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Management Reporting As A Tool For Making Effective Economic Decisions.

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ABSTRACT

Based on the use of the cost accounting system and the calculation of the cost of "direct costing", the financial result was calculated, the obtained value was compared with the value calculated by the traditional method; a package of management reports was formed (a report on financial results in the direct costing system, a management report on the amount of financial indicators), which can be used to make effective economic decisions on managing costs, cost, financial results, building a range of products, replacing some types of products other, other decisions related to sales policy.

Keywords: management accounting, costs, cost, direct costing, break-even analysis, report on financial results, management report, management decision.

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INTRODUCTION

One of the tasks facing the management accounting system is the formation of such an accounting system that can be used to obtain the relevant information necessary for management to make effective economic decisions on the management of costs and financial results of an economic entity.

In modern domestic and foreign literature, in spite of the many-sidedness of theoretical and practical approaches to the study of accounting cost reflections [1,2,5], the question of cost management mechanisms remains open. Thus, it requires not only the improvement of existing, but also the formation of new conceptual ideas [3,4,5], methodological tools taking into account the peculiarities of the type of activity for a reliable and comprehensive reflection of the costs and results of management. The purpose of the study is to develop a management reporting package based on the use of modern management accounting tools, the formation of which is necessary for making effective economic decisions on the formation of the range, the replacement of some products with others, and other decisions related to sales policy [6-15].

MATERIAL AND METHODS

The theoretical basis of the research is the scientific works of economists in the field of the theory and practice of accounting and management accounting. The methodology of the work is based on the dialectical method of cognition of the subject of research, the application of general scientific and concrete scientific methods.

RESULTS AND DISCUSSION

To ensure the process of managing costs, cost and financial results, it is necessary to keep separate records of variable and fixed costs with calculation of marginal income by product and for the enterprise as a whole, which can be achieved through the use of the "direct costing" system. Another advantage of direct costing is the ability to calculate the break-even point, i.e. the volume of production, the implementation of which the company will be able to cover its costs, the profit at this point is zero. The use of this method is relevant when it is decided whether it is worth taking additional orders and producing additional volume of a certain type of product. In this case, direct costing and the ability to calculate the break-even point are necessary for making management decisions. When applying the method of "direct costing" report on financial results is transformed and takes the following form (table 1).

Table 1: Report on financial results for grain crops in the "direct costing" system, ths. Rub.

Indicators	System "direct costing"
Revenue	136395
Cost of variable costs	95228
Seeds and planting material	12626
Fuel and electricity for technological purposes	2488
Oil products	22109
Mineral fertilizers	3083
Chemical plant protection products	1849
Auxiliary production services:	6530
- repair shops	3500
- machine and tractor park	1860
- water supply	750
- other works and services	420
Third Party Works and Services	9690
- insurance costs	9690
Remuneration of production workers and deductions:	29275
- remuneration of permanent employees	15250
- wages of seasonal workers	4225
- labor incentive	1100
- deductions for social needs	8700

General production variable costs:	7634
- salary of employees of services of chiefs of production	5600
- deductions for social needs	1680
- other expenses	354
By-products (less)	56
Marginal income	41167
Fixed costs:	34467
The content of fixed assets:	16209
- rent	2500
- leasing payments	2100
- depreciation	11609
General fixed costs:	4900
- the maintenance of fixed assets for general production	4900
General running costs	13358
Operating profit (loss)	6700

In abbreviated form, the statement of financial results by the method of “direct costing” and the traditional method is as follows (table 2).

Table 2: Report on financial results obtained from the sale of grain crops, built according to the traditional method and in the “direct costing” system, thousand rubles

Indicators	System "direct costing"	Traditional method
Revenue	136395	136395
Cost price		127995
Cost of variable costs	95228	
Marginal income	41167	
Fixed costs	34467	
Operating profit (loss)	6700	8400

Thus, the operating profit calculated in the “direct costing” system and the traditional method is different, this is due to the fact that part of the fixed costs in the traditional method is concentrated in stocks of finished products in stock, while in the “direct costing” method »The amount of fixed costs is written off in the reporting period in which they occurred.

The advantages of the direct costing system include:

- ease of calculating the truncated cost, no need to choose a methodology for the allocation of fixed costs;
- fluctuations in the value of fixed costs due to changes in the work of the enterprise do not affect the formation of the cost of variable costs;
- the ability to identify products with the maximum value of marginal income, profitability;
- ensuring a high level of sensitivity of the production system to external factors, and as a result, an effective feedback system;
- additional opportunities for the formation of the assortment policy of the economic entity.

To study the behavior of profits from sales, as well as forecasting it for future periods, a marginal analysis is used, the starting point of which is marginal income, it is calculated by the formula 1:

$$MI = N - \sum S_{var}, \text{ or } MI = PN + \sum S_{fix} \quad (1),$$

where MI – marginal income, rub.; N – revenue, rub.; S_{var} – variable costs; PN – profit from sales, rub.; S_{fix} – fixed costs, rub.

The essence of the marginal income is that the larger its amount, the greater the likelihood of compensation of the fixed costs of the enterprise and their profit from economic activities.

Figure 1 shows a fragment of a developed management report on the value of financial indicators for the Crop Production group.

Name of company Kolos LLC		document number		date							
		28		07.08.2018							
Management report on the value of financial indicators for the group "Crop" for the period: 01.08.2018 – 07.08.2018											
Assortment position	Shipped in the period		Price, rub.	Variable costs per unit products, rub.	Marginal income, thousand rubles	Fixed costs for the entire volume, thousand rubles	Profit, thousand rubles	Coverage ratio	Operating lever	Break-even point, thousand rubles	The reserve margin of strength, %
	thousand rub.	с									
wheat	10593,8	11903	890	4408,6	6185,2	4600	1585,2	58,4	3,90	7878,72	25,6
corn	2780	2000	1390	..	..	..	..	..	..	..	..
barley	4441	6300	705	..	..	..	..	..	..	..	..
..
Total	21293,4	29273	X	..	..	X	X	X		X	

Figure 1: Management report on the value of financial indicators for the group "Crop"

The ratio of the contribution to the coating is the contribution of each product to cover the fixed costs of the organization.

The effect of operating leverage or production leverage is that any change in revenue from sales leads to an even greater change in profits.

In accordance with the "Management Report on the value of financial indicators for the Crop Production Group," the operational leverage for wheat is 3.9. This means that if an enterprise increases revenue by 1%, then its profit from sales will grow by 3.9%.

The break-even point (the critical point, the break-even threshold) is the minimum volume of production and sales of products at which expenses will be offset by revenues, the profit at this point is zero,

and in the production and sale of each subsequent unit of production, the economic entity begins to make a profit.

Marginal strength margin shows how much sales can be reduced before the organization starts to incur losses.

Exceeding the break-even point creates a stock of financial strength - a kind of insurance of entrepreneurial risk: the higher the stock of financial strength, the more stable the company is to adverse changes in market conditions. Financial strength serves as a "shock absorber", reducing the risk of a deteriorating market environment and, consequently, a decrease in sales.

The report data will allow the manager to carry out an operational assessment of key performance indicators of production activity: break-even points of production, operating leverage, margin of marginal strength in terms of product names. Control of these indicators is the most important prerequisite for a sustainable and successful business operation in the long term.

CONCLUSION

To make effective economic decisions on the management of costs, cost, financial results, the formation of the product range, the substitution of some products for others, other decisions related to sales policy based on the example of crop production, a management reporting package was developed (presented by the financial performance report "And management report on the value of financial indicators), which is based on the division of costs on the basis of" dependence on production " and marginal approach.

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