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Research Article

Improving Strategic Cost Management Accounting

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ABSTRACT

The article identifies the problems of strategic management cost accounting, which are traditionally formed and used in practice. It substantiates the need to develop new effective mechanisms for cost management and cost accounting at enterprises. Based on this conclusion, it is shown that three priorities for the organization and maintenance of strategic management accounting of costs, revenues, and financial results are used in world practice.

In strategic management, it was concluded that the use of M. Porter's value chain allows companies to clearly distinguish between individual areas of activity and take into account internal and external costs in these areas and effectively manage them.

Based on this conclusion, it is proposed to divide the activities of enterprises into main and auxiliary areas for the effective organization of strategic cost management accounting. As a result, not only the costs incurred in the activities of enterprises but also all links from production to delivery to the consumer and the influence of internal and external factors on these links and the ability to account and manage the costs associated with them.

Keywords: cost, value chain, strategic management accounting of costs.

INTRODUCTION

The problem of cost management and accounting is a complex and important process that covers the entire operational process of any enterprise.

Modernization of the economy, profound structural changes in all sectors of the economy, several factors that determine the essence of this problem are clearly visible in the management and accounting of the expenses of enterprises. The effectiveness of the existing system of providing information for the important strategic management decision-making process related to the enterprise's activities is not felt. In such cases, it is obvious that it is completely useless. The information provided by accounting systems is often almost invalid, delayed, or inaccurate. Their effectiveness has declined sharply.

Evidence of these considerations can be found in the views of well-known economists. In particular, K. Drury, a leading scientist in the field of management and strategic management accounting, writes the following (1):

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- traditionally formed and maintained production cost accounts provide inaccurate and misleading information that is unsuitable for decision making;
- management accounting practices are adapting to meet the requirements of financial accounting, losing independence and becoming an auxiliary accounting system;
- the current management account deals only with companies' internal processes and does not consider any of the important external factors that directly affect the business. (1).

Hence, there are the following problems of management accounting, which are traditionally formed and used in practice: misclassification of costs into conditionally variable and conditionally non-variable groups from the point of view of the interests of management accounting; at times of sharp increase in the volume of business activity, the incorrect formation of the cost in a way that is not related to the importance of production; inefficiency of methods used in the distribution of indirect (secondary, indirect, etc.) costs; inability to make strategic management decisions based on available data; the ineffectiveness of the normative method of cost accounting used in determining the unit cost of manufactured products.

This situation, in itself, requires the development of new and effective mechanisms for cost management and accounting in enterprises.

MATERIALS AND METHODS

Firstly, the weakest point of the normative method used in the cost accounting process is the inability to consider deviations from the norm in the operational process directly. Accordingly, the impossibility of eliminating them directly when such variations occur. Secondly, professionals and managers who are directly involved in the production of a product and are responsible for its cost cannot, in practice, have direct information about the relationship between these standards. Also, they do not understand the essence of these processes or create the conditions for their understanding. Thirdly, in practice, in the direct production process, the norms have become obsolete and inconsistent with reality (2).

In the normative method of cost accounting, the main focus is on taking into account the financial performance of enterprises. At the same time, important non-financial criteria, i.e. indicators that directly or indirectly affect its performance, are not considered. Such an approach leads to incomplete self-calculations and the formation of final data based on erroneous indicators.

In the current context in which the activities of enterprises are directly dependent on the market, it is clear how wrong it is to form conclusions based only on the financial performance within the entity. The normative method of accounting for costs loses its relevance when the external environment, in which the activities of enterprises are constantly changing, is closely connected with the market. In this situation, we consider it appropriate to refer to the strategic management account as the most effective way to manage and account for costs.

The results of scientific research show that three priority areas for the organization and maintenance of strategic management accounting of costs and financial results are currently used in world practice (4, 5):

1. By areas of activity of the enterprise through the formation of a value chain (M.Porter);
2. Based on the increase in costs during the movement of the product (B.Ryan);
3. Through strategic cost management (D.Shank and V.Govindarajan).

At the same time, the organization of strategic cost management accounting is based on the following important principles (4,5):

- use of strategic cost management mechanisms;
- formation of the value chain in the areas of the enterprise;

- formation of information on the growth of costs during the movement of products;
- use the principle of tracking the entire movement of the product to make decisions.

The concept of value chain formation was developed by M. Porter, which is based on the principle of dividing the activities of enterprises into main and auxiliary groups (4).

The formation of a value chain is a set of actions coordinated by each enterprise from the production to the satisfaction of consumer requirements, that is, direct accounting of all processes, starting with the process of concluding contracts with suppliers of raw materials and delivery of the manufactured product to the final consumer. Each chain link that forms the value chain will need to feel responsible for delivering a quality product to the following link in the chain, minimizing costs as much as possible, and making the final product competitive. M. Porter's value chain in strategic management clearly distinguishes the separate areas of activity of enterprises and considers both internal and external costs in these areas and manages them effectively.

RESULTS

Based on the above considerations, we examine it to effectively organize the strategic management of costs in enterprises (Figure 1).

The main areas of activity are production, preparation of the developed product for delivery to the consumer; marketing (product sales); service and maintenance.

Each of these activities mentioned above is carried out at a particular cost.

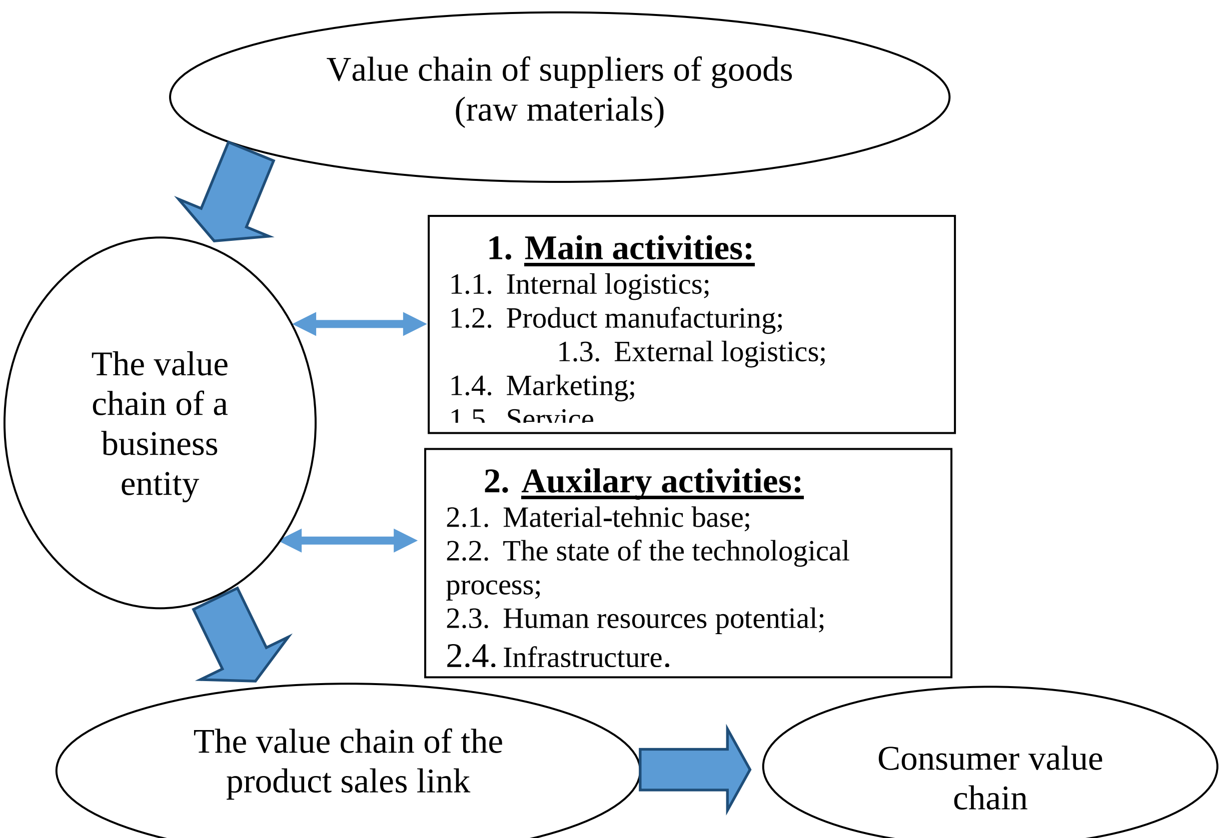

Figure 1. Product value formation chain

As auxiliary activities, we propose highlighting the following areas: the management of material and technical base, i.e. enterprise infrastructure; maintenance and management of technological equipment and processes; production of new types of products; work on new technologies, create and develop projects.

At the enterprise level, the cost of production is formed separately for each of the main and auxiliary activities.

Figure 1 and the implementation of the proposed scientific conclusions on the classification of activities at the enterprise level allow us to consider and manage the intra-organizational costs incurred and all the links involved in all processes from production to delivery.

For the purpose of strategic cost management, it is necessary to formulate the information needed not only for the overall activity but also for the amount of expenditure in each activity by type of expenditure. Admittedly, the methods available in practice for cost grouping do not meet the interests of strategic management accounting. In order to effectively organize and maintain a strategic management account, the following grouping method is proposed, which differs from the cost categorization approach used in the interests of management accounting in practice (Table *1*):

It is known that costs are primarily categorized into conditionally variable and conditionally constant groups to organize and maintain management accounts.

When the issues of globalization, modernization of the country's economy, attracting foreign investment and expanding the geography of exports are on the agenda, it is appropriate to divide expenditures into a constant and variable group. Many economists and practitioners today believe that variable costs are useless in terms of a strategic approach. More specifically, we think it would be more beneficial to consider all costs as inconsistent, given the strategic development goal. From this point of view, it is appropriate to divide the expenses into the categories of recoverable, incremental and unavoidable costs in terms of taking them into account when making strategic management decisions.

Table 1

Grouping costs at the expense of strategic management

#	**Grouping sign**	**Cost type**
1.	Depending on their involvement in strategic decision making	1.1. Unavoidable costs; 1.2. Recoverable; 1.3. Incremental.
2.	Depending on the time of formation	2.1. Past expenses; 2.2. Current expenses; 2.3. Future expenses.
3.	Depending on the level of management	3.1. Managed costs; 3.2. Unmanaged costs.
4.	Depending on the type of activity	4.1. Basic costs; 4.2. Additional costs.
5.	Depending on the participation in the product movement	5.1. Basic resource costs; 5.2. Auxiliary resource costs.
6.	Depending on the place in the cost of the product produced	6.1. Costs that create added value; 6.2. Costs that do not create added value.
7.	Depending on what is taken into account in strategic decision making	7.1. Relevant costs; 7.2. Nonrelevant costs.

Unavoidable costs are incurred by the management of the enterprise regardless of the strategic management decision of any option, i.e. their amount does not change.

Simultaneously, the number of *recoverable costs* will vary based on the strategic management decisions made.

We believe that in organizing a strategic cost management account, it is necessary to pay attention to the incremental costs and consider such costs by dividing them into separate classification groups. It is because all the material, financial and labour resources associated with the product manufacturing process, and infrastructure, technological process and product design costs can be kept to a certain extent. In this case, the total amount of costs does not change over a while. When strategic management decisions are made to improve, update and attract certain aspects of this direction, the amount of such costs will increase. These two conditions will have different effects on the business entity.

The costs of the previous period and the future period's expenses are carried out to determine the time of their occurrence. Such an approach makes it possible to accurately calculate the amount of revenue over a given period and accurately account for the amount of final financial results.

In strategic management accounting, the grouping of cost data in the ways mentioned above provides the basis for the systematic generation of cost data for each enterprise, ensuring their efficiency, rational use of resources and the correct formation of the final result.

The organization of strategic cost management accounting in enterprises based on the principle of grouping, which we propose, requires the implementation of the following actions (action algorithm): the main and auxiliary activities in the value chain of the enterprise are separated and analyzed; the centre of cost groups is determined for each line of activity separately; items (elements) that constitute costs in each area of activity are determined; the distribution of costs by type of product is made; the unit cost of a particular product is determined; the final financial result is formed.

The result of the actions mentioned above to organize the strategic management account of expenses requires the inclusion of new positions in the chart of accounts. Based on the above proposal and scientific conclusions, it is proposed to open several additional sub-accounts in the following order to the current account "Basic production" for the organization of strategic management accounting at enterprises, in particular: "Enterprise infrastructure management costs"; "Human resource management costs"; "Costs for material and technical support"; "Costs of creating new products and assortments"; "Costs of finding and creating new technologies"; "Costs of delivery of goods to the consumer"; "Product sales service costs".

The proposed sub-accounts allow for the formation of accounting data on the types of costs by main and auxiliary activities at the level of each enterprise. We also consider dividing them into the following components and the proposals of the Russian scientist E.V.Isaeva to form a sufficient basis for the calculation and analysis of costs. (Table *2*).

Table 2

Formation of accounting data on the activities of the enterprise

Areas of activity	**Used account position (subaccounts)**	**The source from which information is formed**
Basic activity	"Basic production costs"; "Costs for material and technical support"; "Costs of delivery of products to the consumer";	*Estimates of basic production costs,*

Areas of activity	Used account position (subaccounts)	The source from which information is formed
	"Product sales service costs."	*Procurement cost estimates,* *Sales estimate* *Service cost estimates*
Auxiliary activity	"Enterprise infrastructure management costs"; "Human resource management costs"; "Costs for material and technical support"; "Costs of creating new types and assortments of products"; "The cost of finding and creating new technologies."	*Infrastructure estimate* *Resource cost estimates* *R&D costs*

CONCLUSION

The formation of a value chain, i.e. a complex accounting of the cost of a substance in the form of raw material through several stages until it reaches the consumer in the form of a finished product:

- determines the logical chain of product creation;
- selects the most optimal option of product movement based on objective data formed on the costs of each stage of technological processes;
- identifies primary, secondary, significant and insignificant costs that add value to the product;
- accounts and manages all phases of purchasing raw materials from buyers, delivering finished products to the consumer, as well as the influence of internal and external factors on these links and related costs;
- allows enterprises to effectively divide the areas of their activities into main and auxiliary areas for the effective organization of strategic cost management accounting.

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