



# Ways to improve the cost management principles at economic entities

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## ABSTRACT

This article focuses on the development of the up-to-date proposals and recommendations on the organization of the methods of the cost management and determination of the production prime-cost in reliance upon the peculiarities of the economic entities under conditions of the economy modernization.

### Keywords:

costs, standard costs, actual (reasonable) costs, deviation, prime-cost, calculation, accounting register.

## Introduction

There are huge idle opportunities in the use of the production potential created in our country. We spend a lot of money to update and modernize production, as well as attract a large amount of foreign investment. However, drawbacks in the full use of production capacity, capital funds, and labor efficiency in a number of sectors have caused an unjustified increase in the prime-cost of products.

Definitely, the first factor in reducing production prime-cost is the efficient use of production resources, and the second factor is the use of latest advanced methods of calculating production prime-costs. Herewith there is essentiality to develop the accounting system.

The grouping of costs incurred in the activity of an economic entity is aimed at making one or another management decision. Each economic entity develops a certain accounting system project in reliance upon the requirements of its managers and to meet their requirements. In addition, regardless of the diversity of these accounting systems, a general

procedure for organizing cost accounting and calculation of the production prime-cost has been developed based on the theory and practice of the entities.

## Literature review

Like other academic subjects, the study and development of "Accounting" subject area is considered from a theoretical, practical and scientific point of view. Therefore, it is necessary to correctly distinguish the aspects of this academic subject development. For example, double-entry, created by the great Italian mathematician Luca Pacoli (1445-1517), is neither an accounting theory nor a scientific discovery. Luca Pacholi created a procedure (stage) of calculation only in practical terms, and his discovery became the basis or push for the theoretical and scientific development of this subject. Later, in the middle of the XIX century, "Accounting" subject area was scientifically developed.

Therefore, particular attention was paid to cost accounting and calculation of the production prime-cost. In particular, according

to the German scientist A. Kalmes, "Calculation is used for the following purpose: reducing the prime-cost, determining the selling price and evaluating the item in the current account". It divides calculation into the following two types: single (all costs apply to one specified object) and general (all costs are distributed over the number of products manufactured). In the first case the exact prime-cost is formulated, in the second case only the arithmetic average is developed [3].

Moreover, Russian scholars N.A. Blatov, R.Ya. Veitsman, A.P. Rudanovsky, A.M. Galagan particularly focused on the essentiality to determine the prime-cost. In their opinion, "Production calculation provides the following aspects:

- 1) examines composition of all factors that constitute the actual prime-cost of the manufactured product;
- 2) continuously monitors execution of tasks to reduce the production prime-cost;
- 3) provides all the information required for the prime-cost planning;
- 4) possesses the data to determine the selling price of the product;
- 5) financial outcomes of the enterprise or production workshop are determined;
- 6) negative situations in the management and organization of the production process are identified and eliminated" [4.5,6,7].

According to B.A.Khasanov, R.O.Kholbekov and other scholars, the choice of the method of cost accounting in each entity is made based on the peculiarities of the industry where this entity is operating. However, three types of organization of the standard accounting for these costs can be distinguished as a general proposal:

#### **A. Accounting by standard costs.**

The actual costs incurred in this method are determined as follows:

Standard costs  $\pm$  Deviation from standard costs = Actual costs.

In this procedure the flow of tangible assets (direct materials, work in progress, finished products) in accounting is based on the condition that they are evaluated according to the established standards. Deviations

detected in the process of this activity are accumulated as they occur and are added to the amount of standard costs at the end of the reporting period.

#### **B. Simultaneous accounting of actual and standard costs.**

This method provides the data on production costs in two values:

- on actually accumulated costs;
- provides coverage in the amount of standard costs costs spent on the volume of the actually manufactured product, work performed and services rendered.

Actual spendings – Standard spendings =  $\pm$  Deviations.

#### **C. Accounting by the mixed (composite) method.**

This method involves two ways of accounting.

First way. It is widespread in the practice of economically developed countries and is recommended to be used in our country as well. However, it is not possible to provide accurate accounting for the total deviation during the reporting period. The standard prime-cost of work in progress at the end of the reporting month is determined as the difference between the standard volume of costs spent on production and the standard prime-cost of finished products. In addition, the amount of deviation, which is not taken into account during the month or in another reporting period, is added to the production value at the end of the reporting period.

Second way. It implies imposing daily control over compliance with the approved standards for basic costs. The data obtained on deviations from the standard during the reporting period is not summarized in the relevant accounting registers and is not recorded in the accounts [9,10].

### **Research methodology**

Such research methods as systems approach, comparative analysis, grouping, comparison, economic analysis and monographic observation have been widely used in this article.

### **Analysis and Results Discussion**

In our opinion, while giving definition to any category, term or phenomenon, it is recommended to take into consideration the current situation. After gaining the independence of our republic, due to economic reforms, considerable progress was made in the accounting system. In particular, unlike other allied republics, our country has developed an independent accounting policy. As a result, the procedure for grouping, accounting and distribution of costs has changed radically. In reliance upon the current accounting policy of our republic, the calculation has been defined as follows:

Calculation (schedule of expenses) is determination of the prime-cost of the product manufactured, service rendered, and work performed.

Prime-cost is expression of the production costs incurred for manufacturing products, rendering services and performing works in monetary units.

As mentioned above, according to the opinion of B.A.Khasanov, R.O.Kholbekov and other scholars, the choice of the method of cost accounting in each entity is based on the industry peculiarities of this entity, and as a general proposal, there are three types of organization of standard accounting of these costs:

1. Accounting by standard costs.
2. Simultaneous accounting of actual and standard costs.
3. Accounting by the mixed (composite) method.

The amount of deviation from the approved standards is determined for each group of the same products by comparing the actual costs spent on the volume of the evaluated finished product with the standard costs that should be spent on this product. In this case, the value of the production-in-progress is estimated at the standard cost based on the in-kind indicators of the balance of the movement of semi-finished products in production, or otherwise it is estimated based on the accounting of the production-in-progress in the production units.

The accounting method by calculation implies implementing in practice the following ways:

- transfer the amount of deviations from the standard determined during the reporting period to the prime-cost of manufactured products (finished products, in some cases - sold products based on the accounting policy), or if not,
- distribution of the amount of the deviation between the finished product and the production-in-progress.

The stage of the process of accounting for the costs of product manufacturing is the cumulative calculation of the costs of production. At this stage costs are grouped according to different characteristics. In the standard method of cost accounting, the cumulative accounting for these costs separates a series of tasks in order to determine the results for the products manufactured in the relevant production unit. Therefore, the content of this consolidated accounting register is developed in reliance upon the set aim.

This situation, aim, task and content should be studied based on the activity of one entity. In reliance upon the nature of the activity of this entity, this register lists unfinished production (production-in-progress), finished products, products deemed unusable, deficits, the degree of change in the standard, and the amount of the deviation from the standard.

The conditions required for the practical application of this document in the production of the consolidated accounting register are defined as follows:

- types of indicators and their availability, which are agreed between the entity's technology, production units and economic services and recorded in the summary account of costs at different levels of management;
- knowing the impact of improving the production cost accounting system on the efficiency of this activity;
- openness of information about the activities of this department for technology and production services;

- the use of this information to manage production and product prime-costs in the entity efficiently and in due time.

The main methodical condition for summarizing these costs in the consolidated register of costs is to comprehensively and evenly cover the state of the production process recorded in the production account and to reflect the growth of production costs indicated in the financial account. In this case, the processes of implementation, growth and cost of the manufactured product are considered as a single calculation process that repeats the production structure of the entity.

Another methodological principle (condition) of production accounting is to limit the composition of production costs to direct costs, because these costs are directly related to the volume of manufactured products.

From the point of view of an economic entity, choosing one of the efficient types of cumulative accounting of production costs should be done in reliance upon specific conditions and characteristics (technology, organizational structure) of each entity.

The cumulative accounting procedure in the standard accounting system of production includes several steps, which are the following:

A. Preliminary calculation of direct costs. It is aimed at developing the data on the calculated standard volume of material costs spent on details, assembly units, parts and aggregates on the basis of adjusted in compliance preliminary documents. Deviations in the process of technology are summarized by the relevant units -production crews. In accounting these and similar data are used to calculate the deviation index for the products manufactured in the relevant production units. Deviations from the standard by types of resources in compliance with the conditions for creating a standard calculation are regrouped by calculation objects. This procedure is applied to the production crews that initially use raw materials and consumables.

B. Deviations in the finished product, defective item in production, loss in the process of technology and differences in the storage process are recorded in kind in the original documents. Information on deviations in this

form is summarized by the production crews in the balance sheet of the production unit or department.

In the consolidated account of costs, these in-kind differences are estimated according to the current standards of material and labor costs. Moreover, documented defective products are defined as undocumented deviations in kind. The application of this procedure helps to estimate the level of use of resources for each production unit, record the location of losses on semi-finished products, or determine the share of each division, production unit in the total amount saved. As a result, the basis for financial incentives of each department is created in reliance upon the outcomes.

In addition, the use of a set of standard data enables to determine the same prices for the compensation of loss and defective products without calculating the cost of each detail, semi-finished products and carry them to the responsibility of the persons in charge or write them off to production. Summarizing the data of these deviations in kind has an analytical nature and is intrinsically connected with the procedure of internal departments. Deviations in the form of material and labor costs do not require additional calculations for distribution to calculation objects, because it is attached to specific labor tools, preparation, packaging, casting, details, assembly units, aggregates and items. Deviations that occur due to the application of this procedure will be attributed to the prime-cost of the relevant object.

C. Analytical accounting of production costs in production crews and production units, which are transferred to the independent economic account, which are not part of the units in their structure, is implemented by the elements of these costs, calculation items by production workshops and entities, types of costs, types of products, works and services.

Two forms of cards are required for keeping an analytical accounting of production costs for consolidated register of costs. One of them is used to summarize materials, purchased semi-finished products, completed products, domestically produced semi-finished

products, waste and labor costs by the production crew. The second of this card is used to account for costs for certain products or groups of similar products. It contains the requisites presented in compliance with the instruction approved by the department of the Ministry of Finance, which provides consolidated indicators of costs. However, when using this standard method, each entity can simplify based on its own characteristics.

Example: from this blank card, the requisite indicator for the recalculation of production-in-progress can be removed.

Cost accounting (data sheet by production units, by production workshops and by the total collected amount) card is formulated by processing the following data:

A) In terms of raw materials and consumables:

- registers and sheets of works performed;
- calculation of standard costs for textile materials, varnish, paint and other chemical materials;
- application for replacement of materials;
- register of products manufactured by the assembly shop and departments;
- register of processed products of processing departments (subdivisions);
- limit cards of subdivisions or departments, planning maps.

B) In terms of purchased semi-finished products:

- statement of decommissioning, balance on the movement of purchased semi-finished products and spare parts in production with attached documents confirming that they were spent on equipment adaptation and training of workers;
- summary register of manufactured products in kind;
- summary register by types of items.

C) In terms of wages:

- documents accounting for completed works;
- documents indicating overseas travel;
- daily time records;
- various data sheets, resolutions, instructions, orders and etc.

D) In terms of domestically manufactured semi-finished:

- inter-workshop balance on movement of details, parts and semi-finished products;
- documents accounting for the work performed;
- certificate on writing off due to invalidity and other reasons;
- the amount of the standard consumption of materials;
- standard amount of labor costs.

The cards, which account for costs of the production unit, collect the total costs for departments, production workshops, and an entity according to the part of the direct costs incurred. Then it compares these costs with the data of cumulative costs in accounting accounts. In this way enables obtaining the data of analytical and synthetic accounting of production costs.

The final stage of production accounting is calculation of the cost of the manufactured product. The production process of the entity that we have given as an example - the entity that manufactures washing machines - is a closed process for items. Because one part of aggregate devices and parts prepared in the workshop is delivered to the assembly workshop, and the second part is delivered to the warehouse for sale to buyers as spare parts. Based on this situation, it is necessary to calculate and evaluate the outcome of this workshop's activity according to the total costs spent on the production of aggregate devices and parts and according to the actual prime-cost of the finished products manufactured by the entity.

To achieve these aims a "calculation sheet for manufactured products and parts" with special indicators is used. This sheet is compiled by type, department, trade and subject of each product, which is an independent object for calculation. In reliance upon the standard calculation or the final amount of the standard and the quantity of manufactured products, parts, the standard prime-cost of the total manufactured product is determined by the items of the direct costs in these calculation sheets. The amount of

changes in the standard and the amount of documented and undocumented deviations from the standard are added to the costs of this standard as well. In addition, this sheet shows the amount and value of details, parts and aggregate devices received from other departments and production workshops, as well as the amount of details, parts and aggregate devices given to other departments and production workshops and the amount at the transfer price. The prime-cost of the product actually manufactured in this production workshop is the cost of the product actually manufactured in this production unit or workshop adding the cost of the spare parts minus the cost of the spare parts given to other production workshops, because this real prime-cost is included in the prime-cost of finished goods produced by the entity.

### Conclusion and proposals

In reliance upon the research results, we have developed the up-to-date proposals and recommendations on the organization of the methods of the cost management and determination of the production prime-cost in reliance upon the peculiarities of the economic entities under conditions of the economy modernization.

After the market demand for the product, the main factor in determining the selling price of the product is the production prime-cost of the product. The prime-cost is the total expenses spent on production. Accurate determination of the production prime-cost of the goods, which are part of a particularly delicate and long technological process, is of great importance both in the social life of the population and in the national economy.

The following aspects have been reviewed and recommended in this article:

1. As a general proposal for the implementation of the cost accounting method based on the nature of the entity's industry, three types of the organization of the standard accounting of these costs have been considered.

2. It is recommended to determine the amount of deviation from the approved

standards for each group of the same products by comparing the actual costs spent on the volume of the evaluated finished product with the standard costs that should be spent on this product.

3. Several stages of the cumulative accounting procedure in the standard accounting system of production have been reviewed and recommended.

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