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**DIRECTIONS FOR IMPROVING THE ACCOUNTING
OF INNOVATIVE ACTIVITIES OF ENTERPRISES IN THE
CONTEXT OF ENSURING THEIR ECONOMIC SUSTAINABILITY**

**НАПРЯМКИ ВДОСКОНАЛЕННЯ ОБЛІКУ ІННОВАЦІЙНОЇ
ДІЯЛЬНОСТІ ПІДПРИЄМСТВ У КОНТЕКСТІ
ЗАБЕЗПЕЧЕННЯ ЇХ ЕКОНОМІЧНОЇ СТАЛОСТІ**

One of the main drawbacks of the current system of accounting for innovation costs is the lack of a unified system of accounting registers and accounts to correctly reflect the costs and financial results associated with innovation activities.

It should be noted that analytical accounting of innovation costs should be carried out taking into account different types of innovations:

- research and development costs;
- costs of producing a new type of product (product innovations);
- costs for the development of new technology (technological innovations);
- costs of organisational and managerial innovations [2].

However, one should not rule out the possibility of also keeping analytical records of innovation costs in various areas of innovation, such as – internal R&D; acquisition of R&D (external R&D); purchase of machinery, equipment and software; acquisition of other external knowledge.

Regarding the regulatory aspects of accounting for innovation activity costs in domestic legislation, it should be noted that there is no approved unified methodology for accounting for such costs in Ukrainian accounting. In Ukraine, the accounting of innovation costs is scattered among various regulatory documents. In accordance with AR(S) 16 “Expenses”, current expenses of innovation activities are accounted for, and account 941 “Research and development expenses” is used to summarise innovation expenses for the period [3]. Accounting for the relevant capital expenditures is regulated in accordance with AR(S) “Intangible Assets” and AR(S) “Property, Plant and Equipment”.

In accordance with the Law of Ukraine “On Innovative Activities”, the objects of innovative activities are:

- innovative programmes and projects;
- new knowledge and intellectual products;
- production equipment and processes;
- production and business infrastructure;
- organisational and technical solutions of a production, administrative, commercial or other nature that significantly improve the structure and quality of production and (or) the social sphere;
- raw materials, means of their extraction and processing;
- marketable products;
- mechanisms for the formation of the consumer market and sales of marketable products.

It is these objects of innovation activity that should primarily appear in the accounting where information on costs is accumulated. It is clear that the separation of accounting for innovation activities should be more specific and linked to the current methodology of recording costs by items and elements, which are further detailed within management subaccounts [1].

Another difficulty is separating costs related to innovation from those that are not. The Ukrainian financial accounting system does not provide clear methodological principles for accounting for the processes of creating and using innovations. The objects of innovation accounting do not have proper accounts in the accounting system. Information about innovation objects is formed using general accounts without taking into account the specifics of innovation processes. Many enterprises do not maintain internal accounting registers that would allow them to track the economic performance of innovation activities. The financial statements do not contain items that would reflect the income, expenses and results of the company's innovation activities.

To address this issue, researchers propose various methods of grouping innovation costs in accounting. This may include the use of management sub-accounts of account 941 “Research and development expenses”, the use of special sub-accounts for intangible assets, sub-accounts for production costs, sales and administrative expenses. The possibility of allocating special subaccounts to prepaid expenses is also being considered.

All of these proposals have a significant drawback: they do not guarantee the creation of a unified cost accounting system throughout the entire life cycle of innovation. Effective accounting of innovation costs should simultaneously take into account the objects (types of innovation) and phases (processes) of the innovation cycle:

- idea generation;
- design and development work;
- production of an experimental sample;
- mass production;
- introduction of a new product based on economic efficiency;

- costs of large-scale introduction of new products to the market;
- formation of funding sources for further innovations.

In addition, most of these proposals use an unsuccessful methodological approach, in which synthetic balance sheet accounts with the introduction of third-order subaccounts are used to create management analytical cost accounting. This overloads and complicates synthetic accounting due to excessive detail, making the analytical accounting system unreasonably complex, cumbersome and insufficiently flexible.

The use of account 941 “Research and Development Expenses” with the introduction of additional subaccounts for in-depth analytics is not sufficient to fully describe all innovation processes. This is due to the fact that accounts of class 9 “Operating expenses” are used exclusively for accounting for current expenses of the reporting period, and capital expenditures of innovation activities are accounted for separately from this account.

Given the above, it is recommended that the types of innovations in the accounting system be coded in management subaccounts. It is proposed to use accounts of class 8 “Expenses by elements” to account for the costs of innovation activities, disclosing management subaccounts of the third, fourth and more order in accordance with the following principles:

1. The main goal of building a system of accounting and analytical information on costs should be to focus on innovation.

2. The formation of cost elements for management purposes should be carried out in as much detail as possible, in accordance with the principles of purity and uniformity of costs. The item “other expenses” should be practically absent, and its impact on the total amount of expenses should be determined as insignificant.

3. Types of expenses should be reflected by cost carriers (places of origin – cost centres). This is achieved by using a cost centre code – a subdivision within an account. The management cost code should combine the necessary classification features depending on the management objectives and the specifics of the implementation of innovation activities at the enterprise.

Let's look at a conditional example. To account for the costs of high-strength steel grade 05N21M8T3K for the production of prototype C, we will use coding. The main production shop will receive code 01, other shops will receive codes 02 and 03. Shop No. 5, which is engaged in the manufacture of the prototype, will receive code 05. For the material cost element of the prototype, we will set the code 801-05, which will indicate the place of occurrence of the costs (cost centre). To provide additional detail on the type of materials used, we will enter a code. For example, innovative product “C” will be designated by code 7, and the cost of steel grade 05N21M8T3K will be designated by code 9. Thus, the material cost element under code 801-05-7-9 will reflect “the cost of steel grade 05N21M8T3K for the production of prototype "C"” (table 1).

Table 1

Accounting for innovation activity costs

Business transaction	Debit	Credit
Spent in workshop No. 5 on the production of a prototype of product 'C' steel grade 05N21M8T3K	23 801-05-7-9	801-05-7-9 201

The proposed method of coding accounts of the eighth class allows embedding management analytical accounts into the financial accounting system, avoiding excessive burdening of synthetic accounting. At the same time, this approach provides flexibility, information and efficiency. With the use of modern IT technologies, this method is particularly effective for accounting for innovation costs. Information technologies allow systematising accounting information on innovation costs by any code element (cost centre, product type, cost element, etc.) for any period of time. This significantly reduces the time and labour costs for staff to prepare additional estimates, analyses, calculations and internal reports to provide managers with the necessary information on innovation costs for management decisions.

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