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Issues Of Adapting The "Direct-Costing" Method For Considering Product Costs To The Practice Of The Country

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In today's conditions of digitization and transformation, the activities of managing entities require criteria such as fairness, timeliness, neutrality, and accuracy in all processes related to economic information. Currently, the economic information obtained should fully meet the demands of internal and external users and should be generated with minimal labor and time expenditure. Providing information on costs and revenues for making tactical and strategic management decisions regarding the activities of various divisions of the enterprise allows for budgeting of financial and economic activities conducted in accordance with the company's accounting policy, analyzing investment projects, applying advanced methods for accounting costs and calculating product costs, preparing segment reports based on responsibility centers, and forming transfer prices used in transactions between internal business units.

The issues of improving cost accounting and product (works, services) cost calculation in economic entities under transformation conditions are of significant importance. Therefore, product cost is one of the key efficiency indicators that determines production effectiveness. It is known that the more efficiently economic resources, labor force, and results of innovative research are used in the production process, the lower the production cost will be, and higher profits can be achieved. This, in turn, allows assessing the activities of such production entities as competitive.

The positivity of a company's financial results directly depends on the methodology chosen for calculating costs, and the selection is based on the specified tasks and the unique characteristics of the calculation object.

In developed Western countries, the 'Direct costing' method holds a key position among the modern widely used cost accounting methods today.

"Direct costing" is a calculation method where the essence of the direct costing system is that costs are only considered and planned from the perspective of variable costs, and only variable costs are allocated among cost objects. The remaining costs (fixed costs) are collected separately, not included in the calculations, and are periodically taken into account in financial results, that is, they are considered when calculating profit or loss for the reporting period, with the total amount of fixed costs shown separately, which helps managers focus on the behavior of variable costs.

In the initial stages of practical application of the "Direct-Costing" system, only direct costs were included in the cost price, while all types of indirect costs were excluded from the direct financial results. Therefore, the name of the system is Direct-Costing-System.

Later, "direct-costing" was transformed into an accounting system, in which the cost is calculated not only from the perspective of direct variable costs but also from that of variable indirect costs. This refers to some conventions associated with this name.

The main difference between the "direct-costing" system and full cost calculation is related to fixed total production costs. In full cost calculation, calculations include fixed additional

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costs for fixed costs, which are excluded from the calculations;

General business expenses are also deducted from the calculations. They are fully included in the cost price of the sold products as a total sum without being divided into product types.

However, according to international standards, 'direct costing' is not used for preparing external reports and calculating taxes. It is used in internal accounting to conduct management analysis and make quick management decisions.

Let's consider the procedure for reflecting operations in accounting according to the 'direct costing' system:

Direct production costs are charged through the debit of account 1000, 6710, 6500 from the credit of accounts 2010 - 'Main production' or 2310 - 'Auxiliary production'. These costs are subsequently allocated to the relevant cost carriers, meaning they participate in the calculation.

The variable part of the total production costs from account 2510 of the same name is also written off to account 2010 (2310).

The fixed part of the general production costs, along with commercial and general expenses, is not included in the cost of calculation objects (cost carriers), but is deducted as a decrease in income from product sales.

Thus, the practical application of the direct-costing system involves the segmented accounting of additional expenses. They must be divided into fixed and variable parts. Two sub-accounts are created for account 2510: 2510-1 'Variable costs of general production' and 2510-2 'Fixed costs of general production'. The turnover of account 2510-1 at the end of the reporting period, which is distributed among cost bearers, is deducted from account 2010 'Basic production'. Account 2510-2 is closed with account 9110 'Cost of goods sold'.

It should be taken into account that unfinished production and finished product balances, i.e. inventory in this case are valued partially (variable) at cost.

The "direct costing" expense accounting system consists of several elements: accounting for types of expenses; accounting by cost centers; accounting for cost objects (calculating the unit cost of the product); accounting for results by cost objects; accounting for results of the period.

"Direct costing" accounting is carried out in several stages:

Identify direct variable costs by considering direct material expenses, direct labor (wages and bonuses of direct workers), and direct production costs.

Collect cost data through the company's accounting systems, project management systems, time tracking systems, or other sources of information depending on the specific characteristics of the business;

calculating expenses;

analyzing the results.

Based on the above, let us consider a report on financial results regarding the traditional system and the variable cost accounting system.

1-table

Comparison of the report on revenues based on traditional and variable costing systems

Variable cost accounting system	Traditional full cost accounting system
Income Total variable costs Including production administrative commercial	Income Total production and sales costsProfit

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Marginal income Total allowable costs Including production administration commercial Profit	

According to the traditional model of accounting for expenses, the costs of producing sold products are deducted from the revenues obtained from sales, including fixed production costs, and then commercial and administrative expenses are deducted if specified in the organization's accounting policy.

The financial result is formed according to the scheme shown in Table 2 using the direct costing method.

2-table
Comparison of total and partial cost calculations

Calculation of total expenses	Partial cost calculation
All expenses are fully covered and the profits from sales are aimed at optimizing later.	Marginal income is directed towards covering variable costs later optimized.
Clear, but requires a lot of time and provides complex control.	Provides operational control
Effective in making short-term and long-term management decisions. Ensures long-term control between production and sales.	It ensures effective decision-making for short-term management, provides control between production and sales in a short period, and allows for setting a lower price limit.
Used in long-term planning	Used in current production planning

The "direct costing" method can be used in any industry to manage the costs of products, work, and services. In this case, organizations calculate two financial indicators: marginal income and net profit.

Reports on income and expenses can be prepared based on information about variable and fixed production costs, as well as income obtained from product sales: overall for the enterprise; for specific structural divisions (stores, production facilities, i.e. cost centers, etc.); for certain types of products. Marginal income is calculated as the difference between the selling price of products and the value of variable production costs.

This indicator is important for making management decisions on reducing production costs. Its variation indicates the need to further analyze the changes in price levels and variable production costs per unit, as well as the situations and reasons that have affected the cost price.

"Direct costing" is a universal enterprise management system that provides objective data for determining production program volume, setting price levels, and selecting an optimal product assortment.

The accounting information of the direct cost system is used in management decision-making, such as producing or purchasing spare parts, semi-finished products, and others; planning production programs; making decisions on capital investments; determining the minimum order quantity; and making decisions about reducing production.

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System advantages: reducing and simplifying the labor intensity of accounting. When using various cost accounting systems, the total profit remains the same. During periods of decreasing demand for products, it allows avoiding the capitalization of constant additional costs for inventory and non-liquid material assets.

Direct costing enables management to focus on the changes in marginal profit for both the entire enterprise and its departments. The system ensures the ability to respond quickly to changes in market conditions. It also becomes an integral part of marketing - the enterprise management system in a competitive market environment.

In addition, "Direct costing" is an accounting system that facilitates operational control over fixed costs, as standard (normative) costs are applied in the cost control process (i.e., "Direct costs" are established together with "Standard costs") or in flexible budgets. In the "Direct costing" system, standards are set for variable and fixed costs by applying standards. When carrying out control based on flexible calculations, they primarily rely on the division of costs into fixed and variable. At the same time, it should be noted that under a full cost accounting system, a portion of the total unallocated costs is transferred from one period to another, resulting in weakened control over them. In such circumstances, direct costs help to reduce labor intensity in the allocation of additional costs.

At the same time, the theoretical and practical studies of the 'Direct-costing' system allow us to highlight its specific shortcomings:

If it is used in competition to achieve a preferential position in the market for individual products, there is a risk that the mass of fixed costs that cannot be divided will not be covered by the marginal income, meaning the enterprise will fall into a loss zone.

In conclusion, opponents of the direct costing system emphasize that difficulties arise in practically dividing costs into fixed and variable ones. This is largely dependent on the length of the considered period and the analyzed range of production volume. Furthermore, fixed costs also participate in the production of goods, and therefore it is emphasized that they should be included in the cost price. According to their opinion, direct costing does not answer the question of how much the produced product costs and what its total cost price is. Therefore, when it is necessary to know the total cost price of finished goods or work-in-progress, additional allocation of semi-variable costs is required. Otherwise, their value is underestimated.

Reports only reflect the production costs context, meaning they do not meet the requirements of the internal accounting system due to the reduced assortment of goods, as there is no complete calculation of the product's cost required by law.

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