

# SPECIFICITY OF ORGANIC PRODUCTION IN UKRAINE AND ITS INFLUENCE ON THE FORMATION OF RELATED COSTS

Ludmila Markevich<sup>1</sup>

**Abstract.** The rapid development of organic production contributes to the improvement of the existing accounting system, which should reflect all the necessary information for management decisions. The purpose of the scientific publication is to study the organizational and technological features of organic production and their impact on the formation of related costs to identify problematic accounting aspects in the context of European integration. The research of opinions of modern scientists on actual questions of the account of manufacture of organic products is analyzed. The current state of development of the European consumer market of organic production is considered, it is noted that the active development of organic production in Ukraine contributes to its long-term success in the organic market of Europe. It is established that organic agricultural production in Ukraine is one of the main directions of development of the agricultural sector of the economy, the article identifies priority areas for achieving strategic goals of the state. The objects of accounting for the costs of organic production enterprises are revealed, their main characteristics are indicated. It is established that the system of accounting for the costs of organic enterprises should be uniform, so it must take into account the standards of organic production, production technology, the requirements of current legislation on production, circulation and labeling of organic products. The study analyzes that in recent decades, completely new methods of cost accounting and costing systems for organic products, which can be divided into three groups. The components of accounting and analytical support for information support and management of costs for the production of organic products are detailed. The specific features that affect the organization of accounting support for organic production are outlined, the main aspects are indicated. The article describes the structured methods of the concept of cost management through appropriate budget planning and regulatory cost accounting, the methods presented include basic principles. The need to reflect in the indicators of financial statements accounting data on the costs of organic production has been confirmed. According to the results of the study, the need to develop methodological tools for accounting for organic production was determined. With the development of organic production, an accounting system should be properly organized, which will help provide users with timely and accurate information on the production, storage and sale of organic agricultural products. It is established that the correct organization of accounting for production costs, in an organic enterprise, should ensure the efficiency and reliability of the entire management system, in particular to enable prompt receipt of true and complete accounting information about costs. The objects of accounting for the costs of organic production enterprises have been identified, which will allow to organize separate accounting of costs for the production of organic products, inorganic products and products of the transition period. It was found that the differentiation of such costs will help control the quality of products and allow you to adapt financial information to the needs of external and internal users.

**Key words:** accounting, organic products, costs, environmental quality, organic production, management.

**JEL Classification:** O13, M41, Q17

## 1. Introduction

The development of organic production is one of the priorities of the agri-food sector of Ukraine and the state agricultural policy. In recent years, there has been a positive trend in increasing the

area of agricultural land that occupies organic production.

The strategy of organic production is to completely abandon the use of preservatives, chemical fertilizers, pesticides, pesticides, etc.,

*Corresponding author:*

<sup>1</sup> Vinnytsia National Agrarian University, Ukraine

E-mail: [mila.mark@21gmail.com](mailto:mila.mark@21gmail.com)

ORCID: <https://orcid.org/0000-0002-4694-9233>

ResearcherID: AEQ-0996-2022

and at all stages of production (cultivation, processing, storage) use methods, principles and rules prescribed by the Law of Ukraine "On Basic Principles and Requirements organic production, circulation and labeling of organic products "in order to obtain environmentally friendly products, as well as the restoration and conservation of natural resources and the environment. Organic agriculture is one of the key levers in solving global environmental, economic and social problems and contributes to the goals of sustainable development. There is a growing interest of external and internal users in obtaining up-to-date information on the state of development of organic production, related costs and the cost of organic products. The production of organic products has certain organizational and technological features in relation to the display of accounting information, modern scientists are actively conducting research on the formation of related costs.

Zolotareva N. and Nizova L. (2019) note that proper accounting for the production of organic crop products will increase the company's profits. According to the authors, it is necessary to allocate specific items of costs for the cultivation of organic matter and create separate analytical accounts for organic products of the production process, which are prescribed in the work plan of accounts.

Ishchenko Ya. (2019) notes that in determining the items of expenditure it is necessary not only to competently form their structure, but also to give comprehensive characteristics of the composition of each article. Features of organic production necessitate increased control over the use of seeds, planting material, plant protection products, fertilizers and other components of the production process. Therefore, the nomenclature of cost items of the crop industry in terms of organic production should take into account these features. Accounting for such items of expenditure as seeds and planting material, fertilizers, plant protection products, raw materials and materials should be carried out in terms of substances and materials allowed by the technology for organic production.

The work of Kaletnik G. and Lutkovska S. (2021) is devoted to the study of the problems of organic activity of the agro-economic sector of Ukraine. The authors propose various forms of public-private partnership to address urgent

environmental and economic security issues. One of such directions is the state support of organic agricultural production.

Syrold N. (2018) discloses the objects of internal control of operations on accounting for the costs of environmental quality of products, the subjects of control and their functions in the control system, and the information base for its implementation. Emphasizes that the correct organization of the process of internal control of costs for environmental quality of products will contribute to clear documentation of transactions, timely and complete registration of accounting data in the registers, the true reflection of information in management and financial reporting.

In my own research revealed the features of the primary accounting of costs for the production of organic products. The proposal to approve updated forms of primary documents at the level of the relevant ministry, taking into account the norms of modern organic farming and organic production and the information requirements of its users and consumers of organic products. (Podolyanchuk, Markevych, 2021)

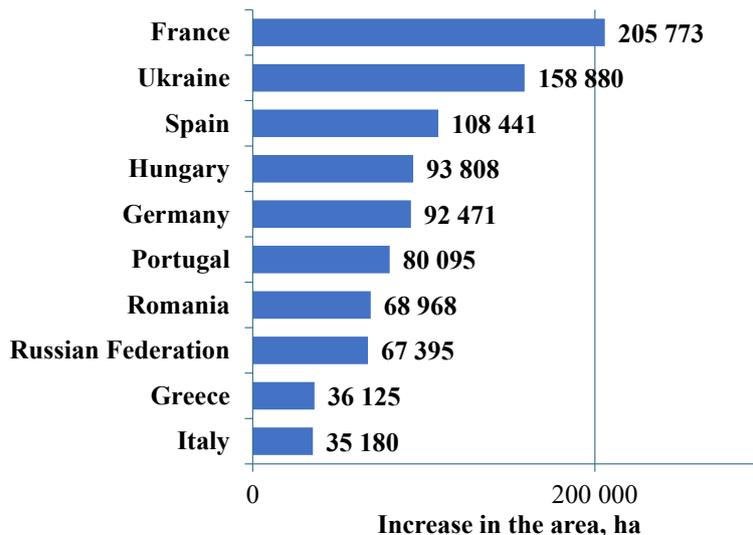
The research conducted by modern scientists is undoubtedly important, but the relevance of the topic is due to a number of issues related to the specifics of organic production and the formation of the corresponding costs.

The purpose of the scientific publication is to study the organizational and technological features of organic production and their impact on the formation of related costs to identify problematic aspects in the context of European integration.

## **2. Status and prospects of development of the market of organic products in Ukraine**

Studying the peculiarities of the production of organic products and the formation of related costs, it is worth noting the current state of development of organic production and the organic market in Ukraine.

According to research (Ishchenko, 2021) the accumulated world experience in the formation of integrated information on environmental, economic and social processes should be used in domestic practice to develop a national system of integrated environmental and economic accounting. At the same time, under the formation of indicators at the macro level, it is necessary



**Figure 1. Leading countries with the highest growth of organic agricultural land in 2019, ha**

Source: Organic World. Presentations "World of Organic Agriculture 2021". Part 3: Organic Agriculture in the Regions, 2021

to adapt the system of primary monitoring and consolidated accounting indicators.

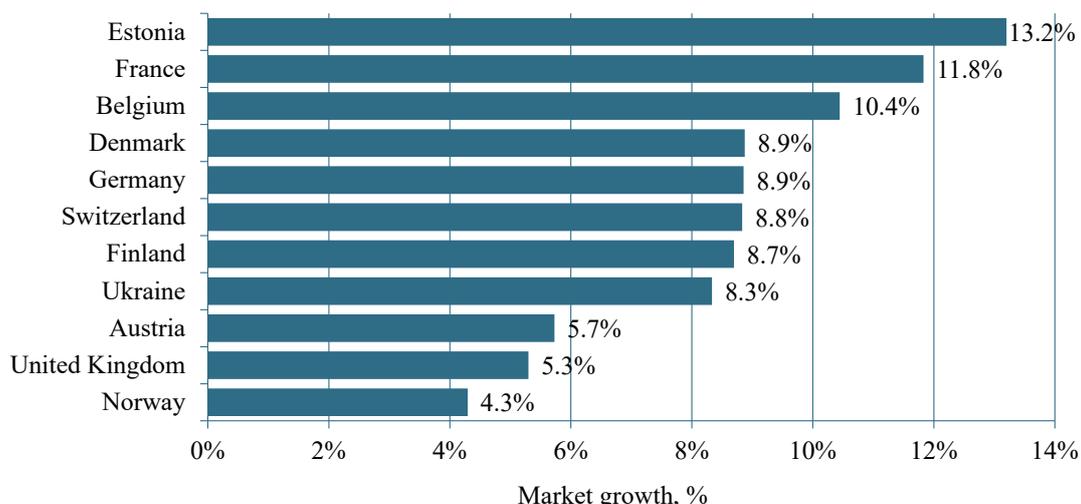
Recently, there has been a positive global trend in all key indicators of organic production. Ukraine is not one of the leading countries either in terms of area or production of organic products, but in 2019 it took second place among European countries in terms of growth rates of areas involved in organic production (Figure 1). According to the growth of the market of organic products in 2019 (Ishchenko, 2021).

The active development of organic production in Ukraine contributes to the long-term success

of the European organic market. In 2019, Ukraine entered the top 10 European countries and took eighth place (Figure 2).

According to her, the priority ways to achieve the strategic goals of the state for the development of the agro-industrial sector are:

- implementation of programs to support producers of organic products and implementation of measures aimed at raising awareness of producers about the benefits of organic production;
- development of programs of financial and advisory support for producers of organic products;



**Figure 2. European countries with the highest growth of the organic market in 2018–2019**

Source: Organic World. Presentations "World of Organic Agriculture 2021". Part 3: Organic Agriculture in the Regions, 2021

- attracting more producers to organic production by improving government regulation in this area;
- ensuring the development of sustainable production, where the task of the government is to promote sustainable agricultural production, protect the environment and animals, spread the use of organic production and biotechnology, "climate-friendly" agriculture and forestry with reduced greenhouse gas emissions and adaptation to climate change, sustainable management of natural resources and conservation and enhancement of biodiversity.

Summarizing the data of the analysis, we can note a positive trend in the development of the Ukrainian organic market. Ukraine is actively increasing the growth rate of areas involved in organic production. State support for the development of organics will help increase the share of Ukrainian organic products in the European market, which in turn will lead to increased production capacity.

### 3. The main aspects of the formation of costs of organic production

The accounting system is designed to ensure the proper functioning of organic production, to reflect accounting information in the reports of enterprises and to provide confidence to consumers in products and raw materials positioned as organic. Proper documentation of all organic production processes will facilitate the display of accounting data. The lack of developed standard documents for cost accounting and yield of organic products necessitates the independent formation of a package of primary documents by business entities. To do this, the standards of organic production, production technology, the requirements of current legislation on the production, circulation and labeling of organic products must be taken into account.

We share the opinion of Ya. Ishchenko, the scientist notes in his works that the objects of cost accounting in agricultural production are traditionally crops (groups of crops), species and groups of animals. Given the specifics of the technological processes of organic production operators, building a system of cost accounting facilities for such entities will be somewhat more difficult. It is worth considering the objects of cost accounting of organic production enterprises (Figure 3).

The system of accounting for the costs of organic enterprises should be uniform. In recent decades, completely new methods of cost accounting and costing systems for organic products have emerged, which can be divided into three groups.

The first group is production-oriented. The accounting system is formed on the basis of a certain concept of production and management, which is closely related to production processes.

The second group of accounting-oriented methods. This group considers an organic enterprise as a set of interdependent activities (functions, operations), in the process of which different types of resources are consumed: materials, labor, equipment.

The last group of methods defines a clearly structured and detailed concept of cost management through appropriate budget planning and cost accounting. The presented methods combine the following basic principles:

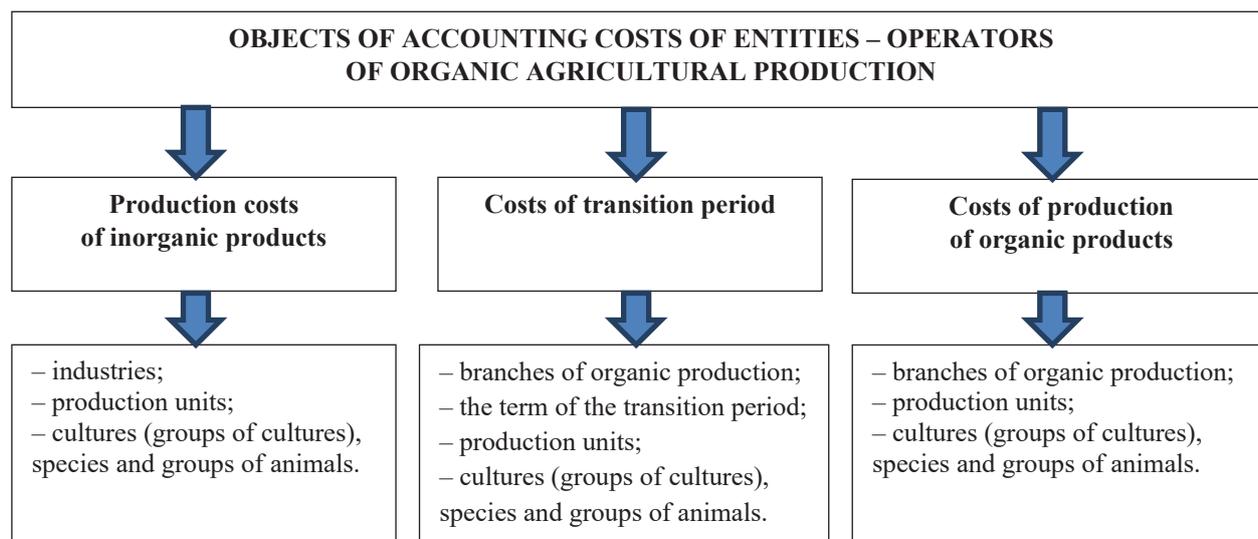
- clear delineation of fixed and variable costs of organic production in each individual cost center;
- cost centers are the main subjects of planning, cost accounting and cost of organic products.

The proposed arrangement of accents will allow the management of enterprises to manage the centers of responsibility and monitor their productivity.

In modern conditions, an integral prerequisite for the use of advanced methods of cost accounting of organic enterprises is computerization, which can significantly speed up the speed of feedback, ie it is a real-time reporting system. It expands the possibilities of processing the information received in the accounting system for the purpose of forecasting, effective cost control, management decisions, comprehensive assessment and cost analysis. In the absence of an adequate level of technical support, it is difficult to obtain the necessary practical results from the application of the latest cost accounting methods.

Skrypnyk M. and Hryhorevska O. (2020) note that the study of the peculiarities of agricultural enterprises made it possible to outline certain specific features that will affect the organization of accounting and analytical support of organic production, which should be taken into account:

- strict compliance with the technology of the production process and compliance with the norms of production costs of organic products;



**Figure 3. System of objects of accounting of expenses of organic production**

Source: (Ishchenko, 2021)

- the need to clarify the production plan in view of the demand for manufactured organic products and order volumes;
- short shelf life of organic products;
- taking into account the traditions of consumption of a product in the country;
- high competition in the segment of organic production;
- dependence of the agricultural enterprise on suppliers and quality of raw materials used for production needs;
- development of auxiliary and service industries (logistics and marketing services, production of packaging and containers);
- the complexity of conducting logistics activities over long distances due to the uneven distribution of production capacity and short shelf life;
- the possibility of using organic agricultural receipts during purchase / supply / payment operations for manufactured organic products / organic raw materials, which minimizes risks and reduces potential costs.

Based on the study, it should be noted that the correct organization of cost accounting in an organic enterprise should ensure the efficiency and reliability of the entire management system, including the ability to quickly obtain true and complete accounting information on production costs, timely make the necessary management decisions to ensure rational use of the necessary production resources. This will significantly improve the information support of the

control function of the management of organic production and provide an opportunity to reasonably calculate the cost of organic products.

#### 4. Conclusions

The conducted research allowed to actualize the importance of scientific research of organizational and technological features of organic production and to determine their influence on the formation of related costs. The active development of organic production is the reason for improving the methods of accounting, which will help to take into account all the costs incurred and determine the cost of organic products. Given the specifics of the technological processes of operators of organic production, it was found that the construction of a system of cost accounting of such entities will be somewhat more complex and should take into account all the features of its production.

The objects of accounting for the costs of organic production enterprises mentioned in the article will allow to organize separate accounting of costs for the production of organic products, inorganic products and products of the transition period. Differentiation of such costs will facilitate product quality control and allow to adapt financial information to the needs of external and internal users. Presentation in the study of a group of cost accounting methods and costing system for organic products will allow the management

of enterprises to manage the centers of responsibility and monitor their productivity.

We believe that further areas of research on this issue are the development of methods

for accounting and allocation of indirect production costs and the reflection of relevant information in financial, management and statistical reporting.

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