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Foundation of cost accounting and control system

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Abstract

In order to reorient accounting system in our country to international accounting standards, it is necessary to study the experience of managing accounting in other countries with market economies, widely using such a system of production accounting as “Direct costing”. That article accumulates the main issues of the system, as well as some theoretical aspects. The main advantage of the system “direct costing” is that on the basis of the information obtained in it, you can make operational management decisions. First of all, it concerns the possibility to carry out an effective price policy, dumping policy.

Having accounting data on the limited cost and amounts of coverage (marginal income) for products, you can solve such management tasks as optimizing the range of products in the presence of bottlenecks, the feasibility of taking an additional order at prices below the usual, to produce components themselves or buy on the side, determining the optimal size of the batch or series of parts (products), selection and replacement of equipment, etc.

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Keywords

Management accounting, direct costing, variable costs, fixed costs, accounting systems, control system.

Introduction

The main feature of Direct Costing is that the cost of industrial production is taken into account and planned only in terms of variable costs. Variable costs are collected in a separate account and debited periodically to the Profit and Loss account. On variable costs are also estimated balances of finished products in warehouses work in progress. In our country, the system of full cost accounting is used, and until recent times there was no experience of practical application of the “Direct costing” system. That is why that topic of article is so relevant nowadays.

The direct costing system is a system of production (management) accounting based on the classification of costs for fixed, periodic and variable (product) and includes cost accounting by their types, places of origin and cost carrier, accounting for the results of productive activities.

“Direct costing” allows to solve the question of the validity of planning and rationing of the value of fixed (overhead) costs, as the amount of these costs for each specific period is shown in the income statement as a separate line, which clearly shows their impact on the amount of profit. In the application of “Standard-costing” in the system of “Direct-costing” set standards for fixed costs, and the basis of flexible budgets is the establishment of different levels of fixed costs for different levels of capacity utilization.

The system “Direct costing” allows to make the following management decisions: to optimize the production program according to the criterion of maximum margin income; on pricing for new products, which are sold at a certain price by a competitor; on the selection and replacement of equipment; to produce or buy on the side of a semi-finished product; on the feasibility of taking an additional order, etc.

The purpose of the article is to consider the system of accounting and cost control “Direct costing” as the most important subsystem of management accounting.

As *methods* in the article are used: the method of scientific abstraction and empirical method, synthesis and analysis, historical and systemic approaches.

Theoretical aspects of the cost accounting and control system at the enterprise on the “direct costing” system

1.1 “Direct costing” as the most important subsystem of management accounting

Difficult market processes that determine the complexity of the orientation of an individual producer, affecting fluctuations in production and sales, as well as an increase in the share of fixed costs in their total volume significantly affect the behavior of the cost of products, and hence on profits. As these trends increase, the demand of producers for information on the costs of manufacturing and selling products, which are not distorted by the distribution of indirect costs and are relatively constant per unit of output at any volume of production, increases. Such information in the form of data on the incomplete production cost (in terms of direct, variable or all production costs) and marginal income (the amount of coverage) – the difference between the sale price (sales revenue) and the incomplete cost of the product or products sold as a whole gives the subsystem of management accounting “direct costing”.

In the conditions of constantly developing market administration and managers should always take into account operational information about what actually costs the company production, provision of services, implementation of a certain type of activity, regardless of what is today the size of the salary of the director or chief accountant, what are the costs of maintaining offices or other similar management costs. Therefore, at present, in the theory and practice of cost and profit management in the West, the following principle of estimating the accuracy of calculation is declared and applied: the most accurate calculation of the product is not the one that most fully after numerous calculations and distributions includes all types of costs of the enterprise, and the one that includes only the costs directly related to the production of these products, the performance of works and the provision of services [Ивашкевич, 2016, 10].

It is important that using “direct costing” (a system of accounting for coverage amounts or margin income), you can quickly study the relationship between the volume of production, costs and revenue (profit, margin income). This relationship can be studied both graphically and analytically. A graph is plotted for the point of critical production volume, i.e. such its volume at which the revenue from the sale of products is equal to its total cost.

To ensure these analytical calculations, it is necessary to keep separate records of variable and fixed costs with the calculation of marginal income on products [Булгакова, 2017, 3].

The “direct costing” system focuses the attention of the company's management on the change in marginal income (the amount of coverage) for the enterprise as a whole and for products. It allows you to better account for items with high profitability to move mainly to their production, since the difference between the sales price and the amount of variable costs is not obscured by the write-off of fixed indirect costs to the cost of specific items.

Due to the reduction of cost items, its rationing, accounting, control is simplified and, moreover, the accounting and control of conditionally fixed, overhead costs is improved, since their amount for this specific period is shown in the income statement as a separate line, which clearly demonstrates their impact on the profit of the enterprise.

The main advantage of the coverage accounting system is that on the basis of the information obtained in it, it is possible to make operational management decisions. First of all, it concerns the possibility to carry out an effective price policy. Traditional classical methods of pricing, based on the calculation of the total actual cost, fade on the background.

Currently, in the West, more popular approaches to pricing, in which, first of all, take into account factors related to demand, not to supply, i.e. the assessment of how much the buyer can and wants to pay for the goods offered to him. Once the equilibrium price is set, the company must analyze all its costs and try to minimize them [Anderson, Sweeney, Williams, 2015, 15].

In addition to information about the amount of costs associated directly with the production of products, managers of the enterprise need to have information about the possible limits of price reduction depending on the influence of market factors. Therefore, in the Western management accounting there are concepts of long-term and short-term lower limit prices.

The long-term lower price limit shows what price can be set to minimize the full cost of production and sales of goods; it is equal to the total cost of products.

The short-term lower price limit is focused on the price that covers only direct (variable) costs; it is equal to the cost of only direct (variable or production) costs.

Taking into account the system of “direct costing” is also associated with the possibility of dumping policy, calculation and selection of different combinations of product prices and volumes of its implementation.

Often for companies operating in the market, the situation associated with underutilization of production capacity. There are idle costs – part of the fixed costs attributable to the share of unused production capacity. In such cases, only the information obtained in the subsystem “direct costing” of the management accounting system can lead to the right decisions. [Вахрушина, 2017, 5]

Having accounting data on the limited cost and amounts of coverage (marginal income) for products, you can solve such management tasks as optimizing the range of products in the presence of bottlenecks, the feasibility of taking an additional order at prices below the usual, to produce components themselves or buy on the side, determining the optimal size of the batch or series of parts (products), selection and replacement of equipment, etc.

1.2 Cost accounting and calculation of production costs according to the "direct costing" system

The theory and practice of the domestic system of calculation in the conditions of developing market relations needs to study the organizational systems of management accounting used in the market economy. One of these systems is a system of calculating the cost of production at direct cost. [Власова, 2018, 6]

The variable cost accounting system originated in the United States during the great depression and became widespread in the 1950s. Before the Great Depression (1928) finished product balances were estimated at cost, calculated at full cost. The depression led to the creation of large stocks of unrealized products, and the full cost estimations, according to analysts at that time, led to an artificial distortion of profits. Fixed costs, which do not depend on the volume of production and income, redistributed between the reporting periods, significantly influenced the amount of estimated profit. According to analysts, it was necessary to calculate the return of costs incurred through the connection of production with costs and revenues. In this aspect, it was decided to divide the aggregate costs into variables that were identified with direct costs and fixed costs that were called useless and identified with indirect costs. The new cost system is called “direct costing”. [Martin, 2014, 16]

The essence of the system is based on the expression “direct-cost” plan, introduced by Jonathan Harris in 1936 when considering the methods of calculating the production costs of the enterprise. The content of the monthly income statement began to distinguish between normal operating costs and indirect overhead costs. Differentiation of production costs made it possible to determine the dependence of the volume of profit on the volume of sales and manage the cost. Thus, the essence of this system was reduced to the following: direct costs are summarized by types of finished products, indirect costs are collected on a separate account and written off for the overall financial results of the reporting period in which they arose. If you exclude variable costs for this item from the revenue amount for each item, you will get gross profit for this item. Summing up the gross profit of all products, you can get the total amount of profit intended to cover the total amount of fixed costs. [Барышников, 2016, 1]

Practical research in the field of “direct costing” system shows that the division of costs is conditional. The tolerances adopted at each plant must be taken into account when calculating the results. The system “direct costing” provides a constant amount of fixed costs at any volume of production, so the focus in management accounting is on fixed costs. The leaders of the company and structural subdivisions reinforce the control function of the management of these costs.

The system “direct costing” has several distinctive features: the first – the division of production costs into variables and constants; the second – the calculation of the cost of production at limited costs; the third – the multistage preparation of the income statement.

The accounting system “direct costing” in enterprises can be organized in different ways. There are two approaches: autonomy and integration. Harris ' system was based on the integration of management and financial accounting. The General system of records of management and financial accounting provides for the reflection in the General Ledger of all internal turnover [Мансуров, 2015, 11].

“Direct costing” allows management to focus on the change in marginal income both for the enterprise as a whole and for various products; to identify products with greater profitability, to move mainly to their production, because the difference between the selling price and the amount of variable costs is not obscured by the write-off of fixed costs for the cost of specific products. The system provides the ability to quickly reorient production in response to changing market conditions [Вахрушева, 2016, 4].

The report on financial results, compiled under the “direct costing” system, shows the change in profit due to changes in variable costs, sales prices and the structure of products.

The information obtained in the system allows you to find the most favorable combination of price and volume, to carry out an effective price policy. In a market economy, direct costing also provides information on the possibility of using dumping in competition. This technique is used during periods of temporary reduction in demand for products to conquer the market.

All of the above indicates that “direct costing” is an important element of marketing – enterprise management system in the market and free competition.

Conclusion

Information in the form of data on the incomplete production cost (in terms of direct, variable or all production costs) and margin income (amount of coverage) – the difference between the sale price (sales revenue) and the incomplete cost of the product or products sold as a whole gives the subsystem of management accounting “direct costing”.

Currently, in the theory and practice of cost and profit management in the West, the following principle of estimating the accuracy of calculation is declared and applied: the most accurate calculation of the product is not the one that most fully after numerous calculations and distributions includes all types of costs of the enterprise, but the one that includes only costs directly related to the production of these products, performance of works and provision of services.

It is important that using "direct costing", you can quickly study the relationship and the relationship between the volume of production, costs and revenue (profit, margin income). This relationship can be studied both graphically and analytically. A graph is plotted for the point of critical production volume, i.e. such its volume at which the revenue from the sale of products is equal to its total cost.

To ensure these analytical calculations, it is necessary to keep separate records of variable and fixed costs with the calculation of marginal income on products.

Costing system “direct costing” provides a constant amount of fixed costs at any volume of production, so the focus in management accounting is on fixed costs.

The system "direct costing" has several distinctive features: the first – the division of production costs into variables and constants; the second – the calculation of the cost of production at limited costs; the third – the multistage preparation of the income statement.

The accounting process takes place in two stages.

At the first stage, the connection between the volume of production of finished products with direct (variable) costs is established, the profitability of production of certain types of products is reflected. In the second stage, the indirect (fixed) costs summarized in one account are compared with the contribution received from the sale of each product. The result reflects the profitability of the entire production and sales. Thus, this system is implementation-oriented.

Another important aspect of the calculation of the cost of production of variable costs is the relationship with the calculation of the break-even analysis of production, which generates information for the calculation of the optimal ratio of volume and profit.

The profit and loss statement prepared under the direct costing system shows the change in profit due to changes in variable costs, sales prices and the structure of products.

However, the organization of management accounting system “direct costing” is associated with a number of problems that arise from the features inherent in this system:

– difficulties in separating fixed and variable costs;

– cost accounting for the reduced nomenclature of articles does not meet the requirements of domestic accounting, one of the main tasks of which until recently was the preparation of accurate calculations;

– it is necessary in the prices established for production of the enterprise to provide coverage of all costs of the enterprise.

The advantages of choosing the principle of calculation of variable costs include its direct impact on the pricing of products, stimulating the productivity of different business segments.

Thus, a feature of the modern “direct costing” system is the use of standards (norms) not only for variable costs, but also for fixed costs, in particular for the variable part of fixed overhead costs. The standard “direct costing” is a means to achieve the ultimate goal of the enterprise – net profit.

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Основы системы учета и контроля затрат

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Аннотация

Для переориентации системы бухгалтерского учета в нашей стране на международные стандарты бухгалтерского учета необходимо изучить опыт ведения бухгалтерского учета в других странах с рыночной экономикой, широко использующих такую систему производственного учета, как “директ-костинг”. В данной статье обобщаются основные проблемы системы, а также некоторые теоретические аспекты. Главным преимуществом системы "директ-костинг" является то, что на основе полученной в ней информации можно принимать оперативные управленческие решения. Прежде всего, это касается возможности проведения эффективной ценовой политики, демпинговой политики.

Имея данные бухгалтерского учета об ограниченных затратах и объемах покрытия (маржинального дохода) по выпускаемой продукции, можно решать такие управленческие задачи, как оптимизация ассортимента выпускаемой продукции при наличии узких мест, целесообразность принятия дополнительного заказа по ценам ниже обычных, изготовление комплектующих самостоятельно или покупка на стороне, определение оптимального размера партии или серии деталей (изделий), подбор и замена оборудования и др.

Для цитирования в научных исследованиях

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Ключевые слова

Управленческий учет, директ-костинг, переменные затраты, постоянные затраты, бухгалтерские системы, система управления.

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