



Choosing Cost Groupings in Cost Accounting

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Abstract

This research focuses on the most important problem of the cost accounting organization process—the problem of choosing cost groupings formed in accounting and reporting called cost accounting objects. The research aims to identify, describe, and justify the principles for choosing a cost accounting object. During the research, the authors used various research methods, including analysis, synthesis, generalization, thought experiment, deduction, induction, tabular, and graphical methods. As a result, the authors formulated four principles for selecting cost accounting objects; each principle of choosing was justified. The scientific significance of this research is the development of approaches to organizing cost accounting in terms of streamlining and scientific justification for choosing cost accounting objects. The practical significance of this research paper is the development of the procedure for implementing the requirement of rationality as one of the requirements for setting up and maintaining records.

Keywords

Cost · Accounting · Management · Groupings · Reporting · Cost objects

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1 Introduction

As a complex object of management and accounting, the costs of an economic entity can be grouped and presented in reporting according to various criteria. However, the formation of various groupings of accounting objects requires accounting costs. One of the most important accounting principles is rationality, according to which accounting costs should bring some effect. Therefore, the number of formed cost groups should be optimal from the standpoint of accounting costs and, at the same time, ensure maximum satisfaction of user needs. In this regard, for accounting and reporting, selecting only those groupings that contain necessary information for management purposes is important. Therefore, it is important to choose cost accounting objects correctly. Thus, the choice of cost accounting objects is a problem that requires scientifically based approaches to its solution.

The presence of the above problem determines the relevance and practical significance of the conducted research.

The practical significance of this research is due to the need to comply with the requirement of rationality. The accounting system based on this requirement must be formed to meet the information needs of various user groups at optimal costs.

The theoretical significance of this research is the development of approaches to organizing cost accounting and management in terms of streamlining and scientific justification for selecting cost accounting objects as the basis for constructing the entire cost accounting system.

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According to this problem, this research aims to identify, describe, and justify the principles for choosing a cost accounting object.

The authors achieved this goal by solving the following tasks:

- To determine principles of choosing cost accounting objects;
- To establish clear formulations of the principles;
- To justify the principles' formulations.

The scientific novelty of this research lies in the identified scientifically based principles (rules) of selecting cost accounting objects.

2 Methodology

The research goal was achieved using various methods, including analysis, synthesis, generalization, thought experiment, deduction, induction, tabular method, and graphical method.

The basis or materials for the research were scientific works of various authors, including educational literature and scientific articles of Banerjee (2021), Becker et al. (2021), Boyd (2022), Bromwich and Scapens (2016), Bujak (2018), Cartelli et al. (2015), Cotter (2022), Datar and Rajan (2021), Drury (2018), Fuentes-Cáceres et al. (2020), Gill (2015), Gutiérrez (2021), Hart et al. (2012), Kholkin et al. (2023a, b), Lanen et al. (2023), Michalke et al. (2022), Narsis (2009), Prabhuram (2017), Rubino and Veltri (2020), Sozinova (2021), Sozinova et al. (2023), Tamulevičienė and Mackevičius (2019), Taschner and Charifzadeh (2020), Vanderbeck and Mitchell (2015), Vărzaru (2022), Wildman (2022), and Zhaolei and Lei (2021).

The authors pointed out that the term “cost accounting object” in relation to cost groupings formed in the accounting system was not used; the principles for choosing cost accounting objects were not formulated. Science has not yet dealt with this issue. Therefore, this research and the results obtained are scientifically novel and unique.

3 Results

Due to solving the set tasks, the authors could obtain the following results.

First, the authors defined the following principles for selecting cost accounting objects based on the definition of selection criteria (Fig. 1).

The principles are presented in a hierarchy of their importance for choosing cost accounting objects.

The principles were determined based on the selection criteria. Table 1 shows the correlation between the principles and selection criteria.

Table 1 presents the principles for selecting cost accounting objects in terms of the hierarchy of significance for selection.

Second, the authors formulated principles for selecting cost accounting objects. Table 2 shows formulations of the principles for selecting cost-accounting objects.

Third, the authors justified the chosen principles and their formulations. Justification for the selected principles is given in Table 2.

When implementing the first principle, it is necessary to examine all users' information needs. Their needs are based on the tasks they solve using data of costs presented in various groupings. In this regard, it is necessary to examine the procedure for using information in cost management, establishing all users' needs in information when subjects conduct cost analysis in the context of each topic of analysis. The study of this issue is also important for understanding the principle of rationality. Previously, the authors have also investigated this theme in their scientific papers (Kholkin and Gritsuk 2015).

4 Discussion

The choice and formulation of the principles are determined by the following.

The Users' information needs principle was determined based on the purpose of the very existence of the

Fig. 1 Principles for choosing a cost accounting object. *Source* Compiled by the authors

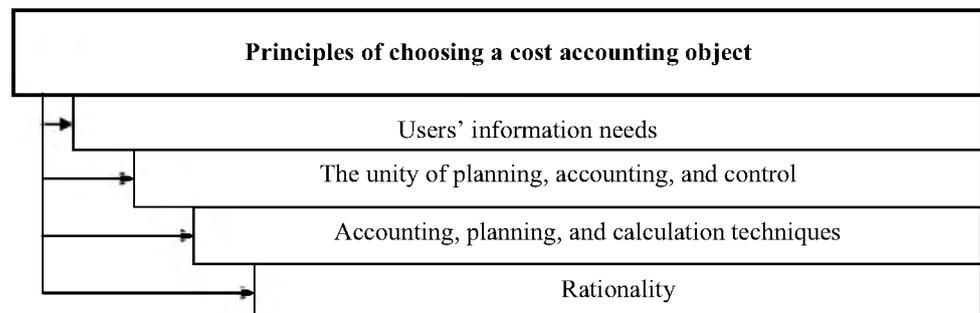


Table 1 Correlation of principles and criteria for selecting cost accounting objects

Principle	Selection criteria (descriptions)
Users' information needs	Compliance with the purpose of the existence of the accounting system
The unity of planning, accounting, and control	The creation of a unified cost management information system involves uniform cost groupings in planning, accounting, and control
Accounting, planning, and calculation techniques	Without some cost groupings, it is impossible to calculate the cost of individual types of products and units of production. Thus, the formation of some groupings is predetermined by the needs during the calculation process, particularly grouping by the distribution method
Rationality	Compliance with the principle of rational accounting

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accounting system. When choosing cost accounting objects, it is necessary to ensure maximum satisfaction of user needs in all required groupings in reporting.

The unity of planning, accounting, and control principles is conditioned by the need to form a unified information basis for the cost management system. The unified information basis for a cost management system involves the unification of cost groupings in planning, accounting, and control, which is necessary to ensure the comparability of information as a condition for a comparative analysis of planned and actual cost indicators. The absence of such a comparison makes the cost management process impossible because there is no possibility of adequate control of costs.

Accounting, planning, and calculation techniques as a principle for selecting objects are due to the following. According to the costing methodology, one of the actions in the costing process is the distribution of costs among costing objects, including the distribution of the direct method (direct costs) and the indirect method (indirect costs). This means that the accounting system must form appropriate groupings of costs by objects of calculation and by distribution method. When using the normative method, it is necessary to use grouping if normalization is possible. The direct costing method is a prerequisite for the formation of a grouping of costs into variable and fixed. Moreover, current accounting standards may prescribe the formation of cost groupings because this may be associated not with the formation of product costs but with assessing balances of work in progress and finished goods.

Thus, it is necessary to ensure the formation of groupings due to accounting and calculation techniques when choosing cost accounting objects.

The rationality principle was chosen because rationality is the most important requirement for an accounting organization. Since the accounting system is a service system, its maintenance and operation costs must be optimal from the standpoint of maintaining the cost–benefit ratio. The result should be considered useful information used in the

management process. Besides, the formation of each cost grouping and its disclosure in reporting is associated with the need to incur additional costs within the accounting system. Therefore, these costs must be recouped by using the information obtained from them in the management process. This means that the number of groupings formed in accounting and disclosed in reporting should be optimal from the standpoint of the requirement of rationality.

Based on this, we can conclude that the need to form cost groupings depends on the tasks of their formation, determined by the needs of planning, control, and cost analysis. Therefore, when selecting cost groupings, it is necessary to consider for which accounting and management tasks this or that grouping is used. For this purpose, the composition of the tasks solved should be clearly defined for each grouping. The composition of management tasks and cost grouping was previously studied in the authors' scientific research. Therefore, these issues are not considered in this research.

In general, the issue of developing these principles is conditioned by the fact that the existing accounting system makes it possible to form any groupings of costs. Simultaneously, the number of accounting operations increases, which increases the cost of accounting. However, due to the existing information needs of users, the formation of some groupings may be redundant or unnecessary because they have no practical use when making management decisions. Therefore, the costs incurred during the functioning of the accounting system associated with forming these groupings will be ineffective. This means that it is necessary to make a competent choice of cost groupings formed in accounting. Adequate selection could be made if properly defined selection principles or criteria exist. Selection criteria should be correctly defined and formulated so that they are understandable to those subjects who, on their basis, will select a cost accounting object and justify the need for their use in the selection process.

Table 2 Formulations and justification of principles for selecting cost accounting objects

Principle	Formulation	Justification
Users' information needs	The choice of cost accounting objects is based on ensuring the maximum satisfaction of users' information needs through the formation of accounting and disclosure in reporting of all groupings necessary for users	Any actions performed within the framework of processes in the accounting system should contribute to achieving the goal of the existence of the accounting system, namely, meeting the information needs of users. Therefore, only those cost groupings that are important for users when making various decisions should be formed in the accounting system primarily in relation to other cost groupings. Therefore, this principle or rule should be the main criterion and principle for selecting cost groupings
The unity of planning, accounting, and control	The choice of accounting objects should ensure the formation of the same groupings in planning and accounting	Ensuring the unity and comparability of planned and actual costs in various groupings is a prerequisite for the existence of an adequate cost management system. Without the unity of cost groupings in planning and accounting, it is impossible to carry out even an elementary cost comparison, making it impossible to carry out adequate control over the implementation of managerial decisions in cost management. Therefore, ensuring the formation of identical groupings in cost planning and accounting is necessary to form a proper information basis for cost management
Accounting, planning, and calculation techniques	The choice of cost groupings is determined not only by the needs of users but also by the technique of accounting, planning, and cost calculation	Without forming a number of cost groupings, it is impossible to implement a number of tasks, the solution of which is necessary for the process of calculating the cost, which is determined by the methods and methods used to calculate the cost, that is, the technique of cost accounting and calculating the cost of production. Therefore, the need to form a number of groupings is due to the accounting technique. It is either impossible to abandon the formation of such groupings or even contradict the current legislation in the field of accounting regulation (the technique of cost accounting and calculating product costs). Therefore, the need to form a number of groupings is determined precisely by accounting technology. It is impossible not to form such groups; it contradicts the current legislation in the field of accounting regulation
Rationality	The choice of cost groupings should ensure the formation of all necessary groupings for users with optimal costs for accounting work	The formation of cost groupings requires the implementation of labor actions by employees of the accounting service; that is, it leads to the occurrence of accounting labor costs. Therefore, these costs should have an effect in the form of information useful to users for decision-making. Otherwise, the actions of accounting staff are meaningless and are unnecessary or harmful

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It was found that it is necessary to establish the following hierarchy between the principles in accordance with the degree of importance to make an adequate choice of accounting objects.

The most significant is the principle of achieving maximum satisfaction of the information needs of users because this principle most closely corresponds to the purpose of the existence of the accounting system. This principle should be primarily used to guide the selection of objects.

Further, there is the principle of ensuring the unity of planning, accounting, and control in order of decreasing importance in the hierarchy. This principle is also important because it determines the possibility of carrying out control by comparing planned and actual values. However, it is not correlated with the purpose of the existence of the accounting system. Therefore, its importance when choosing cost accounting objects is less compared to the principle of meeting user needs.

The next important principle is the principle of considering the requirements of accounting, planning, and control techniques. This principle must be considered after applying the first two ones because accounting is impossible without the formation of cost groupings provided for by the selected methods and techniques of accounting and cost calculation. Therefore, the needs of users must initially be satisfied; the needs of the accounting system will be satisfied in the cost accounting process. This means that the needs of users in terms of hierarchy are higher than the needs of the accounting system.

Then comes the principle of rationality. Its strict adherence can lead to the fact that no grouping of costs will be formed in accounting because its formation requires the implementation of certain costs. The inability to form cost groupings can lead to dissatisfaction with the information needs of users. Therefore, in terms of choosing cost accounting objects, compliance with the requirement of rationality should consist in excluding the formation of cost groupings that are not used in the management process or that are not determined by the technology of cost accounting and calculating product costs.

We should underline that it is possible to combine cost groupings, which can reduce the costs associated with the formation of groupings. However, this part should be considered as part of an independent study outside the scope of this research because it is not directly consistent with the stated topic of this research.

5 Conclusion

In this research, the authors propose a solution to the problem of the lack of principles for choosing cost accounting objects.

As a solution, the authors proposed the following principles for choosing cost accounting objects:

1. Users' information needs;
2. The unity of planning, accounting, and control;
3. Accounting, planning, and calculation techniques;
4. Rationality.

For all principles, the authors gave clear formulations considering their possible understanding by people who will select objects, that is, based on the level of people's competence.

The justification was given for all stated principles and their formulations.

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