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### A COST-BASED COMPONENT OF TOURISM PRODUCT PRICE

*The article studies the economic essence of the costs subject to peculiarities of tourist companies' operations. The costs significance and their role in pricing of tourism products are determined. The mechanism of cost sharing by the segments of tourist company's operation is proposed.*

**Keywords:** costs; prime cost; price; tourism product; tourist services.

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### ВИТРАТНА СКЛАДОВА ЦІНИ ТУРИСТИЧНОГО ПРОДУКТУ

*У статті досліджено економічну сутність витрат з урахуванням особливостей функціонування туристичних підприємств. Визначено місце і роль витрат у формуванні ціни на туристичний продукт. Запропоновано механізм розподілу витрат за сегментами діяльності туристичного підприємства.*

**Ключові слова:** витрати; собівартість; ціна; туристичний продукт; туристичні послуги.

*Рис. 1. Табл. 1. Літ. 17.*

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### ЗАТРАТНАЯ СОСТАВЛЯЮЩАЯ ЦЕНЫ ТУРИСТИЧЕСКОГО ПРОДУКТА

*В статье исследована экономическая сущность затрат с учетом особенностей функционирования туристических предприятий. Определены место и роль затрат в формировании цены на туристический продукт. Предложен механизм распределения затрат по сегментам деятельности туристического предприятия.*

**Ключевые слова:** затраты; себестоимость; цена; туристический продукт; туристические услуги.

**Problem setting.** Tourism as an economic activity has become increasingly important for the economy of Ukraine. It accounts for about 10% of the world GDP output and 30% of the world services trade. About 11% of the global consumer spending and 7% of the world investments target tourism. The number of international trips is increasing; therefore, income from tour services is also growing rapidly; it is expected to rise to 2 trln USD in 2020 and the cost per trip can rise to 1248 USD. According to the World Tourism Organization, more than 800 mln people travel every year; the number of tourists can reach 1.5611 bln people by 2020 ([www2.unwto.org](http://www2.unwto.org)). The increase in tourist flows stimulates the development of the industries involved in tourists' care, promotes the growth of GDP, and improves the living standards of population. Tourism development causes the need to improve costs management as costs are the major factor influencing price, profitability, competitiveness, and economic sustainability of tourist enterprises.

The issues of costs structure and the analysis of tourism product formation identifying its economic essence are becoming of great economic and practical importance under the conditions of improving the economic mechanism and the methods of planning, pricing, and tourism development management.

**Latest research and publications analysis.** The economic essence of the costs adjusted for peculiarities of tourist enterprises' operation takes a significant place in

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the scientific studies of national and foreign economic scholars, in particular: Z. Balchenko (2006), A. Cherep et al. (2011), A. Mazaraki and N. Vedmid (2013), S. Melnychenko (2012), O. Smetanko (2005), T. Tkachenko (2009) and others.

However, recognizing the important scientific contributions of national and foreign scholars and practitioners, it is worth noting that the analysis of the cost-based component of a tourism product price requires further research aimed at creating an integrated information system for tourist enterprises to make effective management decisions.

**The goal of the article** is defining the economic essence and the structure of costs for the formation of the tourism product adjusted for peculiarities of tourist enterprises' operation.

**Key research findings.** Costs formation of a tourism product is the main and the most difficult element of organization and development of the economic mechanism for tourist enterprises. That is the case when tourism product profitability, identifying the ways of prime cost optimization, defining the marginal price, estimating cost effectiveness of the implemented organizational and technical measures, and reasoning the decisions on the formation of new tourism products will depend on careful costs investigation and successful practical application.

In order to clarify the economic essence of costs for a tourism product, let's consider the general definition of this concept by various scholars.

There are different interpretations of the concept "costs" in contemporary economic literature. The Economic Encyclopedia defines costs as the outlay of different economic resources expressed money (labor, raw materials, fixed assets, financial resources) during production, circulation, and distribution of products, goods or services (Encyclopedia of businessman..., 2000).

According to the economic theory scholars, "costs are defined as the total cost of living and materialized labor, such as production costs, measured by the number of socially necessary labor hours, i.e. the time required for output of products under certain economic, organizational, and technological conditions" (Klymenko et al., 1997: 345). But economic science in the countries with developed market determines production costs on the basis of operational mechanisms as the outlay of production factors in the process of purposeful activities, which include all costs prior to the date of manufacture.

F. Butynets stresses that costs in the broadest sense include all incurred charges that are deducted from income, thus representing the traditional orientation on income/expenses. This scientist considers costs to be "the gross decrease in assets or gross increase in accounts payable arising as a result of profit-oriented business activity and determined and measured in accordance with the generally accepted accounting principles" (Butynets and Horetska, 2002: 415).

Y. Ostapenko defines costs mainly in the context of "assets/accounts payable": he treats costs as the "outflow or other use of assets or arising accounts payable as a result of shipment or production of goods, providing services, or realizing other operations that are the basis of the activity of an economic entity" (Ostapenko, 2010: 124). The author distinguishes between costs and losses (damages): losses (damages) are the decrease in equity (net assets) as a result of accidental or side agreements of an economic entity and all other transactions, events and circumstances that affect it during

the period, except payments to owners. However, profit calculation includes both costs and losses.

According to the Regulation (standard) of accounting #16, "costs are defined as the reduction of economic benefits in the form of assets disposal or liabilities increase that result in the decrease of equity capital (apart from capital reduction due to its withdrawal or distribution to owners)" (Order of the Ministry of Finance of Ukraine, 31.12.1999, #318).

According to the Tax Code of Ukraine (02.12.2010, #2755-VI), costs are the volume of any taxpayer's spending in the monetary, tangible or intangible forms done for a taxpayer's economic activities, resulting in the decrease of economic benefits in the form of assets disposal or liabilities increase that lead to the reduction of equity capital (apart from changes in capital due to its withdrawal or distribution to owners).

When considering the costs category for tourist enterprises we should be guided by the peculiarities of tourism industry. The conducted study of these peculiarities allows us define the costs for enterprises of tourism industry as the amount of outlay that occurs in the process of tourism product formation, its sale to consumers and consumption structuring through tourist guiding. Therefore, it is reasonable to identify the economic essence of costs for tourism product as the value of used resources associated with the development of routes, tours, selection of excursions, providing various tour services.

The production object of tourist enterprises is tourism product, the prime cost of which includes all costs directly related to providing a range of services – transportation, accommodation, meals, excursions, visa support, managing tourist groups etc. These costs constitute the main body of the prime cost of a proposed tourism product. It is necessary to carry out costs accounting at all stages of development and tourism product sale to ensure a complete and reliable representation, revealing deviations from current regulations, and monitoring the use of necessary resources.

In order to create an effective system of costs management of tourist enterprises we should classify them. For example, L. Shevchenko concluded that "some classifications could be used for analyzing costs only when applied simultaneously. When comparing planned and actual costs, it is necessary to take into account the fact that actual costs may be planned and unscheduled according to another classification characteristic. In this case, we must compare the planned costs and the actual ones that are being planned" (Shevchenko, 2006: 314–318).

Economic literature and normative documents classify all the costs used for creating the tourism product according to their economic matter into the following elements: material costs, labor costs, social payments, depreciation, and other expenses.

Operating expenses of tourist enterprises for providing tour services in Ukraine for 2011–2013 are presented in Table 1.

The total amount of operating expenses of tourist enterprises increased in 2013 as compared to 2011 by 2.7 times, namely due to the increase of material costs by 86.3%, labor costs by 53.5%, spending on social events by 53.9%, the volume of accumulated depreciation by 15.7% and other operating expenses by 3.8 times.

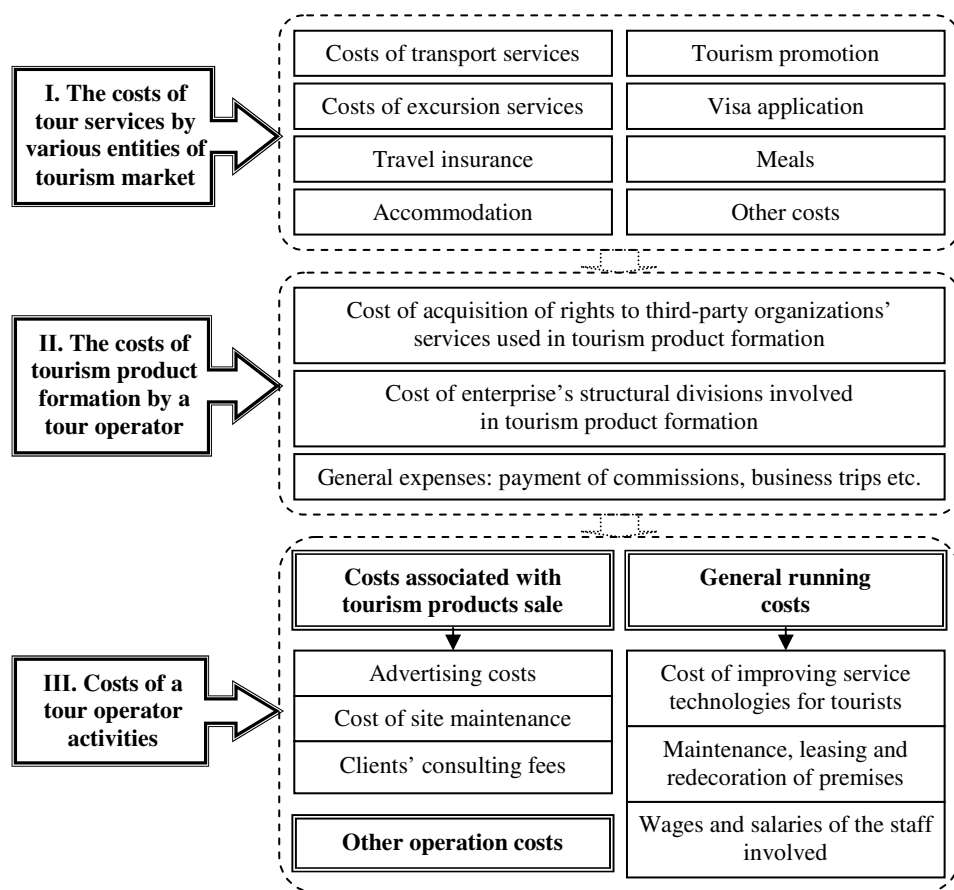
We should emphasize the essential role of different types of accounting and accounting policy as an important factor for determining the prime cost. The possibilities of traditional management accounting for the precise determination of the

prime cost for certain types of products are very limited due to the use of averaging methods of cost allocation.

**Table 1. Operating expenses of tourist enterprises for providing tour services in Ukraine, 2011–2013**

Indicators	Years			The rate of change, 2013, as % to	
	2011	2012	2013	2011	2012
Operating expenses for providing tour services, total, ths UAH	1436669.1	2451280.1	3928131.7	273.4	160.2
including:					
material costs	483066.0	717515.0	900046.6	186.3	125.4
labor costs	177223.2	239175.6	272050.2	153.5	113.7
social payments	62208.0	81059.5	95713.3	153.9	118.1
accumulated depreciation	25447.6	26604.6	29433.0	115.7	110.6
other operating expenses	688724.3	1386925.4	2630888.6	382.0	189.7

Source: Tourist activity in Ukraine: Statistical Bulletin, 2011–2013.



**Figure 1. Classification of the tourist enterprise's costs by operation segment, author's development**

Standardized financial statements allow comparing balances and turnover of several different tourist enterprises rather easily. In addition to that, financial statements give a chance to see the financial position of a tourist enterprise, but they do not provide the information how this financial condition has been achieved. Consequently, financial accounting is external accounting that gives the financial picture of an enterprise for an outside observer. Financial accounting always represents an enterprise as a whole and uses only facts.

The traditional error in the practice of tourist enterprises is that the system of managerial accounting is turned into the system of cost accounting and distribution by centers of financial accountability, cost centers, and types of the tourism product that is formed. However, the system of managerial accounting should cover all services of a tourist enterprise and the entire spectrum of data concerning its operations.

The classification proposed in Figure 1, is based on costs distribution depending on management structure and objectives, it allows calculating the prime cost of tourism products from the process of tour service production to representation of costs for tourist companies' operation.

Since tourist enterprises can act both as a tour operator and a travel agency, taking into accounts the riskiness of this type of business, it is appropriate to identify the costs of operation segments. This is the part of enterprise spending related to ordinary activities of an economic segment that can be directly attributed (or defined by division on a reasonable and consistent basis) to a reporting segment.

**Conclusions.** The key findings of the conducted research demonstrate the ambiguous interpretations of costs both by classical and contemporary theories. The study of cost categories for tourist companies subject to the peculiarities of the industry has allowed us define the costs for the enterprises involved in tourism as the amount of spending that occurs in the process of tourism product formation, its sale to consumers and consumption structuring through tourist guiding. The cost distribution by operation segment proposed in the article allows analyzing and forecasting costs, both for a tourist enterprise as a whole and for separate tourism products, distribution channels, and other categories. The definition of costs structure for tourism product is critical for analyzing and identifying the ways of increasing economic efficiency of tourist enterprises' operation, formation of marginal price for tourism products and identifying the factors of prime cost optimization.

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