

WHAT COST MANAGEMENT METHODS ARE BENEFICIAL FOR THE TEXTILE INDUSTRY?

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Abstract. The price of a commodity is determined by the cost of its production. The future profit of the company depends on the costs.

The higher the profit, the more funds are allocated for expansion, technical re-equipment of production, development and introduction of new types of products.

Therefore, the most important condition for the development and expansion of enterprises is the skillful management of production costs.

Key words: Cost management, Standard Costing, Kaizen costing, sales of products, ABC method, quality and functionality.

Introduction: Management is understood as the purposeful influence of the subject of management on its object in order to achieve certain results. Therefore, cost management is influencing them in order to improve the results of the company's activities and achieve a high economic result. It applies to all controls.

Cost management tasks include: [2]

- Identification of the role of costs as a factor in improving economic performance;
- calculation of costs for individual divisions of the enterprise;
- Calculation of the required costs per unit of production;
- Preparation of an information base that allows you to estimate costs when choosing and making business decisions;
- Search for cost reduction reserves at all stages of the economic process and in all divisions of the enterprise.

When organizing cost management, it is necessary to comply with a number of principles that allow you to create the basis for the economic competitiveness of the enterprise.

The principles of cost management are the most general, fundamental rules and recommendations that should be taken into account and implemented in practice at all levels of management.

The main principles of cost management are:

A systematic approach to cost management. This principle presupposes the study of the control object and the control system jointly and inseparably. A systematic approach means the need to use system analysis and synthesis in every management decision. This approach is expressed in the fact that the effectiveness of cost management is assessed by the effectiveness of the weakest link in the system;

Uniformity of methods practiced at different levels of cost management. Methodological unity presupposes uniform requirements for information support, planning, accounting, and cost analysis. There is a need for unity and subordination of the criteria of effectiveness used;

Cost management at all stages of the product life cycle. The product life cycle is the process of creating, developing, manufacturing, operating, handling and disposing of a product;

An organic combination of cost reduction with high product quality. The competitiveness of an enterprise largely depends on the competitiveness of products, which is determined by the ratio of price and quality.

The contradiction lies in the fact that an increase in the quality of products is accompanied by an increase in costs, and, consequently, an increase in price. The optimal balance between quality and cost at all stages of the product life cycle is achieved by competent management based on research and economic calculations;

- avoidance of unnecessary costs;
- widespread implementation of effective methods of cost reduction;

Increasing the interest of all departments of the enterprise in reducing costs.

The solution of the tasks set before the enterprise requires concretization and systematization of the main methods of cost management. Let's consider the main and most effective of them.

The first method is cost management using the Standard Costing system.

The term "Standard Costing" means standard costs: standard – the amount of necessary production costs (material, labor) for the production of a unit of production or pre-calculated production costs; Cost is the monetary value of production costs per unit of output [3].

The Standard Costing system serves as a powerful tool for controlling production costs. On the basis of the established standards, it is possible to determine in advance the amount of expected costs for the production and sale of products, calculate the cost to determine prices, and determine the amount of expected revenues in the next year.

This system is based on preliminary (before the start of production) rationing by cost items: basic materials, remuneration of the main production workers, production overhead costs (wages of auxiliary workers, auxiliary materials, rent, depreciation), commercial costs (sales costs, sales of products).

Pre-calculated rates are treated as fixed rates in order to bring actual costs into line with standards through skillful cost management.

When deviations occur, the standard norms do not change, they remain relatively constant for the entire specified period, except for major changes caused by new economic conditions.

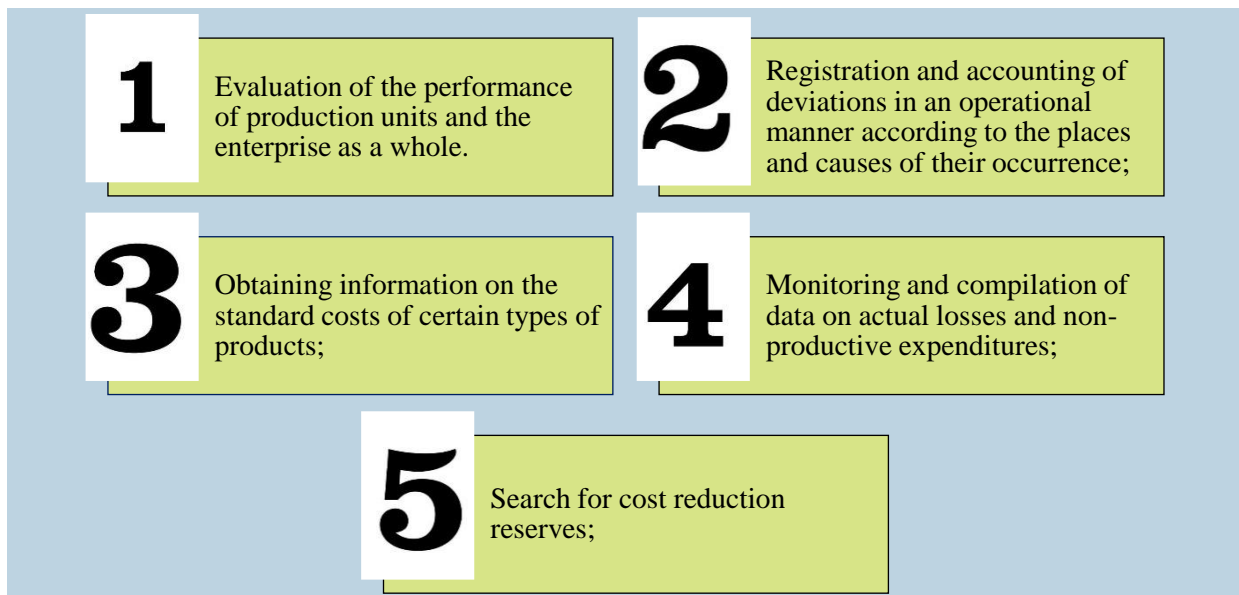
When setting standards, physical (quantitative) standards are used, which make it possible to measure in physical terms the consumption of material, the amount of labor and the volume of services necessary for the production of a given product. These physical standards are then multiplied by the coefficients in monetary terms to obtain standard cost norms.

For those cost items for which the standards have been exceeded, a thorough analysis of the reasons for the deviation is carried out and solutions are sought to reduce costs to the standard values.

It should be noted that this method is aimed at a constant search for reserves and ways to reduce costs, since standards are calculated with the assumption that the enterprise operates under normal conditions.

It can be said that these standards are "idealized", that is, they represent the ideal to which the company aspires.

However, the environment in which a firm operates is dynamic and uncertain enough that actual costs often exceed standards. (pic.1)



Picture.1. The main advantages of Standard Costing method include. [5]

A significant disadvantage of this method is the difficulty of defining and drawing up standards in conditions of inflation and when fulfilling a large number of orders of different nature and type in a relatively short time. In addition, standards may not be set for all production costs, which always weakens local control.

Next, let's look at the Activity-Based Costing (ABC) method.

In this method, it is assumed that costs arise as a result of on-farm activities and business processes, and that the final product creates demand for certain on-farm activities.

When using this method, the generation of cost information goes through three stages:

➤ determination of the amount of resource consumption by organizational subdivisions of the enterprise (by branches, structural subdivisions, departments, workshops, sections);

➤ on the basis of the values of resource consumption, the costs of each type of internal economic activity and business process carried out in one or more divisions of the enterprise are calculated;

➤ based on the values of costs for certain types of intra-economic activities and the volume of consumption of these activities, the cost of production is determined.

To implement this method of cost management, it is necessary first of all to determine the composition of the company's resources. Then it is necessary to identify the types of internal economic activities taking place at the enterprise. A type of on-farm activity is a part of work with a specific purpose. Types of intra-business activities can be combined into business processes.

Methods for identifying types of intra-economic activities and business processes are questionnaires, photography of the working day, and diagramming. On the basis of these data, a nomenclature of types of intra-economic activities and business processes is compiled.

When building a process-by-process organizational structure, a responsible person is appointed for each type of intra-economic activity. It makes decisions on the elimination of inefficient, wasteful processes, and identifies reserves for cost reduction [4].

The final step in this method is the calculation of the cost of production. Costs summarized by type of intra-business activity are distributed among individual types of products. Distribution takes place in proportion to the time of performance of intra-economic activities and in proportion to the number of cases of detection of intra-economic activity.

The main advantages of this method are as follows:

- identification of additional reserves for cost reduction in the course of rationalization of business processes;
- high accuracy of determining the cost of production;
- identification of the cause-and-effect relationship between the amount of costs and the processes taking place at the enterprise;

Improvement of the cost control and management mechanism.

The disadvantage of this method is that there are many factors that affect each business process, and they are often difficult to identify. It is especially difficult to identify short-term factors that affect business processes.

Now let's focus on the Target costing method.

Targeted costing is carried out at the stage of product planning and development.

Studies have found that it is at this stage that about 80% of production costs are laid.

Therefore, there are the most significant opportunities for cost reduction.

To implement them, it is necessary to generate multidimensional forecast information about costs, which helps to make a method of target cost calculation.

Target costing is an approach to determining the cost at which the production and sale of a product with specified functionality and quality will provide the desired level of profit at the proposed selling price [1].

In the course of targeted calculation of the cost of production, planning is carried out in three strategic areas of competition: cost/price, quality, and functionality.

This method is carried out in the following stages:

- setting a target selling price of the product based on market expectations, setting a target production volume;
- determination of the target profit taking into account the general strategy of the company's development;
- determination of the target cost, which is calculated as the difference between the target selling price and the target profit;
- define cost reduction goals by subtracting the current planned cost from the target cost and distributing the resulting difference to the cost types and customer functions of the product.

Using this method in multi-product production, it is possible to determine the expediency of reducing the model range, the number of components by standardizing them, unifying, and the possibility of using several types of products in production.

The main costs will increase, but they will be more than offset by the reduced costs of ordering, receiving, storing and processing a significant number of unique components.

You should also consider the method of calculating the continuously improving cost of production (Kaizen costing).

Calculating the continuously improving cost of production is a cost management tool that is used at the stage of production and sales of products to ensure an acceptable level of profitability of products and the enterprise as a whole. It complements the method of target costing of products.

Kaizen in Japanese means improvement, which should take place in all aspects of the enterprise's activities: the use of materials, working hours, and the use of equipment [5].

The method of calculating the continuously improving cost of production is applied at two levels:

- at the enterprise level, kaizen costing helps to identify ways to more efficiently execute business processes in the areas of production, sales, service and thus ensures the reduction of basic and overhead costs;
- at the product level, ways and means of reducing the cost of a particular type of manufactured product or individual product components are sought.

At the enterprise level, the application of the kaizen costing method is carried out in conjunction with budgeting. First, the target value of the profit improvement is determined, which is the difference between the target budget profit and the estimated profit.

The profit improvement target is matched to the cost reduction target. At the same time, annual target standards for the reduction of individual elements and types of costs can be determined.

Further, the target values of cost reduction are distributed among the divisions and departments of the enterprise. Divisions that launch a new type of product are subject to higher cost reduction standards.

Reduced cost reduction ratios apply to divisions that produce mature products and have already implemented a number of cost reduction programs.

- at the product level, kaizen costing is used in the following cases:
- when the target level of costs for new products launched into production is exceeded. Cost reduction at the production stage is carried out in the course of analysis of the consumer value of products. Analysis of customer value allows you to revise the product design scheme in order to reduce costs, provided that the functionality specified at the development stage is preserved;
- when the profitability of products decreases. Kaizen costing allows you to identify ways to restore the level of profitability or increase profitability in the course of a comprehensive analysis of the process of cost formation for a particular type of product;

The most important direction of kaizen costing is the measurement and analysis of quality assurance costs, since the costs associated with non-compliance of products with the established quality standards are very high. Kaizen costing allows you to reduce the number of costs associated with product defects.

Conclusion. Having considered the main methods of cost management, we can conclude that they organize cost management in different ways. Each method has its own specific advantages and disadvantages. Therefore, it makes sense to use mixed methods that combine several methods of cost management. For example, you can use a management system based on the combined use of the kaizen costing method and the standard cost system, or on the application of the cost management method by type of internal business and the method of targeted costing.

The use of mixed methods will improve the efficiency of cost management and achieve higher economic results.

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