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CLASSIFICATION OF COSTS AND CALCULATION METHODS AS DIRECTIONS OF COST MANAGEMENT OF COMPANIES

Abstract. *The article examines the issue of cost classification as an important tool of the cost management system in companies. It is established that the classification of costs involves their division into separate types and allows establishing appropriate mechanisms for generating information on costs and making optimal management decisions regarding the financial and economic activities of a company. It is substantiated that grouping costs by different classification features reflects the content of the company's costs in various aspects of its activities and expands the management functions, taking into account the specific conditions of the production process. It has been found that cost management is also carried out through the use of various methods of costing products (works, services). It is determined that the purpose of forming different costs is to collect and process cost data for making management decisions at the time when their use will be most effective. It is found that the use of different methods of cost accounting depends on the objects of accounting, the completeness of the inclusion of costs in the cost of production and its managerial interpretation.*

Keywords: *direct and indirect costs, variable and fixed costs, relevant and irrelevant costs, direct costing, absorption costing, ABC calculation method.*

JEL code classification: G32, M41

Statement of the problem. One of the main problems when implementing a cost management system is that when describing and systematizing it, it is necessary to build an appropriate management system in the company. When determining the requirements for the amount of information on costs and prime cost, it turns out that the methods of making management decisions are not formalized and the management does not have a clear understanding of these methods. In this case, the project to set up a cost management system risks turning into a project to develop and describe the company's management methods. Quite often, when implementing a cost management system, company owners and managers require that management accounting contain as much information as possible about the company activities. However, this requirement is not supported by any justification, it is simply meant to be "just in case it is needed". A large amount of information, both necessary and unnecessary, makes the management accounting system complex and difficult to use effectively, as important data, including costs, are often lost. Therefore, it is necessary to take into account that information on costs should be provided promptly and in the amount necessary for management. Its relevance is reduced to zero if it does not contain information on the appropriate cost classification and costing methods for products (works, services).

Analysis of recent research and publications. The fact that cost classification is a tool for cost management is stated in the article by Chorniy B. [1]. Akimova T., Raspopova Y., Volyashchenko I. analyzed and summarized various types of costs by the following criteria: method of transferring the cost to products; types of products; place of occurrence of costs; costing items; economic content; types of activities; principle of recognition; purpose; calendar periods; management functions; depending on the feasibility of their implementation; by the nature of participation in the production process [2]. The team of scientists in their study proved that the management of an enterprise and its performance depend on the peculiarities of managing both costs in general and its individual components [3]. Foreign researchers emphasize the use of the direct cost method, which contributes to cost control through a clear distribution of direct and indirect costs, determining the cost of production only by variable costs [4-5]. The studies of Farion V., Pytel S. and Kornyat I. on the classification of costs for transport enterprises are also of great interest [6].

Formation of the objectives of the article. The purpose of the article is to study the content of the cost classification options and cost accounting methods existing in the practice of cost management and to determine the rules for their selection, taking into account the information needs of managers and the requirements of the established methodology of company management accounting.

Summary of the main material. The classification of costs in management accounting depends on the management task to be solved, for example, to calculate the cost of production or profit from its sale, to evaluate the performance of the responsibility center, etc.

According to the method of inclusion in the cost of finished goods, all costs are divided into direct and indirect costs. Direct costs can be accurately and uniquely allocated to the cost of a product or other costing object. As a rule, direct costs include the cost of raw materials and supplies used for the production of goods, as well as the cost of remuneration of key production personnel, which is recorded in the “Production” account.

Indirect costs, often referred to as overhead costs, cannot be economically allocated to a specific accounting item. Such costs include general production expenses. They are allocated to the cost object (cost carrier) by distribution in accordance with the methodology and distribution base adopted by the company.

Whether certain costs will be classified as direct or indirect depends on the technological process of manufacturing a particular type of product. In order to manage direct costs, it is necessary to have standards provided by technologists, employees of HR and financial departments, as well as reporting calculations generated by the accounting department.

It is very important to approve which expenses will be classified as direct and which as indirect. This issue falls within the competence of the CFO, and his decision will determine the clarity and transparency of planning and reporting data. If, for example, electricity for technological purposes is an insignificant part of direct costs, and it is extremely time-consuming to standardize and account for them in relation to each specific product, it is easier to consider such costs as indirect. At the same time, the use of geographic information technologies may shift the emphasis in the distribution of costs in favor of direct costs [7].

Considering the bases for allocating production overhead costs, it can be the salaries of the main production workers or, for example, the man-hours of the main technological equipment, which in most cases does not play a big role: for management purposes, it is more important to regularly, preferably monthly, monitor the share of indirect costs in the structure of production costs and identify the factors that increase them.

In relation to the volume of production, all costs can be divided into fixed and variable. Variable costs depend on the volume of production or sales and remain unchanged per unit of output (raw materials and supplies, piecework wages of production workers, electricity). Fixed costs do not change with an increase in production (rent of premises, equipment for the production of one type of product, administrative salaries), but per unit costs are adjusted with changes in the level of business activity. It should be noted that fixed and variable costs should not be confused with direct and indirect costs (Table 1).

According to W. Russell, “managers can simply summarize the variable costs of products and use them as a basis for decision-making. Directors also need to understand fixed costs in order to make judgments about products and prices” [9].

All costs can be divided into relevant and irrelevant according to their importance for a particular decision. Irrelevant costs are costs that are independent of the decision being made. For example, a company has a building at its disposal. There are two options for its use: to create a workshop or to use it as a warehouse. In this case, the costs of maintaining the building and utilities would be irrelevant because they do not depend on the decision. The costs associated with setting up a workshop or retrofitting the premises for use as a warehouse are relevant.

Table 1

Example of fixed, variable, direct and indirect costs

Costs	Fixed	Variable
Direct	Salaries of engineering and technical staff, depreciation of equipment in production units	Salaries of key production workers, raw materials, sales commission, electricity consumption in production
Indirect	Salaries of executives and managers, salaries of sales representatives, heating, depreciation of equipment in auxiliary units	Electricity for auxiliary units, fuel costs for sales vehicles

Source: generated by the author

However, such a cost classification is rarely used in companies. Most companies recognize all the main types of production costs as relevant and take them into account when analyzing the cost of finished goods. We agree with the opinion of B.I. Chorniy that “grouping of costs by different classification functions shows the content of the enterprise's costs from different points of view and complements the functions depending on the specific conditions of occurrence and production results” [1].

Companies use different approaches to cost formation, depending on the specifics of their production process, the nature of their products or services, and other factors.

Costing with full allocation of costs and variable costing are distinguished by the completeness of cost inclusion. Absorption costing is calculated taking into account all costs incurred by the company. Direct costing involves allocating only variable costs to the cost of a unit of production. The fixed part of general production costs is charged to the financial result at the end of the reporting period without allocation to the goods produced.

Full cost allocation means that both variable and fixed costs are included in the unit cost of production. The use of this costing method is justified in cases where it is necessary to analyze the profitability of products, form an optimal product mix, or develop a cost-plus pricing policy. In other words, the cost is defined as the total cost price increased by the required profitability.

Calculating the cost price using the direct costing method is justified in cases where it is necessary to make a decision on the production or discontinuation of a product.

In most enterprises, there is no need to use full cost, including pricing purposes. Non-production overhead costs do not need to be allocated to products at all. This will not give the enterprise anything but a lot of uncontrolled distortions of data on profitability and costs both at the planning and accounting stages. Information about the costs of agricultural enterprises in relation to their agricultural activities on agricultural technology is instantly transferred to the accounting department of enterprises [8].

The cost of production can be calculated based on the actual costs incurred by the company or on the basis of established norms of consumption of raw materials and supplies, as well as standard labor costs. The use of standardized cost allows to control the efficiency of resource consumption and respond to any deviations in a timely manner.

The actual cost of a unit of production can be determined only after all expenses have been recorded in the accounting records. The main disadvantage of this costing method is the rather low efficiency (data can be obtained only after the order is completed, the product is manufactured, etc.). Usually, both approaches are used.

Depending on the object of costing, there are non-order, per-order, and process methods, and even the calculation of the cost of individual functions (Activity based costing, ABC). The choice of a particular costing object is influenced by the specifics of the business (flow production, small-scale production, accounting for individual orders). The order-based method is used in the production of, for example, unique equipment, when fulfilling individual orders. The previous method is more typical for companies with batch and stream production, when products go through several stages of processing. In this case, the object of calculation is the output of each processing stage (production stage). The process method is typical of extractive industry facilities, but is used in industries with a simple technological cycle (for example, asphalt production).

Under the ABC method, cost accounting is organized by individual functions, operations performed by business units. For example, the management of a car dealer intends to control the cost by function, such as car sales in the commercial department or car maintenance in the service center. This may be necessary when deciding on the outsourcing of certain business functions. In addition, ABC allows to more accurately allocate indirect costs when calculating the full cost.

Quite often, costing methods are used in combination. For example, it is possible to use a non-order method of costing with incomplete consideration of costs or a preliminary costing using consumption rates for raw materials or taking into account their actual consumption.

The company manufactures equipment for autonomous and central heating systems. Since this is a rather complex equipment with different technical characteristics, it can use the out-of-order method of cost accounting, when the object of accounting is a separate production order. Direct costs are materials used directly for the manufacture of products, as well as wages of employees of the main production, which are calculated on the basis of primary documents. In this case, the main indicator of the company activity may be the marginal profit for the main types of products, i.e., the difference between the selling price excluding VAT and direct costs. At the same time, indirect costs may not be allocated between the types of products, but written off in full. We consider this approach to be the most accurate, as any allocation of indirect costs, regardless of the chosen allocation base, distorts the cost price, preventing proper pricing and cost analysis.

Conclusions. Regardless of the purposes for which the cost of production is determined, the CFO needs to answer the following questions: the cost of which accounting object should be determined (manufactured products, technological process, individual order); what costs will be included in the cost of production (full cost allocation or variable cost allocation); on the basis of what data will the cost of production be calculated (standard costs or actual costs); how to allocate indirect costs and take them into account in the cost of finished products. Thus, costing will always require that the company has a cost classification in place.

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КЛАСИФІКАЦІЯ ВИТРАТ ТА МЕТОДІВ КАЛЬКУЛЮВАННЯ ЯК НАПРЯМИ УПРАВЛІННЯ ВИТРАТАМИ КОМПАНІЙ

Анотація. *У статті проаналізовано напрямки класифікації витрат за способом включення до собівартості, по відношенню до обсягу виробництва та за значимістю для компанії. Серед варіантів різних методів калькулювання (повнота включення витрат до собівартості, фактичної та нормативної собівартості, об'єктом обліку витрат) обґрунтовано обрання кожного з них виходячи зі змісту методу та специфіки діяльності компанії.*

Ключові слова: *прямі та непрямі витрати, змінні та постійні витрати, релевантні та нерелевантні витрати, директ-костинг, абзорпшен-костинг, АВС-метод калькулювання.*