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CALCULATION OF PRODUCT COSTS BY VARIABLE COSTS IN THE MANAGEMENT ACCOUNTING SYSTEM

The direct cost accounting method is a method based on including only direct production costs in the cost of production. All burden costs, except overall production variables, relate to expenses of the current/ accounting period.

There are similar systems of cost accounting - “direct costing” and “variable costing”, which are designed to calculate the net cost, i.e., it means including only those costs that are directly related to the production process. It is believed that the system of calculating net cost began to be used in economically developed countries when the model of extensive development of production has exhausted itself and a new model has replaced it - the model of intensive development.

The direct costing system (direct costing) is based on dividing all the organization’s costs into direct and indirect. The variable costing system is based, as well as the direct costing system, on the principle of sharing the organization’s spending subdivision. Only in this case they are divided into variables and constants. Variable costs are costs, as well as direct costs that are directly related to the production process, are directly included in the cost of production (execute work, deliver services), and change in direct proportion to the volume of production (their value is constant per unit of output, but with growth or a decline in the volume of production, their sum, as a whole for the enterprise, respectively, increases or decreases).

The advantage of the direct costing method is, first of all, in the simplicity of its application, which makes it possible to conduct a flexible pricing policy through cost-volume-profit analysis, making it possible to quickly control it and thus manage financial results. In addition, this cost accounting method simplifies the process of norm setting, which is extremely important in technically complex industries with an extensive nomenclature, that is, where “standard cost” is used for calculation purposes.

One of the alternative approaches to costing is the approach when not full and reduced cost is planned and taken into account by cost object. Some types of costs that are related to the production and realization of products are not included in the calculation, but are reimbursed by the total amount from the operating revenue (proceeds).This is the essence of the system of accounting for incomplete costs of production. One of the modifications of this system is the direct costing system [2].

In order to separate the costs into constant and variable components, one of the following methods is usually used:

1) the method of analysis of accounts;
2) the method of the highest (max) and lowest (min) points;
3) the method of technological norm setting;
4) the correlation method;
5) the method of the least squares.

Also, the following elements of the direct costing cost accounting system can be distinguished:

1) accounting by type of cost;
2) accounting for cost objects;
3) recording of results on cost objects;
4) accounting at cost centers;
5) accounting for the results for the period [3].

The use of "direct costing" is relevant when deciding whether to reduce or increase production volumes of a particular type of products. The reason for making a positive decision about the production of products is covering fixed costs by marginal income.

In modern literature sources, the subject of the direct costing method is treated ambiguously. On the one hand, it is considered as a cost accounting method. On the other hand, it is positioned as a calculation method. In this regard, it could be concluded that the points of view mentioned do not fully reveal the essence of the method, and “direct costing” should be studied as a management accounting system, since in addition to calculating and accounting, “direct costing” includes the using of these data for decision-making, planning and control at the enterprise.

The direct costing system cannot be used for preparation of external reporting and tax calculation. Its application allows you to quickly explore the synergies between the volume of production, costs and income, and, therefore, to predict the behavior of the cost or certain types of expenses with changes in business activity [4].

The calculation of the variable cost price render helps the accountant-analyst to quickly solve a number of management tasks, and calculations of the total cost do not give such results. The direct costing system allows to pursue for an effective pricing policy.In some situations, with insufficient capacity utilization, the attraction of additional orders may be justified even if payment for them does not fully cover the costs of their implementation.

This system can significantly simplify the norm setting, planning, accounting and control of a sharply reduced number of costs, as a result of which the cost becomes more visible, and individual cost items are more controlled.

Dividing costs in the direct costing system into variables and constants allows us to solve such critical cost management tasks as:

1) determination of the lower limit of the price of a product or stock on order;

2) a comparative analysis of the profitability of various types of products;

3) determination of the optimal program for the production and realization of products;

4) the choice between own production of products or services and their external procurement;

5) determination of the stock of financial strength of the enterprise and the break-even point [1].

The following advantages of using the direct costing system can be distinguished:

1) in the report on financial results compiled under the direct costing system, the change in profit is shown as a result of changes in variable costs, structure of products and selling prices;

2) it is possible to observe the dynamics of costs depending on the volume and making of operational management decisions;

3) when applying the direct costing system, it becomes possible to identify products with the highest profitability, since fixed costs are not charged off to the cost of individual products, and the difference between the sale price and the value of variable costs is not hidden;

4) the information obtained in the direct costing system allows for an effective price policy, indicating the most beneficial combination of price and volume.

Summing up what has been said, the fundamental difference between the direct costing system and the calculation of the total cost is in relation to the constant general production costs.

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