



Accounting for Costs and Expenses: Problems of Theory and Practice

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Abstract. The organization and maintenance of accounting require accurate methods and the most accurate results of their application, which entails the need to use generally accepted economic categories. Inaccurate or incorrect use of the categories “expenses” and “costs” leads to a distortion of a number of key performance indicators of the enterprise, primarily the financial result. In certain accounting standards there is inconsistency in the definition of the concept of “expenses”, its economic meaning, there is no definition of the category “expenses”. The purpose of the article is to determine the relationship between the concepts of “expenses” and “costs”, clarify their wording, identify differences in regulations on cost accounting systems RAS and IFRS and give them an assessment, analyze the inclusion models in the cost of indirect expenses. System analysis of the relevant segments of theory and practice of accounting led to the conclusion that it is necessary to bring all documents, regulatory and regulatory costs and expenses in line, to improve the methodology for recording expenses in the cost of finished goods and work in process, the inclusion in the accounting standards of the cost accounting in the cost of finished goods, products and work in progress.

Keywords: Costs · Expenses · Work in progress · Finished products
Accounting regulations · International accounting standards
Accounting and calculation of production costs

1 Introduction

One of the most important objects of accounting organizations of any field of activity are costs and expenses. At the same time, it is these accounting objects that are among the most problematic, both from the point of view of accounting theory and from the point of view of practical accounting.

In systems of both national Russian accounting standards (RAS) and international financial reporting standards (IFRS) there is an unambiguous definition of the concept

of “expenses”. According to Russian PBU 10/99, expenditures are understood as “the reduction of economic benefits resulting from the retirement of assets (cash, other property) and/or liabilities, resulting in a decrease in the capital of this organization, except for the reduction of contributions by decision of the participants (property owners)”. Almost completely coincides with the above definition of the interpretation of consumption in the IFRS system. According to chapter 4 of the Conceptual Framework for Financial Reporting, “expenditures represent a reduction in economic benefits during the reporting period in the form of retirement or” depletion “of assets or an increase in liabilities that result in a decrease in equity that is not related to its distribution between participants of the capital”. In both definitions, costs are understood as a reduction in economic benefits, which is expressed in the fact that the value of expenditures decreases the organization’s own capital, namely, its the financial result. We give examples of situations in which an organization should recognize the flow according to the definitions given (Table 1).

Table 1. Examples of situations leading to the formation of a flow in accordance with the definitions of this concept in PBU 10/99 and the conceptual basis for the financial statements of IFRS.

Economic operation	Impact on the amount of economic benefits	Impact on the amount of financial result and equity
Write-off of materials unsuitable for use	Reduction of economic benefits due to write-off of materials	The value of written-off materials decreases the financial result and equity
Impairment of non-current assets	Reduction of economic benefits due to a decrease in the carrying amount of non-current assets	The value of the decrease in the carrying amount of non-current assets decreases the financial result and equity
Writing off the cost of sold finished products	Reduction of economic benefits due to write-off of cost of sold finished products	The value of the written off cost of sold finished products decreases the financial result and equity
Writing off the cost of goods sold	Decrease in economic benefits due to write-off of cost of goods sold	The amount of the written off cost of goods that was sold decreases the financial result and equity
Interest accrual on loans and borrowings received for economic needs	The decrease in economic benefits due to the increase in the loan and borrowings liabilities by the amount of these percentages	The amount of interest on loans and borrowings reduces the financial result and equity
Fee accrual due to non-fulfillment of the contract with the supplier	Reduction of economic benefits due to an increase in liabilities to the supplier by the amount of the accrued fine	The amount of the accrued fine decreases the financial result and equity

A list of situations involving the formation of a flow could be continued further. The common in all these situations is that they determine either a reduction in the asset or an increase in the liabilities of the organization.

It would seem that thanks to the introduction in PBU 10/99 and in the Conceptual Basis of IFRS financial statements, a clear definition of the concept of “expenditure” in any situation can unequivocally solve the question of whether the expenditure is formed in it or not. However, the analysis of various situations leads to the conclusion that there is no such uniqueness. So, for example, should the expense of the cost of materials written off into production be recognized as a cost, the amount of cash outflows aimed at paying off accounts payable? After all, these situations attract a decrease in assets: materials and money. Should one recognize the expense of calculating the arrears of wages: because this increases the obligations of the organization?

2 Theoretical Basis of the Research

And the analysis of these situations shows that in the accounting, the reduction of economic benefits, financial results and equity in such situations is not recognized. The reason here is that the disposal of materials expended in production is fully offset by an increase in the same value of the finished product or work in process. That is, one asset (materials) is transferred to another asset (finished goods or work in progress). Withdrawal of cash on settlement of accounts payable leads to a decrease in the same amount of accounts payable. The accrual of arrears in wages leads to an increase in the amount of this debt of the cost of finished goods or incomplete production produced by employees. That is, the amount of increase in liabilities to employees increases the asset - finished goods or work in progress.

If in Russian PBU 10/99 and the Conceptual Basis of IFRS financial statements the interpretation of costs as a reduction in economic benefits and the amount of equity is presented, then this approach to characterizing the economic nature of the expense is not always supported by other accounting standards. If you refer to the texts of various Russian standards, you can find in them the use of the term “expense” in cases where the reduction of economic benefits and equity of the organization does not occur. For example, PBU 5/01 specifies that the actual cost of acquired inventories includes “the costs of procuring and delivering inventories to their place of use, including insurance costs.” But the value, which in PBU 5/01 is called “insurance costs” increases the value of the asset and does not in any way lead to a reduction in economic benefits and capital. In another standard - PBU 14/2007 states that “the costs of acquiring an intangible asset are ...” (hereinafter, the list of “costs” included in the original value of intangible assets”). Thus, in this standard, too, the value of the increase in the value of an asset (rather than a decrease in capital) is called the term “expenses”. In PBU 17/02, the discrepancy with the definition of the concept of “expenditure” already exists in the name of this standard: “Accounting for expenditures on research, development and technological work”. According to this provision, expenses for research, development and technological work, if there are certain conditions (listed in the provision), are recognized in the balance sheet assets. Thus, the asset itself, formed in the process of research, development and technological works, is called an asset “costs”. The list of

situations where the term “expenses” is used in a meaning that contradicts its definition in PBU 10/99 and the Conceptual Basis for IFRS financial statements can be continued.

We believe that the reason for the discrepancy between the definition of the concept of “expenses” in PBU 10/99 and the meaning in which this term is applied in various accounting standards is largely the fact that this concept is used in a significant number of cases in the meaning of the concept of “costs”. It is expenses, and not expenses, that form the cost of assets acquired or created by own forces. The reason for the identification of the notions “expenses” and “costs” in a number of normative documents on accounting is the inconsistency in the RAS system of questions of definition and interpretation of the economic content of the concept “reserves”.

It should be noted that to date, in the domestic accounting science there is no single approach to the definition of such an important concept as “costs for ordinary activities”. Surveys carried out by the authors of the chief accountants of the leading enterprises of the manufacturing industries of the Nizhny Novgorod industrial cluster made it possible to conclude that in most accounting practices, the terminological design in question is not essentially objectified in the system of local acts and, consequently, in the conceptual space of enterprises. This situation is explained by the lack of definition of the concept of costs in the legal framework of accounting. There is a paradox: the concept, in essence, which does not have normative legal and generally accepted scientific status, is actively used as a key in many sectoral instructions and recommendations on cost accounting and costing of products (works, services, goods).

A common approach to the terminological identification of expenses is their semantic identification with the concept clearly defined in the normative-legal space “costs” [1]. Such a “simple” solution is held by L.A. Malenkova and V.V. Prudnikov, defining the concept of costs, as “the totality of the organization’s expenses for the production of products and its realization.” The definition of costs, which are semantically identical to expenditures, is given by G.S. Klychova and R.R. Khairullin, who argue that “costs are the costs of enterprises, entrepreneurs, private producers for the production, circulation, sale of products that are expressed in cash.”

It is obvious that the costs are immanently oriented to the generation of value added, in other words their implementation is subordinated to a specific goal. N. P. Kondrakov, M.A. Ivanova defines the concept of “expenses” as “the cost of resources used for specific purposes.” In the context of this work, the connotation of the goal with economic activity is obvious. It should also be noted that the authors keep the approach of semantic identification of expenses as the equivalent of the cost of resources.

The above scientific judgments can be grouped according to the semantic criteria into three types: determined the essence of expenses on the basis of identification with costs, through resources and “repelled” from their purpose (Table 2).

It is obvious that the targeted approach is focused, first of all, on the implementation of key needs of management accounting of the business entity. The approach aimed at the disclosure of the concept of expenses as an equivalent of the cost of the enterprise resources is designed to reflect information about them in the information registers of accounting and the implementation of the control function. It should be noted that this definition includes the mandatory properties of costs - systematic and

Table 2. Approaches to the semantic identification of the concept of “expenses” [4, 5]

Content of the approach (keywords)	The authors who apply it
1. Identification with costs	L.A. Malenkova, V.V. Prudnikov, E.V. Bekhtereva G.S. Klychova, R.R. Khayrullin G.I. Prosvetov, G.Yu. Kasyanova, A.N. Azrielyan A.S. Bakayev
2. Cost of resources	A.M. Gershun, A.V. Molvinsky, L. S. Vasilyeva authors of the project of the Federal Standard of Accounting “Stocks” V.K. Sklyarenko, M.A. Vakhrushin, O.E. Nikolaeva, T.E. Shishkova, A.S. Tsarenko, N.P. Kondrakov, M.A. Ivanova
3. Business Objective	N.P. Kondrakov, M.A. Ivanova, Y.V. Sokolova, T.V. Kozyreva, I.E. Mizikovskiy, V.E. Kerimov, T.A. Korneeva, T.A. Karpova, S.F. Sharafutina, M.M. Gazaliev, V.A. Osipov, V.B. Ivashkevich

measurable. At the same time, there is a need to supplement the definition of the concept of costs from the position of accounting financial accounting, first of all, proceeding from the process of generating reports.

3 Analysis of the Results of the Study

Comparing various scientific points of view on the application of the concept of “expenses” and interpretation of its economic essence, we believe it expedient to clearly distinguish between the concepts “expenses” and “costs”. The expense, as was shown when considering the definition of this concept in PBU 10/99 and the Conceptual Basis of IFRS financial statements, represents a decrease in the economic benefits and the size of the organization’s equity. In contrast, costs positioned as actual or expected consumption of resources motivated by the receipt of planned financial results may lead to an increase in the valuation of assets, which, as follows from the definition of assets in domestic and international standards, are not expected to decrease but increase economic benefits. Let us compare two situations [3]. In the first situation, the materials were consumed in production, in the second, they were written off as a result of their spoilage and unfitness to use. In the first situation, the cost of production increased by the amount of consumed materials, which led to an increase in either the cost of the work in progress or the value of the finished product. In the second situation, there was a decrease in assets, which led to a reduction in economic benefits and capital, which led to the need to recognize the expense. We believe that it is the term “expenses” that should be used when it comes to the formation of the cost of assets acquired or produced by own forces. In the first case, we are talking about the amount of costs included in the cost of purchased materials, fixed assets, intangible assets, financial investments and other assets. In the second case, the expenses of production is determined by the cost of finished goods, work in progress, self-created real estate and other assets. The author’s characteristic of the content and correlation of the concepts

“expenses” and “costs” is proposed by T. Yu. Druzhilovskaya in the work “Characteristics of” expenses “and” costs “for accounting financial accounting.

The most important issue of cost accounting is the methodology of their inclusion in the cost of assets. In this case, two situations should be divided: the formation of the cost of assets purchased by the organization for a fee and the formation of the cost of assets created by the organizations themselves. In the first case, both national Russian accounting standards and international financial reporting standards contain clear lists of those costs that should be included or not included in the cost of the relevant asset (although these lists in the RAS and IFRS themselves differ slightly for those or other assets). In the second case, the approaches of Russian and international standards to the regulation of methods of accounting for costs in the cost of assets created by own forces differ significantly.

Another example of the difference between RAS and IFRS is the regulation of expenses accounting contained in these standards in the cost of finished goods and work in process. In addition, a significant difference between Russian PBU 5/01 and IAS 2 is the requirements for disclosure in reporting of information on the methodology for recording expenses in the cost of finished goods and work in process.

We believe that the useful information provided in IAS 2 and absent in PBU 5/01 is a characteristic of the accounting policies adopted for the valuation of inventories that include the formula used to calculate the cost price. The lack of this information does not provide an opportunity to assess the methodology for recording expenses in the cost of finished products and work in progress and used in the practical activities of organizations.

Speaking of practice, it should be recognized that expenses are the most important object of accounting for any organization. We have studied the practice of expenses accounting and approaches to the formation of the cost of finished products and work in progress in the Russian organizations of various industries. Table 3 shows excerpts from the accounting policy and explanatory notes to the financial statements of a number of the largest Russian organizations that characterize the approaches to expenses accounting used by these organizations.

As can be seen from Table 3, at the present time there is no uniformity of methods applied about cost accounting. For example, some organizations prefer to estimate work in progress on direct normative (planned) cost items, others - on the shop cost price on the basis of the standard method of accounting using a non-manufacturing option for recording production costs, a number of organizations estimate the work in progress at the actual production cost. Ready-made products are considered by some organizations at actual costs, others - at the planned full production cost. Some organizations use the normative method of expenses accounting, a number of organizations use the shown method.

At the same time, according to the data of Table 3, many large Russian organizations prefer to take into account general economic expenses as expenses of the reporting period, not including them in the cost of production. The distribution of general production costs, most organizations produce in proportion to the basic wages of production workers or the wages fund of specialists directly engaged in the performance of work.

Table 3. The Russian practice of expenses accounting [2, 6]

Organizations and their activities	Applied methods for expenses accounting	Percentage composition of expenses
PJSC "KAMAZ". Manufacture of trucks	With the ordering method of accounting for production expenses, an estimate of work in progress is carried out at a limited actual cost price. The evaluation of work in progress is carried out according to direct normative (planned) expenses items. Finished products are accounted for by actual expenses associated with its manufacture (at a limited actual production cost without taking into account general economic expenses). Analytical accounting of finished products in the warehouse is conducted in the context of the nomenclature at discount prices. As a record price, a limited normative cost is applied (without taking into account general economic expenses)	Material costs - 65.82% Labor costs are 11.91% Deductions for social needs - 3,32% Depreciation of fixed assets - 1.38% Utilization charge-8.26% Other costs - 9.31%
JSC AVTOVAZ. Manufacture of cars	Incomplete production is estimated in the volume of the workshop cost based on the standard method of accounting with the use of a semi-finished option for recording production costs without taking into account general economic expenses. General production expenses are distributed in proportion to the actual amounts of direct labor costs. Finished goods are valued at full actual cost, excluding sales and general operating expenses	Material costs - 69.77% Labor costs - 9.46% Depreciation - 5.69% Utilization fee - 3.83% Deductions for social needs - 2.73% Other expenses - 8.52%
OJSC "GAZ". Manufacture of spare parts and automotive components	In the main production, the method of accounting for production expenses and calculating the cost of production at actual costs is applied. Accounting for the costs of auxiliary and servicing facilities is made according to the actual expenses in the context of orders and objects of servicing industries and farms. The expenses collected during the month on account 25 are to be distributed to individual types of products in proportion to the basic wages of production workers or	Material costs - 61.2% Labor costs are 16.9% Depreciation - 3% Deductions for social needs - 5,3% Other costs - 13.6%

(continued)

Table 3. (continued)

Organizations and their activities	Applied methods for expenses accounting	Percentage composition of expenses
	<p>to the salary fund of specialists directly engaged in the performance of work. Finished goods are reflected in the accounting at the actual production cost.</p> <p>General economic expenses are fully written off into the cost of sales (works, services), (except for situations when they are directly related to the creation or acquisition of an asset)</p>	
OJSC U-UAZ. Production of helicopters and other aircrafts	<p>Calculation of the cost of a unit of finished products, the cost of work performed, services rendered is carried out by the order method</p> <p>At the end of the reporting period (month), the total amount of expenses is deducted from the account 25 in proportion to wages for orders of the main production and for orders of auxiliary production</p>	<p>Material costs - 58.07%</p> <p>Labor costs are 8.11%</p> <p>Deductions for social needs - 5,3%</p> <p>Depreciation - 1,75%</p> <p>Other costs - 29.73%</p>
PJSC MMC Norilsk Nickel. Non-ferrous metallurgy	<p>Finished products are estimated at the planned full production cost (that is, without taking into account managerial and commercial expenses)</p> <p>Incomplete production is estimated at the actual production cost</p> <p>The evaluation of semi-finished products is carried out at the accounting value</p>	<p>Materials, raw materials and semi-finished products - 16.90%. The cost of acquiring energy resources is 6.54%.</p> <p>Labor costs are 16.9%.</p> <p>Deductions for social needs - 5,3%. Expenses for payment of services of industrial character of the foreign organizations - 21,36%.</p> <p>Taxes - 4.92%.</p> <p>Depreciation - 10,60%</p> <p>Export customs duties - 2.9%. Other costs - 10.38%</p>
PJSC GAZPROM. Oil production, production of petroleum products and generation of electrical and heat energy	<p>Incomplete production is estimated in the amount of actual production costs without taking into account general economic expenses</p> <p>Finished goods are estimated at the reduced actual production cost without</p>	<p>Materials - 5.85%</p> <p>Labor remuneration and deductions for social needs - 11.06%</p>

(continued)

Table 3. (continued)

Organizations and their activities	Applied methods for expenses accounting	Percentage composition of expenses
	taking into account general economic expenses	Depreciation of fixed assets and intangible assets - 17.66% Other - 65.43%
PJSC "Polyus Gold". Extraction of precious metal ores and sands	The account 26 at the end of the reporting period is written off to 90 accounts	Material costs - 0% Labor costs - 29.75% Deductions for social needs - 6.06% Amortization - 0,03% Other costs - 64.16%
PJSC RusHydro. Power generation by hydroelectric power plants	Inventories are taken into account in the amount of actual costs of acquisition (production)	Material costs - 29.79% Labor costs - 12.85% Deductions for social needs - 2.96% Depreciation - 22.29% Other costs - 32.11%
OJSC Rosneft Oil Company. Industry	Information is not disclosed	Material costs - 82% Labor costs 0.4% Deductions for social needs - 0.08% Depreciation - 3.1% Expenses related to the exploration and evaluation of oil and gas reserves - 0.46% Other costs - 13.87%
PJSC "Vimpel-Communications". Provision of communication services	Management expenses are charged to the expenses of the reporting period to account 90	Material costs - 51.75% Labor costs - 8,333% Deductions for social needs - 6.06% Depreciation - 13.16% Other costs - 24.12%
The group of companies "MCC" EuroChem". Production and distribution of mineral fertilizers and extraction of minerals	Information not disclosed	Raw materials and materials - 35.12% Other materials - 10.39% Staff costs, including contributions to social funds - 13.54% Depreciation of fixed assets and intangible assets - 9.87% Other costs - 31.08%

(continued)

Table 3. (continued)

Organizations and their activities	Applied methods for expenses accounting	Percentage composition of expenses
PJSC Severstal. Extraction and production of metal products	Information not disclosed	Information not disclosed

It should be noted that some organizations do not disclose information on the methods used to account for production costs, indirect costs distribution bases, methods for estimating work in progress and finished products. The reason for this is the absence in the system of Russian PBU requirements for the disclosure of this information. The percentage composition of expenditures among various Russian organizations is also significantly different. The data in Table 3 allow us to conclude that for industrial organizations the greatest relative weight is possessed by material costs (more than 50% for the organizations studied). The least specific weight belongs to such elements of expenses of the specified organizations as depreciation and deductions for social needs. Another is the percentage composition of costs for extracting organizations: The labor costs and depreciation have a fairly large share. We also draw attention to the fact that some organizations do not disclose information on the percentage composition of costs in the financial statements prepared in accordance with IFRS.

4 Conclusions

The conducted researches allow drawing the following conclusions concerning the current state of accounting of cost and expenses. Both in the system of national Russian accounting standards, and in the IFRS system, there are provisions containing the theoretical bases of cost accounting: the definition of this concept is formulated, the classification of expenses is presented, and the criteria for recognizing expenses in accounting and reporting are proposed. At the same time, the formulated theoretical propositions are not applied consistently in the totality of both Russian and international standards, and the term “expenses” in many cases is used in a meaning that contradicts the definition of this concept. In a significant number of situations, there is an identification of the concept of “costs” with the concept of “expenses”. At the same time, the theoretical bases of accounting for costs are not set out both in the RAS system and in the IFRS system. Not fully described in the systems of RAS and IFRS and the methodological basis of accounting for costs. The inadequacy of the theoretical and methodological bases for recording costs and expenses in accounting standard systems causes different interpretations in the interpretation of these concepts in the scientific literature, as well as the existence of problematic aspects of accounting for costs and expenses in the practical activities of organizations.

We believe that a number of the following measures are needed to solve the problematic aspects of cost and expenses accounting. In order to sequencing approaches to the accounting of costs in the system of Russian accounting standards, a clear

and unambiguous formulation of the definition of the concept of “expenses” and “costs” in all regulatory documents on accounting in accordance with their definitions should be given. It is necessary to introduce in the system of accounting standards the regulation of general approaches to the methodology of cost accounting in the cost of finished goods and work in progress. It is advisable to include in the accounting standards regulating the accounting of inventories, the requirement on the need to disclose the accounting methodology of expenses in the cost of finished products and work in process. We also believe that the system of IFRS, which in many ways is the basis for reforming Russian accounting, requires further improvement. At the same time, the fact that recently international standards have been developing quite intensively allows us to hope that the problematic issues of accounting for costs and expenses in this system will be solved in the future.

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