

## TO THE QUESTION OF THE "COSTS" AND "EXPENSES" CONCEPTS

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**Abstract.** This paper considers various definitions of the concepts "expenditures", "costs", and "expenses" which are interpreted by well-known economists. Many scientists view these concepts as synonymic words, but there are also those who see their differences not only in the definition, but also in the sphere of application of these words. In order to define the notion of "expenditures", many domestic scholars refer to the Russian accounting standard (from the Accounting Policy Regulations) 10/99 "Expenditures of an Organization". This standard states that expenditures result in a reduction in economic benefits as a result of asset retirement or increased liabilities, what leads to a decrease in capital. It should be noted that in international accounting standards there is no analogous standard for describing expenditures. Expenses are characterized by the amount of resources used to produce a particular type of product. However, expenses can be directed not only to the production of the main type of products, but also to the general production needs of the enterprise. As a rule, the concept of "costs" is almost identical to the concept of "expenses". However, this concept is usually used in economic theory to elucidate the micro- or macroeconomic processes taking place in the economy. Thus, interest in these concepts is caused by the need to distinguish their interpretations based on the opinions of famous Russian scientists who have studied the nature and meaning of these words.

**Keywords:** expenditures, expenses, costs, expenditures for ordinary activities, prime cost

### 1 Introduction

The concept of "expenditures" was under the close attention of both domestic and foreign scientists for many centuries. With the advent and development of management accounting, new concepts have emerged, such as "expenses" and "costs". Over time, these concepts have become increasingly used as synonymic words, despite the fact that they have different meanings and are applied in different areas of accounting.

Interest in these concepts was due to the need for competent and appropriate use of them for describing economic processes. In addition, many scientists use one of these concepts to describe

another, which may seem incorrect from the point of view of lexicology.

Few scientists wondered where and when the definitions of these words were confused. For example, K.M. Garifullin suggested that the substitution of those concepts could occur in the normative documents of the USSR on planning, accounting and calculating the production prime cost.

Thus, there has been such a substitution due to the lack of close attention to the definitions of these concepts in the last century, and we are hardly able to understand in the true reasons for that.

### 2 Materials and methods

Materials for writing this study were the papers and books of well-known economists who studied this topic. Based on their opinions, we made a conclusion for each term in order to characterize and determine the scope of their application.

### 3 Results and their discussion

K.M. Garifullin believes that the substitution of the concepts occurred in the normative documents of the USSR. These were the "Basic Provisions for the Planning, Accounting and Calculation of the Prime Cost of Industrial Production" (approved by the State Planning Committee of the USSR, the USSR Ministry of Finance, and the Central Statistical Board of the USSR on March 18, 1955) and "Basic Provisions for Planning, Accounting and Calculating the Prime Cost of Production in Industrial Enterprises" (approved by Gosplan (State Planning Committee) of the USSR, Ministry of Finance of the USSR, Goskomsen (State Committee on Prices) of the USSR, and Central Statistical Administration of the USSR on July 20, 1970). The scientist drew attention to the fact that in these provisions, the term "expenditures" was used to describe "expenses".

In order to distinguish the lexical meanings of terms, K.M. Garifullin suggests using the morphological analysis of the words "expend", "spend" and "expenditure". For this purpose, he compared the interpretation of terms in the dictionaries of Soviet linguists, D.N. Ushakov and S.I. Ozhegov.

Table 1. The interpretation of the concepts of "expend", "spend" and "expenditure" (Garifullin, 2007, p.18)

Words-terms	D.N. Ushakov, Great Dictionary of the Modern Russian Language, Moscow: Alta-Print, 2006	S.I. Ozhegov, Dictionary of the Russian Language, Moscow: State Publishing House of Foreign and National Dictionaries, 1960
Expend	Spend (money) with a view to return for a profit. Consume, utilize (labor, efforts) with a view to some results	Consume, expend foreseeing any result
Spend	Expense, expenditure for anything, costs of production	An amount spent on something, expenditures. Costs of production. To spend, expend, use
Expenditure	Expense, cost of anything. Opposite: income, receipts	Expense, costs. Opposite: income, receipts

Therefore, the notions of "expend" and "spend" involve the use of money, labor and other resources to achieve any results. Hence, the use of the terms "costs" and "expenses" for describing operations for the production and acquisition of resources (works, services) is quite appropriate in this context.

Proceeding from the Accounting Policy Regulations "Expenditures of organizations" 10/99, K.M. Garifullin suggests using the term "expenditures" to reflect transactions in accounts 90 "Sales", 91 "Other incomes and expenditures" and 99 "Profits and losses". In addition, the author does not restrict the use of this term only as part of the preparation of the financial results report and believes that it is appropriate to use "expenditures" in a broader sense. For example, in the financial accounting system with the disposal of assets, etc..

R.M. Nureyev separates costs to constant and variable and gives them the following definitions. Fixed costs are the costs, the amount of which in the short term does not change with the increase or reduction of production volume (8, p.232). For example, the costs associated with the use of buildings and structures, machinery and production equipment, rent, administrative expenditures, etc.

Variable costs are the costs, the value of which varies with the increase in output (Nureyev, 2016, p.233). For example, those are the cost of raw materials, labor, electricity, etc.

Thus, the author means costs by all services consumed and assets used necessary for the production of finished products. In this case, the separation into variable and fixed costs is only

possible for a short-term period. In the long run, all costs are variable.

V.B. Ivashkevich means by expenses the living and material labor costs expressed in monetary form or in kind, for a certain period of time. (Ivashkevich, 2015, p.57-58) The expenses include marketing, logistics, reproduction of assets, expenditures arising from the use of inventories, the performance of work, the provision of services, and the sale of goods.

The author uses the terms "costs" and "expenditures" in order to characterize the notion of "expenses". Proceeding from this, it can be concluded that V.B. Ivashkevich uses the terms "costs", "expenditures" and "expenses" as synonyms.

A.I. Kasimova in her paper (Kasimova, 2011, pp.38-46) defines the terms and their belonging to the types of accounting: financial, managerial, tax and production. The following is a comparative table of accounting systems for financial information (Table 2).

Table 2. Comparative analysis of financial information accounting systems (6, p.40)

Types of accounting	Objectives of accounting	Accounting user group	The concepts used in accounting
Accounting (financial)	Formation of accounting (financial) statements	External	Expenditures, expenses
Managerial	Formation of information for managers to make management decisions	Internal	Expenditures, costs, expenses
Tax	The correct calculation of the amount of taxes to the state budget	External	Expenditures (that is, expenses)
Production	Collecting data on expenses of production for estimating the value of stocks of products	Internal	Expenses

The author means the term "expenses" by the reduction of one type of asset with the condition of increasing another type of asset or an increase in assets and liabilities for the same amount. That is, they are various types of resources (material, labor, etc.) expressed in the valuation base and taken into account.

The author considers the principal difference between expenditures and expenses that expenditures affect profit, and expenses do not. In addition, expenses are recognized in the accounting period where they were incurred and these expenses can be reliably estimated (document supported). Expenditures are recognized in the period when the object of current or non-current assets has been written off, or when the period of performance of work or provision of asset-creation services was completed and the expert group has recognized that those expenses will not lead to the creation of an asset.

In order to define the notion of "expenditures", we refer to the Accounting Policy Regulations 10/99 "Expenditures of an organization". It states that the expenditures of an organization should be recognized as a reduction in economic benefits as a result of the disposal of assets (cash and other assets) and (or) creation of obligations resulting in a reduction in capital.

The same Regulations state that, depending on their nature, the conditions of implementation and the direction of the organization's activities, the expenditures are divided into general expenditures and other expenditures.

General expenditures are related to the main activities of an organization. They can be manufacturing and selling products, performing works, providing services and reselling goods. Other expenditures are not included in the accounts of production expenses.

There is no standard for expenditures in International Financial Reporting Standards. However, IFRS 1 (IAS 1) "Presentation of Financial Statements" provides a definition for expenditures which is similar to the definition given in the Accounting Policy Regulations 10/99 "Expenditures of an organization".

D.A. Blinov is of the opinion that the use of any of these terms should be grounded on a sound theoretical basis and should take into account the application field of the concepts. For example, the term "costs" is applicable only in economic theory to describe micro- and macroeconomic processes. "Costs" mean the use of various resources in terms of value.

Only two concepts are applicable in budgeting: expenditures and expenses. Expenses are the valuation of consumed resources that are used to fulfill orders (Garifullin, 2007, p.100). Expenses create the production or service primary cost. The author shares opinions of A.A. Evremova and V.V. Kovalev that expenses are capitalized expenditures assigned to the balance sheet; and expenditures are de-capitalized expenses that have been transferred to the Profit and Loss Account.

M.Ya. Pogorelov (2015) gives the following definitions to the concepts of "expenditures", "expenses" and "costs".

Expenses are the valuation of resources used for specific purposes (Blinov, 2010, p.166). In order to recognize these expenses in accounting, it is necessary to fulfill at least three of the following conditions (Blinov, 2010, p.166):

- 1) Expenses should be used to achieve a specific goal (production of finished products, performance of work, and provision of services);
- 2) The monetary estimates of expenses can be reliably determined and reflected in the primary accounting documents;
- 3) Expenses can be determined only by the amount of resources used (material, financial, labor and others) that must be expressed using a monetary unit to determine the cost of production.

The principal difference between expenditures and expenses is that expenditures are determined at a specific point in time when the consumption of resources is made. That is, the concept of "expenses" is considered by the author as a broader in comparison with the concept of "expenditures".

M. Ya. Pogorelov treats "costs" and "expenses" as synonymic words, that is, they are amount or expenses spent for something.

In D. Lysenko's opinion, expenditures can be expenses that directly participate in the formation of profits of a certain period, and the remaining part of the expenses is capitalized in the assets of the organization. This conclusion was made by the author who has been guided by the International Accounting Standards. A simplified scheme based on IFRS standards is shown in Fig. 1. The author compares the concept of "costs" with the concept of "expenses" as having the same meaning. For example, he recognizes "production costs" and "production expenses" as identical concepts.

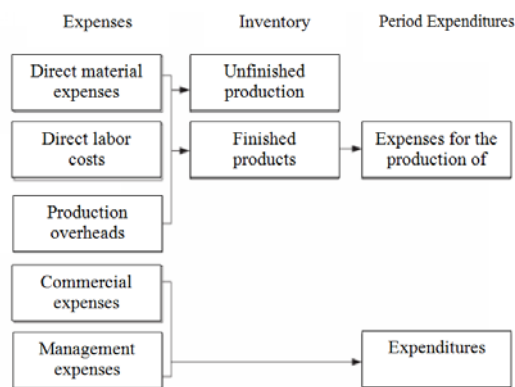


Fig.1. The structure of expenditures and expenses of a company (Lysenko,2016, p. 78)

#### 4 Conclusions

Analyzing the interpretations of the terms by various authors, we will refine their definitions and denote the identification criteria. Summarizing this study, we give the following definitions to concepts.

1. The term "expenditures" is used to determine the accounting expenditure of the organization's resources. For an accurate definition, it is advisable to follow the Accounting Policy Regulations 10/99 "Expenditures of an organization".
2. The concept of "expenses" is not enshrined in the normative documents. They mean a monetary estimate of the resources expended by an organization. The expenses can be directed not only to the main, but also to any activity of the organization.
3. "Costs" are considered as an analogue of the word "expenses". Basically, this term is used in economic theory to describe the micro- and macroprocesses occurring in the economy.

#### 5 Summary

According to the results of the study, based on the opinion of well-known economists, we have considered the definitions of the concepts "expenditures", "costs" and "expenses" and derived definitions and spheres of application for these concepts. The opinions of many authors for the definition of the words converged. For example, many authors unanimously refer to the Accounting Policy Regulations 10/99 "Expenditures of an organization" to describe the term "expenditures". However, when describing the concepts of "expenses" and "costs", each scientist gives his/her own definition of these words.

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