are costs that can be directly attributed at the time of their occurrence to a particular type of product. Other costs of the period should be distributed among the types of products, based on the proposed distribution bases (*Table 4*).

Table 4

Formation of total costs according to the proposed method

Indicator	Product A	Product B	Product C	Total
Direct costs, hrn.	327600	309400	124025	761025
Maintenance and operation of equipment, hrn. (partition coefficient: $328210/195=1683,128$)	72374	166630	89206	328210
Other overhead costs, hrn. (partition coefficient: $106708/1089235=0,09797$)	39184	46635	20889	106708
Administrative costs, hrn. (partition coefficient: $116920/1089235=0,10734$)	42934	51098	22888	116920
Sales costs, hrn.:				
– direct;	4270	20940	8920	34130
– indirect (partition coefficient: $108510/1301680=0,08336$).	31736	47541	29233	108510

Other operating costs, грн.:				
– direct;	–	47200	–	47200
– indirect (partition coefficient: 19200/2011350=0,00955).	6927	7546	4727	19200
Total costs, грн.	525025	696990	299888	1521903
The volume of production, units	420	340	205	–
The total cost of a unit of production, грн.	1250,06	2049,97	1462,87	–

Source: Calculated based on table 2 and 3 data.

As it can be seen from the above calculations, the total cost of a unit of production A is overestimated by 11.7 %, the production of B is reduced by 6.5 %, the production of C is reduced by 5.4 %. Such errors can affect the marketing and pricing policies of the enterprise and lead to unreasonable management decisions.

It should be noted that the methodology of forming the full cost of production (works, services) will be influenced by organizational and technological features of the industry in which the enterprise operates, and the specificity of production (performance of works, provision of services). In addition, the link density of the selected distribution base and the corresponding costs at different businesses may vary. At the same time, the total cost of production (works, services), calculated according to the proposed stages and rules, will be as correct as possible and will help to optimize the resources expended to carry out the corresponding calculations.

Conclusions. Information on the total cost of products (works, services) is important for making management decisions on cost optimization, pricing, marketing policies, etc. The unification of the full costing process will contribute to the formation of reliable information support for the effective management of the entity. In order to form the full cost of products (works, services), which requires the allocation of costs that cannot be directly attributed to a specific cost object at the time they are incurred, it is advisable to use the concept of «indirect costs» rather than «overhead», since not all overheads are indirect. The allocation of indirect costs should occur in the scale of the following five steps: division of costs into direct and indirect costs; grouping indirect costs into homogeneous groups; setting a materiality threshold for indirect costs; allocation of indirect costs between cost centers; selection of distribution bases and allocation of indirect costs between types of products (works, services).

Establishment of indirect cost allocation bases should be made on the basis of the following procedures: 1) identify those cost groups for which the selection of the allocation base is obvious or clearly recommended by specialists; 2) allocate those groups of costs that are insignificant and there is no obvious base of distribution. In this case it is most objective to choose the amount of direct costs, taking into account the costs of maintenance and operation of equipment, as the base of distribution; 3) if the magnitude of a specific group of indirect costs accounts for a large proportion of the total indirect costs and there is no apparent logical factor affecting their change, then it is appropriate to use correlation-regression analysis.

Systematizing the above requires further research to optimize cost items that are included in the full cost of production (works, services) in order to increase the efficiency of business entities, which will be the subject of our further research.

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