

## LEGAL REGULATION OF COST ACCOUNTING IN CONSTRUCTION

**Setting the problem.** Market transformations occurring in economics of Ukraine, including its construction complex, require significant changes in the information system of business owners and staff management. In the conditions of the highly competitive businesses, their survival and successful operation depends largely on the ability of economic services to prepare quickly and make well-founded decisions accurately on the costs of individual business units related to the construction of specific facilities, by the implementation of system activities and more. This information should comply with regulatory and legal standards. The current legislation of Ukraine on cost accounting shows a number of shortcomings in the organization of cost accounting and determining the production costs of construction products. Disagreement in the legal, regulatory and guidance framework of accounting and financial reporting in the field of expenses requires the creation of effective methods of cost accounting in the process of building construction products.

It determines the relevance of the research topic and its practical value.

**The analysis of recent researches and publications.** Many domestic scholars and economists are involved in solving the problem, among which it is worth marking M. B. Zadorozhnyi who made a critical analysis of the existing regulatory and legal framework and defined its impact on the cost accounting of domestic enterprises, V.A. Deriya, who identified the main types and groups of acts of regulatory and legal framework of accounting and control of expenditures and revenues of companies, C.F. Golova, who indicates the theoretical and practical problems of legal and regulatory framework of accounting in Ukraine, the convergence of National Standard of Accounting. with international financial reporting standards.

Analysis of the contents of legislative, legal, regulatory and guidance documents were examined also in the works of V.I.Bachynskyi, F.F. Butynets, L.V.Napadovska, M.S. Pushkar, L.V. Czyzewska and others. However, unresolved questions remain concerning legal regulation of cost accounting with the distinguishing features of the construction sector.

**Setting the objective.** The purpose of this writing is to analyze the regulatory and legal framework of cost accounting in the construction and develop the recommendations on methods of cost accounting in accordance with the National Standard of Accounting and Instructions on the use of the Chart of Accounts.

**The main material of the study.** The construction industry is specific in terms of building costs. The main feature is the costs at the stage of the arranging construction production, because in this area these costs are not one-time but constant. Thus, if the management and organization of any production activities it is necessary to conduct a series of measures for registration of licenses, permits, design and technological documentation for a certain kind of activity, in construction the arrangement of permits, technical and construction documents is held for each construction project.

In addition, at the completion of construction works the contractor has to carry out a series of examinations that are associated with the commissioning of the construction (a contract). Such order of the organization and management has a significant impact on the size and structure of costs in the construction industry. Thus, there are two factors that have influence on the formation of costs in construction (Fig. 1). The first factor is related to the organization of construction (buildings, fulfillment of BIS). The second factor is construction industry peculiarities that have an impact on the formation and determining the cost of construction products, and ultimately the final results.

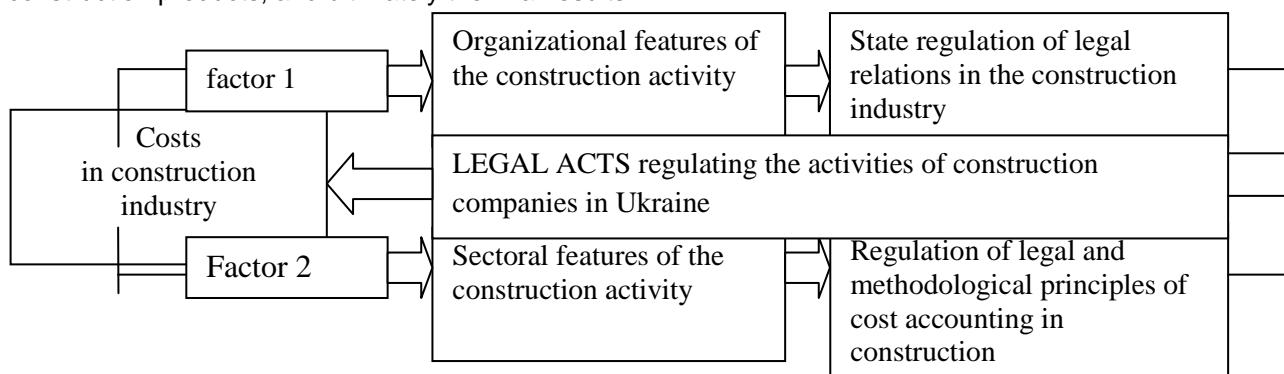


Figure. 1. Impact of organizational and branch factors on the order of costs formation in construction  
Source: author's elaboration

In the legal regulation of cost accounting there is a wide variety of regulatory and legal acts that govern this area of accounting (Table 1).

Table 1

**The main regulatory and legal acts in the field of cost accounting that govern the activities of construction companies and organizations of Ukraine**

Type	Name	Date	Number
1	2	3	4
<b>1. Organizational clauses and state regulations of legal relations on the costs in housing industry</b>			
Code	<b>Economic Code of Ukraine</b> sets the legal and organizational basis of the contract for capital construction and the contract for the design and research works [1].	6.01. 2003	436-IV
Code	<b>Civil Code of Ukraine</b> defines the legal rules and procedures of civil relations under the contract, as well as regulates the contract for performance of scientific and research or research and development and technological works for the customer. [2].	6.01. 2003	435-IV
Code	<b>The Land Code of Ukraine</b> reveals provisions for the use of land used for building [3].	25.102 001.	2768-III
Law	<b>On regulation of urban planning activity</b> - establishes the legal and organizational basis for urban planning and development of territories based on various public and private interests [4].	7.02. 2011	3038-VI
Law	<b>On financial and credit mechanisms and management of property in housing construction and real estate operations</b> - in construction industry establishes general principles, legal and organizational framework for fundraising of individuals and businesses to finance housing construction and manage these funds. [5].	9.06. 2003	978-IV
Law	<b>On investment activity</b> - sets out the legal and economic principles of capital construction, the rights and responsibilities of investment agents, defines contract as the legal form of the relationship between the parties of capital construction, fixes the legal forms of state regulation in the field of investment projects and programs [6].	8.09. 1991	1560-XII
Law	<b>On scientific and Technology activities.</b> In accordance with this Law the implementation of project and research work relates to scientific and technical activities [7].	1.12. 1991	1977-XII
Law	<b>On the scientific and Technology expertise</b> - in the construction industry the scientific and technical expertise in capital projects of innovative nature is provided to ensure the rights of the investor on the use of public benefits and targeted funding innovative projects. [8].	0.02 1995	51/95-BP
<b>2. Legal regulation of methodological principles of accounting costs in construction</b>			
Code	<b>Tax Code of Ukraine</b> - regulates relations arising in the collection of taxes and fees. [9]	02.12 2010	2755-VI
Law	<b>On Accounting and Financial Reporting in Ukraine</b> - defines the legal framework of regulation, organization, accounting and financial reporting in Ukraine [10].	6.07. 1999	996-XIV
Guidelines	<b>Methodological recommendations for the formation of the production cost of construction and installation works</b> - defines the procedure for the formation of the production cost of construction, installation, restoration, commissioning and maintenance and construction works (BIS) in the construction of new objects, renovation, restoration and repair by both contractors as well as economic methods [11].	1.12. 2010	573
National Regulations (Standard) of accounting	<b>Number 1, "General Requirements to Financial Statements"</b> - concerning cost accounting determines the content and form of the Income Financial Statements, in particular requirements to disclosures in the financial statements of articles on costs [12].	7.02. 2013	73
Regulations(Standard) of accounting	<b>Number 16, "Expenses"</b> - defines the methodological principles of information formation on the expenses of the enterprise in accounting and its disclosure in the financial statements of the formation order [13].	1.12. 1999	318

Regulation (Standard) of accounting	<b>Number 18 "Construction Contracts"</b> - defines the methodological principles of information formation on income and expenses related to the execution of construction contracts and its disclosure in the financial statements by contractors in accounting. [14]	8.04. 2001	205
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*Source: compiled by the author based on analysis of regulatory and legal acts*

The main regulatory and legal document that governs accounting in Ukraine, including cost accounting is the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" [10]. The Act established the basic principles of accounting information on the costs - calculation and matching of revenues with expenses. However, it should be noted that under current cost accounting methods, this correspondence is not confirmed.

The procedure for opening and displaying the cost information in the financial statements is governed by R(S)A number 1, "General requirements for financial reporting" [12], although by 7 February 2013, the process of disclosure of costs in reporting was regulated by R(S)A number 3 "Income Financial Statement".

The methodological basis of cost accounting in construction define R(S)A number 16 and R(S) A number 18: all guidelines for practice in cost accounting should not contradict the standards of these regulations. Accordingly, the Methodological recommendations № 573 [11] are advisory in nature and cannot be decisive in determining the methodology and organization of cost accounting in construction.

An important element of regulation and cost management is a tax law that determines the composition of expenditures of the reporting period in the process of fixing the amount of income tax [11]. In addition, this document defines the payment of VAT exemptions for construction companies.

Mechanisms of regulation of social policy in the process of cost accounting are determined by the Law of Ukraine "On the collection and accounting of a single fee for obligatory state social insurance" [15] in which the company enhances its costs in the amount of charging a single social contribution. Other regulatory and legal acts, listed in Table. 1, help us to organize accounting of costs in construction in the right way.

Thus, cost accounting is strictly regulated by a number of regulatory and legal documents that define the recognition and measurement of costs, their composition of costs in the process of determining the production cost and the full expenses of construction. Along with this, it is worth noting that the in current regulatory framework, there are differences in accounting costs (Fig. 2).

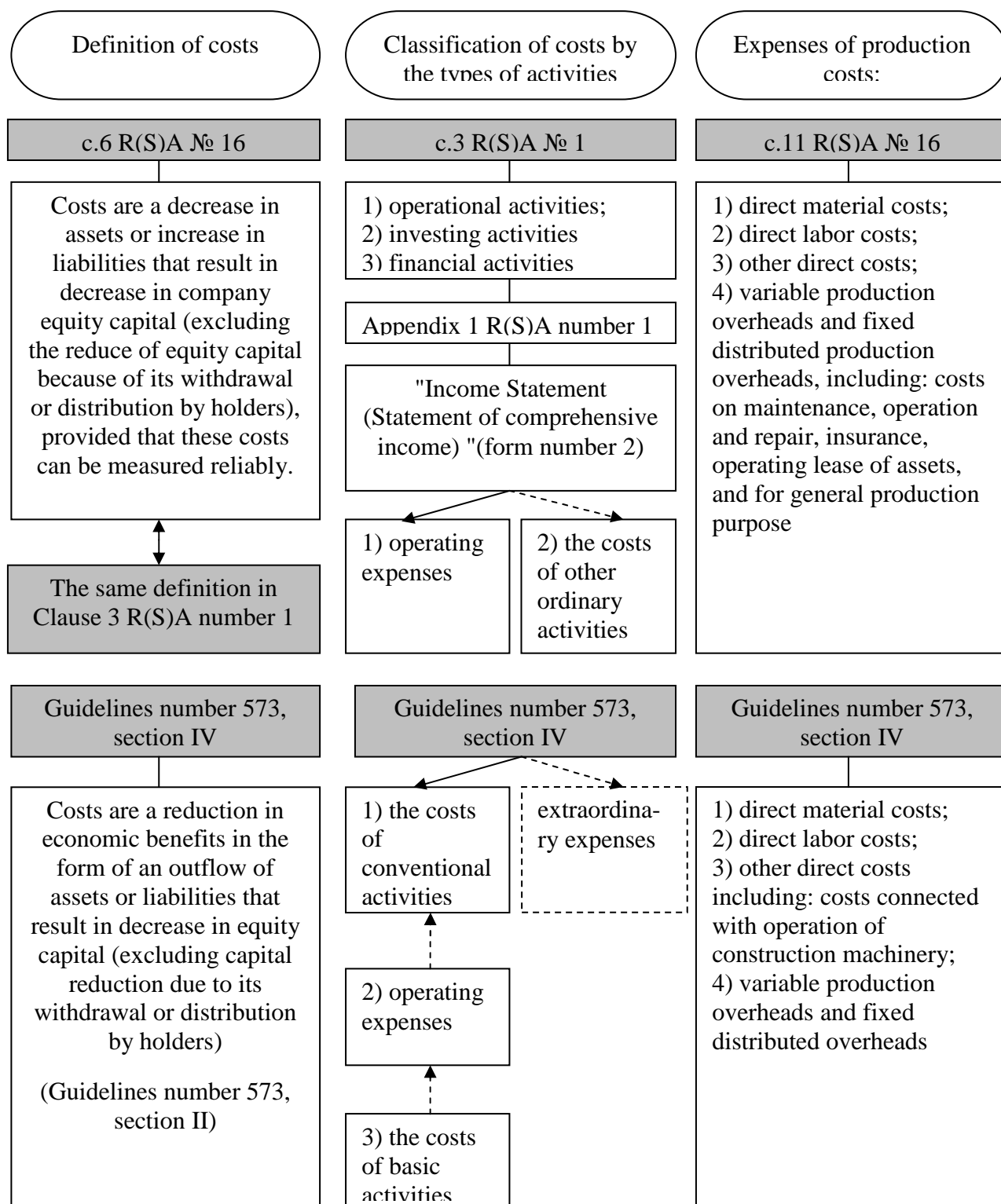
Firstly, there is no single approach to the classification of the costs of the enterprise by kinds of activity. Methodological recommendations № 573 are: a) the classification of the costs by kinds of activity of building organizations: the costs of ordinary activities; the costs of operational activity, the costs of core activity; b) the classification of the costs by the presence of extraordinary events: extraordinary costs. In our opinion, the construction enterprises are not limited only by normal activity. So it is worth to combine these two classification features into such classification as "by kinds of activity". It means the separation of the costs of ordinary and extraordinary activities.

In addition, in the process of classification of the costs by kinds of activity are three reciprocal types: the costs of ordinary activities; the costs of operational activity, the costs of core activity. We must admit that it is illogical because the costs of ordinary activity are not limited only by the operational costs. It is worth to mention the other costs of ordinary activity such as the costs of financial and investment activities. If we correlate costs with kinds of activity listed in the National Standard of Accounting [12, 13, 14] it is worth to divide these costs into: a) the costs of operational activity, b) the costs of ordinary activity and c) costs of extraordinary activity.

Secondly, the structure of calculation articles in the Methodological recommendations [11] does not correspond to the valid normative documents [9; 12; 13; 14]. Thus, the article "costs associated with the exploitation of building machines and mechanisms" is in the recommendations. We must admit that this article is mentioned in the calculation article "The other direct costs". However, it is advisable to use grouping of these costs as a separate article of calculation or in accordance with the Tax Code of Ukraine and the Standard of Accounting № 16 and to include these costs in the article "Variable and fixed distributed general and manufacturing costs."

Furthermore, the costs connected with accrual amounts in the social insurance funds by the method, which lost its force according to the Law of Ukraine "About collection and accounting of a single fee for general and obligatory state social insurance" are the part of the costs of operational activity [15].

Unfortunately, definition "costs" in these recommendations is given as the error, noted them as "reduction of economic benefits in the form of disposal of assets or liabilities that lead to decrease of equity capital (except for the reduction of capital due to its removal or distributing of capital by owners).



**Figure. 2. Differences in the definition, classification and expenses in Guidelines and national R(S)A number 573**

*Source: author's elaboration*

Although in according to the Standard of Accounting 16 the liabilities should increase in determining the costs.

**The conclusions and further research.** Thus, we can assert that there is a problem concerning reflection of the costs in construction at the early stage (costs at the conclusion of the contract). Such costs are practically impossible to reflect in accounting in spite of their considerable amount, because these costs do not coincide with the accounting period in which the contract of suborder is concluded. These costs will not be included to the costs by the contract of suborder in further if this contract will be signed in the next

accounting period. In addition, some differences in interpretation, classification and in the structure of expenses of the cost price of BIS were detected in the Methodical recommendations № 573 and the National Standards of Accounting. So you need to make corrections to the methodical recommendations № 573 regarding the classification of costs by kinds of activity, the structure of calculation articles in accordance with the National Standards of Accounting [12, 13, 14]. You should also insert the additions to the accounting postings that have been removed in the process of updating methodical recommendations № 30 [16] to improve organization and methods of cost accounting at the building enterprises.

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#### Muzhevych N.V. LEGAL REGULATION OF COST ACCOUNTING IN CONSTRUCTION

**Purpose.** The purpose of the article is a critical analysis of normative and legal acts that regulate accounting costs in the construction industry.

**Methodology of research.** The problems of normative and legal regulation of cost accounting in building industry, as a specific area of expenses formation have been considered in this paper. The recommendations to improve the organization and methodology of accounting of the appropriate site have been provided. It was highlighted two factors that have influence on the formation of costs in the construction. The first factor is associated with the organization of construction (building, implementation of construction and installation works). The second factor is associated with industry peculiarities of construction that have an impact on the formation and determining the costs of construction products and the final result of activity as a whole. It has been conducted analysis of the existing legal and regulatory framework according to the organization and management of construction enterprises and emergence of the costs in the process of such activities. The organizational provisions and state regulation of legal relations according to the costs in the sphere of housing construction and normative and legal regulation of methodological principles of costs accounting in building have been considered.

**Findings.** The results of the research of legal and regulatory framework of cost accounting in construction have shown that there is a real problem to reflect costs in building at the initial phase (costs by signing the contract). It has been found substantial differences in the normative and legal framework in the part of cost accounting. It has been determined that to make clarifications to the Methodological recommendations No. 573 regarding the classification of costs by kinds of activity are advisable. It is also worth to make clarifications to the structure of calculation articles in accordance with the National Standard of Accounting No. 1, 16, 18. The proposals on amendments to the methodological recommendations of the formation of the cost construction and installation works in order to correspond the provisions of current legislation of Ukraine have been developed.

**Originality.** The scientific novelty of this article is to substantiate the proposals on amendments to the methodological recommendations in the formation of the cost construction and installation works in the part of costs determination, their classification by kinds of activity and the structure of expenses of production cost price to ensure their compliance with norms of the current legislation of Ukraine.

**Practical value.** Using of developed proposals in the practice will contribute to the elimination of differences in interpretation, classification and the structure of expenses of cost price of construction and installation works in the Methodological Recommendations No. 573 and in the National Standard of Accounting.

**Key words:** normative and legal regulation, the construction industry, costs, classification of costs, cost price of construction and assembly production.