REASONS FOR ALLOCATING JOINT COSTS TO INDIVIDUAL PRODUCTS AND SERVICES

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***Abstract**: This article discusses the economic essence, importance and necessity of the allocation of joint costs to individual products and services. It also analyzes the main methods of allocation of joint costs, their application in practice and their role in the activities of the enterprise. The article reveals the importance of the correct allocation of costs in determining the cost of products, setting prices, calculating profits and making effective management decisions. In addition, it also considers the economic problems that may arise as a result of incorrect allocation of joint costs.*

***Keywords:** joint costing, product costing, cost accounting, management accounting, profit, pricing, financial reporting, cost allocation.*

Introduction. In a market economy, the main goal of enterprises is to make a profit and produce competitive products. For this, it is important to correctly calculate production costs. The concept of "joint costing" is widely used, especially in production processes where several products or services are created at the same time. Joint cost is the total cost incurred by producing multiple products or services together. Allocating these costs to individual products and services plays an important role in determining the efficiency of a business.

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The concept of joint cost

Joint costs arise when several products are produced at the same stage of production. For example, in the oil refining industry, gasoline, diesel fuel, and gas are produced at the same time. In livestock farming, products such as milk, meat, and leather are considered joint products. Since it is difficult to calculate the total costs of these products separately, the need to allocate costs arises.

The main reasons for sharing joint costs

1. Accurately calculate the cost of a product

A company needs to know the true cost of each product. This allows it to determine how profitable or unprofitable the product is. If costs are not allocated correctly, the cost of some products can be artificially increased or decreased.

2. Proper organization of the pricing process

Cost is one of the main factors in determining the price of a product or service. If the cost is calculated incorrectly:

-the product becomes too expensive;

-it loses its competitiveness in the market;

-or the enterprise may suffer losses.

Therefore, the correct allocation of joint costs helps to conduct an effective pricing policy.

3. Determining the amount of profit

To determine how much profit is made on each product, the corresponding costs must be calculated. This allows:

-to increase the number of profitable products;

-to reduce the number of products that cause harm;

-to optimize production.

4. Management Decision Making

Management relies on cost information to make decisions about expanding production, launching new products, or discontinuing certain

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activities. Properly allocated costs serve as a reliable source of information for enterprise management.

5. Preparation of financial statements

Accounting and financial statements should accurately reflect the cost of products. This:

-allows for accurate tax calculations;

-creates transparency for investors;

-helps to fairly reflect financial results.

6. Assessing the efficient use of resources

By distributing the joint cost, it is determined which product requires the most resources. As a result, the enterprise:

-reduces excess costs;

-increases production efficiency;

-has the opportunity to save resources.

Joint cost allocation methods

Several methods are used to allocate joint costs:

1. Physical indicator method

Costs are allocated based on the weight, volume, or quantity of products.

2. Selling price method

Costs are allocated based on the market selling price of products.

3. Net realizable value method

Costs are allocated based on the net value after deducting processing costs.

4. Average cost method

Total costs are allocated in proportion to the number or volume of products.

Consequences of incorrect allocation of joint costs

If joint costs are incorrectly allocated:

-the cost of the product is incorrectly formed;

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-the amount of profit is calculated incorrectly;

-incorrect management decisions are made;

-the financial condition of the enterprise deteriorates.

Therefore, enterprises should use scientifically and economically sound methods for allocating costs.

Discussion

The issue of allocating joint costs to individual products and services is one of the most important areas of management accounting and financial analysis in enterprises. Especially in industries where several products are produced in one production process, accurate allocation of costs is of great importance. Because incorrect calculation of costs can lead to incorrect determination of product prices, a decrease in the amount of profit, and ineffective management decisions.

Analysis shows that enterprises use different methods to allocate joint costs. Each of them has its own advantages and disadvantages. For example, the physical indicators method, although simple and convenient, does not fully reflect the economic value of products. The sales value method is widely used in practice, as it takes into account the market value of products. However, frequent changes in market prices can affect the accuracy of this method.

Joint cost allocation also plays an important role in the strategic management of an enterprise. Through the correct allocation of costs, it is determined which product brings the most profit. As a result, the enterprise will be able to effectively allocate resources, optimize production volumes and increase competitiveness.

Today, the development of modern information technologies creates new opportunities in cost accounting. With the help of automated accounting systems, it is possible to quickly and accurately calculate costs. This helps to increase the efficiency of financial management in enterprises.

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Conclusion

Allocation of joint costs to individual products and services is an important economic process in the activities of an enterprise. It is of great importance in determining the cost of products, setting prices, calculating profits, preparing financial statements, and making management decisions. Correctly allocated costs serve to increase the financial stability and competitiveness of the enterprise. Therefore, each enterprise should thoroughly study the methods of allocation of joint costs and effectively apply them in practice.

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