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ANALYSIS OF THE BASIC METHODS OF ACCOUNTING AND COST CONTROL IN CONSTRUCTION

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The article describes the main tools of accounting and costs control in the construction industry. The author considered the classification of cost accounting methods used in the construction organization. Traditional and non-traditional methods, models of organization of accounting and control of costs are considered.

Construction is an important sector of the national economy. The share of the construction industry in the total GDP of the Republic of Belarus is 5.7% [1]. The importance of the development of the construction complex for the economy is conditioned by its participation in the creation of fixed assets for other branches and close interaction with other branches, such as industry, engineering and others.

In modern conditions, for the effective management of a construction organization, the correctly formulated development strategy becomes especially relevant. It should be based on a system of management accounting and analysis and provide competitive advantages. To form such a strategy, construction organizations need operational information. Therefore, to manage the costs and financial results of the construction organization and to make reasonable management decisions, economic information based on credentials is of great importance.

The management of costs in construction is characterized by a number of specific methods and features, primarily related to the specifics of the organization and technology of activities in construction. Classification of basic methods of accounting for construction costs is shown in figure 1 [2].

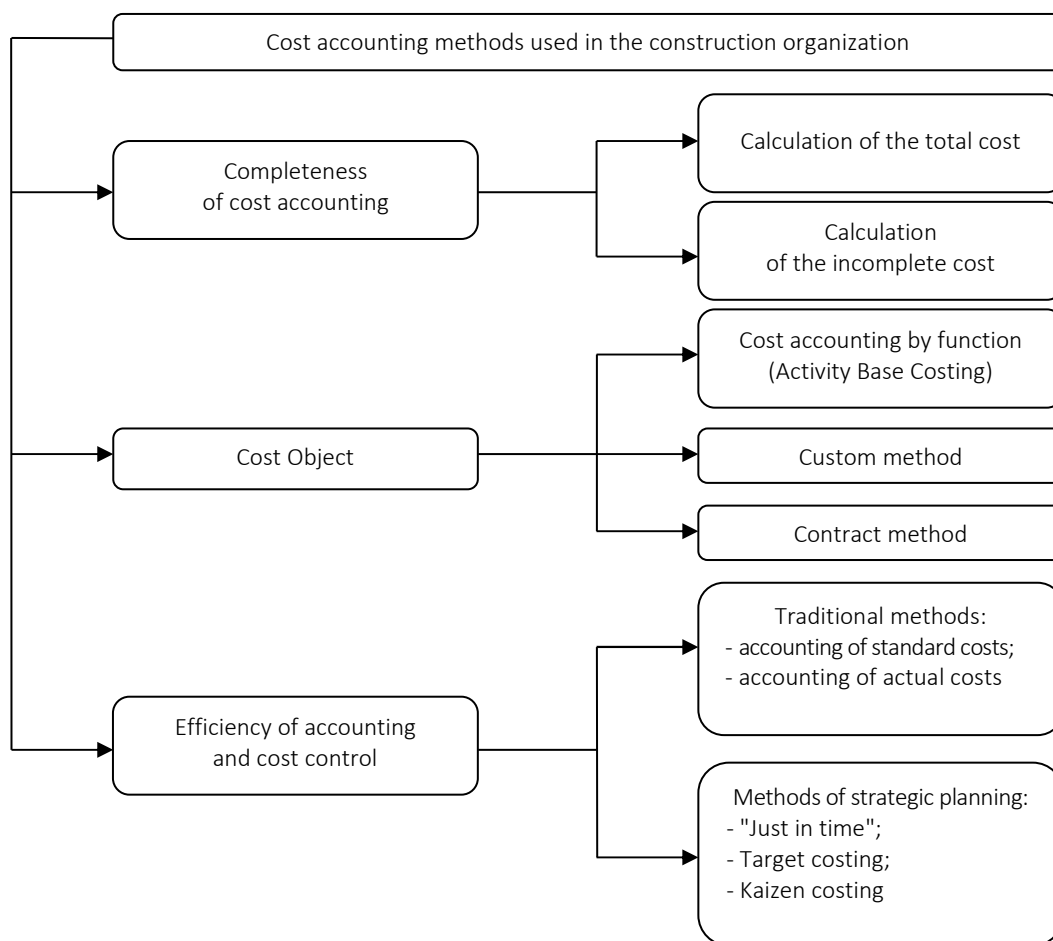


Fig. 1. Main methods of accounting for construction costs

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Traditional for the Belarusian accounting is the calculation of the total cost, which includes all the costs of the enterprise associated with the production and sale of products, regardless of the division into permanent and variable, direct and indirect. Costs that cannot be directly attributed to products (general production, general business expenses) are first distributed at the responsibility centers, and then transferred to the cost of production in proportion to the chosen distribution base. One of the advantages of this method is that it allows you to get an idea of all the costs that the organization incurs in connection with the production and sale of one product. Among the shortcomings of the method of full cost accounting, there is the impossibility of efficient and timely management of prime cost, which is due to the peculiarity of determining the actual cost price only at the end of the month, as well as the impossibility of managing the cost of production due to changes in the volume of output [3].

One of the alternatives to the traditional domestic approach to calculation is the approach when incomplete, limited cost is planned and taken into account by cost carriers. This cost price can include only direct costs. It can be calculated on the basis of only production costs, i.e. costs directly related to manufacturing of products (works, services), even if they are indirect. In each case, the completeness of the inclusion of costs in the cost price is different. However, it is common for this approach that some types of costs related to the production and sale of products are not included in the calculation but are recovered by the total amount from the proceeds. This is the essence of the system of accounting for incomplete production costs.

One of the modifications of this system is the "direct costing" system. Its essence lies in the fact that the cost price is taken into account and planned only in a part of the variable costs, i.e. only variable costs are distributed over cost carriers. The rest of the costs (fixed costs) are collected on a separate account, not included in the cost estimate and periodically written off to financial results, i.e. are taken into account in the calculation of profits and losses for the reporting period. Reserves, leftovers of finished products in warehouses and work in progress, are also estimated as variable costs [4].

At the same time, studies of the "direct costing" system made it possible to identify the following shortcomings:

1. There are difficulties in dividing expenses into fixed and variable, since there are not so many purely constant or purely variable expenses. In general, costs are semi-variable, they need to be divided into a constant and variable component, and any distribution is relatively arbitrary. In addition, under different conditions, the same costs can behave differently.

2. Direct costing does not give an answer to the question how much the produced product costs and what its full cost price is. Therefore, additional distribution of fixed costs is required in cases where it is necessary to know the full cost of finished goods or work in process.

3. Keeping records of the cost of the reduced nomenclature of articles does not meet the requirements of domestic accounting, one of the main tasks of which until recently was the compilation of accurate calculations.

4. In prices set for an enterprise's products, it is necessary to cover all costs of the enterprise, i.e. to perform additional calculations [3].

Custom and contract methods of cost accounting are also traditional for the construction industry. The main condition for the ordering method of calculating is the possibility to distinguish the individuality of the manufacture of a unique product or work to be performed and to obtain information not about its average, but about its individual cost price.

The specifics of the application of the custom calculation method in the construction organization are as follows:

- accumulation of data on all costs incurred and referring them to certain types of construction work;
- accumulation of costs for each completed stage, and not for a period of time.

Simultaneously with custom and contract methods during the construction phase, it is relevant to apply the accounting of costs at their origin. This is due to the fact that costs are better controlled directly when consuming resources, i.e. in the construction and maintenance process. In this regard, there were such objects of formation and accounting of costs as the origin of costs and cost centers and responsibility centers.

Along with traditional systems of cost accounting, in international practice there is an outspread of the activity-based cost management system (ACS) when indirect costs and expenses for auxiliary (providing) activities and for the production of individual products are tracked. The ABC system refers the costs of indirect and auxiliary resources to the types of activity in which they participate, and then to the products. Correlating the costs of activities with the objects of costs, you can identify profitable and unprofitable products, inefficient activities and unused capacity.

The ABC method is designed as an alternative to traditional financial approaches. Unlike traditional financial approaches, the ABC method:

- provides information in a form understandable to the personnel of the enterprise directly involved in the business process;
- allocates overheads in accordance with a detailed calculation of resources, the presentation of processes and their impact on cost, but not on the basis of direct costs or accounting for the total volume of products.

ABC-method allows you to identify possible ways to improve the cost parameters. The purpose of creating the ABC model is to improve the functioning of companies in terms of cost, labor intensity and productivity. Calculations on ABC-model allow receiving the big volume of ABC-information for the decision-making process.

However, ABC is a strategic costing system and cannot play the role of operational control, as it does not provide constant feedback to the managers responsible for the costs and expenses incurred. [5]

Regardless of the number of accounting objects, costs can be investigated by two methods: the actual method and the standard cost accounting method. Accounting of actual costs is a method of sequential accumulation of data on actually incurred costs without reflecting the data on their value according to the current norms. The main drawback of this method is that it is impossible to promptly signalize to the administration about unforeseen expenditures of labor and materials that could be eliminated by taking emergency measures. The normative method of accounting presupposes the preliminary determination of the standard costs for operations, processes, and objects with the detection of deviations from the standard costs during the production. Actual costs are determined by the algebraic addition of costs to norms and deviations from them. Using this method, the accountant deals with the standard cost and deviations from it. Both methods are aimed at identifying and reflecting, the actual cost of production in the final analysis, but the first method does it through direct accounting of costs, and the second - through deviations from the norms. [4]

The Japanese system "Just in time" has also become widespread. The essence of this system is the refusal to form stocks in warehouses. Instead, this system is aimed at increasing the efficiency of work with counterparties and at preventing the loss of time.

Target costing is an integral management concept that supports a cost-cutting strategy and implements the planning functions for the production of new products, controlling costs and calculating the target cost of the product. The system provides for the calculation of the cost of the product from a pre-established sales price. The traditional pricing formula in this concept was transformed into equality:

$$\text{Price} - \text{Profit} = \text{Cost}.$$

The target cost reduction is set in the following sequence:

- 1) determination of the possible price for the sale of the product (service) through marketing research;
- 2) calculation of the target cost of products (services), for which the value of the profit that the firm wants is subtracted from the possible sale price of the product;
- 3) comparison of the target and estimated cost of the product (service) to determine the amount of necessary (targeted) cost reduction;
- 4) product (service) redesign, improvements to the production process for targeted cost reduction [6].

A huge role in this system plays market monitoring. There may be a situation of exceeding the actual cost of works and services over the target already in the process of work.

The Japanese production management system "kaizen costing" is used in parallel with the system of target costing. The method is designed to reduce in the production process the difference between the estimated and target costs determined by targeting at the design stage. The joint use of kaizen costing and target costing allows achieving a competitive advantage by obtaining a lower cost level comparing to competitors and by the possibility to choose a convenient pricing policy to retain and seize the market. [7] At the same time, each of these systems is designed to solve specific problems, has its own peculiarities, which, in the context of a certain type of construction work, can act as advantages and disadvantages, so that the question of integration of these two systems seems to be posed correctly.

When choosing a particular tool for cost managing, the preference should be given to the one that maximally corresponds to the specifics of the organization's activities. Cost management methods are a means to achieve the strategic and operational goals of the organization, namely, to reduce costs, which is one of their priorities in the enterprise management system. Moreover, it is logical to assume that the use of these cost

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accounting methods should not be point-based, but complex, i.e. it is necessary to provide a combination of different tools.

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