IMPROVING COST ACCOUNTING BASED ON INTERNATIONAL STANDARDS

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Abstract

This article examines the issues of improving cost accounting based on international standards. In the conditions of a modern market economy, proper accounting and management of costs is of crucial importance in ensuring the competitiveness of enterprises.

Keywords

cost accounting, international financial reporting standards (IFRS), cost management, cost, production costs, management accounting, financial reporting, cost classification.

Introduction. In a modern market economy, increasing the efficiency of enterprises largely depends on the quality and reliability of financial information. Cost accounting, as the foundation of this information system, occupies a special place in enterprise management. Accurate and timely accounting of costs is a necessary basis not only for compiling financial statements, but also for substantiating strategic and operational management decisions, determining product costs, formulating pricing policies, and evaluating investment projects.

In the current era of accelerating globalization, International Financial Reporting Standards (IFRS) are used in more than 140 countries around the world. These standards were developed to ensure the comparability, transparency, and reliability of financial information, and also set clear and comprehensive requirements in the field of cost accounting. In particular, IAS 2 "Inventories", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IFRS 15 "Revenue from Contracts with Customers" set out internationally recognized rules for the recognition, measurement and presentation of expenses.

Significant steps have been taken in recent years to reform the accounting system in the Republic of Uzbekistan and bring it into line with international standards. Based on the Resolution of the President of the Republic of Uzbekistan No. PQ-4611 "On Measures to Improve the Accounting and Auditing Sector" dated February 24, 2020, the process of gradual transition to IFRS has become official. The Law "On Accounting" (No. O'RQ-683), adopted in a new edition in 2021, further strengthened the legal basis for this process. According to these documents, starting in 2023, joint-stock companies and large enterprises will be required to prepare reports based on IFRS requirements; in the coming years, this obligation will be gradually extended to small and medium-sized enterprises.

Nevertheless, in practice, serious problems in cost accounting are still awaiting resolution. Research and audit practice show that a significant part of Uzbek enterprises have significant deviations from the requirements of international standards in such issues as the classification of costs, the allocation of indirect costs to products, the formation of reserves, and the correct delimitation of costs by period. On the one hand, this situation reduces the reliability of financial

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reporting data, and on the other hand, it raises doubts about the financial transparency of Uzbek enterprises for foreign investors and business partners.

Literature review. The theory and practice of cost accounting is a widely studied area in world economic science. Several important scientific trends have been formed in this direction.

Drury (2018) in his work "Management and Cost Accounting" detailed the theoretical foundations of the correct classification of costs and their integration into the decision-making process. The author showed the practical importance of dividing costs into variable and fixed, direct and indirect types. Horngren, Datar and Rajan (2015) substantiated the effectiveness of using the ABC (Activity-Based Costing) methodology in cost accounting, proving that this approach can provide more accurate information than traditional cost allocation methods. Kaplan and Anderson (2007) proposed the TDABC (Time-Driven Activity-Based Costing) method in cost accounting and developed methods for its practical application.

Research work by large audit companies such as Deloitte, PwC and KPMG on the study of cost accounting within the framework of IFRS is also important. In particular, PwC's analytical report "IFRS and US GAAP: similarities and differences" (2023) comparatively showed the similarities and differences of cost accounting within the framework of two major systems of standards.

Toshmatov Sh. (2022) studied the progress of accounting reforms in Uzbekistan and identified institutional obstacles encountered in the transition to IFRS. Jurayev N. and Kholmatov B. (2021) studied the issues of improving cost accounting in Uzbek industrial enterprises and made a comparative analysis of the main differences between the requirements of local BHMS and IFRS. Hasanov R. (2023) conducted research on modern methods of cost management in the context of digitalization and showed the positive impact of the introduction of ERP systems (1C: Enterprise, SAP) on cost accounting.

An analysis of the existing scientific literature shows that the general theoretical foundations for improving cost accounting based on international standards have been sufficiently developed. However, in the context of Uzbekistan, especially for small and medium-sized businesses, the mechanisms for adapting cost accounting to international requirements have not been sufficiently studied. This study aims to fill this gap.

Cost accounting under the International Financial Reporting Standards (IFRS) system is governed by several key standards. These standards are interrelated and define the procedure for accounting for costs that arise in various aspects of an enterprise's operations.

IAS 2 "Inventories" regulates the procedure for including costs incurred in the production process in inventories. According to the standard, the cost of inventories includes the following components:

-purchase costs (purchase price, import duties, transportation and other direct costs);

-processing costs (direct labor costs and indirect costs associated with the use of production capacity);

-other costs necessary to bring the inventories to their current condition and location.

According to IAS 2, selling expenses, administrative expenses and financial expenses (interest) are not included in the cost of inventories - they are recognized as expenses of the reporting period. This rule is one of the places where it differs from the national practice of Uzbekistan.

IAS 16 "Fixed Assets" standard determines the procedure for accounting for costs associated with fixed assets - acquisition, installation, capitalization and depreciation costs. According to the standard, the initial cost of a fixed asset includes all costs directly related to its commissioning. Subsequent costs are added to the balance sheet only if they meet the criteria for capitalization, otherwise they are recognized as an expense of the current period.

IFRS 15 "Revenue from Contracts with Customers" requires the correct matching of expenses with income. This standard is based on the principle of recognizing expenses and income in the same reporting period, which increases the accuracy of financial results.

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" standard establishes the procedure for allocating a reserve for future expenses. According to the standard, a reserve is recognized only in cases where the enterprise has a present obligation, the probability of an outflow of resources is high, and the amount of the obligation can be reliably estimated.

Classification of expenses is the basis of cost accounting. There are several significant differences between international practice and the national standards of Uzbekistan (BHMS).

Table 1

Comparison of international and national approaches to cost classification

Classification criteria	IFRS/IAS approach	Uzbekistan GAAP approach
Functional classification	Manufacturing, selling, administrative, financial	Main activity, financial, tax
Inclusion in reserve cost	Only manufacturing costs	Some administrative expenses are also included
Depreciation methods	Multiple methods (straight-line, degressive, etc.)	Mainly straight-line method
Financial costs	Recognized as period cost	Sometimes capitalization is used
Reserve formation	Widely used	Limited application

These differences can significantly change the financial results of the enterprise. For example, as a result of the fact that administrative expenses are not included in the cost of inventories under IAS 2, the value of inventories decreases, but current period expenses increase.

The following methods are used in international practice for cost accounting:

Full Costing / Absorption Costing. In this method, all production costs — direct and indirect — are included in the cost of the product. The requirements of IAS 2 correspond to the main principles of the full costing method, since the standard requires the inclusion of all costs incurred for production in the cost of inventories.

Variable Costing / Marginal Costing. In this method, only variable production costs are included in the cost of the product, while fixed costs are written off as expenses of the period. Although this method is convenient for management accounting, it does not provide direct support for IFRS financial statements.

Activity-Based Costing (ABC). The ABC method allocates indirect costs based on activities instead of traditional methods (labor hours or machine hours). This approach allows you to identify the true "consumer" of costs. For example, even if two products are produced in the same volume, if one requires complex logistics, the ABC method will determine a higher indirect cost for it.

Standard Costing. In this method, costs are determined based on predetermined standards and compared with actual costs. Variance analysis provides valuable information for management. IFRS allows this method if standard costs are close to actual costs.

The current state of cost accounting in Uzbekistan has a number of specific features. Most enterprises operate based on the National Accounting Standards (NAS), approved in 2002, but starting in 2019, the obligation to transition to IFRS is being gradually introduced.

Problematic aspects:

Firstly, the traditional approach to the allocation of indirect costs prevails. In most enterprises, indirect costs are allocated only on the basis of the payroll or labor hours, which leads to the uncertainty of cost accounting in complex production processes.

Secondly, the distinction between financial and management accounting is not clearly defined. As a result, operational and analytical information necessary for making management decisions is mixed with financial reporting information.

Thirdly, the practice of forming reserves (provisions) is underdeveloped. According to the requirements of IAS 37, a reserve must be allocated for expected future costs, but this mechanism is rarely used in Uzbekistan.

Fourth, the level of use of digital technologies is low. ERP systems, which are necessary for automating cost accounting, have been implemented mainly in large enterprises; small and medium-sized enterprises are often limited to simple spreadsheets.

An integrated approach is required to improve cost accounting based on international standards. This approach includes several interrelated mechanisms:

Methodological improvement. In accordance with the requirements of IAS 2, it is necessary to clearly define the rules for the inclusion and removal of costs from reserves. To do this, internal standards for the classification of costs (Accounting Policy) should be developed at the enterprise level and applied consistently from year to year.

The basis used for the allocation of indirect costs should be reviewed and allocation keys should be selected that correspond to the real nature of the enterprise's activities. In enterprises with complex production, the transition to the ABC method can give effective results.

Systemic improvement. The introduction of ERP solutions is important for integrating cost accounting into the financial reporting system. Systems such as 1C: Enterprise 8.3 (Uzbek version), SAP S/4HANA or Oracle Financials allow for real-time tracking, analysis and reporting of costs.

Increasing human resources. Training of IFRS-certified specialists (ACCA, CPA, CMA) and regular retraining of accounting staff at enterprises provide the human factor for improving cost accounting.

Conclusions and suggestions. Within the framework of this study, the issues of improving cost accounting based on international standards were comprehensively studied theoretically and practically. As a result of the analysis, a number of important conclusions were drawn.

1. Cost accounting in the IFRS system is based on the principle of substance over form. That is, in the recognition of an expense, its economic essence, rather than its legal formality, plays a decisive role. IAS 2 requires the inclusion of only expenses directly related to the production process in the cost of inventories, while dividing administrative and selling expenses into current period expenses. This approach limits the possibility of transferring financial results from one reporting period to another and increases the objectivity of reporting data. However, the national standards of Uzbekistan in some cases allow the inclusion of administrative expenses in the cost of inventories, which is one of the main methodological differences between the two systems.

2. The study showed that traditional allocation bases (wage fund or labor hours) lead to incorrect allocation of costs in enterprises with multi-product and complex technological processes. Activity-based costing (ABC) significantly reduces this problem, since each type of cost is associated with the activity that actually caused it. As a result, management can eliminate the situation of "subsidizing" one product at the expense of another and make the right decisions on pricing and resource allocation.

3. IAS 37 requires the allocation of reserves for liabilities expected to be incurred in the future. This mechanism financially protects the enterprise from unexpected large expenses and allows for the full reflection of future liabilities in financial statements. This practice is not sufficiently developed at Uzbek enterprises, especially in terms of warranty obligations, environmental costs and employee compensation payments. This violates the principle of completeness of financial reporting and creates a false impression of the real financial situation.

Based on the results and conclusions of the study, the following proposals were developed to improve cost accounting in accordance with international standards.

1. The Ministry of Finance of the Republic of Uzbekistan and the Accounting Standards Board are recommended to adopt new national standards based on IAS 2, IAS 16, IAS 37 and IFRS 15. The new standards should clearly define the following: a list of costs that are included and excluded from the cost of reserves; the basis for the allocation of indirect costs; the conditions and criteria for the formation of reserves; the rules for limiting costs by period. In addition, it is necessary to publish practical examples and guidance along with official translations of the standards in Uzbek and Russian. This will facilitate the correct interpretation of the standards for enterprises.

2. It is necessary to prepare a simplified manual adapted to the conditions of Uzbekistan based on IFRS for SMEs. This manual should:

- a simple, but international, cost classification scheme;
- 2–3 main methods for allocating indirect costs with practical examples;
- samples of transactions for the most common types of expenses (wages, depreciation, raw materials, fuel, utility bills);
- should include typical errors and ways to avoid them.

3. Currently, the system for verifying compliance with IFRS requirements is not working sufficiently. Therefore, the following are recommended: Establish a special unit under the Ministry of Finance to monitor IFRS compliance; Make it mandatory for large enterprises to submit external audit results to regulatory authorities; Introduce a differential liability mechanism for enterprises that violate IFRS requirements, including step-by-step, incentive and punitive measures. At the initial stage (2025–2026), it is advisable to provide free consultations and deadlines for enterprises when errors are detected, instead of imposing fines.

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