
Principles of Changes of Production Costs in the Short-Term and Long-Term Periods in the Enterprise

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Annotation: In this article, the principles of change of production costs in the enterprise in short and long-term periods, the factors affecting the reduction of production costs, and the information about the difference between the two cases of the constant benefit from the increase in the production scale are presented.

Key words: final result, time factor, cost, enterprise, long-term period, efficiency, resource, short-term cost.

In accounting for production costs, the time factor, i.e., the period that has passed until the final result for which the cost is obtained, has a significant impact. Based on the time factor, production costs are analyzed separately in the short and long term. In order to increase the volume of production, the enterprise can only change the amount of its variable costs in the short term. These are short-term costs.

A long-term period is a period that is sufficient to change the production capacity of the enterprise and the amount of all employed resources. In order for production to develop, the average cost of production must decrease, which is influenced by the following factors:

1. Labor specialization;
2. Specialization of management staff;
3. Effective use of capital;
4. Production of additional types of products.

Specialization of labor. With the growth of the scale of the enterprise, the possibility of increasing the level of specialization of the employed labor expands. In addition, the hiring of workers means that the task is divided more and more clearly between them.

Specialization of management buildings. Larger scale of production also allows better use of labor of management specialists.

Effective use of capital. In many cases, small firms will not be able to use production equipment relatively efficiently from a technological point of view. Machines for the production of many types of products can only be purchased in very large and expensive sets. In addition, the efficient use of these machine tools requires large volumes of production. Therefore, only large manufacturers can achieve the purchase and effective use of good equipment.

Production of additional types of products. The organizer of large-scale production will have a wider opportunity to produce additional products than a small firm.

Over time, the company's unit production costs may increase. It reduces the difficulties in increasing and expanding the activities of enterprises, trying to effectively control and coordinate the activities of the enterprise, and managing it. In a medium-sized enterprise, one single manager

personally makes all important decisions about its activity, this manager can quickly analyze the entire production process and make clear and effective decisions based on them.

This situation changes with the expansion of the scale of the enterprise. As a result, management layers that separate administrative staff and the production process will increase, and the top management will be separated from the actual production process in the enterprise. Collecting, understanding, and processing all the data necessary to make informed decisions at the scale of a large enterprise is beyond the scope of one person. The deepening and expansion of the management apparatus causes problems in information exchange, coordination of decisions and bureaucratic situation, the possibility of conflicting decisions made by different levels of management increases. As a result, efficiency is impaired and the average cost of production increases. In other words, a 10% increase in the amount of all resources leads to a disproportionate increase in output, say 5%.

The constant gain from the increase in the scale of production comes from the difference between the two cases. It is a positive and negative scale. A 10% increase in all resources in the area between these two limits will result in a proportional 10% increase in output. The expansion of the scale of production provides an opportunity to better use the work of management specialists due to deep specialization. This allows for increased efficiency and lower production costs per product unit.

To sum up, in a short period of time, changing the amount of variable costs of the enterprise will increase the volume of production, and in order to develop production in the long term, it will be necessary to decrease the average costs of production. The difference between managing medium and large enterprises is different. For example, in a medium-sized enterprise, a single manager can make all decisions, monitor and analyze the entire production process, and make effective decisions based on them. In a large-scale enterprise, this situation changes. The layers of management will increase, the production process will be separate in each direction. Therefore, short-term and long-term costs have an effect on the size of the enterprise.

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