Volume 17 Issue 4
Originally issued as D1

Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 17 Issue 1 Version 1.0 Year 2017
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

# Classification of Socially-Oriented Business Entities Costs

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The definition of the "socially-oriented activities costs" is provided." The structure and classification of socially-oriented activities costs is developed, which is necessary for the improvement of the internal controls in the economic activity of the entities.

The article also provides the recommendations, which are aimed at improvement of the socially-oriented activities costs accounting, which will increase the level of the social responsibility.

*GJMBR-D Classification:* *JEL Code: M41*




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# Classification of Socially-Oriented Business Entities Costs

Kostiantyn Galak [α] & Olga Romashko [σ]

*Summary-* The article examines the nature and content (components) of the of socially-oriented activities costs of economic entities.

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## I. Formulation of the Problem

Modern dynamic conditions of economic activity led to the need of accounting to adapt according to the clarification of the economic substance of the basic concepts, including costs of socially-oriented activities, determination of their structure and classification, as the business becomes more socially responsible, learns the concept of the social responsibility, which covers all economic entities. Moreover this is a very relevant and interesting research topic for many scientists in various areas.

a) *Analysis of the recent research and publications*

The concept of costs, its understanding and meaning changes along with the economic development. This can be proved by numerous studies of this concept, made by scientists from the different countries.

A more extended definition provided by Charles Anthony Richard, states that costs is a value of resources presented in monetary terms and used for a specific purpose [1]. Hornhren Charles Thomas and George Foster note that the costs are the resources consumed or money that should be paid for goods and services [2]. Shim Jay determines costs as a monetary measure of the amount of resources, which are used in purpose to achieve certain goals [3].

Accounting issues of social and environmental costs are elucidated in the works of scientists as social responsibility assessment of the entities. Scientific researches of socially-oriented activities costs are highlighted in the scientific works of economists who contributed to the theoretical and methodological aspects of accounting: Olga Patsula [7], Tetyana Strybulevych [8], Ganna Fomenko [9], Iryna Zhyhley [10], Vasyl' Len' [11], Yulia Cheban [12], G. Kozachenko [13].

*Results of these studies* show that the main areas for the development of socially-oriented activities costs in accounting should be: the improvement and implementation of standards and norms, which takes into account the international experience. In addition, the analysis of the literature revealed the contradictions of the "social costs" concept definition, which can help to define the term "socially-oriented activities costs". Moreover, it can help to develop its classification for the in-depth understanding of its nature and rational management, and also finding the opportunities to establish the connections of socially-oriented activities costs accounting with the other objects and accounting processes.

A large amount of publications on this subject indicates that this issue is very important for the scientists. However, until now the differences in conceptual apparatus exist between the scientists, practical recommendations in this area are underdeveloped; the prospects of accounting development are always considered. Since accounting is developing constantly, methods of accounting and practical advices are continuously researched, which emphasizes the relevance of this research topic once again.

*The aim of the study* is to define the "socially-oriented activities costs", make a research about their composition and structure, as well as to develop a classification of socially-oriented activities costs for the adoption in the accounting of economic entities.

## II. Materials and Methods

Materials of the research included works of the economists, who contributed to the theoretical and methodological aspects of the accounting of socially-oriented activities costs, as well as regulatory and legislative acts of Ukraine.

The study used the following scientific methods: induction and deduction, analysis and synthesis in purpose to express the meaning; comparison for establishing similarities or differences between conflicting concepts; synthesis in purpose to form

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appropriate conclusions; bibliographic method to study literature for receiving the relevant information about the research topic; method of associations and analogies for introduction of the new ideas and proposals that arise based on the comparison with other more or less similar objects.

## III. Results of the Research

While studying the socially-oriented activities costs, we should consider the major national and international regulations, which defined the term "costs" and regulate their implementation. In Ukraine it is Policy (Standard) of accounting 16 "Costs" (from now on – the P(S)BO 16 "Costs") approved by the Ministry of Finance of Ukraine on 31st of December, 1999, № 318 with amendments [4].

In this P(S)BO the concept of "costs" is indicated, it also records its composition and recognition, and disclosure of information related to it. P(S)BO 16 "Costs" was developed according to the international standards, but the separate IFRS "costs" does not exist there. Key provisions that define methodological principles of forming of the information about the costs in accounting are revealed in the Conceptual framework of the financial reporting, which is based on combined IFRS (IAS) 1 "Presentation of the Financial Statements", IFRS (IAS) 2 "Inventories", in which the costs are divided in order to evaluate inventories [5].

According to P(S)BO 16 "Costs" the subjects of costs are the products, works and services, types of activity, that require the identification of the costs associated with their production (implementation). Therefore, there is a reason to provide a definition of "socially-oriented activities costs".

Considering our proposed definition of "socially-oriented activities" [6] and the concept of "costs" according to the P(S)BO 16 "Costs", IFRS and the Conceptual framework of the financial reporting, we propose the following definition: “The socially-oriented activity costs are the reduction of the economic benefits and/or increase in liabilities of the entity, which leads to the reduction of the equity capital because of the socially-oriented activities implementation”.

It should be noted that the "socially-oriented activities costs" term is used by us for the first time, so it is new and unexplored in accounting.

The concept of the social responsibility has been explored for many years, but now there is an understanding that economic entities are spending their resources on the implementation of socially-oriented activities and it requires consideration of the costs, which are carried out for this purpose.

Moreover, it is important not to confuse the concept of "social costs" and "socially-oriented activities cost". There are different definitions of "social costs." Here are some of them, which are proposed by the scientists.

Olga Patsula proposes to define them as a disposal of different types of economic resources in accordance with the legal, socio-economic and moral-psychological guarantees which are aimed at meeting social needs of individuals or legal entities [7, p.6].

According to Tetyana Strybulevych, social costs are the economic resources expressed in monetary terms, which are aimed at providing state social guarantees required by applicable law, meeting the needs of the enterprise personnel, prevention of the adverse effects on its internal and external environment, and financing of the state social security system [8, p. 186].

Ganna Fomenko summarizes the proposed variants of this term, defining the social costs of the company as the sum of any costs of the taxpayer in the monetary, material or immaterial forms, associated with maintenance of the personnel, ensuring social protection and labour incentives of the personnel, as well as any costs aimed at socio-economic development of the society, which results in decrement of the economic benefits in the form of an outflow of assets or increase in liabilities, resulting to the decrease in equity [9, p.359].

Scientists have repeatedly tried to classify the main types of social costs [10, p. 187]. Thus, they have separated:

1. Use of the human factors (costs associated with the creation of working conditions at the enterprise, treatment of workers and employees);
2. Air purification;
3. Water purification;
4. Restoration of flora and fauna;
5. Filling of the energy resources;
6. The introduction of the new manufacturing processes;
7. Other expenses;
8. Compensation to the unemployed.

From this list we can see that the scientists tried to connect to the social costs classification those costs, which are related to the environmental protection (ecological ones, definitions of which are also enough) and in this regard they disagree.

In our opinion we should continue to adhere to the idea that the social costs are associated with the relationships between the entity and its employees in the calculation of wages and social security.

That is why we have proposed to solve this problem by generalizing economy, ecology and sociality of activities of economic entities in the "socially-oriented activities costs" concept.

In this regard, it is appropriate to show the structure of socially-oriented activities costs, this structure will enable better representation of their parts



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(components) to understand and define the importance of the research object for further work of scientists and managers (including accountants) of the economic entities.

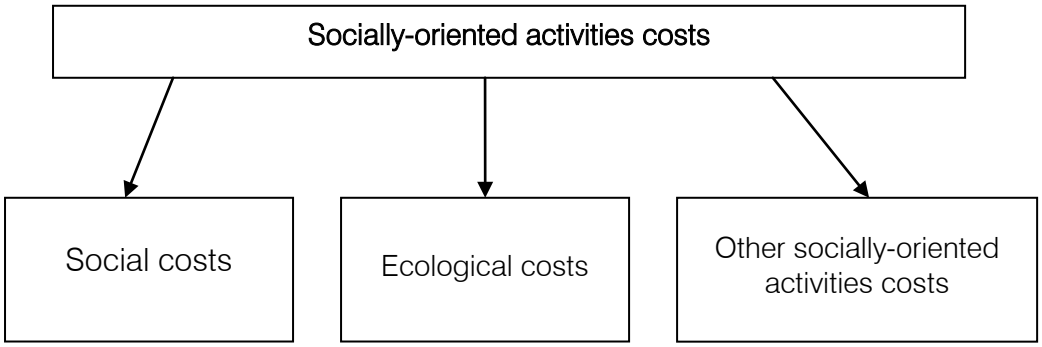



*Fig. 1.1:* The structure of socially-oriented activities cost

** Overviewed, developed and adapted by the author*

Due to the fact that this is a new concept, for the proper organization of accounting of the socially-oriented activities cost, it is important to have their scientifically-based classification that will allow to manage them more effectively and understand the purpose of their implementation.

While classifying the socially-oriented activities costs, all the possible criteria for social responsibility should be taken into consideration.

Various researchers have paid attention to the problem of the socially-oriented activities cost classification. For example, Vasyl' Len' notes [11, p. 305] that often social costs include only mandatory charges on wages and charitable aid; such a situation prompted to examine the issue of social costs and propose their proper classification.

Yulia Cheban suggests her own classification of social costs of agricultural enterprises [12]; this classification contains a feature "Depending on socially responsible enterprise activity" to which environmental and socially-oriented costs are attributed, it is noted that the fundamental difference between social costs is caused by the lack of clear legal regulations for the substantial part of them.

As we have already mentioned, we should adhere to the idea that socially-oriented activities costs are not a part of social costs, but rather vice versa, which comes out of the suggested definition and structure. In this regard, we believe that it is inappropriate to include the environmental costs into the social costs.

Classification of costs is quite dynamic and open system, so the emergence of new criteria does not prevent the use of previously proposed, it also allows users to select and manage new types of costs depending on the needs and opportunities of the management system [13, p. 82].

It is impossible to create a unified classification of costs that would be perfectly suitable for all types of business entities, because humanity needs change, new activities, techniques and technologies evolve.

It is worth noting that this may cause differences in the opinions of the researchers and business leaders who are practitioners. Entities can independently classify their spending, considering the type of the economic activity they exercise and needs of internal and external users for the information about the socially-oriented activities costs. Scientifically grounded classification of costs, including the socially-oriented activities costs, can serve as a basis for the classification of the own costs. That is why, in our opinion, managers, accountants and scientists should perceive new types of signs and classifications costs with understanding, and moreover it is necessary to improve this area of work continuously. This will help to consider the costs in a versatile and new way, improve the process of its management; in addition the information about the socially-oriented activities costs is also used by the various stakeholders.



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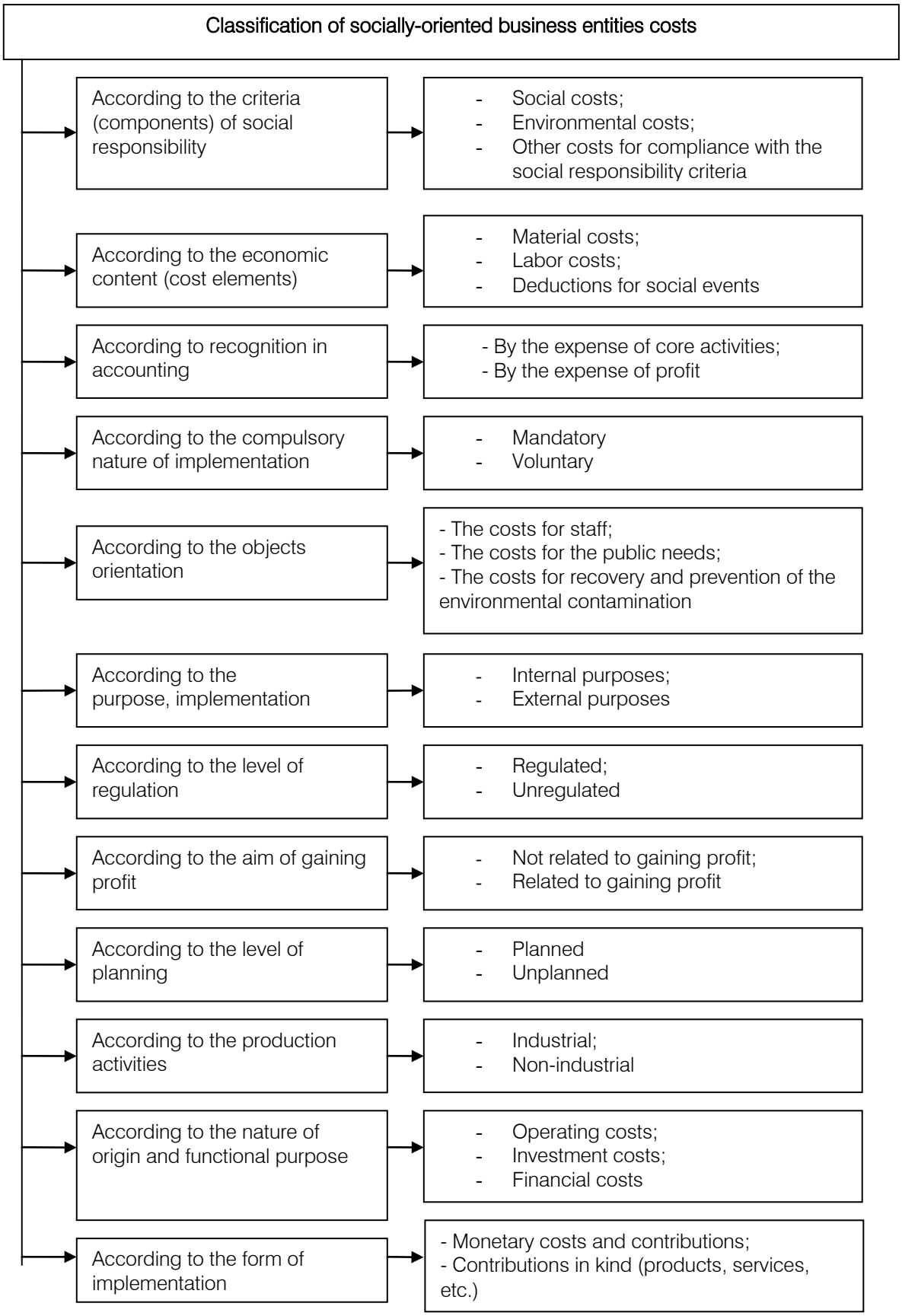



*Fig. 1.2:* Classes cost socially oriented activities and types of signs

** Overviewed and adapted by the author based on the sources [9, 11]*



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From this figure we can see that the socially-oriented activities costs can be a production necessity, also they can be associated with other activities.

To confirm the importance and correctness of classification of any object of the research, it is necessary to explain each feature (or the most important, most controversial and unexplained ones).

In the proposed classification of the socially-oriented activities costs, a feature "According to the criteria (components) of social responsibility" was attributed to them due to the fact that they are directly related to the social responsibility and its components. This feature includes social, environmental and other costs associated with compliance with the criteria of the social responsibility. The last ones can include costs for the support of the social responsibility and work with the society, which are not covered by the first two.

In our opinion, a very important feature is "According to the economic content (cost elements)" which includes material costs, labour costs; deductions for the social events. These costs can exist in the form of financial aid, gifts to the schools in the form of the own products and so on. It is necessary for the accountancy to conduct the synthetic and analytical accounting properly. With regard to wages and deductions for the social events, information about it demonstrates the responsibility towards the employees. The costs of the social protection of the workers are united in the "social package" concept.

For economic entities the socially-oriented activities costs may be mandatory and voluntary, which led to the selection of the "According to the compulsory nature of implementation" feature. All costs, associated with the social protection of workers and the environment, determined by law, are mandatory for the entity; those funds should be paid to the state budget. Fulfilment of these obligations in full and timely, the amount of costs spent by an entity is one of the indicators (evidence) of an active socially-oriented practice.

To the “voluntary” we attribute all the costs over those ones, which are legislatively established, which are carried out by the initiative of the entity to improve the quality of life of its employees, communities and the environment. They can have a one-time character (charitable or environmental action, etc.) or permanent assistance or support of the community. One of the most common particles in voluntary cost is charity and philanthropy. It depends on the financial position of an entity and governed within its own social policy and is optional.

For the better understanding of the object of costs, we have created a feature "According to the objects orientation". This is, accordingly, the people (employees, community) and the environment.

Business entities invest not only in their employees and business processes, but also in the needs of other people, which is one of the social responsibility criteria. In this regard, we have identified the feature "According to the purpose, implementation", it demonstrates that the entities carry out costs not only internally but also externally, beyond its limitations.

The social protection of workers is regulated by the state, but the entity may allocate additional costs for the needs of society, within its means, it is regulated by the director or by the individual decision makers (managers). In this regard, we have identified the classification feature "According to the level of regulation".

Among the examined feature so classification of the socially-oriented activities costs is an important one "According to the aim of gaining profit", which speaks for itself, because the entities not always carry out costs for gaining profit. For example, it could be voluntary charitable activities undertaken voluntarily by the owners. In this case, income is not the main purpose of these expenditures. Incomes are possible only if the charity is made to improve business reputation, which contributes to the better business conditions and increases incomes in particular. In this case there is no awareness of the importance of social responsibility, which also could be reflected on the reputation of the entity.

The economic situation changes drastically, so entities can perform unplanned costs in their budget, therefore the feature “According to the level of planning” is appropriate and important because information on these costs, as any other, is important for the budget.

One of the criteria of responsibility to the consumers is the production of the high-quality products, providing services and works of a good quality. Production costs are incurred for the production of quality products from the high-quality materials, non-production are related to other areas of work with employees and the public. The feature "according to the production activities" is also very relevant for this classification of the socially-oriented activities costs.

Considering the classification of the costs, it should be noted that by the nature of the origin and functionality the socially-oriented activities costs belong to the operational, investment and financial costs.

The abovementioned classification of the socially-oriented activities costs will improve their internal controls in business.

The definition, structure and classification proposed by us, will make it possible to find the relationship of the socially-oriented activities costs with other objects and accounting processes. From the definition their connection with the social responsibility can be traced, costs are important indicator of it. Since the socially-oriented activities costs are a part of the social cost, there is a relationship with such accounting processes as calculations of wages and other social guarantees and payments for taxes.



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In addition, environmental costs are included to the socially-oriented activities costs, which indicate the relationship with the environmental protection.

Like any object of the cost accounting, the socially-oriented activity costs entail accounting, economic information which is important for the management and other stakeholders. They act as a factor that influences the decision-making for the development of the entity and improvement of its competitiveness.

Internal and external position of the entity, including its business reputation, depends on the accuracy of recording information on the socially-oriented activity costs.

## IV. Conclusions

As the result of the study we have found out that the socially-oriented activities costs can be seen as the reduction of the economic benefits and/or increase in liabilities of the entity, which leads to the reduction of the equity capital because of the socially-oriented activities implementation.

We have proposed to show the structure of the socially-oriented activities cost schematically. In our opinion, this will help to know and understand their component parts (components) better; it will also enable better understanding and definition of the importance of this object of study. We have included the social, environmental and other cost to the elements of socially-oriented activities, which enabled unification of them into a single type of costs, which are associated with the concept of the social responsibility.

Due to the fact that the term "socially-oriented activities costs" is new, for the proper organization of accounting we have developed a scientifically-based classification, which is important for the effective management and understanding of its purpose and implementation.

The definition, structure and classification provided by author gives an opportunity to look for relationships of the accounting of the socially-oriented activities costs with other objects and accounting processes, such as payments of wages and other social guarantees and payments for taxes.

In addition, we emphasize the existing interconnection of the socially-oriented activities costs with the protection of the environment.

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