



Article

## Improving The Accounting of The Cost of Products in Enterprises

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**Abstract:** Accounting for the cost of production is the most important financial management tool for any manufacturing company. The cost determines the price of the product, affects the profitability of the business and helps to evaluate the effectiveness of production processes. In this article, we will look at the key aspects of management accounting and cost analysis, as well as reveal practical techniques and tools that allow you to use cost data to increase business profitability. So, in this article highlights of basic principles, methods and practical approaches to accounting for the cost of production, as well as analyze examples.

**Keywords:** Economy, Accounting, Management Accounting, Cost, Production, Enterprises, Company, Business Profitability, Effectiveness

### 1. Introduction

In a market economy, the main task of an enterprise is to increase production efficiency, which contributes to making more profit. In these conditions, the cost of production is one of the most important indicators of the production and economic activity of the enterprise. The calculation of this indicator is necessary to assess the implementation of the plan and its dynamics; to determine the profitability of production and individual types of products; to identify reserves for reducing the cost of products; to calculate nationwide; calculation of the economic efficiency of the introduction of new equipment, technology, organizational and technical measures; justification of decisions on the production of new types of products and the decommissioning of obsolete ones [1].

The solution of various tasks related to the processing, storage and use of information about the enterprise is of great importance for the organization. Tasks such as: information support for the decision-making process; providing a base for pricing; monitoring the economic efficiency of the enterprise; obtaining data on performance; calculation of the valuation for balance sheet items and others. In domestic practice, accounting for production costs and calculating the cost of production are an integral part of a common unified accounting system.

Nowadays, in a market economy, much attention is paid to cost accounting not only in large enterprises, but also in small ones. This was a consequence of the increased complexity of production processes.

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## 2. Materials and Methods

Cost is the sum total of all costs associated with the production and sale of products, the performance of work or the provision of services. It includes the costs of raw materials, labor, depreciation of equipment, energy resources, and other costs necessary to create and sell products. Cost is one of the key indicators for business management. It helps to determine the lowest possible price of a product, assess the profitability of production and identify opportunities for cost optimization [2].

The cost of production is the monetary cost of its production and sale. The cost of production (works, services) of an enterprise consists of the costs associated with the use of natural resources, raw materials, fuel, energy, fixed assets, labor resources, and other costs in the production of products (works, services).

To account for the cost, all costs are divided into direct and indirect, depending on their relationship to a specific product or service [3].

### Direct Costs

These are expenses that can be directly linked to a specific unit of product, work, or service. They are easily identified and distributed.

Examples of direct costs:

- a. Materials: the cost of the raw materials from which the products are made (for example, metal for the manufacture of parts).
- b. Labor resources: salaries of employees directly involved in production (for example, workers on the assembly line).
- c. Energy consumption: the electricity used to operate the equipment, if its consumption can be accurately determined for a specific process.

Example: Manufacture of chairs. Direct costs include the cost of wood, fasteners, paint and varnish products, and the labor of a furniture assembler.

### Indirect Costs

These are expenses that are impossible or impractical to directly attribute to specific products. They are distributed among all types of products in proportion to the selected base (for example, volume of production, wages or other indicators).

Examples of indirect costs:

- a. Rental of premises: the cost of renting a production building.
- b. Administrative expenses: salaries of accounting staff, lawyers, managers.
- c. General production costs: equipment maintenance, depreciation of machinery, heating and lighting costs of workshops.

Example: A furniture factory rents a room in which chairs, tables, and cabinets are made at the same time. Rental costs (indirect costs) are distributed among all types of products in proportion to their share in total production.

Expenses are also divided into fixed and variable ones [4]. To effectively manage costs and calculate the cost of production, it is important to take into account the nature of expenses. All costs of an enterprise can be divided into fixed and variable, depending on how they change with the volume of production.

### Fixed Costs

Fixed costs remain the same regardless of the production level and sales volumes. They occur regularly and do not depend on how many products have been manufactured or sold.

Examples of fixed costs:

- a. Rent of premises: payment for the use of offices, warehouses or industrial buildings.
- b. Depreciation of equipment: a straight-line write-off of the cost of fixed assets over their service life.

- c. Salaries of administrative staff: salaries of managers, accounting staff, and other employees not related to production.
- d. Utilities: fixed payments for heating, lighting or room maintenance.

Example: The company rents a production facility for 100,000 sum per month. This amount will not change, even if the company temporarily stops production.

#### **Variable Expenses**

Variable costs vary in proportion to the volume of production or sales. The more products are produced, the higher these costs, and vice versa.

Examples of variable expenses:

- a. Raw materials: purchase of wood, metal, fabrics and other components necessary for production.
- b. Piecework wages: Workers' wages that depend on the number of operations performed or products produced.
- c. Transportation costs: the cost of delivering goods, depending on the volume of shipment.
- d. Energy consumption: The cost of electricity, gas, or fuel used in the production process.

Example: A furniture factory requires 500 sum worth of wood to make one chair. If the factory produces 100 chairs, the cost of wood will be 50,000 sum, and if 200 chairs — 100,000 sum.

Calculating the cost of production (works, services) is a complex of operations for allocating costs between individual types of products (works, services) and calculating the cost of a unit of production (works, services) [5].

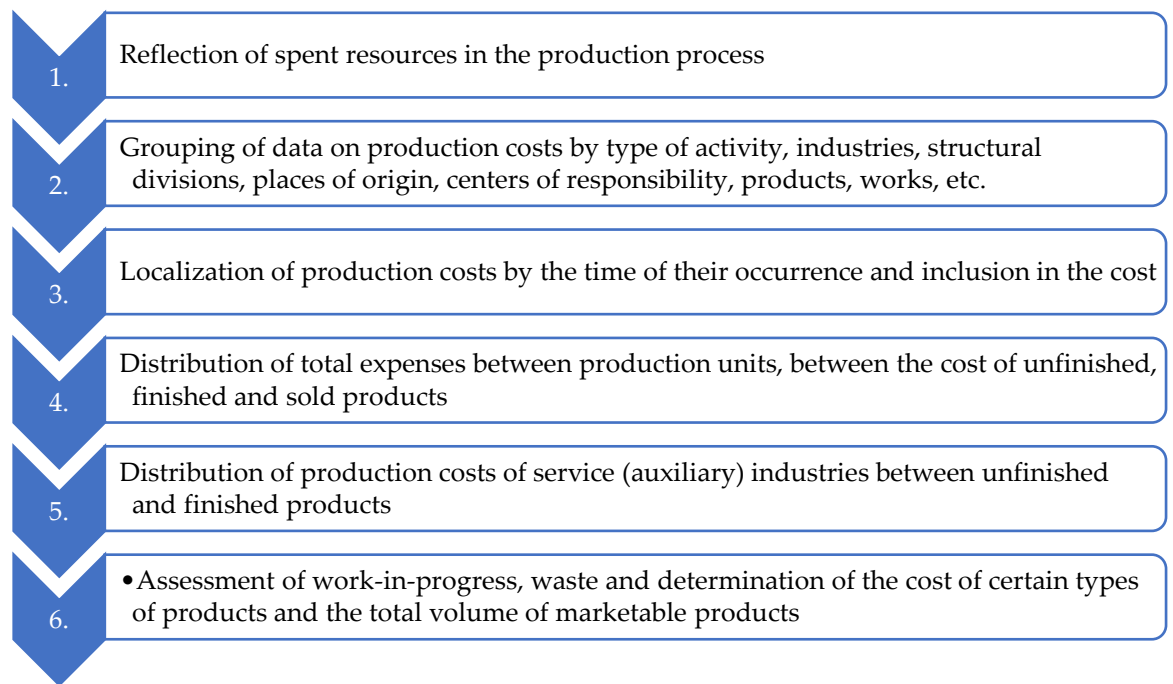
The cost accounting method for products (works, services) is a set of methods for reflecting, grouping and summarizing data on production costs and output of products (works, services), providing information for controlling production costs and calculating the actual cost of products (works, services) [6].

The technological and organizational features of production, the duration of the production cycle, and the quantitative and qualitative characteristics of products require various combinations of methods and techniques for accounting for production costs and calculating the cost of production.

Accountants have to take into account many factors, from the distribution of direct and indirect costs to the specifics of calculating the tax base. In addition, constant changes in the regulatory framework and the introduction of new technologies make cost accounting even more difficult, but at the same time open up opportunities for optimization.

Management accounting is one of the key tools for improving the efficiency of modern business, see Figure 1. One of its most important areas is accounting and cost analysis of manufactured products (works, services). Knowing accurate information about the cost structure and the factors influencing their formation is crucial for making informed management decisions. Well-organized management cost accounting allows the heads of companies:

- a. Evaluate the profitability of individual types of products, customers, and production units
- b. Identify bottlenecks and potential opportunities for cost optimization
- c. Substantiate sound pricing strategies
- d. Develop effective budgets and production plans [7].



**Figure 1.** Management accounting system for production costs and cost calculation.

### **Organization of cost accounting in the management accounting system**

The basis of cost management accounting is an effective cost accounting system that allows you to accumulate, distribute and analyze information about production costs. Important elements of such a system are:

1. Cost classification. Within the framework of management accounting, a multidimensional classification of costs is applied according to various criteria :
  - a. By economic elements (materials, wages, depreciation, etc.)
  - b. By calculation items (direct and indirect costs)
  - c. Relative to the volume of production (constant and variable)
  - d. By responsibility centers (production, sales, management)
  - e. By product types, customers, sales channels, etc.
2. Cost accounting methods. The most common methods are order-based, pre-order, process-based, and regulatory cost accounting.
3. Indirect cost allocation systems. For a more accurate allocation of general production and general economic costs to the cost of production, various distribution bases are used (output volume, direct costs, machine hours, etc.).
4. Responsibility centers and their interaction. The allocation of financial responsibility centers (cost, income, and profit centers) allows for detailed cost accounting and analysis. Proper use of these elements ensures the formation of reliable information about the cost of production necessary for making managerial decisions [8].

Cost calculation methods. An important aspect of management accounting is the selection of an appropriate method for calculating the cost of production. The most common methods are:

1. Process-based calculation method. It is used in mass production and involves accounting for the costs of conversion (processes) of manufacturing products.
2. The order-based method of calculation. It is used in individual and small-scale production, when the cost is calculated for individual production orders.
3. The normative calculation method. It is based on the establishment of technically sound standards of resource consumption, deviations from which are subject to accounting and analysis.

4. Direct-costing. It involves dividing costs into variable and fixed costs, taking into account only variable costs in the cost of production.
5. Absorption-costing. It includes both variable and fixed production costs in the cost. The choice of a specific calculation method depends on the specifics of production, the range of products, as well as the goals of management accounting.

Accounting of production costs helps to determine the exact cost structure and their effective management in the enterprise. The use of various methods and systems for calculating the cost of products (works, services) allows you to identify the share of each cost component and correctly assess its impact on the final price of a product or service. This is a necessary condition for making informed management decisions, such as pricing products, determining the profitability of certain types of activities, or monitoring the use of enterprise resources.

Accounting for production costs and calculating the cost of production is one of the key functions of financial accounting of an enterprise. [9] This process allows you to determine the actual costs of producing goods or providing services, which allows you to take measures to optimize costs and increase the efficiency of business processes.

### 3. Results and Discussion

Data It should be noted that calculating the cost of production is a way to determine the total cost per unit of production, including all the basic and additional costs of its creation. The purpose of the calculation is to obtain an accurate value of the cost of a product or service in order to make rational management decisions.

A system of accounting documents serves as the basis for cost accounting and cost calculation. It is a set of documents that record the movement of material and financial resources during the production process. The primary document for accounting for production costs is an invoice for the release of material assets from the warehouse, which indicates the quantity and cost of the materials being released. The system of accounting documents also includes certificates of completed works (services rendered) or acceptance of finished products. These documents define the amount of work performed or services rendered, as well as the principles of cost allocation between different types of products. When using the full cost calculation, absolutely all costs (both direct and indirect) related to the production of a product or the provision of a service are taken into account.

Direct costs are fully included, while indirect costs are subject to distribution between types of products, it should be borne in mind that their distribution is not accurate with any method. This approach makes it possible to calculate the cost of products more flexibly when output volumes change. This method has shown "its effectiveness in making important management decisions. Despite the criticism of the truncated cost calculation system, motivated by the lack of information about the actual cost of producing a unit, direct costing can answer questions that the method of including all production costs in the cost cannot answer" [10].

An important component of management accounting is the analysis of the cost of production and the factors influencing its formation. This analysis makes it possible to identify "bottlenecks" in the organization of production, evaluate the efficiency of resource use and develop cost-reduction measures [11]. The main directions of cost analysis are:

1. Analysis of the overall dynamics of cost and its individual items. It evaluates the change in cost over time, the impact of inflation, seasonality, and other factors.
2. Structural cost analysis. The specific weight of individual cost items in the total cost is studied, and the most "costly" elements are identified.
3. Factor cost analysis. The specific factors that caused the cost change (output volume, resource prices, labor productivity, etc.) are determined and evaluated.
4. Comparative cost analysis. The cost of own products is compared with similar indicators of competitors, planned values, and industry averages.

5. Cost analysis by responsibility centers. The contribution of individual production units and business processes to the formation of total costs is studied. The results of such a multi-pronged cost analysis are the basis for the development of sound management decisions on cost optimization. Using cost data to make management decisions.

The competent use of information about the volume, structure and dynamics of production costs allows company managers to make informed management decisions in various areas.:

1. Pricing. The analysis of the cost structure makes it possible to determine the optimal prices for products that ensure the required level of profitability.
2. Assortment management. Data on the cost of certain types of products serve as the basis for ranking the assortment according to profitability criteria.
3. Production capacity management. The cost of production in terms of responsibility centers helps to identify and optimize the utilization of production facilities.
4. Budgeting and planning. The standard cost indicators are included in the budgets, which makes it possible to effectively control costs.
5. Investment decisions. The analysis of the cost of production affects the justification of the expediency of capital investments.
6. Inventory management. The cost price allows you to determine the optimal purchase volumes of raw materials, materials and components [12].

Thus, management accounting and cost analysis are key tools for improving the efficiency of the company, providing management with the necessary information to make informed management decisions.

When accounting for production costs, the basic principles that play an important role in determining the cost of products, works or services should be taken into account. These include:

- a. The principle of separate cost accounting: the purpose of this principle is to more accurately determine the cost structure and maintain cost control, where different types of costs are accounted for in separate accounts, for example, allocate materials, labor costs, overhead costs.
- b. The principle of current valuation: this principle provides for accounting for all available costs at current market prices or at the actual cost of acquisition in order to determine the correct cost estimate, which will avoid underestimation or overestimation of costs[13].
- c. The principle of validity and reliability: this principle states that the costs recorded in the production reports must be justified and reliable. To ensure this condition, it is necessary to document the available costs, for example, the availability of invoices from suppliers or payment documents.
- d. Direct cost allocation principle: This principle assumes that costs should be directly allocated to products or services.
- e. The principle of a systematic approach: this principle provides for the need to take into account factors that are interrelated with each other in order to form a more complete picture of the cost structure. In this case, an analysis of all stages of production is assumed, starting from the purchase of raw materials and ending with the sale of finished products.
- f. Cost rationing principle: This principle involves comparing planned and actual values, which subsequently helps to effectively manage costs based on standards that must be met when spending money on creating goods, performing work or providing services [14].
- g. Cost accumulation principle: This principle involves the gradual accounting of costs during the production process and the possibility of cost analysis at various stages of production.

Consideration of the basic principles of accounting for production costs allows us to determine the basis for the correct formation of the cost of products, works or services, effectively control costs, optimize the production process and make informed decisions in the field of enterprise management [15].

#### 4. Conclusion

This An integral part of accounting for production costs is their analysis, which makes it possible to identify key problematic issues in the cost management system and take a number of actions that will eliminate them in a timely manner[16]. As an example, it should be mentioned that an enterprise is likely to encounter a situation associated with a significant increase in the cost of materials, and only through the analysis of material resources will the enterprise be able to determine the causes of this problem, among which may be irrational procurement planning or inefficient use of materials in production.

The role of cost management accounting in improving business efficiency summing up, we can conclude that management accounting and cost analysis play a key role in ensuring high efficiency of modern business:

1. The competent organization of the cost accounting system allows you to generate reliable cost information necessary for making managerial decisions.
2. The use of various cost calculation methods makes it possible to flexibly adapt accounting to the specifics of the company's activities.
3. A comprehensive analysis of the cost and the factors influencing its dynamics serves as the basis for identifying "bottlenecks" and developing cost optimization measures.
4. The use of cost data allows management to make informed management decisions in the field of pricing, assortment management, production facilities, inventory and other important aspects of activities.

Thus, cost management accounting, integrated into the company's overall management system, is a powerful tool for improving its financial and economic efficiency and ensuring long-term competitiveness.

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