



International Journal of Applied Business and Economic Research

ISSN: 0972-7302

available at <http://www.serialsjournal.com>

© Serials Publications Pvt. Ltd.

Volume 15 • Number 11 • 2017

Features of Economic Costs of Trading Enterprise: Theory and Practice

Irina V. Kapustina¹, Tatiana V. Kirillova², Olga V. Ilyina³, Oleg A. Razzhivin⁴ and Pavel A. Smelov⁵

^{1,2}*Saint-Petersburg Polytechnic University Peter the Great, Saint Petersburg, Russia*

³*Higher school of merchandising and service of Saint-Petersburg Polytechnic University Peter the Great, Saint Petersburg, Russia*

⁴*Kazan Federal University, Yelabuga, Russia. Email: olegrazzhivin@yandex.ru*

⁵*Plekhanov Russian University of Economics, Moscow, Russia*

ABSTRACT

Under the conditions of commodity-money relations and economic isolation of the enterprise, there are inevitable differences between public expenses and production expenses of the company. Public production expenses are a combination of live and embodied labor which finds expression in the cost of production. Expenses of the enterprise consist of the sum of all expenses of the enterprise for production and its sale. These expenses, expressed in monetary terms, are called costs and are part of the product value. The largest share of the expenses for industrial production consists of raw materials and basic materials, followed by salaries and depreciation. Getting the maximum effect with the least costs, saving manpower, material and financial resources depend on how the company solves the problems of reducing the cost of production. The process of improving the organization of production and labor, in addition to cost saving by reducing the losses, more often than not provides for increased productivity of labor, i.e. saving the cost of human labor. At the current stage of economic development, the economy of human labor in comparison with the economy of social labor gives more significant results, as evidenced by the study of economic growth through the use of a production function.

JEL Classifications: D01, D04, D21, D24.

Keywords: Enterprise economy, economic costs, economic analysis.

1. THE CONCEPT, NATURE, AND THE STRUCTURE OF THE TRADING COMPANY'S EXPENSES

Economic literature and regulatory documents contain such concepts as “expenditures”, “expenses”, “costs”. It should be noted that some authors consider these terms different, while others use them as synonyms.

The term “costs” is used, as a rule, in economic theory. This is a total sacrifice of the enterprise connected with the implementation of certain operations. They include both explicit (accounting) and imputed (alternative) costs.

Explicit (accounting) costs are expressed in the form of money in company’s spending, caused by acquisition and expenditure of the different types of economic resources in the process of production and circulation of products, goods, works or services.

Alternative (imputed) costs mean the loss of enterprise’s profit which it would have received if it had chosen alternative production of goods, at the alternative price, on the alternative market, etc.

Therefore, it is advisable to understand the expenditures as the explicit (accounting, actual, calculated) costs of the enterprise.

The term “expenses” means a reduction in assets of the company or an increase in its debt obligations in the process of the economic activity. Expenses are the use of raw materials, third-party services, etc. Only at the time of sale, the enterprise recognizes their incomes and related part of the expenditures - expenses. Thus, we can say that the concepts “costs”, “expenses”, “expenditures” are not directly synonymous.

The official definition of expenses (expenditures) is the “reduction or other expenditure of enterprise’s assets or occurrence of liabilities as a result of the delivery or production of goods, services or other activities that constitute the main and constant directions of enterprise’s activity” (IFRS). In other words, it is expenses that in the accounting period in the course of economic activity lead to decrease in equity, appear in the normal course of the company and serve for the corresponding revenues.

In fact, expenses are one of the main subjects of management accounting interest, just as the decisions taken in order to reduce them constitute the main tools available to the manager in order to improve the efficiency of the enterprise. The sales volume mainly depends on the marketing department, and in the short term is the result of its activities. Productivity is more dependent on technologists. Estimation of expenses, as well as their horizontal and vertical analysis, helps owners of the company to evaluate the work of certain managers and the management of the company as a whole. The result of produced and paid expenses is the company’s accumulation of accounts payable. It is a prediction of expenses that helps management make a real budget and work out plans of the enterprise for the future.

The cost value of products (works, services) is the cost estimation of material, labor resources used in the production and sale of goods (works, services), as well as production and marketing expenses.

Circulation costs are the monetary value of expenses needed to bring the products from producers to consumers.

Thus, the concept “expenses” is more capacious than concepts “cost value” and “circulation costs” and includes the following constituent elements, shown in Figure 1.

The expenses of the enterprise or organization are major economic indicators of the trading enterprise’s activities and are decreases in economic benefits as a result of the disposal of assets (cash, other property) and (or) the incurrance of liabilities, leading to a decrease in the capital of this organization except the reduction of contributions by decision of participants (owners of the property).

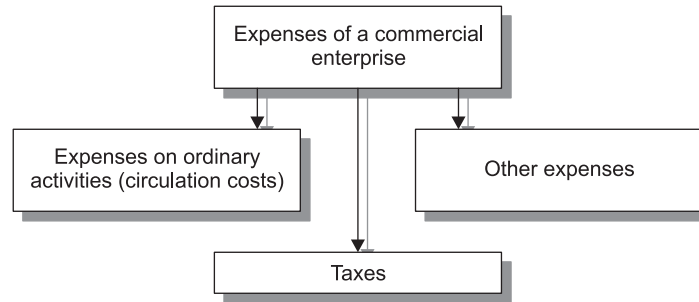


Figure 1: The structure of the trading company's expenses

2. MATERIALS AND METHODS

The theoretical and methodological basis of the study were the works of foreign and domestic economists, as well as laws and regulations governing the management of the enterprise's economy and the formation of commercial enterprises' costs accounting systems. The main methods that have been used in the study are statistical and abstract-logical methods.

The information base for the study is the statistical data of the State Statistics Committee of Russian Federation, as well as data from the Internet and independent statistical sources published in the periodical press.

3. CHARACTERISTICS OF THE EXPENSES RESULTING FROM MAIN ACTIVITIES OF TRADE ENTERPRISE

Expenses from ordinary activities are those associated with the manufacture of products and sale of them, purchase and sale of goods. Those expenses, implementation of which is related to the performance of work, rendering of services are also considered to be expenses from ordinary activities. For commercial enterprises, expenses from ordinary activities include circulation costs.

Expenses from ordinary activities are formed by:

- expenses connected with the acquisition of raw materials, goods, and other inventories;
- expenses arising directly during processing (improvements) of inventories for production purposes, works and services and selling them, as well as the sale (re-sale) of goods (the cost of maintenance and operation of fixed assets and other non-current assets, and keeping them in good condition, selling costs, administration costs, etc.) (Kazarskaya, 2012; Bashkov & Silnov, 2015).

Economic activity is linked to the production of goods (works and services), and their promotion a result of the sale of production to consumers. At all these stages there are expenditures of labor and materials. During the creation of products (goods) their actual production cost value which includes the sum of expenses for manufacturing of products (goods) is determined. And expenditures related to the flow of goods from production to consumers including their implementation to end-users are the circulation costs. They should be seen as the cost value of purchase, delivery, and sale of goods.

The concept of expenditures is a multifunctional category. Trading enterprises distinguish expenditures of purchase of goods, capital investments in the expanded reproduction of capital assets and current

expenditures of the organization of economic activity (transport, storage, rework, subgrading, packaging, advertising and sale of goods).

Concerning any expenditures, the enterprise has the main task - to ensure their effective use.

When forming the ordinary activities expenses they must be classified according to the following elements:

- material expenditures;
- labor expenditures;
- the amount of accumulated depreciation;
- other expenditures.

Material expenditures in a trade reflect the cost of fuel and energy of all kinds, depreciation of low-value items, expenses for the use of natural resources (water charges), losses from shortages of material resources within the norms of natural loss (Il'yashchenko, Chinakhov & Gotovshchik, 2014).

Labor expenses include the basic and additional wages, payment of works under employment agreement and construction contracts, payments on the established norms from the labor expenses in the social insurance fund, pension fund, medical insurance fund and employment fund.

Depreciation of fixed assets includes the amount of wear on its own and leased fixed assets (calculated according to the norms of depreciation on the full restoration of the book value of fixed assets).

Other costs: this element is comprehensive and includes: taxes, fees, charges (including compulsory insurance), contributions to insurance funds (reserves), payment of interest on loans, payment of works on certification of products, travel costs, fees to third parties for fire and security guard, for the training and retraining of personnel, payment services, computer centers, banks, amortization of intangible assets and others.

For trade companies engaged in procurement, sales and intermediary activity, there is a more detailed classification by expenditure items according to the recommended nomenclature circulation costs: transport expenses; labor expenses; social contributions; the cost of rental and maintenance of buildings, structures, facilities, equipment, tools; depreciation of fixed assets; the cost of repair of fixed assets; the cost of sanitary and special clothes and other materials; the cost of fuel, gas, electricity for industrial purposes; storage costs, subgrading and packaging of goods; advertising expenditures; loss of products and process waste; on packaging costs; other expenses.

Circulation costs are compensated by income from trading activities. Other costs shall be reimbursed at the expense of financial results (profit before tax) or from the profits remaining at the disposal of trade enterprise (Gribov, Gryzinov & Kuzmenko, 2012; Sklyarenko, 2012; Tsaregorodtseva, 2012).

According to the dependence on the volume of trade enterprise, circulation costs are divided into fixed and variable ones (Savitskaya, 2013).

Fixed circulation costs are cost items that do not depend on the size and structure of goods turnover. These include the cost of rent of trade items, depreciation of fixed assets, depreciation of low-value items, compensation of employees by salary or wage rates, etc. These expenses do not depend on the volume of trade.

Variable circulation costs are those the amount of which directly depends on the volume and trade structure. Such circulation charges include transportation expenses, costs of packaging and rework of goods, advertising costs, costs of paying interest on the loan, the cost of labor to workers on piece-rates, and others. The nature of these costs can be expressed as follows: variable ones include the costs related to the use of production factors, the amount of which is determined by changes in the sale of goods (services).

The nature of the dependency of variable circulation costs on the volume of turnover has a different degree of subordination (Table 1).

Optimal circulation costs are charges that allow to increase the volume of activity of the commercial enterprise, to maximize profits without reducing the quality of service. This is important in any activity since optimization of circulation costs increases the company's competitiveness, and, respectively, its future.

In trading enterprises optimization of circulation, costs are also relevant, but we should not forget about the quality of customer service. Trading enterprise is a service sector and main expenditures in addition to transport, advertising and maintenance expenditures, are wage expenditures. We can reduce expenditures for staff costs, but it can affect the display of goods in a store, its packaging, and delivery to the buyer. Also the number of cashiers: their insufficient number may lead to the formation of queues, customer dissatisfaction, and, as a result, the loss of customers.

Table 1
Dependence of variable circulation costs on the turnover volume

1. When the variable costs change in the same proportion to the volume of turnover. Such charges are called proportional.	2. When the most of the variable costs change in the same direction with the change of volume but in relatively smaller proportion. Such costs are called depression.	3. When expenses change to a relatively greater extent compared with the volume of turnover. Such costs are called progressive.
---	---	---

The expenses management takes one of the leading positions in the economy of any enterprise. Expenses from ordinary activities have the «lion's» share of all enterprise expenses, as they are aimed at core activity: sale and purchase of goods works execution and service provision. To provide a complete picture of enterprise expenses we should take into account and analyze such important elements as other expenses and taxes paid by trading enterprises.

4. THE COMPOSITION AND STRUCTURE OF OTHER EXPENSES OF TRADING ENTERPRISE

Other expenses and enterprise taxes are an integral part of the indicators that form the financial performance of the trading enterprise.

Other expenses are:

- the expenses connected with the lease of the organization's assets for a fee (temporary possession and use);
- the expenses connected with the provision (for a fee) of rights arising from patents for inventions, industrial designs, and other intellectual property
- the expenses connected with participation in authorized capitals of other organizations

- the expenses connected with sale, retirement and other write-offs of core funding and other assets, other than cash (excluding foreign exchange) of goods and products;
- interest paid by the organization for providing it with cash (credits, loans);
- the expenses connected with paying for services provided by credit institutions;
- contributions to valuation reserves created in accordance with the accounting rules (allowance for doubtful accounts, impairment of investments in securities, and others.), as well as the reserves established in connection with the recognition of contingencies;
- fines and penalties for violations of the terms of contracts;
- compensation for losses caused by the organization;
- losses of previous years recognized in the reporting year;
- the amount of receivables for which the limitation period has expired, other uncollectible debts;
- exchange rate differences;
- the amount from reduced value of assets;
- transfer of funds (contributions, payments, etc.) related to charitable activities, implementation costs of sporting activities, recreation, entertainment, events, cultural and educational and other similar events;
- other expenses.

Other expenses also include expenses arising from consequences of emergencies in economic activity (natural disasters, fire, accidents, nationalization of property, etc.).

According to s-p. 1, para. 1, Art. 264 of the Russian Tax Code, the other expenses associated with production and sales also include the amount of taxes and fees, customs duties, and fees accrued in the manner prescribed by the Russian legislation. As pointed the FAS in its Resolution of 27.04.2007 N A55-11750 / 06-3, paying taxes is a constitutional obligation of the taxpayer and is directly related to any profitable enterprise operation. Dereliction of this obligation entails negative consequences for the taxpayer up to the recognition of bankruptcy.

Moreover, each tax implies its own procedure of repayment described in the relevant chapters of the Tax Code. The Finance Ministry in a letter dated 22.09.2006 N 03-04-11/178 indicated that expenses include all taxes and fees accrued by the organization as the taxpayer in accordance with the tax and duties legislation, except for VAT, excise duties, provided by the taxpayer to the buyer (purchaser) of goods (works, services, property rights). Thus, the amount of VAT calculated by the taxpayer at the sale of goods (works, services), including the donation, are not included in expenses in the calculation of corporate income tax.

5. TAX REGIMES

Currently, there are the following tax regimes:

1. The traditional system of taxation: turnover tax (VAT); Tax attributable to circulation charges (UST, mandatory contributions for insurance against accidents at the enterprise, transport, land

tax); tax attributable to the financial result (property tax); taxes, reducing the profit before tax (profit tax).

2. Special tax regimes: UTII; USN.

Retail and wholesale trade are the most popular types of activity, almost in all regions transferred to the payment of the unified tax on imputed income (UTII). The flat tax on imputed income is a special tax regime, operating on the territory of the Russian Federation pursuant to Sec. 26.3 of the Tax Code, legal acts of representative bodies of municipal districts, urban districts and the laws of federal cities.

The essence of the special tax regime comes down to the replacement of the majority of federal and regional taxes with one flat tax calculated for the tax period for a certain category of small enterprises.

Principles of organization of the special tax regime are essential for the fullest implementation of the fiscal and regulatory functions (potential) of a flat tax on imputed income as a form and mechanism of tax regulation (Mindlin, Zhukov, Prokhorova, Shutilov & Belova, 2016).

The transition to the flat tax payment is beneficial for enterprises engaging in retail trade providing large volumes of turnover. In accordance with statistical data, using a flat tax on imputed income reduces the amount of paid taxes by 2 times or more.

Organizations and individual entrepreneurs who are taxpayers of the flat tax, pay insurance contributions to compulsory pension insurance in accordance with the Russian legislation.

The object of taxation in the application of a flat tax is an imputed income for the next calendar month.

Imputed income is a potentially possible income of flat tax, which is calculated taking into account a combination of factors that directly affect the receipt of the indicated income, and are used to calculate the value of a flat tax at the prescribed rate.

The tax base for the calculation of flat tax is the value of imputed income calculated as the product of basic profitability for a certain type of business activity and the value of the physical indicators that characterizes this type of activity. The base profitability refers to model monthly yield in value terms for a particular unit of physical indicators that characterizes a certain kind of entrepreneurial activity in various comparable conditions.

The physical indicators characterizing a certain kind of entrepreneurial activity and the basic rate of return in a month are used to calculate the sum of the single tax depending on the type of business. Basic profitability to determine the imputed income for organizations and individual entrepreneurs according to the RF Tax Code and the Law of the Republic of Khakassia "On the tax system as a flat tax on imputed income for certain types of activities." Basic profitability, depending on the type of business (for example, the Republic of Khakassia), is of 1,800 rub per month for retail trade carried out through the objects of fixed trade network.

The sum of the flat tax rate is calculated taking into account the values of basic profitability, the number of physical indicators that affect the results of business activities and enhance (lower) the basic profitability ratios.

Basic profitability shall be adjusted (multiplied) by the coefficients K1, K2. K1 – coefficient-deflator corresponding to the index of changes in consumer prices for goods (works, services) in the Russian Federation. The coefficient-deflator is published in the manner prescribed by the Government. In 2006, the K1 = 1.132.

K2 is the correction coefficient of basic profitability ratio that takes into account certain features of business, including the range of goods (works, services), seasonality, time, amount of income, special features of place, where business is situated, total area of the information field - lighting and electronic displays, printing and (or) outdoor advertising printing, and other features. Currently, it is set in the range of 0.005 to 1. Thus, the local authorities have the opportunity to reduce the increased tax burden on UTII, by reducing the value of the correction coefficient K2.

The size of the imputed income for the quarter, during which the relevant state registration of a taxpayer is carried out, shall be calculated on the basis of full months, starting from the month that follows the month of the specified state registration.

Tax period for the single tax is a quarter.

6. MEASURES UNDER PRESUMPTIVE TAXATION

The organization must provide a number of measures related to the activities under presumptive taxation. Among the most important measures are:

- organization of the account of the physical indicator (s), defining the tax base for the flat tax on imputed income (the number of employees, sales outlets, vehicles, sales area, sleeping area);
- organization of separate accounting of revenues, expenses, wages and payment of the property by type of activity (or by outlets) if the company is subject to presumptive taxation only in respect of part of its activities;
- conducting of inventory of reserves and costs by diversified enterprise in order to identify stocks and costs related to the activities subject to presumptive taxation;
- making appropriate changes in accounting policies.

In the retail and catering enterprises, there is a need to organize the account of number of employees (experts) in each outlet (catering point), ensuring separate accounting for the number of core staff and the number of managerial and support staff. Conventional timesheets are suitable for this purpose.

Diversified enterprises should make an inventory of stocks and costs, and properly arrange the results. Inventory is necessary, first and foremost, to justify the amount of the organization expenses for production (works, services), that is taken into account in determining the tax base for income tax in future periods. Secondly, on the basis of these data, the company determines the value of added tax that may be presented to the budget. It is necessary to separately identify the remains of stocks (expenditures) paid to suppliers in prior periods for which VAT has brought the budget. Recalculation of the tax on the added value is not performed for such stocks (expenditures).

The value added tax on the part of the stock (expenditures), debt for which the organization have not repaid by the beginning of the reporting period, was not presented to the budget. In subsequent periods,

the tax may be presented to the budget only in those stocks (expenditures), which will be used for the production of products (services) subjected to value of added tax but not of 'presumptive' tax. On the part of the stock (expenditures) which will be used in carrying out activities subjected to the flat tax on imputed income, the value of added tax is not imposed on the budget. Amounts of value of added tax, registered on the account 19 "Value-added tax on acquired assets" shall be charged on the increase in the value of these stocks (expenditures).

7. CONCLUSION

Trading enterprise faces certain expenditures while carrying out economic activities. Expenditures are the most general concept, which unites all the money resources spent on any business transactions within a social necessity. Expenditures that exceed this value are losses.

Expenses are investments in current operations. According to the Tax Code, "expenses are recognized as reasonable and documented expenditures (in some cases, losses) carried out (incurred) by the taxpayer" (Abryutina, 2013). And reasonable expenses should be understood as economically justified expenditures, the assessment of which is expressed in the form of money. Documented expenditures are those confirmed by documents drawn up under the current law. In addition, according to the current regulations, expenses can be described as "any expenditures provided that they are made to carry out activities aimed at generating income..." (Abryutina, 2013).

However, not all the expenditures of commercial enterprises are recognized as expenses necessary for deduction in determining the profit margin.

Costs (all in all) mean investing in business transactions. That is, in trade circulation costs are the expressed in monetary terms expenditures of labor and materials by systematic bringing and selling goods to consumers. They include the expenses on salaries for trade operators, transport, storage, packaging, sorting and preparation of goods for sale, as well as expenses on the organization of procurement and implementation, trade management, record keeping and monitoring the implementation of trade plans and financial activities.

Economic analysis of the circulation costs reveals the possibility of more effective utilization of material, labor, financial resources, and thereby increase the effectiveness of sales activities to strengthen the competitiveness. Approaches to conduct costs analysis is determined by the accounting policy. At the same time, the analysis tasks are almost the same, but the depth of the analysis and the number of calculated indicators will differ.

References

- Abryutina, M. (2013). *Economic Analysis of Trading Activity*. Moscow: Business and Service.
- Bakanov, M. (2013). *Calculation of Distribution Costs in Trade*. Moscow: Economics.
- Gribov, V., Gryzinov, V. & Kuzmenko, V. (2012). *The Economy of Organizations (Enterprises)*. Moscow: KNORUS.
- Il'yashchenko, D.P., Chinakhov, D.A., & Gotovshchik, Y.M. (2014). MAW productivity development and reduction of its harmful effect on human organisms. *Applied Mechanics and Materials*, 682, 122-126. doi:10.4028/www.scientific.net/AMM.682.122

- Kazarskaya, N. (2012). *Economics of Commercial Enterprise: Textbook* (3rd ed.). Moscow: Economy.
- Mindlin, Y.B., Zhukov, B.M., Prokhorova, V.V., Shutilov, F.V., & Belova, E.O. (2016). Main stages of the formation of an economic cluster. *International Journal of Economics and Financial Issues*, 6(1S), 261-265.
- Savitskaya, G. (2013). *Analysis of Economic Activity of the Enterprise: Textbook* (3rd ed.). Moscow: INFRA-M.
- Sergeev, I. (2012). *Economy of Organizations (Companies): Textbook*. Moscow: Finance and Statistics.
- Bashkov, A.A., & Silnov, D.S. (2015). Investigating the possibility of using piecewise constant functions in spectral analysis of signals. *International Journal of Applied Engineering Research*, 10(24), 44211-44213.
- Sklyarenko, V. (2012). *Business Economics: Textbook*. Moscow: INFRA-M.
- Solomatin, A. (2013). *Economics and Organization of Commercial Enterprises: a textbook allowance*. Moscow: INFRA-M.
- Tsaregorodtseva, S. (2012). *The Economy of Trade Enterprises: Textbook*. Kemerovo: Kemerovo Technological Institute of Food Industry.