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Issues of Improving the Financial Analysis and Accounting of Costs in Small Business Entities

Isomukhamedov Akbarjon Bakhodir ugli*¹

1. Lecturer (Independent Researcher), Namangan State Technical University

* Correspondence: iakbarjon@gmail.com

Abstract: Small businesses play a crucial role in the economic stability and growth of countries, necessitating effective financial management and accurate reporting. The paper focuses on enhancing accounting systems and policies within small business entities, emphasizing the integration of financial and management accounting to improve cost classification and financial transparency. Despite advancements in accounting practices, small businesses still face challenges in adapting to international standards, with insufficient development of accounting policies and cost classification systems. This research aims to improve the financial reporting and cost management of small businesses by developing comprehensive accounting policies aligned with international standards. The findings indicate that small businesses often struggle with insufficiently developed accounting policies, leading to unreliable financial data and ineffective decision-making. The implementation of simplified accounting systems and improved cost classification can significantly enhance financial stability and decision-making. The study introduces practical recommendations for integrating management accounting techniques such as standard costing and budgeting to optimize cost control and enhance profitability in small businesses. The paper suggests that improving accounting policies can strengthen financial transparency, increase investor confidence, and promote sustainable development for small business entities. This will contribute to economic growth and competitiveness in a globalized market.

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1. Introduction

Today, ensuring the sustainable development of small business entities is considered one of the key priorities of the country's economic policy. In particular, the gradual liberalization of the economy, the processes of digitalization, and the intensification of competition require enterprises to maintain financial information in a transparent, accurate, and internationally compliant manner. The fulfillment of these requirements is directly linked to the effective organization of accounting systems within enterprises [1].

The organization of accounting and the improvement of accounting policies are among the decisive factors in strengthening the financial stability, profitability, and investment attractiveness of small business entities. In recent years, the International Financial Reporting Standards (IFRS) have been increasingly applied worldwide in accounting practice. Alignment with international standards ensures the reliability and

comparability of financial information, while simultaneously enhancing the trust of international investors, banks, and other stakeholders in enterprises [2].

At the national level, the financial reporting framework of small business entities in the Republic of Uzbekistan is regulated by a number of legislative and regulatory documents. In particular, the Presidential Decree of the Republic of Uzbekistan dated April 21, 2022, *“On measures to radically improve the system of state regulation of entrepreneurial activity and to further enhance the business environment”* [3] promotes the simplification and digitalization of accounting in small businesses, as well as the preparation of reports in line with international standards.

At the same time, the development of the managerial dimension of accounting has become highly relevant. In this regard, methods such as “standard costing” and mechanisms of “budgeting,” which are widely practiced in foreign countries, are recommended as important tools for ensuring the financial sustainability of small business entities [4].

The effective organization of accounting in small businesses, the improvement of accounting policies, and their adaptation to international standards are now considered among the primary drivers of economic development in the country. Small businesses gain the opportunity to operate more sustainably through the efficient management of financial resources, accurate record-keeping, and the transparent presentation of financial information. The implementation of International Financial Reporting Standards (IFRS) improves the quality of accounting, strengthens investor confidence, and expands the potential of small business entities to enter external markets.

Moreover, the refinement of accounting policies enables small business entities to use resources more efficiently, optimize costs, and ensure financial stability. The introduction of modern automated and digitalized forms of accounting simplifies calculations, reduces human factor influence, and guarantees faster and more reliable financial outcomes. Therefore, the formation and effective application of accounting policies in line with international requirements remain an important scientific and practical issue for small business entities.

Literature Review

The issues of organizing accounting and developing accounting policies in small business entities have been widely discussed in both international and local literature.

Among local scholars, Akhmedov and Hamroyev analyzed the practical aspects of financial accounting in small business enterprises under the conditions of Uzbekistan. Their research elaborates on the practical rules of shaping accounting policies and highlights their significance in financial control [5].

Nazarova examined methods of classifying and calculating costs in accounting, emphasizing the importance of accurate cost determination in small business entities. According to her, precise cost classification enhances the efficiency of financial management [6].

Karimov studied budgeting mechanisms in small business enterprises. He recommended budgeting as an effective tool for planning and controlling the financial results of enterprise activities [7].

In international literature, Atkinson et al wrote about the advantages of applying the standard costing method in small business entities. According to the authors, this method is highly effective in cost control and improving financial management [8].

Needles and Powers analyzed flexible approaches to accounting for small businesses based on International Financial Reporting Standards (IFRS). These standards facilitate the interaction of enterprises with international investors and ensure the transparency of financial statements [9].

Garrison and Noreen focused on the managerial aspects of accounting, recommending practical budgeting techniques and cost management methods applicable to small business entities [10].

2. Materials and Methods

The methodology of this study is designed to explore the organization and improvement of accounting systems and policies in small business entities. The research employs a combination of analytical, comparative, inductive, and deductive methods. First, an analytical approach is used to evaluate the existing accounting practices in small businesses, focusing on the alignment of these practices with international standards such as the International Financial Reporting Standards (IFRS) [11]. Comparative analysis is utilized to examine the differences between the financial accounting systems in small businesses in Uzbekistan and international best practices, highlighting the gaps and challenges faced in implementing effective accounting policies. Inductive reasoning is applied to draw conclusions from case studies of small businesses that have attempted to integrate management accounting techniques, including standard costing and budgeting. Deductive reasoning is employed to formulate recommendations based on general principles of accounting and cost management. Additionally, statistical methods are used to analyze the financial performance data of small business entities, identifying trends and weaknesses in their accounting systems [12]. The study also involves case study analysis to explore the practical application of accounting policies and cost classification methods in real-world settings. A thorough review of relevant legislative documents and regulations is carried out to assess the regulatory framework for small businesses in Uzbekistan, further informing the development of improved accounting policies. This methodology allows for a comprehensive understanding of the current challenges and offers evidence-based recommendations for enhancing accounting systems in small businesses [13].

3. Results and Discussion

In the context of deepening economic reforms, intensifying competition, and rapidly changing market demands, the proper organization of accounting and the effective development of accounting policies in small business entities are decisive factors in ensuring enterprise stability and profitability.

The analysis shows that, at present, small business entities face several challenges in maintaining accounting practices, including:

- Insufficient development of accounting policy practices;
- Incomplete implementation of management accounting elements;
- Lack of precise and economically meaningful classification of costs;
- Absence of standardized approaches in organizing document flow;
- Limited application of simplified accounting plans adapted to the capabilities of enterprises, see Table 1.

Table 1. Existing Problems in Maintaining Accounting in Small Business Entities.

No	Problem Area	Current Practice	Negative Consequences
1	Development of accounting policy	Not sufficiently established	Reduced accuracy in financial reporting
2	Elements of management accounting	Not fully implemented	Lack of information for decision-making
3	Cost classification	Not ensured in a precise and economic way	Inaccuracy in cost calculation

4	Document circulation	No standardized approaches	Disruptions in information flow
5	Simplified chart of accounts	Not fully applied	Inefficient use of resources

These shortcomings, in turn, reduce the reliability of reporting data, negatively affect the effectiveness of managerial decision-making, and limit the scope of financial performance analysis. From this perspective, improving accounting policies in small businesses becomes an urgent issue. In global practice as well, accounting policies are widely applied to regulate accounting processes in enterprises, ensure the reliability of reporting information, and improve both the tax and investment environment [14].

The main scientific findings can be summarized as follows:

First, accounting policy in small businesses should not be limited to financial accounting elements alone but must also encompass management accounting and cost accounting systems. This integration ensures the generation of essential information for decision-making.

Second, costs must be classified precisely according to their economic substance, both by economic elements and by calculation items. Such classification serves as a vital source for assessing cost efficiency and determining product cost.

Third, under the current Regulation of the Republic of Uzbekistan *“On the composition of expenses included in the cost of production (works, services) and the procedure for forming financial results”*, accuracy and transparency in recording small business expenses can be achieved. However, when implementing this Regulation, it is necessary to consider the specific characteristics of small businesses.

Fourth, in developing accounting policies, it is advisable to introduce simplified, practice-oriented, and regulatory-compliant approaches that take into account the resource and human potential of small businesses. In this regard, standardized primary documents, registers, and regulatory documents defining reporting procedures play a significant role [15].

Fifth, the implementation of management accounting elements based on economic indicators such as standard costing, budgeting, classification of costs into fixed and variable categories, break-even point, and marginal income is a key condition for ensuring financial stability in small businesses.

Sixth, management accounting enables in-depth analysis of production processes, cost optimization, and the adoption of scientifically grounded decisions aimed at increasing profitability. This contributes directly to enhancing the competitiveness of small business entities.

Seventh, the Ministry of Finance of the Republic of Uzbekistan should develop a model accounting policy for small businesses and ensure its implementation in practice. Comprehensive measures such as the automation of accounting, the wide application of digital technologies, and the improvement of personnel qualifications are also required.

Through the improvement of accounting policy:

- Reliability and timeliness of reporting data will be ensured;
- Financial discipline and internal control will be strengthened;
- The effectiveness of managerial decision-making will increase;
- A clear information base for tax and audit inspections will be formed;
- Investor and creditor confidence will be reinforced;
- Financial stability, profitability, and competitiveness of the enterprise will be enhanced.

In the future, the full implementation of a model accounting policy for small businesses, the improvement of the management accounting system, and the digitalization

of accounting processes may further increase their economic activity and financial efficiency, see Table 2.

Table 2. Expected Outcomes of Improving Accounting Policy.

No	Area	Improvement Measures	Expected Outcomes
1	Financial accounting	Introduction of simplified and model accounting policies	Increased reliability of reporting data
2	Management accounting	Implementation of standard costing, budgeting, and break-even analysis	Enhanced effectiveness of decision-making
3	Cost accounting	Classification of costs by elements and calculation items	Greater transparency in cost formation
4	Documentation & records	Application of standardized forms	Strengthened financial discipline and internal control
5	Digitalization	Use of automated software and digital technologies	Improved efficiency, increased investor confidence, and higher competitiveness

4. Conclusion

In conclusion, this study highlights the critical need for improved accounting systems and policies in small business entities, particularly within the context of Uzbekistan. The findings indicate that small businesses face significant challenges in developing comprehensive accounting practices, including the lack of precise cost classification and inadequate integration of management accounting techniques. The study emphasizes the importance of aligning accounting policies with international standards, such as IFRS, to ensure transparency, accuracy, and financial stability. The implementation of simplified accounting systems, alongside practices like standard costing and budgeting, can greatly enhance decision-making and optimize cost management. The implications of this research underscore the necessity for small businesses to adopt standardized accounting policies and integrate digital solutions to improve financial performance and increase competitiveness. Future research should explore the practical application of these recommendations in different sectors, assess the long-term effects of digitalizing accounting practices, and investigate the role of governmental support in facilitating the adoption of improved accounting policies in small businesses. Additionally, further studies could examine the impact of management accounting techniques on small business sustainability and profitability.

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