

BUSINESS ECONOMICS AND CORPORATE GOVERNANCE:MODERNIZATION OF BUSINESS PROCESSES

*Kolesnik O.V., PhD, Associate Professor
Kharkov National University of Radioelectronics
Kharkov, Ukraine*

ANALYSIS OF THE COST-PRICE OF THE ENTERPRISE'S PRODUCTION

Cost of products is one of the most important quality indicators that reflect all aspects of business, their achievements and shortcomings. Cost of production reflects all aspects of business, their achievements and shortcomings [1].

Importance of the analysis of the production cost-price is determined by the fact that it is an important quality measure of the economic efficiency of production, and that only on the basis of its comprehensive analysis can reveal reserves and identify ways to increase the final results at the lowest cost of labor, material and financial. Cost analysis allows us to determine trends in this indicator, the plan for his level, to determine the influence of factors on its growth and on this basis to assess the performance of the enterprise to exploit opportunities and establish reserves to reduce the cost of production [2].

Cost-price analysis:

a) is intended to provide the necessary information to management personnel of the company, which is responsible for planning, for carrying out monitoring on business transactions and the adoption of various administrative decisions;

b) aims to identify opportunities to improve efficiency in the use of material, labor and financial resources in the process of production, procurement and sales;

c) provides the data necessary for management purposes, the definition of performance indicators, strategic decisions on pricing, product mix, process, product development. It is guided by analysis specialists and managers make tactical decisions and actions. Cost is an indicator of past or future ability to dispose of economic resources in order to achieve a certain goal [3].

It's proposed the method of analysis of the cost-price, which includes 2 levels. Scheme of mechanism of analysis of the cost-price of production is shown on the figure 1.

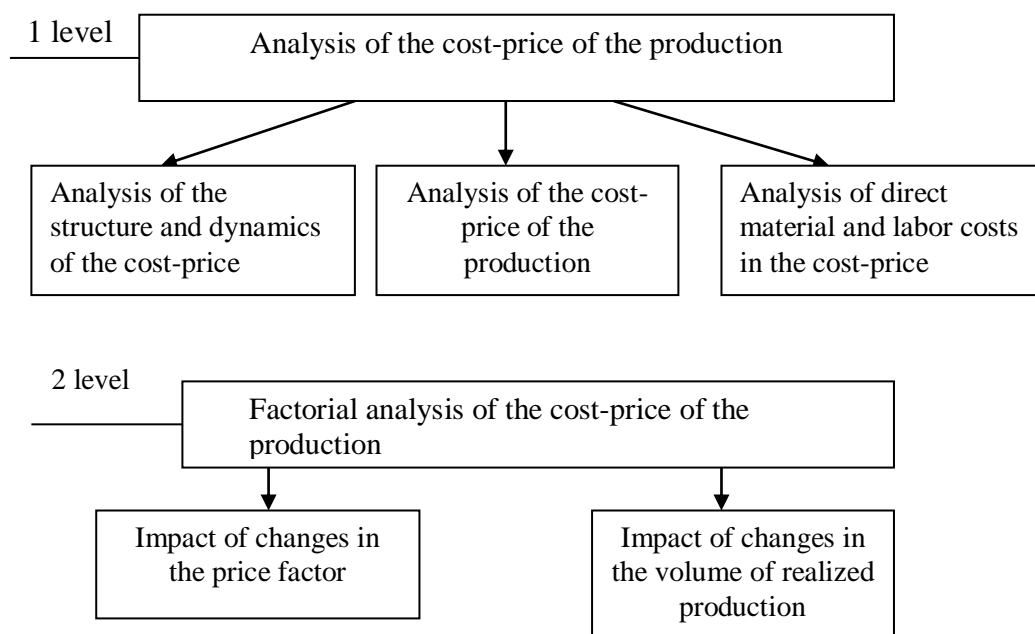


Figure 1– Scheme of mechanism of analysis of the cost-price of production of the enterprise

Analysis of the cost-price of the production implies to realize in three directions:

1) analysis of the structure and dynamics of the cost-price includes analysis of all costs, which form the cost-price of the production and their dynamics;

2) analysis of the cost-price of the production includes analysis of all costs

by calculation items, their specific gravity in the total volume of costs, and deviations.

3) analysis of direct material and labor costs in the cost-price includes separately analysis of direct material costs in the structure of the cost-price and analysis of labor costs, their changes and deviations.

Factorial analysis of the cost-price of production will enable the manager or supervisor to find out what are the trends in this indicator (cost-price), how the plan is executed according to its level, and also, importantly, to determine how different factors affect on its growth. On this basis it's possible rationally evaluate the activity of the company on the use of its capabilities and try to establish some reserves to reduce the cost-price of goods or services. Factor analysis of the cost-price of production consists of:

- 1) considering main factors, involved in its formation;
- 2) identifying main cost items: materials, energy or labor resources, determining the share of each of these factors (for example, the prevalence of the share of salary in the cost-price testifies that this process is time-consuming).

It's proposed to realize factorial analysis of the cost-price in two directions: 1) to identify the impact of changes in prices on the cost-price; 2) to identify the impact of changes in the volume of realized production on the cost-price.

Impact of factors on change of the cost-price of realized production is calculated by the formula:

$$\Delta C_{overall} = C_1 - C_0, \quad (1)$$

where $\Delta C_{overall}$ – overall growth of the cost-price of the realized production;

C_1 – the cost-price of the realized production in the reporting period;

C_0 – the cost-price of the realized production in the previous period.

If the cost-price of one unit of production changed only under influence of external factors, in particular under influence of general change of prices, then:

$$\Delta C_p = C_1 - C_1 / I_p, \quad (2)$$

where ΔC_p – growth of the cost-price of the production under influence of changes in prices;

C_1 – the cost-price of the realized production in the reporting period;

I_p – price index in the reporting period.

Growth of the cost-price under influence of changes in volumes of realized production is calculated by the formula:

$$\Delta C_{VRP} = C_1 / I_p - C_0 = \Delta C_{overall} - \Delta C_p, \quad (3)$$

where ΔC_{VRP} – growth of the cost-price of the production under influence of changes in volumes of realized production;

$\Delta C_{overall}$ – overall growth of the cost-price of the production.

ΔC_p – growth of the cost-price of the production under influence of changes in prices.

Next step is calculation of the impact of other factors on the change of the cost-price, in particular changes in size of labor costs, deductions on social needs and other operating costs. The impact of these factors is calculated by the formula:

$$\Delta C_c = [(LC_1 + DSN_1 + OOC_1) - (LC_0 + DSN_0 + OOC_0)], \quad (4)$$

where ΔC_c – change of the cost-price under impact of defined costs;

LC_1 , LC_0 – labor costs in accounting and previous period correspondingly;

DSN_1 , DSN_0 – deductions on social needs in accounting and previous period correspondingly;

OOC_1 , OOC_0 – other operational costs in accounting and previous periods correspondingly.

Impact of changes in depreciation on the cost-price is calculated by the formula:

$$\Delta C_D = D_1 - D_0, \quad (5)$$

where ΔC_D – change of the cost-price under impact of depreciation costs;

D_1 та D_0 – size of depreciation in accounting and previous period correspondingly.

Impact of changes in material costs on the cost-price is calculated by the formula:

$$\Delta C_{MC} = MC_1 - MC_0, \quad (6)$$

where ΔC_{MC} – change of the cost-price under impact of material costs;

MC_1 та MC_0 – size of material costs in accounting and previous period correspondingly.

References:

1. Hansen D.R. Cost Management: Accounting and Control / Hansen D.R. Mowen M.M., Guan L.// South-Western College. – 2007. – 864 p.
2. Kuznecova N.V. Financial and economic activities: management and analysis: [Textbook] / N.V. Kuznecova. – M.: “Infra-M”, 2007. – 519 p.
3. Friedman P. Control over costs and financial results at the analysis of the quality of products / P. Friedman. – M.: Audit, Unity, 2006.