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Improving the Accounting and Management of Overhead Production Costs

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Abstract: The article is devoted to the study of overhead production costs as an important element of cost management at the enterprise. Modern approaches to their accounting and analysis, including the use of digital technologies and analytical platforms, are considered. Special attention is paid to the impact of overhead costs on the financial stability of enterprises, as well as practical recommendations for their improvement are proposed. cost accounting, which allows enterprises to reduce costs and increase competitiveness.

Key words: overhead costs, cost accounting, Activity-Based Costing, digital technologies, cost optimization, financial stability, competitiveness.

Introduction.

In modern economic conditions, enterprises are faced with the need to increase the efficiency of resource use, optimize costs and adapt to a dynamically changing market environment. One of the key factors affecting the competitiveness and sustainability of a business is overhead production costs. These costs, which cannot be directly attributed to specific types of products or services, include management, administrative and general production costs. Their rational management allows not only to reduce the cost of production, but also to increase the overall efficiency of the enterprise.

Overhead costs occupy a significant share in the total structure of production costs, especially in the context of automation and digitalization of production processes. At the same time, their accounting and analysis are often associated with a number of difficulties, including the difficulty of distributing costs between different departments and products, as well as the lack of flexibility of traditional accounting methods. These problems are becoming especially relevant for enterprises operating in conditions of high competition and globalization of markets.

The relevance of the study of the issues of improving overhead costs is due not only to the need to increase the financial stability of enterprises, but also to the increasing requirements for transparency and accuracy of cost accounting. The introduction of modern approaches to overhead cost management, such as Activity-Based Costing (ABC), the use of digital technologies and the development of adaptive classification systems, allows enterprises not only to minimize costs, but also to respond more effectively to changes in the external environment.

The purpose of this article is to study the current approaches to managing overhead production costs, to identify the main problems of their accounting and analysis, as well as to offer practical recommendations for their improvement. The study focuses on the study of the relationship between overhead costs and key performance indicators of enterprises and the development of approaches to their optimization in the digital economy.

Literature review

Overhead production costs are costs that cannot be directly attributed to specific products or services. They cover the management of production processes, the maintenance of infrastructure

and the performance of administrative functions. These costs are the basis for the uninterrupted functioning of the enterprise and maintaining its production activity.

According to Drury and Horngren, overhead costs play an important role in cost management, since they reflect the costs of maintaining the resources of the enterprise that are not directly related to a specific production. These include the cost of maintaining equipment, depreciation, utilities, salaries of administrative staff and other types of costs. Drury notes the importance of implementing techniques such as Activity-Based Costing to improve the accuracy of cost allocation. Horngren focuses on the role of digital technologies, which can significantly optimize accounting. Garrison emphasizes that overhead costs must be integrated into the overall strategy of the enterprise to increase competitiveness.

Overhead costs can be classified according to their functional role, their relationship to the volume of production, and their ability to control. They include general production costs that ensure the management of production processes, and general business costs related to administrative functions and management. Fixed overhead costs remain the same regardless of production volumes, while variable overheads change depending on these volumes. Some of these costs are controllable by management, while others are subject to external factors.

Modern Approaches to Overhead Management

Managing overhead costs in modern conditions requires the use of innovative approaches that ensure a more accurate distribution of costs and their integration into the overall management system of the enterprise. One such approach is to use analytical techniques that assess the impact of each overhead category on key performance indicators. Cost analysis helps to identify the most significant items of expenditure and take measures to optimize them. For example, using historical cost data in combination with predictive models can not only reduce overhead costs, but also improve resource management.

Research and methods.

Digitalization plays an important role in optimizing overhead costs. The implementation of modern software solutions, such as enterprise resource planning (ERP) systems, allows you to automate cost accounting and analysis. This contributes to increased transparency and accuracy of data, which in turn makes it easier to make decisions based on up-to-date information. The use of artificial intelligence and machine learning methods opens up new opportunities for forecasting costs and identifying hidden reserves for their reduction.

The active use of approaches based on activity-based cost accounting (Activity-Based Costing) allows us to take into account the specific features of each production process. This approach contributes to a more accurate distribution of costs, especially in multi-product production conditions. In addition, the use of product lifecycle data helps to account for long-term costs and their impact on the total cost of production, which is especially important for strategic planning.

Modern approaches also involve the adaptation of overhead cost accounting to changing environmental conditions. The flexibility of accounting systems allows you to take into account seasonal fluctuations, changes in production volumes and the influence of external factors such as inflation or currency fluctuations. As a result, enterprises can respond more quickly to market changes and maintain competitiveness even in the face of uncertainty.

Factors Affecting Overhead Costs

The first and perhaps the most important factor affecting overhead costs is the scale of the enterprise's activities. Increased production volumes often lead to higher overhead costs due to the need to maintain additional production space, hire more administrative staff and increase equipment maintenance costs. However, this process is not always proportional. At certain stages of enterprise scale-up, economies of scale can be manifested, where unit overhead costs are reduced by more efficiently allocating fixed costs to more output.

The second important factor is the level of technological equipment of the enterprise. The introduction of modern technologies, such as the automation of production processes or the use of resource management software, can significantly reduce overhead costs. However, these same technologies require significant upfront investments, which increase the burden on the budget in the short term. In addition, technological changes require retraining of personnel, which can also increase costs in the initial period of implementation.

The third key factor is the degree of instability of the external environment in which the enterprise operates. Changes in the economy, such as inflation, currency fluctuations, or changes in tax laws, can substantially increase overhead costs. For example, an increase in utility prices or an increase in tax rates directly affects the increase in the overall cost structure. In such conditions, enterprises are forced to develop adaptive management strategies in order to minimize the negative impact of external factors on their overhead costs.

Results.

Ways to improve accounting and management of overhead costs

Improving the accounting and management of overhead costs requires a systematic approach, which includes the modernization of accounting processes, the use of modern technologies and the development of analytical methods. One of the key objectives is to increase the transparency and granularity of accounting, which allows for a better understanding of the structure of overhead costs and the identification of key areas for optimization. For example, the introduction of digital solutions, such as accounting automation and the use of analytical platforms, allows not only to speed up the process of data processing, but also to improve its accuracy.

Another important area is the adaptation of accounting methods to the specifics of the enterprise. This includes the development of individual models for the allocation of overhead costs that take into account the specifics of production processes and industry factors. This approach contributes to a more accurate allocation of costs and allows you to minimize distortions when accounting for costs for different products or departments.

To improve the efficiency of overhead cost management, it is important to develop a monitoring and control system. This involves regular analysis of cost dynamics, assessment of their compliance with planned indicators and identification of deviations. Using forecasting techniques such as machine learning or statistical models can help not only detect current problems, but also anticipate potential changes in overhead patterns, which is especially important for long-term planning.

In addition, enterprises must actively use the possibilities of integrating data from different sources, such as production, financial and management systems. This provides a comprehensive approach to overhead analysis and allows you to better understand their impact on overall business performance. As a result, companies can develop and implement more balanced strategies aimed at optimizing costs and increasing competitiveness.

Discussion.

Practical application of the proposals

The introduction of modern methods of accounting and management of overhead costs has shown its effectiveness in practice. For example, businesses using Activity-Based Costing have seen a significant improvement in the distribution of costs between different products and processes. This made it possible not only to improve the accuracy of accounting, but also to identify inefficient transactions that previously went unnoticed. This approach is especially relevant for diversified companies, where overhead costs can vary greatly depending on the type of activity.

The use of digital technologies, such as ERP systems, helped to automate accounting processes and reduce the time for data processing. At the same time, the use of analytical platforms made it possible to analyze the structure of overhead costs more deeply and identify hidden reserves. For

example, one manufacturing company was able to reduce its administrative costs by 15% after implementing an analytics system by optimizing the cost of office space and utilities.

Practical experience has also shown the importance of adapting accounting systems to the specifics of the industry. In the agro-industrial sector, where seasonality has a significant impact on costs, enterprises have begun to apply flexible accounting models. This made it possible to take into account seasonal fluctuations and plan budgets for future periods more accurately. In addition, the introduction of forecasting methods has helped companies to better prepare for changes in external conditions, such as rising resource prices or changes in tax policy.

An important element of successful overhead management was the development of a data culture within the company. Regular training of employees, professional development and the introduction of new technologies have made the process of accounting and cost management more transparent and effective. This created the prerequisites for more informed decision-making at all levels of management.

Conclusion

Improving the accounting and management of overhead costs is one of the most important tasks for modern enterprises. In the context of globalization, digitalization and increasing competition, companies are faced with the need to use resources more efficiently and optimize costs. Overhead costs, being a significant part of the overall cost structure, require special attention, since their rational management directly affects the financial stability and competitiveness of the enterprise.

The study showed that the introduction of modern accounting methods such as Activity-Based Costing, the use of digital technologies and analytical platforms, as well as the development of a data culture within the company are key success factors in optimizing overhead costs. These approaches allow not only to increase the accuracy of cost allocation, but also to create conditions for more informed decision-making.

Practical experience shows that the adaptation of accounting systems to the specifics of the industry and the introduction of flexible management models allow enterprises to respond faster to changes in the external environment and maintain competitiveness. In addition, the integration of data from various sources and the use of forecasting methods make it possible to plan resources more efficiently and reduce costs.

Thus, improving overhead cost management is an integral part of the company's sustainable development strategy. Investments in modern technologies, staff training and the development of analytical tools provide not only cost reduction, but also an increase in the overall efficiency of the business. In a dynamic market environment, such approaches become not only a competitive advantage, but also a prerequisite for successful operation.

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