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## COSTS OF THE ENTERPRISE: THE ESSENCE AND NEED FOR CONTROL

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*Currently, both in the Republic of Belarus and abroad, there has been a growing interest in cost management. The article is devoted to the problem of assessing the economic nature of costs as one of the urgent tasks of enterprises in modern market conditions. The classification of costs and management technologies is proposed.*

In a market economy, the basis of economic development is profit. It's the most important indicator of the efficiency of the enterprise, the source of its life. The functioning of the enterprise in modern conditions of market competition with the highest possible level of profit is possible only with an integrated approach, starting from the moment of its planning and ending with the distribution and use of profits remaining at the disposal of the organization.

Profit-a summary indicator of the financial results of economic activity is one of the main economic categories; it is a surplus of revenue from the sale of goods over the cost of their production and sale [1]. The achievement of the best financial results by the company at the expense of internal reserves, namely by reducing costs, can be a decisive factor in its successful operation in modern conditions. Costs are the main limitation of profit and at the same time the most important factor affecting the volume of production and sales of products manufactured at the enterprise.

In the Republic of Belarus, the problem of reducing costs at enterprises is important, as noted in the Program of development of the industrial complex of the Republic of Belarus for the period up to 2020. This Program provides measures to reduce the cost of production and sale of products, goods, works and services for the development and approval of industry; implementation of measures to reduce the share of fuel and energy resources in the cost of production (goods, works, services); introduction of industrial organizations of the system of motivation of employees for saving all types of resources, etc. [2]. The National strategy for sustainable socio-economic development of the Republic of Belarus for the period up to 2030 also states the need to reduce costs and save resources of enterprises in the future.

In the economic literature and in practice, along with the category of "costs", such concepts as "expenses" and "spendings" are used. Often the definition of one of these concepts is given through another, moreover, often there is an identification of these concepts. In foreign practice, this term, used by many authors, as a rule, is distinguished. We present the main approaches to the definition of the above mentioned concepts.

As you know, the theory of costs was developed by the English economist David Ricardo. In his work "The beginning of political economy and taxation" (1817), he first put forward and justified the theory of comparative costs of production, according to which the international division of labor should be based not on the absolute, but on the comparative advantages of a country in the production of a product. D. Ricardo argued that the real value of the goods is equal to the cost of production. According to his teaching, production costs should be understood as the cost of means of production, that is, objects and means of labor, in other words, in the concept of "production costs" he included both labor costs and capital costs [6].

One of the founders of economic theory as a science Adam Smith defined costs as the average social cost per unit of production in an average enterprise or as the average cost of all enterprises in the industry.

Representatives of the Austrian school (Friedrich von Wieser) developed a subjective theory of the costs of alternative opportunities, according to which the actual costs of production of this product are equal to the highest utility of the benefits that society could get if it used differently spent production resources [6].

In institutional theory (John Bates Clark, John Atkinson Hobson), overhead costs are studied in detail, the concept of "human costs" is introduced, which are measured by the abilities of workers and the quality of working conditions.

Representatives of neoinstitutionalism (Ronald Harry Coase, Kenneth Joseph Arrow) developed the theory of transaction costs, which mainly relate to the sphere of circulation [6].

Later the problems of production costs to varying degrees were affected by such scientists and economists as John Stuart Mill, Pierre-Joseph Proudhon, Robert Torrens, etc. [7].

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Jorg Baetge considers the relationship of concepts such as "payments"," spending"," expenses"," costs", which, in his opinion, represents the definition of categories in dynamics. According to Eugen Schmalenbach, the relationship between the concepts of "expenses" and "cost" is presented as follows: expenses are monetary expenses as a result of economic activity, and expenses are actually confirmed costs that calculate the actual cost of production [2, p.20].

The main idea that unites the development of theories of economic analysis is that accounting and analysis of economic activity should be addressed in the future. It follows from this that only the most significant, natural costs should be taken into account for the purposes of a prospective analysis. This idea was embodied in the concept of natural costs, the founder of which is recognized as an American engineer in efficiency and business theorist Harrington Emerson. Practical experience of application allowed him to draw the following conclusions about the advantages of the method:

- it gives the chance to optimize stocks of material values;
- helps identify hidden reserves;
- provides comparability in the analysis of economic trends;
- stimulates the work of the team.

The basic rule of the method was that "all expenditures in excess of the established standards should be attributed to the perpetrators and should never be included in the cost accounts". The rule was formulated by Henry Laurence Gantt within the framework of the standard-cost concept. The meaning of the Gantt rule contrasts sharply with the traditional view expressed by Jerome Lee Nicholson and John Francis Deems Rohrbach: "the cost of production should include all the costs of running the enterprise, if only they want to get the actual cost." This principle was later developed in management accounting [8].

In the course of the analysis of economic literature, as well as regulatory documents, it was revealed that there is often an identification of such terms as "costs", "expenses" and "spending". In the Russian language historically these concepts were not separated. There is also no clear understanding of these terms among scientists and practitioners.

Most often, the cost is understood as the resources spent on specific purposes, in value terms.

The majority of authors in this definition distinguish three important provisions:

- costs are determined by the quantitative and qualitative use of resources, i.e. reflect how much and what resources have been used;
- to ensure the proportionality of the various resources, their value should be presented in monetary terms;
- the definition of costs is always correlated with specific goals and objectives.

Cost classification makes it possible to correctly calculate the cost of production and to assess the effectiveness of the use of resources in all areas of activity.

The grouping of costs by economic elements is necessary for the analysis of financial results of economic activity of the enterprise. It shows what is spent and how much, without specifying the needs. It sets the total cost of the enterprise, but does not specify the direction of costs directly to the production of a particular product.

The classification of the calculation items of expenditure is used to calculate the unit cost of a certain type of product. This type of classification reflects the target areas of use of resources and the specific costs of the enterprise for the manufacture and sale of a unit of a certain type of product.

Depending on the purposes for which the cost information is used, it can be classified into three areas, which are presented in Table 1.

Table 1. – Classification of costs by areas

To determine the cost, financial results:	For management decision making:	For control and regulation:
<ul style="list-style-type: none"> <li>- Direct and indirect</li> <li>- Production costs and the expenses of the period</li> <li>- General and overhead</li> <li>- And nicklachey included in the cost</li> </ul>	<ul style="list-style-type: none"> <li>- Constants and variables</li> <li>- Relevant and irrelevant</li> <li>- Margin and differentiated</li> <li>- Alternative and non-alternative</li> <li>- Operational and administrative</li> </ul>	<p>Controlled and uncontrolled</p>

Source: own elaboration based on data from [3, p. 6].

The division of costs in the first direction of classification, to determine the cost and financial results of the enterprise, is given in Table 2.

Table 2. – Cost classification to determine cost and financial results

Classification feature	Types of costs
Direct	<ul style="list-style-type: none"> <li>- raw materials</li> <li>- parts;</li> <li>- basic wages of workers</li> <li>- other</li> </ul>
Indirect	<ul style="list-style-type: none"> <li>- heating and lighting</li> <li>- remuneration of managers</li> <li>- depreciation</li> <li>- other</li> </ul>
Production costs	<ul style="list-style-type: none"> <li>- for implementation, in particular:</li> <li>- direct materials</li> <li>- direct wages</li> <li>- purchase price of goods for sale</li> </ul>
The expenses of the period	<ul style="list-style-type: none"> <li>- administrative</li> <li>- marketable</li> <li>- marketing</li> <li>- depreciation of buildings</li> </ul>

Source: own elaboration based on data from [3, p. 7].

The importance of costs as a factor affecting the results of the company, makes the most relevant study of scientific approaches to cost management.

Cost management is an understanding of where, when and how much resources the enterprise consumes and a forecast of where, why and how much additional resources are needed [4, p. 379]. The control is performed through the analysis, control, planning, forecasting, cost savings, and increase the impact of costs.

The classification of cost management technologies is shown in figure 1.

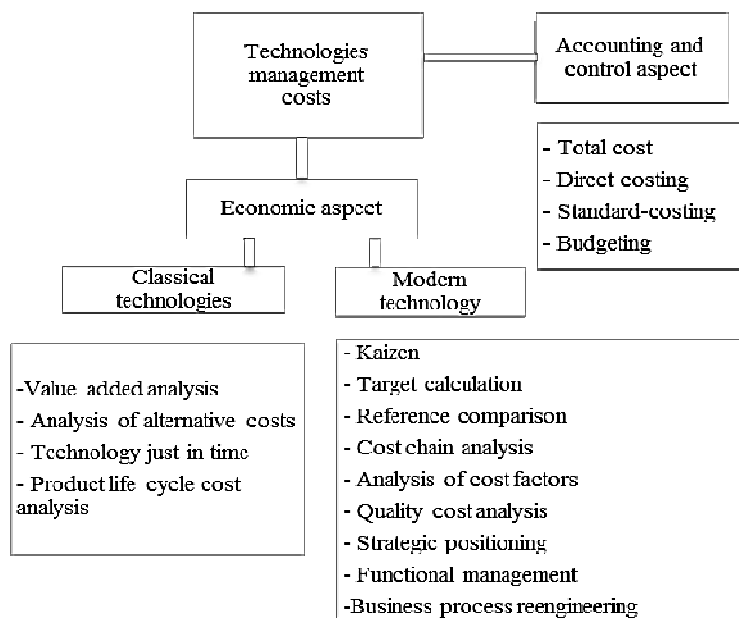


Figure 1. – Classification of cost management technologies

Source: own elaboration based on data from [5].

It should be noted that none of the existing methods of cost management alone can fully provide the management and accounting functions that are necessary for the organization of an effective cost management

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system. Therefore, for the organization of an effective cost management system, enterprises need to combine different methods of cost management in order to create the most effective management system.

At present, cost management at most enterprises is carried out in a non-systematic manner. One of the main problems is the imperfection of cost accounting, the disadvantages of which include: a high degree of generalization of information and the inability to detail it, and low efficiency, which does not allow to ensure the prevention of costs.

The creation of an effective cost management system, the need to introduce new forms and methods of management requires the creation of a special Department for cost management in enterprises. In foreign practice, this Department is called the controlling service. The activities of the Department should be aimed at the operational collection and analysis of the information necessary for cost control, the development of new forms of information collection and primary accounting documents, the examination of management decisions, as well as to the strategic objectives of the enterprise.

The use of modern cost management technologies, taking into account the characteristics of the enterprise and an integrated approach to cost management, will allow the organization to achieve competitive pre-property and high economic performance.

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