

Improvement of accounting of production expenses of export destination



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Abstract

Scientific views on the definition of the notion “costs” and its difference from the term “expenses” are systematized and described. Outstanding issues of keeping production costs of export destination in Ukraine are discovered. To illustrate the actual capabilities of accounting and reporting information to meet the needs of expense analysis for export enterprises, the analysis of expenses of use on mining and processing plants of Krivbas for the main types and elements for 2014 years is shown. Improved procedure for accounting of production expenses of exports and reporting of the enterprise in international relations by the method, laid down in the article by the methodology that allows more fully and fairly, with due for the detail level to account and analyze expenditure on manufacturing exports.

Keywords: ACCOUNTING, COSTS IN ITEMS, OPERATING COSTS, PRODUCTS OF EXPORT DESTINATION, EXPORTER

Problem and its connection with scientific and practical tasks

The difficult economic situation in Ukraine generates a need to optimize and improve management of the mechanism of costs for exporting enterprises. One of the important elements of mechanism of costs management of international business subjects is information resource in which a significant proportion belongs to accounting data. European orientation of the economy is characterized by more demanding and careful attitude to economic operators on the profitability of their activities. Therefore, the urgent task is to improve costs accounting for goods production of export destination for the formation of an objective and detailed analytical information about the size and dynamics of such costs. Costs of export-oriented companies have a dual character: on the one hand, they are integral in determining financial results, and on the other, original costs as a set of costs are the main factor in the pricing of international relations. As compared with other objects of accounting, costs for production of export destination depend on the specific sector of the company. Proper accounting, analysis and control of production costs in general and those related to the manufacture of export products, is a prerequisite for good governance profitability subject of international economic activity. That is why obtaining reliable accounting information on the costs of production export destination and its systematization in the reporting forms belongs to the urgent problems required to be solved.

Analysis of research and publications

The completeness and quality of information for international economic decision-making depends primarily on an established costs accounting system of enterprise with distinguished export component. However, accounting and control of most companies in Ukraine largely subordinated to the requirements of external users of information, including statistics, fiscal services, independent audit companies, official sites for mandatory disclosure of financial statements, etc., while for domestic needs and expense management profitability, particularly in respect of production and sales of export products, a detailed knowledge base with the proper degree of detail is not always created.

An important contribution to the study of problems of costs accounting and original costs of production, including export destination was made by such scientists as F.F. Butynets [1], P.M. Gerasim [2], S.F. Golov [3;4], S.D. Gavrilishin [5], S. V. Mocherny [6] etc. Among foreign economists who have devoted their research work with theoretical and methodological foundations and methodological solution for keeping production expenses in general and production expenses of export products, are M. Blaug [7], I. Bernar [8], Dzh. Black [9], D.P. Bogolenov, M.G. Bronskiy, N.N. Derevenko [10], R.G. Eccles [11], A.N. Efimov [12], Kaplan R. [13], P.A. Samuelson [14], M. Friedman [15] and others. Review of scientific papers allowed to state that the process of creating a common systematic methodology of costs accounting for production export destination is not yet completed. Some important issues of accounting and reporting of data on the formation of cost of production of export products remain in the plane discussion, requiring careful study and solution.

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Statement of problem

The purpose of article is a synthesis of organizational and methodological principles, identification of outstanding issues and provision of suggestions to improve costs accounting of subjects of international business for goods production of export destination for reliable and structured information about them in accordance with national and international standards.

Statement of the material and results

For correct calculation of value and accounting of costs incurred, including the production of export products, one should clearly define the meaning of the term "costs". In national practice of accounting and reporting there almost identified two close in meaning, but different concepts - "costs" and "expenses". As in many countries before the independence of Ukraine there was established strong scientific foundation of economic orientation, some conceptual uncertainty in the Ukrainian economics was the result of imperfect translation of these terms in foreign languages. In particular, the Russian language clearly defined and demarcated notions of "zatraty", "raskhody" and "izderzhki", which in Ukrainian language are only defined as "costs". As a result, some content characteristics of above mentioned three concepts in Ukrainian are usually lost [3, 4-10]. This is also related to translations of English, French, German, Spanish terminology [8]. In Ukrainian economic literature and national accounting regulations there made attempts to clear interpretation of the "costs" and "expenses". Based on the study and synthesis of existing views on the disclosure of the concept of "costs" (Table. 1), we can conclude that the most common is the view of national scientists (which is difficult to disagree), under which costs are regarded as "monetary expression of resources sum (material assets, depreciation, wages, etc.), which are now fully used in the production and sale of goods (works, services) during the reporting period". Herein the re-

mark peculiar to foreign authors is ignored - "in order to generate income" or "during income generation" because today in the national economy, there are many unprofitable entrepots and industries that also use resources, although there is no income. In its turn, "costs" as opposed to "expenses", are the pay for purchased materials or services, which eventually will be

written off in costs, but it can happen both in current and in future reporting periods. The expenses of the reporting period, as a rule, do not coincide with the sum of costs for the same period, but must always be equal to the value of acquired property and provided works and services [3].

Table 1. Characteristics of the existing views on the essence of the concept of "expenses"

Authors	Determination	Comments to the definitions
1	2	3
Butynets F.F. [1, p.215-285]	Costs - are the value of materials and services used for income generation	Costs are identified with fuel consumption of materials and resources for production (services)
Blaug M. [7, p.36]	Costs – are the sum of cost for substance and nature forces, living and materialized labor for production	The definition is given in political economy aspect that does not meet the requirements of the accounting
Samuelson, P.A. [14, p.61]	Costs – are the sum of costs of living labor and labor materialized in means of production at all stages of production	The definition is given in the general aspect of Western economic thought, which does not comply with the accounting
Boholenov D.P., Bronskyy M.G., Derevenko M.M. [10, p.354]	Costs – are the costs associated with manufacturing (wages, raw materials, fuel, etc.), costs of production is also called production costs	Authors bind the concept of costs and expenses that are incorrect
Gerasim P.M., Davidovich I.E., Khomyn P.Y. [2, p.46]	Costs – are the reduction of assets (money) or an increase in liabilities (accounts payable) related to the cost center. Costs of a certain period are equal to the value of all goods and services purchased during this period	Accepted identification, but there is terminology tautology: "Costs - ... related to the costs."
Hawrylyshyn S.D., Voronovych L.M. [5, p.593]	Losses – are the unforeseen costs, costs of property and money, foregone benefits	Costs and losses are generally provided in the activity of any enterprise
Efmov O.N. [12, p.516]	Costs - are assets that are irrevocably lost by business or organization as a result of weaknesses in their economic activities. Loss - is the final financial result of companies work that shows itself in the increase of costs over income received.	It is not correct to consider costs as irretrievably lost assets, because without costs it is impossible to make the production process, which is now associated with obtaining economic benefits from the sale of products
Mocherny S. [6, p.203]	Production costs – are the consumed in the production products and production facilities of the enterprise	The definition does not correspond to the accounting requirements.
Bernar I.and Colley J.-C. [8, p.489]	Costs – are the sum of money necessary for the purchase or production of goods or services.	The definition is given in the general aspect of Western economic thought with a focus only on cash
Black J. [9, p.611].	Costs - "... the actual materials used in the manufacture of any product or service"	To identify costs with real materials means – to narrow the concept
Macmillan H. [16, p.103]	Costs – are the measure that should be given in order to get anything other by purchase, exchange or production	The definition is given in the general aspect of Western economic thought with a focus only on cash

PSBO and IAS [17; 18]	Costs – are the reduction in economic benefits in the form of disposal of assets or increase in liabilities that result in decrease in equity (except capital reduction through its removing or distribution by owners) during the reporting period	Definitions has some inaccuracies, but regulates the current accounting system
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Accounting and reporting information on the expenses of exporting enterprises is the basis for the analysis of the main types and elements in dynamics for several years.

Fig. 1 shows the dynamics of prime cost of sales

(goods, works and services), administrative costs, marketing costs and other operating costs of export oriented mining enterprises of Kryvyi Rih basin (Kryvbas) for 2012-2014 years.

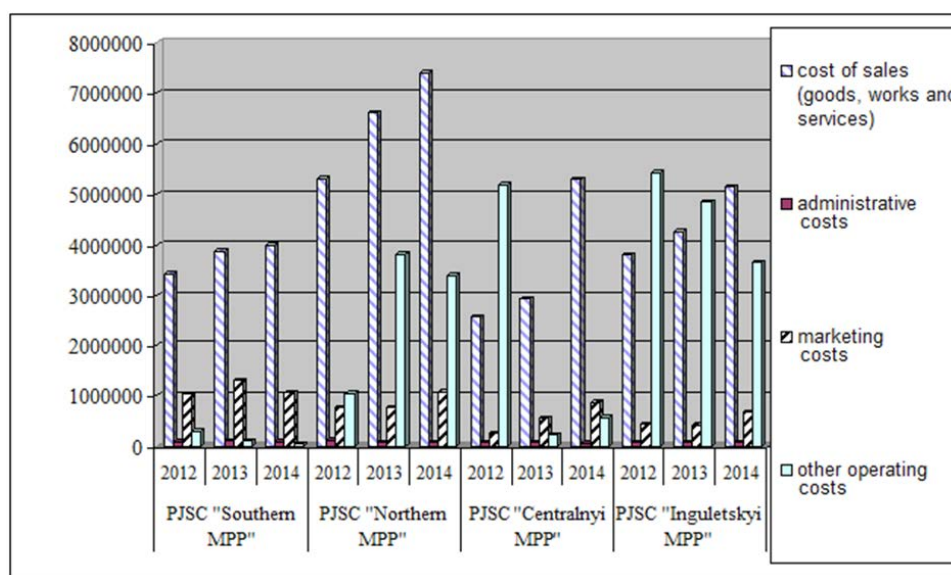


Figure 1. Dynamics of costs of export oriented mining and processing plants of Krivbas for 2012-2014 years, thousand UAH

Source: Compiled according to the reports of income www.smida.gov.ua.

From Fig. 1 we can see that in the considered mining and processing plants of Kryvbas there is steady upward tendency in prime cost of sales. This is due to inflation processes in the country, which led to an increase in prices for material and energy resources that are consumed in the production of iron ore products, including export destination, as well as a significant increase in payments for subsoil use. The increase in cost of sales in the analyzed period is explained by a gradual increase in tariffs for the transportation of iron ore products by rail and water transport. Reducing administrative and other operating costs, which occur during the 2012-2014 years, on the mentioned plants of Kryvyi Rih iron ore basin, is a result of an economy regime during exacerbation of the crisis in the national and global economy.

When planning and calculation of the prime cost of production, classification of costs according to elements (economic content) plays important role. Cost element – is a set of economically homogeneous costs. Statement of Standard Accounting Practice 16

“Costs” regulates the procedure of grouping of operating activity by economic elements.

Fig. 2 shows the cost structure by elements on export oriented mining and processing plants of Krivbas in 2014.

Based on fig. 2, it can be stated that the largest share in the cost structure of the elements in mining and processing plants of Kryvbas (from 35% to 60% of the total costs of some enterprises) have material costs, the share of depreciation is also significant, while the share of salaries expenses and deductions for social events is remote. Taking into account this information, the production of iron ore should be viewed as in material, energy and capital intensive.

Unfortunately, from the proposed analysis of costs of the exporting company based on accounting data and reporting, it is impossible to isolate and trace dynamics of costs of manufacturing products of export destination (Table 2).

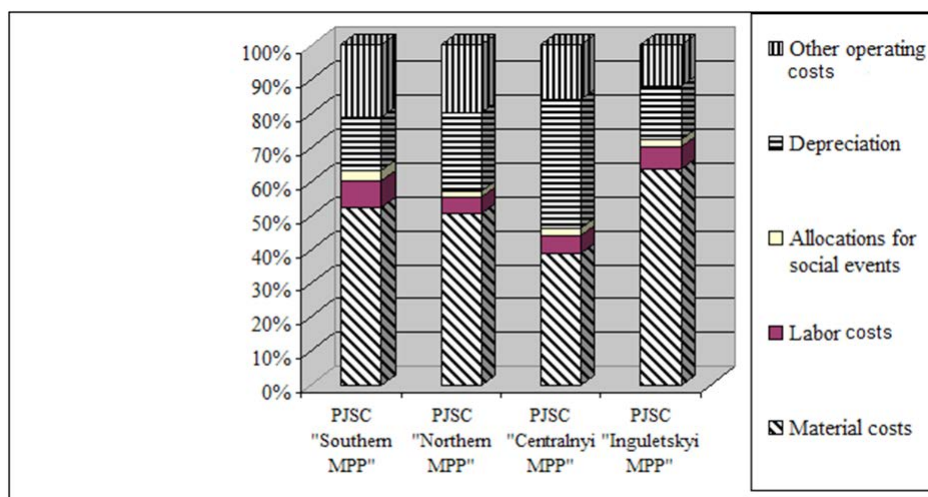


Figure 2. The cost structure by elements of the export oriented mining and processing plants of Krivbas in 2014, % *
Source: Compiled according to the reports of income www.smida.gov.ua

Table 2. The proposed analytical accounts to reflect costs of production of export destination

Account Number	Account Name	Account Number	Account Name
90100200	Base cost of finished goods of export destination	94100200	Costs on research and development of products of export destination
90200200	Base cost of sold goods of export destination	94400200	Doubtful and bad debts for goods of export destination
90300200	Base cost of sold goods and services of export destination	94700200	Shortages and losses from damage of goods of export destination
91100200	Total costs for products of export destination	94800200	Defined penalties, fines, penalties for supply of products of export destination
92000200	Administrative expenses for the products of export destination	97200200	Prime cost of fixed assets for export
93100200	The costs for production distribution of export destination	99100200	The costs of products of export destination from natural disasters

Generalization of information on financial results of enterprises from ordinary activities and extraordinary event occurs on a synthetic account 79100000 "Financial Accruals". To collect information on the costs of primary production the account 23000000 "Production" is used and for production of goods (works, services) of export destination the account 23000200 "Production of goods (works, services) of export destination" is suggested. On the debit side of this account the actually made production costs for the production of goods (work, services) of export destination should be displayed, and on the credit – prime cost of production of finished goods (works, services) of export destination. The balance according to the account 23000200 will certify the availability of work in progress at the beginning or end of each reporting period. To account for the cost of enterprises that have structural divisions, we open accounts and

sub-accounts of analytical accounting for the account 23000000 "Production". Similarly these sub-accounts may be opened for the account 23000200. At PJSC "Southern Mining Processing Plant" for accounting of costs for production of export destination, depending on the structural unit, it should be used: for shop No1 «Open pit» - sub-account 23110200, shop No2 «Motor transport shop» - 23120200, shop No3« The power shop» - 23130200, etc.

Accounting of production costs of export destination is shown in Table. 3. At the end of each reporting period, all the costs of the enterprise on production of export destination should be deducted for sub account 79,000,200 "Financial results". On the debit side of the account we reflect the write-off costs incurred during the reporting period, and for credit - write-off the earned revenues. Then on subaccount balances 79000200 we can determine the amount of production

expenses of export destination.

It is also advisable to supplement the existing form of balance with additional articles in the asset “Base

costs of production since the beginning of the year” and “Base cost of the sales”, and in liabilities - “Earned revenues from sales”.

Table 3. Business transactions on accounting of costs for the production of goods of export destination and determination of its prime cost of PJSC “Southern MPP” for March 2014., thousands UAH

Content of the transaction	Debit	Credit	Total, thous. UAH.	Source of information
Production in progress of export destination at the beginning of the month	The sum for 23000200	–	2000,00	Balance sheet; Ledger
Used materials for the process of goods production of export destination	23000200	20100200	800,00	Resource limit card; Waybill-requirement; Register No 5
Used: semis of own production	23000200	20200000	1600,00	
Salaries for the workers is counted	23000200	66100000	2000,00	Payroll
UST of the workers from the line working is counted	23000200	65000000	735,40	Calculation of accounting; Register No 5
Depreciation of production equipment for the production of goods of export destination is counted	23000200	13100200	150,00	The calculation of depreciation; Register No 5
Decommissioned for the export production of variable overhead costs	23000200	91000200	250,00	Register No 5
Decommissioned wastes of production at the warehouse	20900000	23000200	100,00	Bill; Register No 5
Displaying the markdown costs of the materials	94700000	20100200	300,00	Price reduction act Register No5
The production cost of iron ore concentrate of export destination	26000200	23000200	7285,4	Register No5

This will enable to simplify the method of ensuring accountability and increase the reliability of the reported data of exporters.

Form No 1 “Balance” is primarily prepared on the base of data balances on synthetic accounts. If the registration is fulfilled according to the journal-order form of accounting, the following information is obtained from the general ledger, where there is the balance according to synthetic accounts. Method of rounding the balance is complicated by the need to round down the indicators according to some balance sheet items in thousands of UAH. In addition, certain sheets of the balance combine the balance of multiple accounts, or even sub-accounts. In ledger the balance is only present in synthetic accounts, without rounding, - hryvnia and change. This creates some inconvenience when determining the balance items of the exporters, since it is necessary not only to take into account balances on synthetic accounts, but also for the sub-accounts. In this regard, we cannot use only general ledger, but we have to use registers, orders and subsidiary accounts. But in any case they must be

compared with the registers of analytical accounts, because only at such conditions we can have confidence in the reliability of the balance items. One can use the method of combining on export oriented enterprises of general ledger and registers, meaning that the debit turnovers are generated in it as deciphering of the credit turnovers in the context of corresponding accounts in the debit and total debit turnover for synthetic account is determined as a result of debit turnovers of those with which it corresponded for transactions that occurred to the exporters during the reported period. Statistical reports on production costs to achieve its full coherence with the form No2 “Income Statement” and to avoid duplication in these forms of certain indicators also requires revision. Closing of Accounts on exporting enterprises should be carried out in compliance with the principle of the least amount of counter records of calculation differences on the first account that is closed. Since in industry it cannot be achieved, there must be ensured the least impact of counter records of calculation differences. Therefore it is necessary to close the first

subaccount “Auxiliary productions”. Then to conduct the closure of sub-accounts “Costs for maintenance and operation of machinery and equipment”, “Total manufacturing costs”, and then the rest of analytical accounts, opened to synthetic accounts 23000000 and 23000200.

All the costs for goods production of export destination methodologically can be divided into three groups: 1) costs of the last year for the goods production of export destination of this year; 2) costs of the current year for the goods production of export destination of this year; 3) costs of this year for the goods production of export destination in the coming year. Combining of these costs as part of one synthetic account 23000000 “Production” results in significant errors in accounting. Therefore, the expenses of a third group should be accounted for the account 39000200 “Deferred costs”. In the chart of accounts there was not provided for separate synthetic accounts to account costs of auxiliary production, maintenance and operation of the machine-mining park, costs of other industries, that are not less important, than primary production on the exporters, and costs for their operation are so significant, that traditionally for their account separate synthetic accounts were appointed. Taking into account this specificity, it is necessary to account for these costs to determine separate synthetic account with the relevant sub-accounts.

Conclusions and future research direction

Application of proposed method of accounting of costs for goods production of export destination will increase the reliability of formation of accounting information and improve information provision of analytical needs of exporters. To the ways of further improvement of the costs accounting for production of export products we should include the following:

- Revision of regulations, governing the accounting and tax accounting in terms of disclosure the term “costs” and create a single reasonable classification of their species, among which the cost of goods production of the export destination will be referred;
- Optimization of the forms of primary computer records;
- Identification of key accounts and guidelines for costs accounting, especially considering export oriented products, ensuring proper accounting procedures detailing.

Continuation of the research is supposed to be directed to the formation of a coherent system of accounting, analysis and control of production costs of export destination.

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