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METHODS TO ACHIEVE POSITIVE FINANCIAL RESULTS BY REDUCING PRODUCTION COSTS

Annotation: This article provides information on the types of costs that make up the cost price of products, the classification of costs, ways to allocate costs to the cost price, and data on reducing product cost price.
Keywords: Cost price, cost, calculation, financial result, profit, loss, income, liability, assets, liabilities.

In our country, extensive work is being carried out to modernize production, update technology, Cost price, cost, calculation, financial result, profit, loss, income, liability, assets, liabilities.
diversify, and widely introduce innovative technologies. In this way, improving the financial relationships of these entities to meet market demands, efficiently reducing the cost price of production, and increasing export potential will ensure the successful future development of enterprises.

The cost price of a product is the monetary expression of all direct and indirect costs incurred to produce that product. The cost price of a product (work, service) includes the cost valuation of natural resources, raw materials, fuel, energy, fixed assets, labor resources, and other costs used in the production process.

In industrial enterprises, the accounting of product cost prices is carried out in accordance with the regulation on the composition of costs for the production and sale of products (works, services) and the formation of financial results, approved by the Cabinet of Ministers on February 5, 1999.

The following costs are included in the structure of the product cost price. These costs directly participate in the production process and form the cost price of the product:

- Material costs;
- Labor costs;
- Social insurance contributions;
- Depreciation costs;
- Other costs.

Material costs are one of the main production costs and can account for 60-80% of total production costs, depending on the product (work, service). Material costs include expenses for raw materials and materials. Expenses for raw materials and materials refer to all commission and brokerage expenses incurred from the purchase of the product until it is delivered to the enterprise. Material costs can include:

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- Fuel and energy expenses for technological purposes and household needs;
- Purchases of semi-finished products;
- Packaging and container expenses for the product;
- Depreciation of low-cost and rapidly depreciating inventory;
- Taxes and fees related to the use of natural resources;
- Losses from defects related to internal production;
- Transport costs serving the production process;
- Other expenses involved in production.

Labor costs are expenses for the wages of workers and employees directly involved in the main production process of the enterprise, including incentive and compensation payments. Labor costs include:

- Payments for completed work according to the established salary or tariff rates;
- The value of products provided to workers under a specific procedure;
- Additional bonuses and allowances to the salary based on production results;
- Expenses for utilities, food, and housing provided free of charge to workers;
- Other types of expenses paid to workers.

One of the expenses affecting the formation of the product cost price is the social insurance contribution. This contribution is calculated based on the wage fund formed at the enterprise. A 25% deduction is made from the wage fund, with 24.8% transferred to the state pension fund, 0.1% to the employment fund, and 0.1% to trade union funds. In general, this 25% contribution is used by the state for regulating the economy and forming the state pension fund. Although the wage fund is formed to pay wages to workers, the enterprise itself is also obliged to make a social insurance contribution to this fund. Therefore, in practice, enterprises take this contribution into account when calculating wages for workers.

Other costs included in the product cost price. These costs include mandatory insurance of enterprise property, travel expenses, expenses for personnel training, payments for communication services, losses from defects, fire prevention and security expenses, rental expenses, and all other costs related to production.

In the national economy, production units (enterprises) strive to maximize their income from their activities. Every enterprise aims not only to sell its products at higher prices but also to reduce the costs associated with manufacturing and selling these products.

The prices at which goods are sold are largely determined by external factors beyond the enterprise's control, whereas production costs depend on the efficiency of organizing the production and sales processes. Nevertheless, producing and selling any product requires specific expenditures.
Production costs refer to all expenses incurred in producing goods and services and delivering them to consumers. These costs include raw materials, primary and auxiliary materials, fuel, energy, depreciation of fixed assets, wages, social insurance contributions, interest payments, and other expenses. The monetary expression of all these production costs forms the product's cost price.
Production costs can be divided into two categories: direct production costs (such as wages, raw materials, and depreciation) and additional handling costs (such as packaging, sorting, loading, transportation, and storage).

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Direct production costs encompass all expenses directly involved in manufacturing the product. The value of a single product unit includes only a portion of the production costs, which are generally less than the product's price. Handling costs are associated with the process of selling the goods, covering the expenses incurred from the producer to the consumer. These are classified into additional handling costs and net handling costs.

The concept of handling costs relates to the expenses incurred during the sale of products, including wrapping and the handling and composition of product costs and their components. Thus, production costs include raw materials, fuel, lubrication expenses, wages, and depreciation, among other expenses. Handling costs are also known as period costs. Net handling costs do not increase the product's value and are covered by the profit obtained after the sale of the product.

According to modern cost management principles, resources used in the production process can be either the enterprise's own resources or externally acquired ones. Hence, costs are classified as internal or external. External costs arise from payments made for necessary resources and services, such as wages for hired workers, payments for raw materials and materials, interest on loans, rent for leased land, transportation services, and various other services. These external costs are documented through payment records, hence they are also called accounting costs.

Internal costs refer to the expenses associated with using the enterprise's own resources, which do not involve monetary payments. Therefore, the level of internal costs is assessed by comparing the value of the enterprise's own resources to similar market prices.

In our country, the accounting of products (works, services) is carried out in accordance with the regulations attached to the Resolution No. 54 dated February 5, 1999, which outlines the composition of production and sales costs of products (works, services) and the procedure for forming financial results.

Today, amendments have been made to the regulations, which are currently in force, regarding the items included in the production costs of products (works, services). The objectives of determining the composition of expenses included in the cost price of products are to:

1. Obtain complete and accurate information about total expenses in the accounting records, assess the profitability and competitiveness of the enterprise under market economy conditions;
2. Accurately calculate the cost price of products (works, services);
3. Segregate expenses not included in the cost price and link them to financial performance;
4. Account for and control production expenses by their emergence and responsibility centers;
5. Accurately determine the taxable base, thereby organizing the management of production expenses and enterprise costs.

In the market economy conditions, special attention is given to analyzing the cost price of products produced by economic entities, focusing on the following aspects:

- Studying production costs and evaluating their status;
- Monitoring the fulfillment and dynamics of plans to reduce product cost prices;
- Analyzing production costs by economic elements and calculation items;
- Examining the relationship between labor productivity and wage expenses;
- Identifying reasons for changes in the cost price and quantitatively assessing influencing factors;
- Analyzing the cost price of individual types of products by cost items;
- Identifying available opportunities to reduce the cost price, and so on.

The regulations provide a general framework for accounting production expenses, facilitating the planning, analysis, and control of production and sales costs of products (works, services). This ensures that cost accounting methods are designed considering differences in accounting for tax and

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financial purposes, with the primary goal of assessing the competitiveness of economic entities in market conditions.

The regulations explain the differences between accounting profit and taxable profit. The discrepancy arises because, according to the state's tax policy, some enterprise expenses are not included in the taxable base. The regulations outline the main rules for forming financial results and categorizing expenses.

Appendix 1 lists expenses deductible for calculating the enterprise's balance profit but included in the taxable base. Appendix 2 provides a list of expenses not deductible from the taxable base at the time of incurrence but deductible in subsequent periods (timing differences).

Many companies combine standard cost calculations with batch cost calculations. This occurs in enterprises that assemble products according to the client's technological requirements. The assembly process, involving a series of components, results in all expenses being recorded in a special product batch cost calculation register. Once assembly is complete, the order is closed, and the finished product is transferred to the finished goods warehouse at the average batch cost.

An order is placed for specific work, and expenses are analyzed based on the batch cost calculation. This includes verifying the accuracy of the required details for the batch, including:

- Consumption volume;
- Costs for storing and preparing products for use;
- Time required to dismantle and set up the production system;
- Productivity of labor, services, and machines compared to other products (POM).

The initial calculation of the optimal batch size can be based on:

- Analysis of the cost per unit for different batch sizes to determine the lowest cost per unit;
- Comparison of production batch storage costs to production costs;
- Calculation of the optimal batch size (POM) using a specific formula.

To reduce the cost price, it is crucial to increase labor productivity, minimize raw material and energy costs, and reduce service and management expenses, which are significant sources for reducing the cost of industrial products. Enhancing labor productivity requires introducing new technologies, processes, and advanced production methods to increase the output of each worker. This reduces the wage costs per unit of product while increasing the overall wages of workers. The cost price decreases only when labor productivity grows faster than wages.

Increasing labor productivity reduces the proportion of live labor used in production, while the share of previously invested labor rises, thus reducing the labor cost per unit of product.

To decrease material, fuel, and energy costs, it is essential to use resources efficiently, substitute expensive materials with cheaper yet effective ones, and minimize expenses related to purchasing and delivering materials to the enterprise.

Reducing service and management expenses involves minimizing administrative costs, conserving resources like equipment, buildings, and infrastructure, and controlling expenditures for lighting, heating, and maintenance.

Eliminating inefficient expenses (such as fines and penalties) is crucial for lowering the cost price. Technological progress, improving social forms of production organization, rational placement of production, and better internal organization of production and labor contribute to cost reduction.

Every enterprise must identify and utilize reserves (unused opportunities) to reduce the cost price significantly. These reserves can be evident, superficial, complex, or subtle. They are identified through thorough and comprehensive economic-technical analysis.

Reserves can be grouped based on various criteria, such as their location (internal production and external reserves) and their mobilization timeframe (current and future reserves). Reserves can also

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be categorized based on production process elements, including labor, material, and capital utilization reserves. For analyzing enterprise or sector activities, reserves are divided into:

- Organizational-technical reserves;
- Socio-economic reserves.

Mobilizing these reserves and using them effectively to reduce the cost price requires detailed planning and analysis. Planning the cost price aims to achieve high production efficiency through the rational use of labor, material, and financial resources. The cost price plan includes the following sections:

1. Cost reduction plan;
2. Cost calculation of products;
3. Production cost estimate;
4. Calculation of cost price for goods and marketable products.

The cost price plan is developed in two stages. The first stage involves analyzing the fulfillment of plans in the reporting year, identifying reserves for reducing cost prices, increasing profit, and profitability, and devising measures to utilize these reserves. The second stage finalizes the plan and communicates it to the enterprise departments.

The cost price and its reduction targets are indicators calculated within the enterprise, not imposed by higher authorities. However, the cost price remains a key industrial indicator because reducing the cost price of industrial products is one way to increase production profitability. The lower the cost price, given stable product prices, the higher the profit from selling the product.

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