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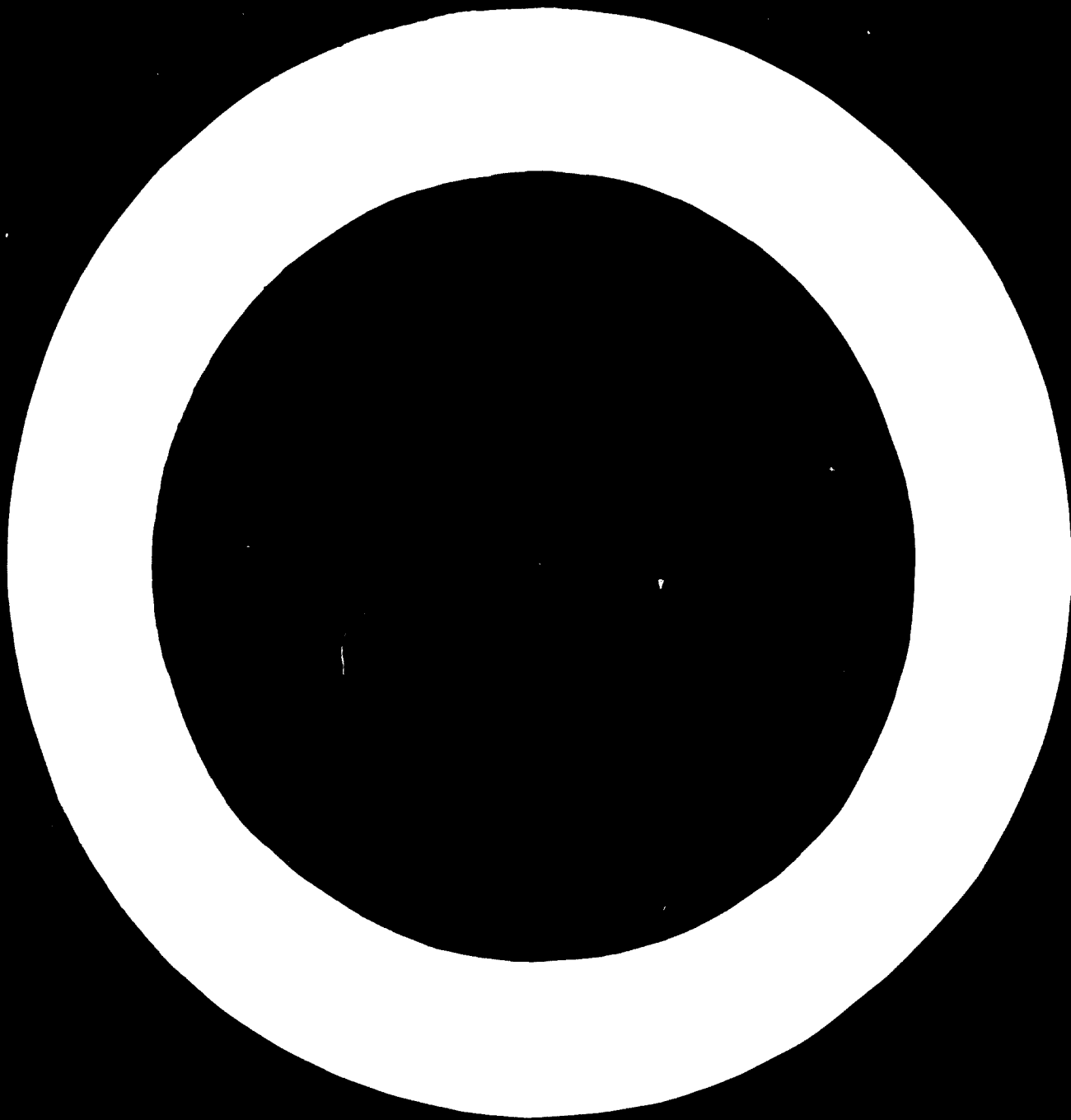
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FINANCING OF STATE INDUSTRIAL ENTERPRISES
IN THE USSR ^{1/}

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FINANCING OF STATE INDUSTRIAL ENTERPRISES

IN THE USSR

In the 50 years of its existence the Soviet Union has achieved enormous success in its economic and cultural development. Due to social and economic changes socialist public ownership of tools and means of production has prevailed in the country's economy for the past 30 years.

It was in Soviet times that a large-scale socialist industry capable of solving most complicated scientific and technological problems and coping with national economic tasks was created. Industry has been developing at a rapid pace. Its gross output in 1967 has grown 73 times as compared with 1913. The heavy industry has been growing at a faster rate. That made possible the technological reequipment of all the branches of material production, an improvement in the country's fuel balance and an increase in consumer goods production.

The rapid rates of growth of industrial production have enhanced the importance of the Soviet Union in world production. In 1913 Russia's share in world output was just over 4%. Now the USSR produces one fifth the world volume of production. The USSR holds first place in the total volume of industrial output of Europe and second place in the world.

Radical changes have taken place in agriculture in the past 50 years, transport has been reorganised on a modern technical basis, a vast programme of capital construction has been carried out. There has been a sharp improvement in the population's material and cultural standards.

The complete and final victory of socialism has been achieved in the USSR which has entered the period of fullscale construction of communism.

I. THE BASIC INDICES OF INDUSTRIAL DEVELOPMENT

At the present stage of communist construction in all industry in the USSR is state-owned. Industry is the leading branch of the national economy. The gross social product produced in industry constitutes two-thirds of the entire social product of the country. Half of the entire basic production assets and working funds of the national economy are concentrated in industry which employs more than one third of the country's manpower. Over 48 per cent of the whole capital investments of state and co-operative enterprises and organizations are allocated for the development of industry.

II. SOURCES OF FINANCING INDUSTRIAL DEVELOPMENT

The development of industry as well as other branches of the national economy in the USSR is mainly carried out by utilising the accumulations of socialist enterprises of the country. The accumulations of socialist enterprises are realised in two basic forms - profits and turnover tax.

Acting under legislation of the USSR, monetary accumulations in the form of turnover tax enter the budget as soon as production is realised. After obligatory payments into the budget for production funds, after fixed payments and after paying bank charges for loans, the profit of enterprises is used for the planned expansion of production (capital investments, working funds increment and other requirements) and formation of economic incentive funds (bonuses for personnel and funds for their cultural and every day servicing, the production development fund). The remainder of the profit made by the enterprises, as well as the turnover tax, is paid into the budget to be redistributed in accordance with the targets of the economic and cultural development plan.

In recent years approximately 30% of profits of industrial enterprises were left at the disposal of the enterprises for the above-mentioned purposes and 70% went into the budget.

For the purpose of promoting international economic ties and broader international division of labour, the Soviet Union makes use, on a mutually favourable basis, of foreign sources of financing in the form of long-term state and bank credit, as well as medium-term commercial credit.

In recent years the Soviet Union has concluded a number of credit agreements with governments and banks of foreign countries. The Soviet Union receives long-term state credits from the Socialist states of Poland, Czechoslovakia, Bulgaria, Hungary, the German Democratic Republic for mutual financing of construction of a number of enterprises in the USSR, the produce of which is needed by these countries. Long-term credits are as a rule provided at 4% per annum with repayment during 7-12 years by commodity deliveries of the output of the enterprises built with the credits received. The Soviet Union has credit relations with banks and firms of the western countries - Italy, France, Britain and others. Purchases of machinery and equipment for the chemical, light, food and other industries are financed by the credits received. An example of credit relations with foreign firms is the construction of the Volga automobile plant in the town of Togliatti in the USSR with the participation of the Italian concern "Fiat". Credits from the above mentioned foreign countries have been received at an interest of 5.5 - 6% per annum repayable over a period of 7-13 years.

The funds drawn by the Soviet Union from foreign sources accounts for a small share in the total volume of expenditure in financing the national economy.

In the Soviet Union where the means of production are publicly owned, enterprises are state socialist property i.e. the property of the whole people in the person of the socialist state. The state manages the enterprises that belong to it through the central agencies of state administration, i.e. ministries that are entrusted with managing the enterprises of the corresponding industry. In their activity the enterprises are guided by the rules approved by the ministry. Enterprises are legal entities and are operated on a cost-accounting basis. Fixed assets and working funds are allotted to it and constitute its authorized fund. The size of the authorized fund is indicated in the enterprise's balance sheet. Under the guidance of the superior authority the enterprise, using the property allotted to it, carries out its economic activity with the help of its personnel in accordance with the national economic plan on the basis of the co-ordination of the centralized guidance and the economic independence and initiative of the individual enterprises.

Enterprises are provided with fixed assets by the state free of charge at the moment an enterprise goes into operation or is expanded. The construction of new enterprises envisaged by the state plan is financed as a rule, prior to their commissioning by depreciation, profit of the enterprises which are within the authority of the corresponding Ministry, and by the budget. The reconstruction and expansion of operating enterprises is carried out at the expense of a part of profit and depreciation, and the credit of an investment bank. The bank credit is paid off from the profit and depreciation of an enterprise after it has gone into operation. Capital invested by enterprises above the state plan is financed from the production development fund or at the expense of bank credits. These credits are subsequently paid from the development fund.

In the general sources of financing centralised capital investments in 1968 the share of profit was 15%, depreciation 26%, budget appropriations 53%, bank credits and other sources 6%. In subsequent years the percentage of bank credit in financing state capital investments is expected to increase while budget appropriation is reduced.

The total volume of an enterprise's working funds is fixed for it within normal limits to ensure the fulfilment of the production plan. The provision of an enterprise with its own working funds comes from profit or budget appropriations.

There is no charge for the fixed assets allotted to an enterprise and its own working funds by either the Ministry or the state. There is charge for credits allotted for centralized capital investments, accumulation of inventories above-norm, introduction of new technology, calculations made and other temporary needs. Long-term loans for centralised capital investments are made at 5 per cent per annum. Violation of date limits for fixed assets becoming operational involves a charge of 1.5 per cent per annum of the amount of the loan for the construction of these projects to be paid until they become operational.

Short-term loans under above-norm non-seasonal inventories are made at 2-6 per cent and under seasonal inventories at 2 per cent per annum. Loans for the introduction of new technology and for paying credits are also given at 2 per cent per annum. An additional 2 per cent is charged for overdue loans.

Under special credit conditions banks are authorised to increase interest rates on credit, including credit overdue by 20 per cent.

Another internal source of financing economic and cultural development in addition to the accumulations of enterprises, are the savings of the population.

The savings of the population in the USSR are drawn for the development of the Socialist economy, for improving the welfare of the working people and for other state requirements in the form of savings deposits, floating of state loans and sale of lottery tickets.

Thanks to the rapid growth of the well-being of the Soviet people savings banks depositors and members of their families constitute a considerable part of the population. The basic deposits of the population are deposits payable on demand, fixed deposits and lottery deposits. The interest on deposits payable on demand is two per cent per annum. For fixed deposits (made for a period of not less than six months) it is three per cent. On lottery deposits interest is paid in the form of prizes, the drawings for which are carried out twice each year. Winnings range from 25 to 200 per cent of the bank account total for the last six months. The savings of the population deposited in savings banks are used to finance economic and cultural development, as credit resources of the State bank.

In recent years only one state lottery loan at 3% has been floated among the population. The loan bonds are freely sold and purchased by the savings banks. There are eight drawings every year. The total sum of prizes is fixed at 3 per cent per annum. The internal lottery loan is redeemable in 20 years. During this period 30 per cent of all the bonds draw prizes, and the remaining 70 per cent of the bonds are repaid at their nominal cost at maturity.

The savings of the population are also mobilised to meet the needs of the national economy by the sale of state lotteries launched in accordance with the Government's decisions. Sixty per cent of the proceeds are returned to the population in the form of prizes. Eight drawings are carried out every year. The income from floating state lottery loans and from lottery tickets enter the State budget.

III. THE PRINCIPLES OF ORGANISATION OF PLANNING AND FINANCING ACTIVITY OF INDUSTRIAL ENTERPRISES

1. The organisation of production and financial planning:

The national economy of the Soviet Union develops under a unified economic plan, that ensures planned proportional development of all the branches of the national economy and culture, the growth of the welfare of the Soviet people. The plans achieve proper correlation of state targets with the needs of the society and the interests, possibilities and reserves of the economy and individual enterprises.

To co-ordinate centralised state planning and large-scale economic initiative of the personnel of enterprises, industrial enterprises draw up annual production and financial plans. These plans are based on the ministries' targets set by the national economic plan for the particular industry. In this way the plan of the enterprise tallies with the national economic plan.

The basic form of state planning in the USSR is the 5-year plan, which distributes key targets over the years. The five-year plan targets are classified and specified in annual plans which take into account economic development achieved and changes in resources and requirements of the national economy and population.

Production and financial plans are elaborated in two stages. In the first stage the production and financial plan is drafted on the basis of the ministry's specific targets. This covers the long-term development plan of the enterprise and the revealed consumers' demand for goods and services. In the second stage the production and financial plan is finalized to tally with the national economic targets approved by superior bodies.

In the production sphere the following items are subject to approval: the volume of products realised and major types of output in number of items, including qualitative indices;

in manpower - total wage bill,

in finance - amount of profit and profitability (as the ratio of profit to fixed assets and standardized working capital) and budget payments and appropriations.

in capital construction - volume of capital investments by central bodies and fixed assets and industrial capacities that go into operation;

in introducing new technology - targets for mastering the production of new models, and new technologies, all-around mechanisation and automation of production which are of utmost importance for the growth of production;

in machine and materials supply - volume of raw and basic materials, equipment distributed by the superior body and allocated to the particular enterprise.

The approved enterprise targets are specified in the annual plan and, as a rule, distributed quarterly.

In compiling the production and financial plan the enterprise shows great initiative in working out all the targets of the plan which are not subject to the approval of the superior body. These local targets are used by the superior body and planning agencies as the basis for fixing the generalized targets for the individual enterprise.

In this way the enterprises plan the volume of overall and commodity output, the detailed nomenclature and assortment of their output approved by the superior body and the orders accepted by enterprises and a result of direct ties with the consumer and the supply and trade organisations;

- they plan and carry out (using local investments) measures for improving production and, in particular, measure for introducing new technologies, methods and means of exercising control, eliminating "bottle-necks" of production, and other measures ensuring the growth of production efficiency;

- they establish and expand, wherever it is economically expedient, long-term relations with consumers and suppliers of raw and basic materials, supplementing goods, equipment and other items on the basis of the machines and material supply plans;

- they plan labour efficiency, number of workers and average wages, determine the most rational structure of industrial management;

- they use a percentage of the profit and other means left at the disposal of enterprises for bonuses, social and cultural measures and housing construction, for production development and technological improvements;

- they determine the most rational forms of material incentive terms and size of bonuses on patterns typical for the industry.

In compiling and implementing plans enterprises must ensure the regular growth of production on the basis of an all-round increase in output which is needed to meet the requirements of all national economy and export trade. They must raise the technical level of production, improve the operating and market qualities of their output, reduce production costs, increase profit and profitability.

Particular attention should be paid to the steady growth of labour productivity as the decisive prerequisite for speeding up production rate and improving the well-being of the people.

The production and financial plan comprising ten interrelating sections is approved by the director of the enterprise . The production and financial plan consists of: 1) a summary table (basic indices); 2) a production plan and a sales plan; 3) the growth of production efficiency plan; 4) planned technical and economic norms and standards; 5) a capital construction plan; 6) a machines and material supply plan; 7) a manpower and wages plan; 8) a plan of profit, production costs and production efficiency; 9) a plan of creating and using economical incentive funds; 10) a financial plan.

The financial plan (a balance sheet of income and expenditure) is the final section of the production and financial plan that synthesises and reflects in money terms the implementation of all the above-mentioned sections of the production plan.

The basic aims in compiling the financial plan are as follows:

a) to provide an enterprise with sources of finance necessary for its performance, for timely implementing the measures fixed in all the sections of the production plan;

b) to reveal and mobilise an enterprise's reserves to secure a more rational use of its productive capacities, its fixed assets and working capital, and to ensure the most possible increase in production efficiency, profit and profitability;

c) to determine the financial relations with the state budget, the Construction bank, the State bank and superior bodies.

The following are reflected in an enterprise's financial plan:

- a) incomes and receipts
- b) expenditure and reductions
- c) credit relations
- d) mutual relations with the budget

The sources of incomes and receipts are:

- a) net income in the form of profit and turnover tax (on taxable output)
- b) an enterprise's other own sources of income
- c) income from other sources

In order to determine the profit of an industrial enterprise a sales plan is drawn up. Sales, profit and profitability are the basic indices of planning and measuring an enterprise's efficiency.

In order to correlate financial and economic indices the enterprise's output plan in wholesale prices and complete cost of production is adopted as the sales plan. To calculate the volume of sales commodity output is added to the remainder of finished products: a) in warehouses and b) shipped to the buyer since the beginning of the year, subtracted from this is the remaining stock of finished products by the close of the planned year (when the enterprise does not sell it within the given year). These production left-overs are estimated in wholesale prices and at production cost.

The profit from sales of commodities is calculated as the difference between the cost of this output (in the enterprise's wholesale prices) and the complete cost of production.

In addition to profit from commodity sales, proceeds from other sales must be determined - the sale of output and rendering services of non-production character (home farms, purchasing organisations, automobile parks, sale of purchased goods etc.). The proceeds from sales of other items are also planned on the basis of expenditure estimates and sales proceeds with regard to the achieved level of profitability and measures for reducing production and service costs.

The balance-sheet profit includes profit from sales of commodities and other items, from rendering services of a non-industrial nature.

To determine the fulfilment of the plan for profit it is necessary to compare the actual and balance-sheet profit laid down by the plan. The total profitability of enterprises is determined as the ratio of the balance-sheet profit to the annual average amount of fixed productive assets and the enterprise's own rationed working capital. The total profitability index shows an enterprise's efficiency.

If enterprises realize their output at retail prices, which include two forms of monetary accumulation - turnover tax and profit, then besides profit the turnover tax to be paid into the budget is also planned. To do this the taxable turnover of the total volume of goods marketed out is determined and on its basis the turnover tax is calculated according to the prevailing rates of taxation.

An enterprise's own sources of income are: a) depreciation deductions (to finance capital repairs and complete reproduction of capital assets); b) deductions made at the expense of production costs according to established norms: on research and development, on technical propaganda, on mastering new technology, on training personnel; c) the mobilization of internal resources in capital construction (elimination and reduction of overplan reserves of material values, unassembled equipment, etc.);

d) profits and savings from reducing the costs of building and assembly work carried out without outside help; e) savings from reducing the costs of capital repairs carried out without outside help; f) incomes and resources used as the sources to form an enterprise's working capital (increments to permanent liabilities, purchase of low-cost stock, instruments and spare parts bought at the expense of the capital construction funds); g) other sources of financing capital works.

Depreciation deductions are made for definite purposes and their amount is directly calculated as a standard percentage of the value of the individual type of fixed assets and adopted rates of depreciation.

In determining the increment to permanent liabilities the minimum unpaid balance of earned wages, liabilities for social insurance, reserves for future payments and other sources of permanent liabilities are taken into account.

Deductions from outside sources include: a) funds to be used under contract for definite purposes of research and development, parents contributions for maintaining children in various pre-school institutions; b) funds received from superior organisations as a part of redistribution.

The expenditure items of the financial plan provide for the following expenditure and deductions:

- a) capital investments by central bodies;
- b) growth of the working capital in capital construction;
- c) expenditure on capital repairs;
- d) increment to the standard amount of an enterprise's own working capital;

- e) deductions on forming special economic incentive funds
- f) expenditure on research and development, on training personnel, on mastering new technology, on protecting inventions;
- g) deductions from profits to a Ministry's reserve for rendering financial aid;
- h) expenditure on the maintenance of pre-school children's institutions;
- i) other expenditure and deductions under current legislation.

Expenditures on capital investments by central bodies are derived from a) part of the depreciation deductions allotted for complete reproduction; b) profits; c) mobilization of the enterprise's own resources in capital construction; d) other sources; e) bank credits.

Expenditure for the capital repairs of fixed assets consists of: a) the amount of depreciation deductions allotted for capital works excluding the part paid to the corresponding Ministry's reserve for redistribution and b) receipts from the Ministry's reserve for capital works.

The quotas of the enterprise's own working capital are annually fixed by the enterprise itself while working out its production plan on the basis of production expenditure estimates and the current norms of the working capital.

The quotas are calculated for every component of the working capital: raw materials, basic and auxiliary materials, fuel, packing, spare parts, cheap goods, unfinished products, manufactured articles.

The financial plan provides for the increment to an enterprise's own working capital.

The economic incentive funds are calculated on the basis of the fixed indices of an enterprise's efficiency and norms of deductions to the funds. The incentive funds (material incentive fund, fund for social and cultural measures and housing construction) are formed by deductions from profit. The production development fund is formed by profit, a part of depreciation deductions for complete reproduction and proceeds from selling worn-out and obsolescent fixed assets.

Expenditure on research and development, training of personnel, promoting inventions, mastering new technology, deductions from profit to the Ministry's reserve, etc. are provided for in amounts approved by the superior organisation.

Expenditure on the maintenance of children's pre-school institutions are planned on the basis of the sanctioned contingent of children, expenditure quotas on maintenance and feeding and standard staff quotas. Parents' contributions and budget appropriations also go to finance these institutions.

The item "Credit mutual relations" of an enterprise's balance-sheet of income and expenditure provides for receiving long-term credits for capital investments from central bodies in the established manner, and for paying credits and interest.

An enterprise's relations with the state budget are reflected on one hand in the form of payments into the budget (payments for fixed productive assets and fixed working capital, fixed (rental) payments, profit balance payments, turnover tax and other payments and deductions), and on the other hand - budget appropriations (on capital investments, increment to the working capital, research and development, maintenance of children's institutions, promoting inventions and other expenditures).

The financial plan provides for paying the profit balance into the budget if an enterprise's income exceeds its expenditure.

If in the financial plan expenditure exceeds income, the plan provides for budget allocations to cover the expenditure.

The surplus of income over expenditure (taking credit relations into account) must be equal to the surplus of payments into the budget over budget allocations.

The surplus of expenditure over income (taking credit relations into account) must be equal to the surplus of budget allocations over payments into the budget.

2. The organisation of accounting in enterprises

In a Socialist economy accounting as well as planning constitute the centralised system of economic management. The creation of a unified methodology of accounting and planning makes it possible to use accounting data for control over the achievement of plan targets, for operative management of the economy, for economic analysis and revelation of the reserves of production.

The unity of the methodology of accounting is achieved by the availability of the general regulations obligatory for all the enterprises of the country. The Regulations on book-keeping statements and balance-sheets determine the order and time of their compilation, principles of measuring commodity and material values and fixed assets. The Regulation on Documents and Records provides for the order of entries and recording operations. The Regulation on labour and wages accounting, inventory accounting, fixed assets accounting and others regulate the order of stocktaking of material values and expenditure of labour. It is of great importance for achieving the unity of accounting that there is a single accounts system for all the branches of the national economy. The introduction of the unified accounts scheme made it possible to introduce a unified standard periodic and annual book-keeping account for all enterprises.

The primary accounting is managed by the Central Statistical Board of the USSR Council of Ministers (CSB). It develops and publishes standard forms of primary documents, establishes the order of their application and filling in. The methodological management of book-keeping accounting is entrusted to the USSR ministry of Finance which develops and approves, in agreement with the CSB, the accounts scheme of book-keeping and forms for periodic and annual accounting and directions for their use.

Control over the fulfillment of the national economic plan is ensured by the fact that reports of enterprises are analysed by the Ministry from the angle of branches of the economy. And the CSB analyses them in relation to the entire economy along the lines of its branches.

The forms of a book-keeping annual statement contain planned and reported data of the most important indices of the performance of enterprises which make it possible to define the degree of the fulfilment of the plan in accordance with these indices, to measure the financial and economic efficiency of an enterprise and to reveal production reserves.

On the basis of grouping accounts' indices an enterprise's final balance-sheet and its supplements define the availability and state of an enterprise's own working capital by the close of the year under review as compared with the plan and its actual position by the beginning of the year, an enterprise's financial position singling out accounts with debtors, creditors, superior organisations and with the financial system as far as payments into budget and budget allocations are concerned. Individual forms show the movement of the authorised fund, of funds for special purposes, the availability and movement of fixed funds and depreciation reductions. The form for expenditure on production includes planned and reported expenditure according to individual elements, writing off expenditures on non-production accounts, expenditure on overall and commodity output.

The commodity output cost form makes it possible to reveal economy or overexpenditure on production costs of the entire commodity output and on each expenditure item, as well as on comparable output. This form contains data on the fulfilment of the plan to reduce the costs of commodity output and expenditure per rouble of commodity output. The information attached to this form gives some idea of the profitability of the most important kinds of output calculated as the ratio of profit to production costs. A form showing expenditure on running production and managing an enterprise makes it possible to measure the implementation of estimated shop expenditure, expenditure on maintaining and operating the equipment, all-factory and administrative and managerial costs.

Enterprises compile reports on the fulfilment of the output plan in terms of money and in kind, of labour plan, particularly from the aspect of number of personnel, wages bill, labour productivity. The sale of output form shows the fulfilment of the plan of commodity sales and sale of output of home farms and surplus material values. These sales are shown in wholesale prices and in production costs. These forms also calculate the profit. The composition of balance-sheet profit including unrealized profits and losses is shown in a profit and losses form.

Enterprises also compile specialised accounting forms showing the use of equipment, the fulfilment of the plan of introducing and mastering new technology, of machines and material supplies and of other targets of the enterprise's performance.

Thus the unified system of accounting makes it possible to use accounting data to control the fulfilment of the plan, planning, operative management and analysis of financial and economic performance of individual enterprises and a whole industry as well.

3. Planning and production costs accounting

Planning and production costs accounting are carried out in accordance with the basic conditions for planning, accounting and calculating production costs. Production cost is an important qualitative index of the efficiency of enterprises and national economy branches, reflecting the economic activity as a whole.

Planning, accounting and calculating production costs aim at revealing and mobilizing available reserves for the regular reduction of expenditure on manufacturing and selling the output and for the growth of internal industrial accumulations on this basis.

This task is achieved by using in planning advanced standards of employing equipment, raw and basic materials, fuel, power and labour expenditure and by strictly supervising the observation of these norms.

Cost planning provides for compiling production expenditure estimates, fixing the production costs of the entire commodity output, fixing expenditure per rouble of commodity output, reducing production cost of comparable output (in case of its share being great) and production cost per manufactured article.

Production expenditure is estimated in accordance with the following economic elements: raw and basic materials (excluding waste products), auxiliary materials, fuel and power from outside sources, fixed assets depreciation, basic and supplementary wages and salaries, insurance payments and other monetary expenditure. The production expenditure estimates are calculated as the sum total of all items of the production plan (labour, machine and materials supply, employment of fixed assets, introducing and mastering the new technology, etc.).

The planned cost of the whole commodity output is determined in two ways: on the basis of production expenditure estimates ~~excluding~~ not involved in the output cost and including the amount of non production expenditure. It is based on the total cost of all the goods to be manufactured and services to be provided.

The production cost of commodity output and of manufactured articles is determined on the basis of estimated expenditure items, that is, in accordance with the production function of expenditure. These items are: raw and basic materials (excluding waste products subject to be returned), purchased goods, unfinished articles and services of associated enterprises, fuel and power of all kinds for technological purposes, basic and supplementary wages of production workers, expenditure on maintaining and operating the equipment, shop expenditure, all-factory expenditure, other production expenditure, and non-production expenditure.

Expenditure per rouble of commodity output is calculated by the production costs of commodity output to its volume in an enterprise's wholesale prices. The target for reducing expenditure per rouble of commodity output is fixed in kopeks and in percentage as compared with the basic year's expenditure.

4. Industrial output and the principles of price determination

The socialist economy pursues a unified state policy of price determination. Price determination is a planned process and prices are a vital tool in the centralized management of the national economy. The basic task of the system of planned price determination is to ensure the correlation of prices and the social necessary expenditure on labour, the reimbursement of production and marketing costs as well as profit formation and the creation of incentive funds at a steadily operating enterprise.

It is assumed that prices can deviate for the purpose of promoting the production of individual goods, accelerating the technological process, increasing output quality, bringing demand and supply of certain goods into balance. The correlation of prices for mutually substituted and similar output is taken account of in fixing prices.

In the USSR industry there are three types of prices:

a) an enterprise's wholesale prices which are formed by production costs and profit; b) an industry's wholesale prices which besides production costs and profit, also include production costs and profit of services, and in case of individual goods turnover tax is added.

Output is marketed among - producer and consumer enterprises at wholesale prices; c) retail prices are prices at which consumer's goods are marketed through the trade network. Retail prices are fixed on the basis of an industry's wholesale prices augmented by the amount of trade discount which goes to reimburse marketing costs and profit formation of trade organisations.

In fixing wholesale prices the inter-industry average production costs of the enterprises producing the goods are accepted as the initial basis. In most branches of the heavy industry current prices are 15% over production funds. In some branches it is lower. In fixing retail prices account is also taken of the correlation of demand and supply, quality and purpose of individual commodities. To make such goods as food-stuffs, goods for children, medicines and others accessible to all, their retail prices are fixed somewhat lower as compared with prices of other goods. In turn prices of luxury and durable goods are fixed at a higher level.

For the purpose of pursuing a centralised policy in price determination in correlation with the initiative of local organs the present system of fixing prices provides for the USSR Government reserving the right to solve the problem of changing the price level.

Prices of most stable items are fixed by the Price Committee of the USSR. Ministries and departments are authorised to fix temporary wholesale prices for the output newly mastered in the USSR, prices of individually manufactured articles and prices of output and unfinished goods, made in a co-operative way by several enterprises of the same Ministry. Enterprises are authorised to fix prices for equipment, goods and unfinished articles made to order, for output and services rendered to meet the needs of capital construction and enterprises' own needs and for rendering services for other enterprises and organisations.

5. The system of distribution of profit of industrial enterprises

Profit, as an enterprise's net income, alongside with sales of output and profitability, is the most important criterion of planning and measuring the efficiency of enterprises. At present the volume of sales of output and profit are fixed in the national economic plan and reported to each enterprise.

Marketing as the final result of the process of production promotes the growth of rate of extended production, stimulates higher output quality and broadens assortment of output.

Profit is an important economic incentive for the good work of enterprises and their personnel as a whole, for achieving better results, since it is the source of forming incentive funds, or financing an enterprise's own capital investments, or the increment to an enterprise's working capital and other expenditure.

The profitability index calculated as the ratio of profit to productive funds shows the efficiency of production as it shows how much profit is made per rouble of productive funds.

Profit, apart from cost, more fully reflects all the aspects of the productive and commercial performance of an enterprise, but under the conditions of a Socialist economy it cannot be the aim of production taking into consideration that the national economic plan not only stipulates the volume of sales but also the nomenclature of the most important goods needed by the national economy to meet social requirements.

As was mentioned above, the wholesale prices for industrial output are fixed with regard to their nearest approach to the social necessary expenditure, that is, to their value. These prices make it possible to compensate production costs and realize the society's net income in the form of profit (at the enterprise's wholesale prices). Under these conditions most enterprises work on a paying basis. However, enterprises whose production costs exceed the average level for industry can incur losses, which, as a rule, are covered by profit made at other enterprises of the same Ministry, due to the redistribution of profit for the purpose of compensating losses as provided for in the plan.

In order to stimulate material interest of the cost-accounting enterprises in the mobilization of an industry's internal reserves, the plan provides for a different system of distribution of plan and overplan profit.

Plan profit is distributed as follows:

a) A charge for the use of fixed production assets and working capital, fixed (rental) payments and interest for bank credit are paid into the budget in the first place; a charge for fixed production assets is paid to stimulate the material interest of enterprises in the improved utilisation of these funds at 3, 6 or 10 per cent. Fixed payments are made by those enterprises which earn a differentiated net income irrespective of the performance of enterprises, due to exceptionally favourable natural, transport and other conditions.

b) The profit is directed to form the material incentive fund, the fund for social and cultural measures and housing construction and the production development fund.

c) The remaining part of the profit is used for the following purposes:

- to finance capital investments by central bodies and to pay off the credit granted to finance capital investments by central bodies;

- to pay off the credit granted for expenditure on increasing the output of consumer's goods, if the production development fund is not sufficient;

- to pay off the remaining liability in bank credit granted for starting the production of new goods, for improving quality, reliability and durability of manufactured articles;

- to increase an enterprise's own working capital, to meet losses incurred in housing and utilities, to finance expenditure on the maintenance of cultural and every day service, pioneer's camps and other expenditure within the amount provided for ⁱⁿ the plan;

- to systematically form a Ministry's reserve for financial assistance to enterprises and economic organisations;

- to be paid to the superior organisations as part of its redistribution within the amounts provided for in the plan;

- for other purposes in the manner and amounts determined by the Government.

d) The difference between the total profit and the above-mentioned payments and deductions, and also a part of profit that is used to cover other planned expenditure stemming from the financial plan of the enterprise is paid into the budget as an unused part of profit.

Profit realised above plan targets is distributed according to different procedures:

- to pay into the budget charges for the use of productive assets and working capital, fixed payments and interest for bank credit. This is the case when assets exceed planned targets and when the plan of marketing output is overfulfilled on the basis of which fixed payments are made and credit received in amounts exceeding the plan figures;

- to pay additional deductions to the material incentive fund, the fund for social and cultural measures and housing construction, production development fund according to the results of an enterprise's performance in accordance with reduced norms;

- to cover overplanned losses incurred in housing and utilities and overplanned expenditure on the maintenance of cultural and every day service and pioneer's camps;

- to pay prizes to winners of the All-Union Socialist emulation;

- to cover liability in bank credit granted to meet an enterprise's temporary requirements in working capital;

- to pay off credit granted for special purpose investments by central bodies, to pay off bank credit granted in the process of the fulfilment of the production plan, to finance expenditure on increasing output of consumer's goods, on starting the production of new models, on improving quality, reliability and durability of manufactured articles;

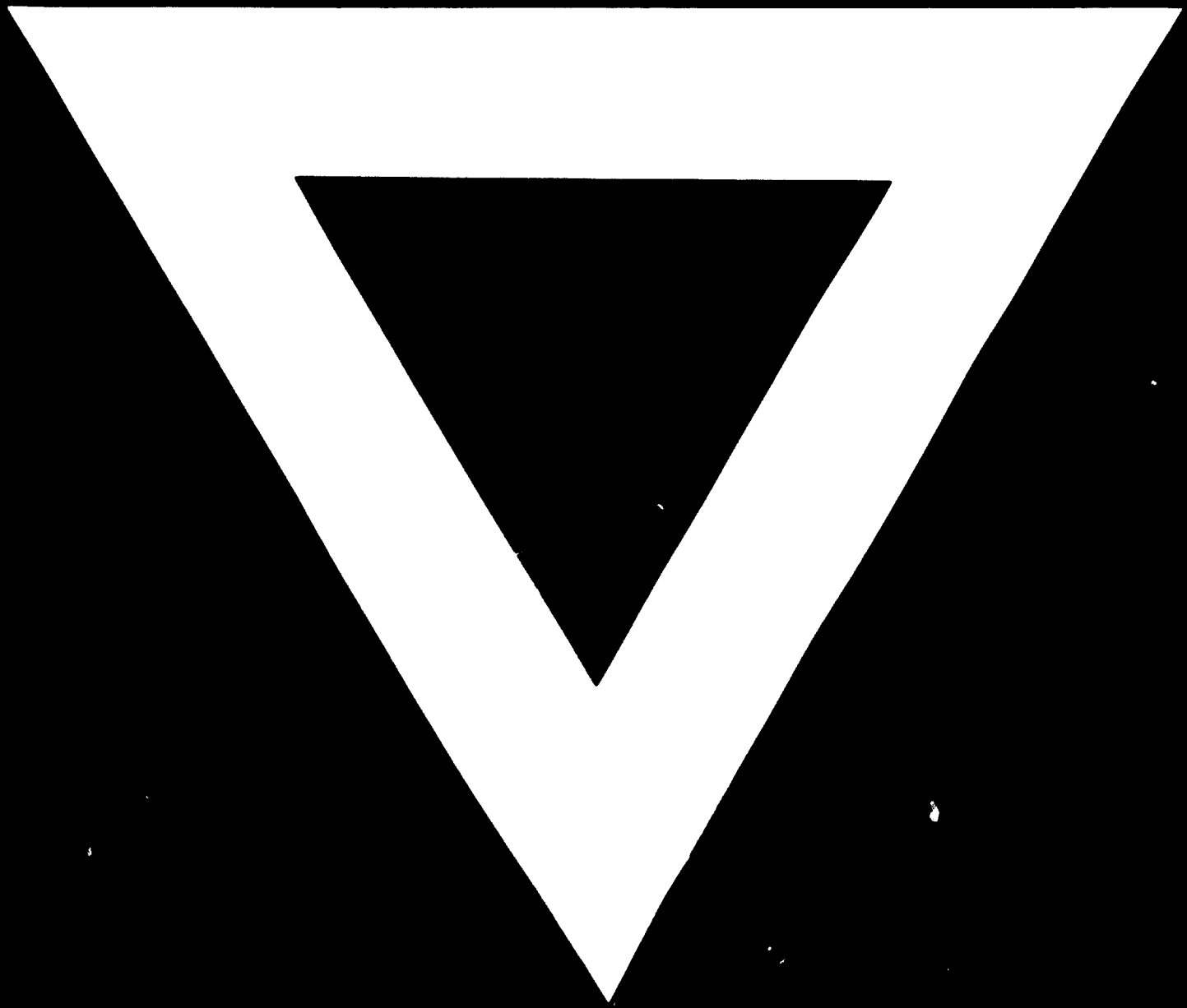
- for other purposes in accordance with the Government decisions.

The difference between the total amount of profit above planned level and the above-mentioned payments and deductions is paid into the budget as unused part of overplanned profit.

Information about the employment of population, production of gross national product, national income and volume of capital investments in the branches of national economy of the USSR.

(in %)

	Employment				Gross national product				National income				Volume of capital investments of public and cooperative enterprises			
	1963	1964	1965	1966	1964	1965	1966	1967	1964	1965	1966	1967	1964	1965	1966	1967
In all industries:	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Industry	35	36	29,0	29,5	64,2	63,8	53,5	52,4	41,2	40,5	40,5	40,5	41,2	40,5	40,5	40,5
Construction	7	7	2,1	2,2	9,4	9,5	3,8	9,0	2,9	3,2	3,2	3,2	2,9	3,2	3,2	3,2
Agriculture and forestry	32	31	12,7	12,5	16,4	16,5	21,5	22,0	12,4	12,1	12,1	12,1	12,4	12,1	12,1	12,1
Transport and communication	8	8	13,0	13,0	4,2	4,2	5,6	5,6	11,3	11,0	11,0	11,0	11,3	11,0	11,0	11,0
Trade, supply and others	6	6	3,4	3,5	5,8	6,0	10,6	11,0	11,0	11,3	11,3	11,3	11,0	11,3	11,3	11,3
Petroleum production sphere	19	19	39,8	39,3	-	-	-	-	21,2	21,9	21,9	21,9	21,2	21,9	21,9	21,9
Including:																
Housing and public utilities services	3	3	30,6	30,2	-	-	-	-	14,8	15,5	15,5	15,5	14,8	15,5	15,5	15,5



7 . 4 . 72