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IMPROVING PRODUCT COST REPORTING IN COST ACCOUNTING

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ABSTRACT

The product cost report is an important source of information. To date, forms for reporting the cost of products produced for domestic consumption have not been developed. Most enterprises have not prepared this report. The main reason for this is the lack of report format. A product cost report is a report that is not provided to external users but is prepared only for internal use by managers. Thanks to this report, user managers will have reliable information about the cost of the product and its main cost items.

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INTRODUCTION

The overhead budget is the budgeted amount of overhead costs, taking into account production volume and other factors.

Expenses are expenses for the acquisition of material resources, which, according to the concept of income and expenses, should generate income in this very period. Expenses are defined in national standards as follows: “Expenses are a decrease in economic resources as a result of the reduction or consumption of assets, as well as the occurrence of liabilities as a result of the normal activities of an economic entity associated with the generation of income”. The main objectives of cost accounting include:

- providing the administration of the subject with the necessary information for making management decisions taking into account its economic results;
- monitor and control actual expenses in order to identify deviations, compare them with standard and planned amounts and formulate a future economic strategy;
- calculation of the cost of manufactured products to evaluate finished products and calculate financial results;
- determination and assessment of the economic results of production activities of the structural divisions of the subject;

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- bringing together into one management accounting system information about the coverage of long-term production technologies, the level of profitability by type of products sold in the markets, the efficiency and activity of capital invested in them.

Main part. It is advisable to distribute budget costs for overproduction in several stages:

The first step is to plan overhead costs for each item and select different allocation bases for allocating overhead costs in a traditional costing system. Based on the study, additional production costs that may exist in enterprises and the basis for their optimal selection are formalized.

In the second step, manufacturing overheads are allocated to departments based on the above allocation base. In terms of production in organizations, divisions can be divided into two categories: production divisions and service divisions.

In production units, the production process is carried out, that is, the product is created. Production units may include workshops, divisions, and sections. The process of processing products in production shops can be divided into several stages. Examples include melting, pouring, picking, idolizing and other processes. The cost of production is formed in production departments. Therefore, the cost element is included in the cost of production, regardless of whether it is directly or indirectly related to production units. While direct costs are charged directly to the cost of production, overhead costs are charged to distribution because they are indirectly related to the cost of production.

Service or service units serve production. Manufacturing units cannot function without these units. The service departments include the company kitchen, warehouse, technical service department, production management, computer control department, medical corner, plant economics department, and other service departments can be added. These departments serve the production departments and each other. Their services ensure efficient operation of production units.

At this stage, overhead costs for each department are generated by allocating overhead costs according to a reasonable allocation base.

In the third stage, manufacturing overhead costs allocated to service departments are reallocated to production departments. The main reason for this is that service departments do not have production, they do not have a product, that is, a cost object. When redistributing overhead production costs according to the accounting policy of the enterprise, several methods can be used, for example, direct, redistribution, step-by-step distribution, the method of equations and other effective methods. Quantitative indicators characterizing the activities of service departments can be selected as the distribution base for the redistribution of overhead production costs. These may include hours of service, number of employees, number of orders in the warehouse, operating time of computers that control production, number of medical procedures and other indicators. These indicators are the second distribution base. As a result of the distribution of costs by indicators based on the second distribution base, costs can be fully generated in each production department.

At the fourth stage, additional costs are distributed among types of products. In this case, the third distribution base is selected. In this case, the working time of the main production workers (working hours), the operating time of equipment (machine hours), and the amount of wages of the main production workers can be taken as the basis for the distribution. Other distribution bases can be used: costs of materials, number of units of finished products, etc.

Formula for determining the rate of distribution of overhead costs:

$$\textit{Overhead allocation rate} = \frac{Overheads}{distribution\ base\ (cost\ factor)}$$

This formula is used at any stage of traditional and functional costing systems.

If we consider a practical example of an enterprise, then the budget for the production of 15,000 units of the enterprise is to spend 2 hours of working time of production workers for each. Total budgeted

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overhead is $138,000. The overhead distribution ratio is:

$$\frac{\text{General budget overhead}}{\text{Total direct labor hours budgeted}} = \frac{\$138.000}{30.000} = \$4,60$$

The reporting year provides information on budgeted overtime costs that apply to all departments and are subject to distribution. The company includes three production and two service departments. Three workshops are engaged in production. The warehouse and maintenance department serves other departments. The company has eight overhead categories, which are divided into five divisions. The first two costs, namely indirect labor and indirect material, are distributed in accordance with their use in departments. Individual expenses, including depreciation expenses, are highlighted with a special designation.

Fifth stage. The budget markup defined above is transferred to the cost of production based on the norms for the distribution of production costs. It takes 3.5 machine hours to produce one unit of product in the first workshop, 2.8 machine hours in the second workshop, and 4.1 machine hours in the third workshop. In this case, additional production costs per unit of production are distributed as follows (Table 1).

Table 1

Manufacturing overhead costs allocated per unit of output in a manufacturing plant

Indicator	goods of workshop 1	goods of workshop 2	goods of workshop 3
Transferring overhead costs to product costs	31698.75 soum x 3.5 machine hours = 110945.63 soum	30125.75 soum x 2.8 machine hours = 84352.10 soum	7800.20 soum x 4.1 working hours = 31980.82 soum

The amounts that will be attributed to this cost are planned. At the end of the accounting period, the amount actually incurred is compared with the amount of budgeted overhead costs. Differences may arise when comparing the actual amount with the budgeted amount. If the actual amount exceeds the budgeted amount, unallocated overhead costs arise. If the actual amount is less than the budgeted amount, then reallocated overhead costs are determined. These amounts are transferred to the cost of products sold in the prescribed manner.

This method has several advantages. **Firstly**, this makes it possible to distribute costs based on the factor of their occurrence. It is based on the distribution of each cost particle based on the cause and effect of its occurrence. This is useful for more accurately calculating the cost of objects, as well as determining the cost of stores, departments and products, and making cost decisions. **Secondly**, overhead planning speeds up the process of calculating product costs. When determining the cost of products, the end of the reporting period is not assumed, that is, the cost of products is formed according to planned standards, regardless of the time of occurrence of the actual cost.

In the course of our research, we will consider methodological issues in preparing a report on the cost of production.

Accounting for product costs has its own characteristics in economic sectors. In his textbook, Ch. Horngren[1] divides business sectors for management accounting purposes into the following three groups: production, trade and services.

Companies in the manufacturing sector purchase materials and components and use them to produce various finished products. Companies of this type may have one or more types of reserves:

[1] Horngren, Charles T.,Cost accounting : a managerial emphasis / Charles T. Horngren, Srikant M. Datar, Madhav V. Rajan. -- 14th ed. 2012. 36-p.

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1. Direct inventories. These are raw materials intended for use in the production process (for example, components and materials for the production of automobiles);

2. Inventory in the production process. These are inventories that have been accepted into the production process and the production process has not yet been completed (for example, in the production of cars, cars go through several technological processes). This is also called work in progress.

3. Finished goods stock. These are finished products that have completed the production process, gone through the entire production cycle and meet quality requirements, intended for sale, but not yet sold.

The relationship between these three types of reserves can be depicted in Figure 1 below:

Types of inventories in manufacturing enterprises

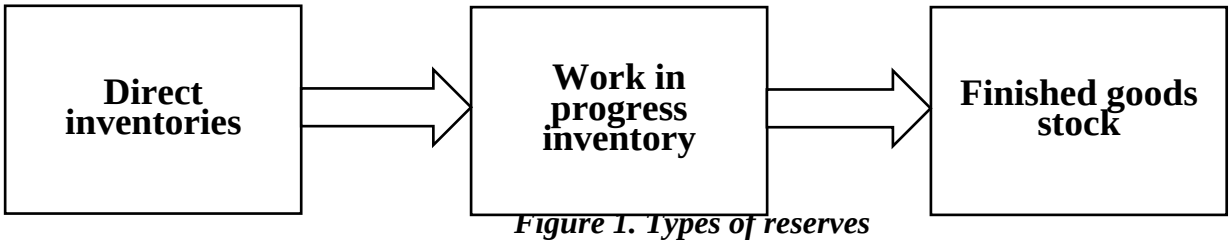


Figure 1. Types of reserves

The cost of production refers to the costs of purchasing goods at trading enterprises and the costs of developing products at manufacturing enterprises. Based on this definition, we can obtain the following equality:

Product cost = Production costs.

In retail establishments, goods are purchased for resale. They are not processed during the trading process. As a result, their purchase price does not change or changes little during this process. Costs associated with the acquisition of goods are included in their price.

The purpose of dividing the formation of product costs into stages is, firstly, to clearly reflect the influence of the movement of reserves on the formation of financial results, and secondly, it is important to set priorities in determining the formation and growth of the cost of reserves at each stage of the entire accounting system.

Conclusion.

Continuous (periodic) production may include the production of usually one type or several types of products. The developed product is sold to customers under a contract. In this type of production, technological processing is carried out on the product by moving from one production process to another, and at the last stage the finished product is created. As a result, it is possible and necessary to manage costs separately in each technological process. This cost accounting system is called process costing. In the above industries, process casting is mainly used.

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