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# PROBLEMS OF ACCOUNTING AND REPORTING FOR MANUFACTURING OVERHEAD COSTS

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***Abstract.*** *The main problems of accounting and reporting for manufacturing overhead costs are investigated, and approaches to their solution are identified.*
***Keywords:*** *costs, allocation base, documentation, reporting.*

## Introduction.

Manufacturing overhead costs are an important component of the activities of any manufacturing enterprise. Proper cost accounting helps prevent inefficient use of resources and sharp fluctuations in product costs, facilitates the evaluation of business units, ensures the proper presentation of information in financial statements, and supports management decision-making. Therefore, it is necessary to investigate the main problems of accounting and reporting for manufacturing overhead costs and identify ways to address them.

## Main text.

Problems in accounting for manufacturing overhead costs are primarily associated with the insufficient number of source documents used to record cost-related transactions and the need to expand the scientific and practical framework concerning the specifics of their allocation.

First, for greater detail, the place of costs within the accounting system should be determined. In their research articles, most authors, including Skorniakova Y. and Lukina D., Bardadym M., Kolisnyk O., Sukhodolska D., Akimova T., Raspopova Y., Voliashchenko I., and others, characterize costs as resources consumed in the production process. It is also important to note that production costs directly affect an enterprise's profit; therefore, a clear cost management system is required.

When determining product cost, it is necessary to allocate a portion of manufacturing overhead costs. Accordingly, the enterprise selects an allocation base, i.e., an indicator in proportion to which a portion of the costs is assigned to the respective types of manufactured products (Fig. 1).

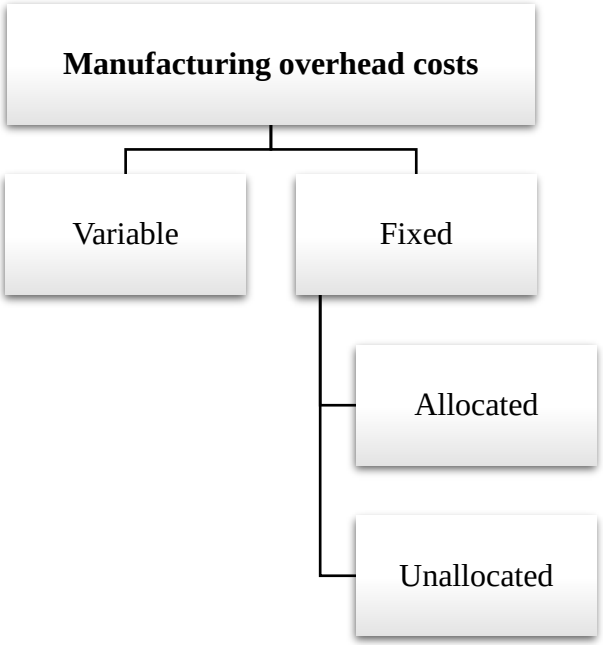


**Figure 1 - Classification of manufacturing overhead costs in relation to production volume**

*Source: compiled based on source [5]*

According to National Accounting Standard (NAS) 16 "Expenses", manufacturing overhead costs are classified in relation to production volume as variable and fixed. Variable manufacturing overhead costs are allocated to each type of product using an allocation base. Allocation bases may include labour hours, wages, activity volume, direct costs, etc., taking into account the actual capacity for the reporting period. Fixed manufacturing overhead costs remain largely unchanged regardless of production volume [5].

Accordingly, variable and allocated fixed manufacturing overhead costs should be included in production cost by recording the entry: Debit 23 "Production" – Credit 91 "Manufacturing Overhead Costs". Unallocated fixed manufacturing overhead costs, in turn, should be included in the cost of goods sold by recording the entry: Debit 90 "Cost of Sales" – Credit 91 "Manufacturing Overhead Costs" [6].

However, legislation does not provide clear recommendations regarding the criteria that should be applied when selecting an allocation base at an enterprise. There is a need to develop a more detailed cost-control strategy that can help increase profit and reduce losses.

This is also related to the lack of an up-to-date scientific and practical framework that would provide a more detailed explanation of reliable accounting for manufacturing overhead costs in accordance with applicable legislation.

In her research article, M. Bardadym links the formation and allocation of manufacturing overhead costs with planning, analysis, control, and strategic management. The article emphasizes the need to implement functions that enable more effective cost management and control over the use of material, labour, and financial resources (Fig. 2) [2].

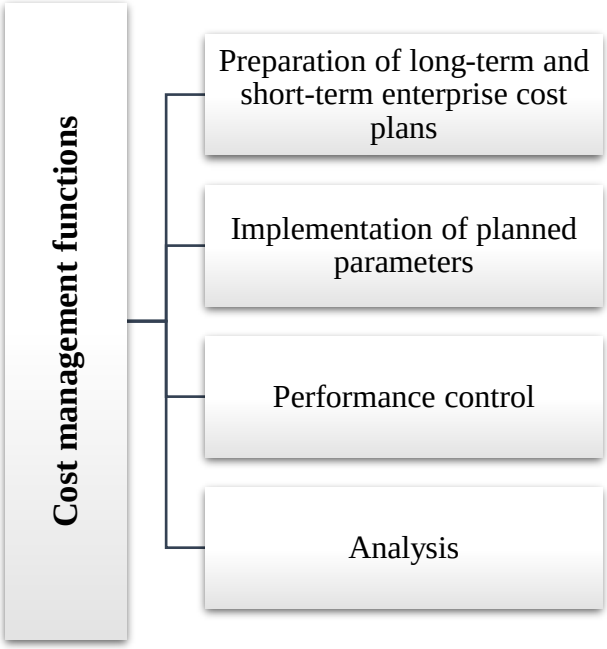


**Figure 2 - Strategic cost management functions**

*Source: compiled based on source [2]*

Attention should also be paid to the insufficient documentary support for cost accounting and the need to develop new forms for analytical purposes. Traditional document flow generally answers only what business transaction occurred and its amount; however, this is insufficient for effective cost management and for providing the level of detail required in internal reports.

Davydiuk T. devoted her research article to the problems of documenting manufacturing overhead costs. The author proposed adding an "Analytical Attribute" field to source documents to disclose information on the type of product, the name of the business unit, and the type of delivery, thereby simplifying the cost management process.

It was also proposed to develop forms for grouping costs by elements of cost, costing items, and cost centres. This would make it possible to assess costs according to their purpose and place of incurrence [7].

In the author's view, to address cost control at a manufacturing enterprise, a new analytical accounting form, "Statement of Accounting for and Allocation of Manufacturing Overhead Costs by Responsibility Centres", may be introduced. This form would combine cost centres, types and items of costs, allocation bases and allocation rates, the amounts of allocated and unallocated costs, and the types of products to which such costs are assigned. This would enable a more detailed assessment of the structure of manufacturing overhead costs and ensure the proper presentation of information in the financial statements.

The proposed approaches to detailed cost documentation and the use of management reports would also allow information to be disclosed more transparently in the annual financial statements, which is necessary to ensure reliable accounting information.

**Conclusions.**

Thus, accounting and reporting for manufacturing overhead costs have not been sufficiently researched and require further improvement. More detailed recommendations should be developed regarding their allocation and accumulation. Equally important is the lack of adequate documentation of costs from the point of their incurrence through their inclusion in product cost. Cost control contributes to sound management decision-making and the proper presentation of financial statements.

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