

Improving the Cost Management Mechanism in Management Accounting

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Abstract

This article is devoted to the research of the issues of organizing management accounting at small businesses and entrepreneurship entities, developing efficient mechanism for cost management, determining costs in the short, medium and long term, as well as classification of cost tools in cost management.

Keywords: *small business and entrepreneurship, management accounting, costs, cost management, cost tools.*

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Introduction

Within the framework of structural changes and diversification of the economy, one of the current priorities of economic entities operating in the country, as well as small businesses and entrepreneurship entities is to minimize costs in order to maximize profits. With the aim of reducing production costs in the activities of entities, first of all, it is necessary to efficiently manage and control the costs incurred.

Despite a lot of theoretical and practical researches conducted in this subject area, unresolved aspects of this problem are still emerging as a result of the science and technology development. Herewith there are a number of problems in accurate calculation of the financial results of small business and private entrepreneurship entities, which constitutes the basis of the economy of the country. Moreover, there are some problems in the accurate organization of cost accounting, which is considered one of the primary factors in protecting against unjustified and unfair payments and taxes.

It should be noted that one of the problems is the management and control of costs in small business and private entrepreneurship entities in reliance upon advanced and efficient methods. In the management and control of production costs, it is crucially important to determine their origin, distribution, purpose, direction, accounting, write-off, i.e. correct determination of distributing prime-costs of products. We believe that solution of these problems can definitely be achieved through the widespread introduction of management accounting in the activities of business entities.

The aim of managing and controlling the cost accounting in terms of the management accounting is to determine their targeted use. In this regard, it is the sphere, which defines the direction of cost accounting for an industry or process that has a specific purpose for production costs and requires a certain amount of accounting. Thus, users of management accounting data need to know for what purposes the costs have been spent and how effective they have been.

Literature review

Currently management accounting is comprehensively investigated and researched in the developed countries throughout the world. For example, in the opinion of scholars from the British Institute of Management Accounting (IMA), management accounting is the occupation that involves collaborating in the development of management decision-making, planning and performance management systems, as well as providing experience in financial reporting and control to assist management in formulating and implementing organizational strategy [1].

From the point of view of the scholars-economists of the CIS countries N.P. Kondakov and M.I. Ivanova, who have made a focus on the principles of management accounting: "Management accounting is a system designed to collect, analyze and present information on the economic activities of the enterprise and its components for planning, control and management of activities" [6].

During the years of independence, the introduction of management accounting in the accounting system of our country has resulted in numerous researches in this area. In this regard, it is obvious that economists of our country are conducting a number of investigations on the management accounting development. In particular, in the opinion of B.A. Khasanov and other scholars, "Present-day management accounting should not only deal with cost accounting and prime-cost of the product, but also help the manager to make current and future management

decisions” [2]. It should be noted that particular attention should be paid to the strategy of the enterprise in determining the main aim of management accounting. This should constitute the basis for developing a cost management mechanism through the efficient use of management accounting and defining the development strategy of the enterprise.

Implementation of ongoing economic reforms with the account of the specifics of the economy is considered one of the most topical current issues. It is one of the most effective tools in the application of management accounting to specific aspects of economic sectors. For example, L. Eshonkulov [3] conducted research on the introduction of management accounting by studying the specifics of fruit and vegetable processing enterprises. Cost management and control is one of the essential elements of management accounting in the efficient use of management accounting applied in the sectors of the economy.

“Cost management is the ability to economize resources and maximize efficiency acquired from them” [4]. Efficient management and control of costs in the activities of entities is implemented in order to maximize profits.

We believe that in order to efficiently manage and control costs in management accounting, economic entities should pay particular attention to the following aspects:

- correct classification of costs in reliance upon the type of activity;
- determining the origin of the costs and the purpose for their spending;
- provision of accurate and reliable information on the costs incurred in economic activities to management staff in due time;
- application of the effective and recent-day methods in calculating the prime-cost of the product.

Therefore, it is required to organize and develop the system of management accounting in small businesses and private entrepreneurship entities in reliance upon the above ideas and considerations in the management and control of costs. For this purpose it is recommended to conduct economic accounting policy based on its specific technological features.

Research methodology

The methodological basis of the research is represented by the general scientific principles of the research based on the collection of theoretical data, observation, study of legal documents, general and systematic approaches to the study of economic relations and events in their development and interrelationships. The systematic approach has been used to clarify the notion of management accounting, the concept of developing management accounting system, the management of costs in the management accounting system and the analysis of cost instruments. The general approach applied to the the problem implies conducting research on the organization of management accounting, principles of management accounting, development of effective management decisions at enterprises operating in the economic sectors.

Analysis and Results Discussion

Within the framework of the economy modernization, we believe that the following opportunities can be achieved through efficient cost management in the activities of business entities:

- to possess the information on when, where and in what order the resources spent on

economic activity have been disbursed;

- to forecast when additional financial resources will be required to ensure continuity of the business performance and expand production;
- high efficiency can be achieved as a result of the use of resources disbursed on economic activities.

Therefore, under current economic climate, we consider it necessary to introduce the system of cost management in the accounting of entities with the aim of ensuring the economic growth because the core of any profit gained from entrepreneurial activity is material and financial resources required for this activity. This statement means that there is no profit without spending a certain amount of funds. The following promising outcomes can be achieved through the introduction of the cost management system in the activities of business entities:

first, optimizing assets: reducing inventories and receivables;

second, optimizing liabilities: loan portfolio optimization, consolidation of the financial resources of entities;

third, optimizing the structure of costs incurred by entities: reducing production prime-costs and average expenses.

Introduction of the cost management system in each economic entity, including small business and private entrepreneurship entities, summarizes all the tasks they can perform within one system. These tasks include:

- raising efficiency of the economic activity;
- determining the costs for key management functions;
- calculating the costs by certain types of products and the whole business;
- assessing the prime-cost structure of the product, identifying the factors influencing the prime-cost of the product, searching for the resources to reduce costs at all stages of the production process and in all subdivisions of the business;
- calculating the costs incurred per unit of output, determining the prime-cost of production;
- working out the database that will enable to improve the production process and assess the costs;
- forming the price based on the whole range of products (competitive price);
- identifying reasonable ways to measure and control costs;
- selecting cost normalization methods, analyzing the difference between operating costs and standard costs;
- accounting for all types of costs in compliance with selected classifications;
- formulating the revenue and expenditure budgets with cost planning and setting the primary (basic) criteria for expenditure items, etc.

As a result of common use of all the above-mentioned cost management functions in the economic activity of business entities, it is possible to achieve economic growth of entities and integrate the overall management structure - cost forecasting, planning, regulation, applying

incentives, accounting, control and analysis into a single system. In our opinion, introduction of a single integrated system in the entities can be achieved through a cost management system.

In the current period of modernization and diversification of the economy it is recommended to use complicated mechanisms of data processing and data analysis through the introduction of cost management systems in the activities of entities. The use of short, medium and long-term methods of cost management, especially in a rapidly changing market economy, is currently impossible without automation, that is, we consider it appropriate to computerize the cost management system

Economists distinguish three groups of cost management mechanisms depending on whether they are effective in the short, medium, and long term (Figure 1). The longer the cost management period is, the more complex the management mechanism appears.

The most optimal way to manage costs in the short term is to reduce them. Cost reductions are particularly effective in the current period of mitigating negative consequences of the ongoing coronavirus pandemic. Within the cost management framework it is crucially important to choose the right methods for making a reasonable estimation of material and financial resources disbursed.

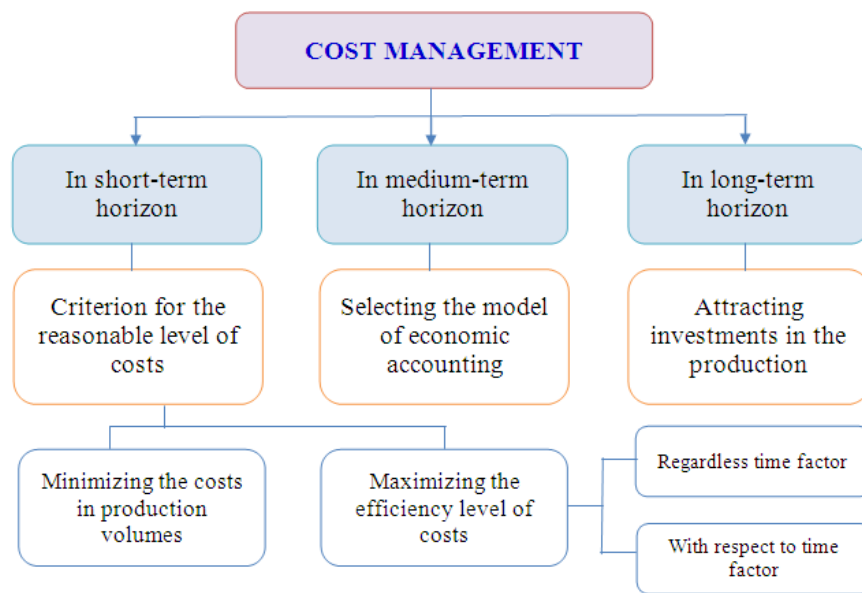


Figure 1. Cost accounting in management accounting [4].

If “production cost minimization” is selected as the assessment method in the performance of the enterprise network, cost management will be associated with the reduction of these costs. Herewith entities can choose the criterion of “maximizing efficiency at fixed costs”. This fact does not imply that costs will remain at the same level: if such an increase enhances their efficiency, they can grow as well. Managers of entities need to determine in advance the growth rate of this or that cost. Achieving efficiency at a fixed cost requires the use of more sophisticated tools than cost reduction

Motivation mechanisms are used to manage costs in the medium term: it is possible to raise labour efficiency by linking the salary of the entity’s manager to the outcomes of the entity’s performance.

In our opinion, it is recommended to establish the system of cost management in the activities of entities in order to control the sources of costs, for which purpose they are allocated, as well as the control over these costs. Meanwhile we believe that particular attention should be paid to the sources of costs and the cost tools in the effective management and control of costs.

The places, where costs are incurred, are structural units of the business entity, production units, which are considered the places of making costs with the account of the economic processes ongoing in the entity.

The selection of the places, where costs are incurred as the objects for accounting, is largely determined by:

- the need to assess the past activities of business structural units, monitor their current activities and schedule their future activities;
- the need to calculate the prime-cost of manufactured products, as only a portion of the costs incurred can be included in certain products;
- the need to separate costs into fixed and variable costs because the same type of cost can behave differently in various places.

In addition, from our point of view, particular attention should be paid to cost tools for cost management and control. Cost tool is a product (cotton, grain, etc.) with different levels of production technology, depending on the specialization of the entity, which is considered the cause of costs in the process of their cultivation and sale, and thus it is possible to include these costs directly in this cost tool.

In our opinion, it is expedient that the main features of the classification of cost tools in small businesses and entrepreneurship entities should be as follows (Figure 2). In our opinion, it is necessary to group the costs of each entity by their tool to determine the prime-cost of production.

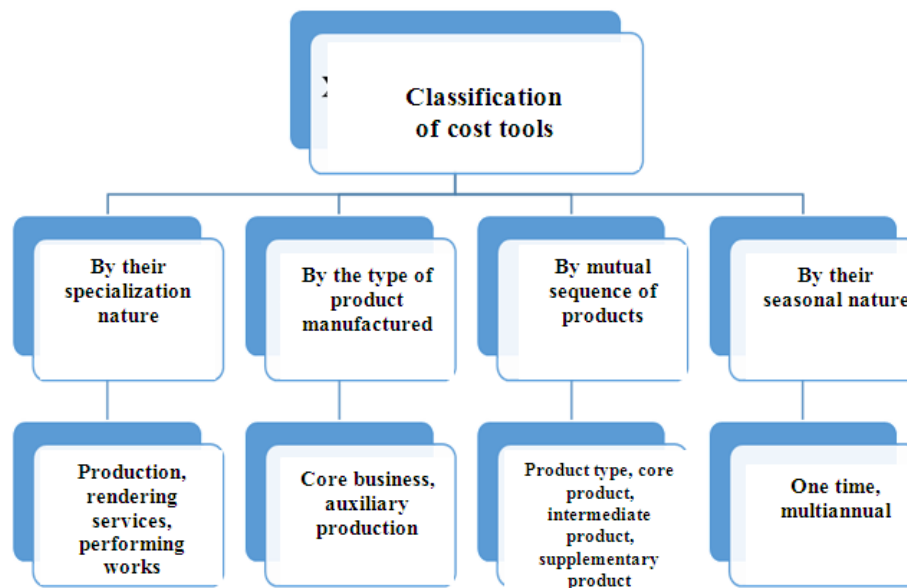


Figure 2. Classification of cost tools

Source: developed by the author based on the research.

The specific technological peculiarities, specialization and purpose of economic entities are crucially important in the management and control of costs incurred within the framework of their activities. There are economic entities in our country where the essence of production costs represents an entire system.

In our view, in the current era of economic liberalization, in order to ensure effective operation of entities, first of all it is advisable to group and manage costs primarily as regulated costs, unregulated costs, and cost dynamics, because in the cost management, such grouping is essential in the implementation of their economic role, purpose and control in economic activities.

Regulated (controlled) costs include standardized production costs for product cultivation, which are managed and controlled according to certain standards.

The correct and fair distribution of unregulated (uncontrolled) variable production costs between products or revenues is still one of the challenges in the field of cost accounting and calculating product prime-cost, as well as cost management around the globe.

Currently developed countries are taking a new approach to the grouping of production costs by economic entities. In some manufacturing enterprises production costs are managed by dividing into relevant (Relevant Costs) and non-relevant (Sunk Costs).

Relevant costs are the costs or services associated with making management decisions. Sunk costs are costs that are not related to management decisions. They were preserved even if the product has not been manufactured [5]. These costs represent an effective tool in making management decisions in terms of their economic viability.

Conclusion and proposals

It should be noted that the main factors influencing the management of production costs can be considered the psychological environment in economic entities and the accounting policy based on the state policy in this area, as well as its specific technological features.

In all sectors of the economy, as in any other sector, making the right management decisions is crucially important to constantly monitor and effectively manage key operating costs. For this purpose, managers and specialists of small businesses and entrepreneurship entities must have clear and accurate information about costs. Having the information necessary for management is equally essential in managing the activities of the entity and its structural divisions.

From our point of view, another important aspect to raise cost efficiency is to provide the industry with new technical and technological equipment, i.e. the widespread introduction of the present-day advanced equipment and the organization of its effective use. Moreover, it is recommended to conduct effective cost accounting, which makes a significant impact on the profitability level of the industry and to ensure comprehensive introduction of the advanced methods of calculating the production prime-cost.

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