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Article

Improvement of Accounting for the Process of Finished Goods Processing

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Abstract: The article examines the theoretical and methodological foundations of production costs, product cost, and processing cost concepts. The scientific views of national and foreign scholars are analyzed, and the distinctions between these economic categories are substantiated. The study also explores the classification of production costs, the allocation of manufacturing overhead, and the current procedure for cost formation. The mechanism for determining processing costs in accordance with the requirements of IAS 2 "Inventories" is highlighted. As a result of the research, an improved system of indicators for production costs and product cost has been developed, and scientific conclusions have been formulated regarding their proper reflection in accounting.

Keywords: production costs, product cost, processing cost, manufacturing overhead, direct costs, indirect costs, costing, management accounting, inventory cost, IFRS, cost classification, cost indicator system.

Introduction

According to the *National Encyclopedia of Uzbekistan*, "Production costs are the monetary expenditures a company incurs for the purpose of producing goods and acquiring economic resources. A firm begins its operations by purchasing material resources from the market, such as equipment, devices, means of transportation and communication, raw materials, fuel, various materials, as well as labor from the labor market. Accordingly, the composition of production costs includes raw materials, primary and auxiliary materials, fuel and energy expenses, depreciation of fixed capital, wages and allocations for social insurance, interest payments, and other expenses. The monetary expression of all expenditures incurred in production forms the cost price of the product."[1]

Literature Review

Z.F. Salokhiddinova states that "Accordingly, the composition of production costs includes raw materials, primary and auxiliary materials, fuel, lubricants, and energy expenses, depreciation of fixed capital, wages and allocations for social insurance, interest payments, and other expenses. The monetary expression of all expenditures incurred in production forms the cost price of the product."[2]

I.F. Urmanbekova defines product cost as "the monetary value of natural resources, raw materials, materials, fuel, energy, fixed assets (depreciation), labor resources, and other production-related expenses used in the process of production or processing."[3]

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A.Ya. Abdullaev emphasizes the relevance of accounting for production costs and improving cost calculation in grain processing enterprises, explaining: "From this perspective, effective management of production cost accounting and product cost calculation in grain processing enterprises allows for reducing costs through identifying internal reserves, optimally distributing expenses, preventing potential bankruptcy, and developing optimal scenarios for the production pace of high-quality products."[4]

According to A.N. Makhmudov, "...in determining cost, within the light industry system, it is appropriate to group costs innovatively through the 'Cost' synthetic account by opening subaccounts such as 'Cost recognized at a specific point in time,' 'Cost recognized during the period,' and 'Adjustments to cost.' This approach also allows for defining a new methodology for product and service accounting and proposing the goal-costing method. It is also necessary to implement the concept of target cost in practice."[5]

M.E. Rakhmataliev and N.A. Abdurakhmonov note that "In short, for management accounting to function comprehensively in an enterprise, it is necessary to implement an operational and structural reporting system. The concept of 'costs' is very broad and requires separate consideration. In general, when discussing costs, we refer both to factors that create conditions for business continuity and to factors that reduce profit."[6]

A.Kh. Mamatkulov states that, in international practice, enterprises engaged in cotton processing incur the following expenses:

- Purchase costs of raw cotton;
- Preparation costs: wages, social payments, electricity, depreciation, repairs, fuel, transportation costs, and other expenses;
- Processing costs: raw materials, packaging materials, wages, social payments, electricity, depreciation, repairs, fuel, transportation costs, and other expenses;
- Period costs;
- Financial costs;
- Extraordinary costs;
- Tax expenses.

Research Methodology

During the course of this study, methods such as observation, data collection and processing, generalization, analysis, and comparison were employed. Scientific perspectives of both local and foreign scholars on the formation of production costs and product pricing were examined, alongside existing problems in the field and research conducted to address them. In addition, current legal and regulatory documents related to production cost accounting and cost calculation were analyzed, and conclusions and practical recommendations were developed based on the obtained results.

Analysis and Discussion of Results

The composition of production costs in Russian practice is considered to be identical to that in our practice. However, in Russian regulatory and legal documents, the concept of expenses is defined according to the usual types of activity, which aligns with international standards (Table 1).

Table 1. Comparison of the Composition of Production Costs [7].

Russia PBU 10/99 "Organization Expenses"[8]	In accordance with the Regulations on the Composition of Expenses
The expenses of an organization are classified into types depending on the nature of its activities, the	The costs that constitute the production cost of a product (work or services) are

conditions under which they are carried out, and their directions: expenses related to ordinary activities; and other expenses. Expenses related to ordinary activities refer to costs associated with the production and sale of products, as well as the purchase and sale of goods. Such expenses also include costs related to performing work and providing services. In forming expenses related to ordinary activities, it is necessary to ensure their grouping according to the following elements: Material costs; Labor costs; Allocations for social needs; Depreciation; Other expenses.	grouped according to their economic nature into the following elements: Production material costs (excluding the value of recoverable waste); Labor costs associated with production activities; Allocations for social insurance related to production; Depreciation of fixed assets and intangible assets that have production significance; Other expenses that are relevant to production.

"Expenses (затраты) are the monetary and material resources spent on the production and sale of products, the provision of services, as well as on creating and maintaining production capacities. The total production costs represent the monetary value of all expenditures incurred by an enterprise, its departments, or individual products (works, services) over a specific period of time."[9]

According to the sources, "An enterprise's production costs represent the total expenses associated with preparing goods or providing services. These costs include all expenditures required to transform raw materials and resources into finished products or services. Production costs constitute a substantial portion of an enterprise's total expenses and directly affect the cost of products and services. Production costs are classified into two categories: production and sales of products, and production renewal."[10]

K. Kilina defines cost as follows: "Cost is the sum of expenses for the production, handling, and sale of a product or service. In other words, it is the monetary expression of the resources required for this purpose—materials, raw materials, semi-finished products, energy, and hired labor. The following expenses are included in the cost: raw materials and supplies; electricity and other energy; purchase, lease, and maintenance of equipment; wages of employees; taxes; transportation and marketing; and other expenses."[11]

E. Chumakova, E. Puzhaeva, and N. Kudryashov note: "Cost represents the expenses of producing and selling goods, or, if the entrepreneur is engaged in resale, the purchase cost of goods. In real business, costs are complex and are divided into direct and indirect expenses. Direct costs are those directly associated with the creation of a specific product, while indirect costs are linked to the overall production process and cannot be attributed to a single product.

Direct costs include materials and wages of employees directly involved in production. In the case of resale, the purchase cost of goods is included.

Indirect costs include rent, utilities, wages of administrative personnel, and general operating expenses."[12]

The authors classify costs by calculation type as follows: shop (workshop) cost, production cost, and full cost, defining each as:

Shop (workshop) cost includes direct expenses associated with the production of goods and provision of services, such as materials and wages of employees involved in the production process.

Production cost includes both direct and indirect expenses related to the production process, including shop lighting, fixed wages for employees, depreciation of equipment, and maintenance costs.

According to online sources (2023), "To calculate the unit cost of a product, the expenditures incurred are classified by cost items, which generalizes the costs according to their origin and purpose (Table 2)."

Table 2. Classification of Expenses by Cost Items.

№	*Cost Items*	*Cost Type*		
1	Raw materials and primary materials	Work-in-Progress (Shop/Department Level)	Full Production (Factory/Plant Level)	Cost of Finished Products
2	Recoverable waste			
3	Purchased components, semi-finished products, and production-related services			
4	Fuel and energy for technological purposes			
5	Wages of employees directly involved in the production process			
6	Unified social tax			
7	Expenses for production preparation and mastering			
8	General production expenses			
9	General administrative expenses			
10	Other production expenses			
11	Commercial expenses			
12	Commercial expenses			

The types of costs differ depending on the extent to which an enterprise's expense classification items are covered:

1. Cost of Goods Produced;
2. Production Cost, which is further divided into full production and work-in-progress (incomplete) production costs.

The Cost of Goods Produced represents the enterprise's expenses for manufacturing and selling the product and includes the 12 cost items listed above.

The Production Cost refers to the enterprise's expenses associated with producing finished products. Full Production Cost (Factory/Plant Level) comprises all expenses related to the production process and enterprise management, encompassing 11 cost items.[13]

Production costs refer to the expenses associated with an enterprise's ordinary activities. They represent the value of resources consumed in the process of transforming raw materials and other inputs into finished products or services. The cost of finished products arises as a result of the reasonable allocation of all labor and overhead expenses during production, reflecting the monetary value of resources spent to bring the product to its finished state.

Product cost refers to the portion of production costs assigned to a specific product (work or service) and includes the purchase cost of resources, processing costs, and other overhead expenses.

Processing cost refers to the aggregate of direct labor costs and indirect production costs incurred in converting resources into finished products. According to IFRS for SMEs Standard No. 2 "Inventories", processing costs include direct labor costs directly attributable to a unit of product, as well as production overhead costs, which are considered a significant cost item.

Processing Cost = Direct Labor Costs + Production Overhead Costs

Direct labor costs represent the remuneration of production personnel whose work is directly involved in the manufacturing of a product and can be specifically identified with a particular cost object.

Production overhead costs refer to all other expenses associated with production that are not direct material or labor costs but are indirectly related to a cost object and allocated based on specific distribution criteria.

In some literature, production overhead costs are also referred to as indirect costs, since these expenses cannot be directly traced to a specific product or cost object. Production overhead costs can be divided into two groups: variable production overhead and fixed production overhead.[14]

- Variable production overhead includes indirect material and labor costs that change proportionally with production volume.
- Fixed production overhead includes expenses for maintaining factory buildings and equipment, depreciation, and costs associated with production management and administration. Fixed overhead costs do not vary with production volume within a relevant range.

During the reporting period, variable and fixed production overhead costs related to the products manufactured are allocated to the processing cost based on specific allocation criteria.

For accurate reflection of production costs and product cost indicators in accounting accounts, it is advisable to develop a system of indicators. This system should comply with international standards, correspond to reported figures, and allow effective control over cost management (Table 3).

Table 3. Production Costs and Cost Indicators [15].

№	Name of Indicator	Method of Determining the Indicator
1	Cost of Resources Issued to Production (Raw Materials and Supplies)	Beginning inventory + purchase and preparation/storage costs – ending inventory
2	Workshop Production Cost (determined by workshops)	Direct material costs + direct labor costs
3	Factory/Plant Production Cost (Incomplete Production Cost)	1. Workshop production cost + general production expenses + administrative expenses 2. Direct material costs + direct labor costs + production overhead costs 3. Direct material costs + processing costs
4	Processing Cost	1. Direct labor costs + production overhead costs (POC) 2. Direct labor costs + variable POC + fixed POC
5	Full Production and Sales Cost	1. Factory/plant production cost + selling expenses 2. Direct material costs + processing costs + other overhead costs
6	Cost of Finished Products from Production	Beginning work-in-progress inventory + full production and sales cost – ending work-in-progress inventory
7	Cost of Goods Sold (COGS)	Beginning finished goods inventory + cost of finished products from production – ending finished goods inventory

Conclusion and Recommendations

Based on the analysis of the sources related to the field, it can be concluded that it is appropriate to differentiate the concepts of "production costs," "product cost," and "processing cost," and definitions have been developed for these concepts. In particular, production costs are defined as follows:

"Production costs refer to the expenses associated with an enterprise's ordinary activities. They represent the value of resources consumed in the process of transforming raw materials and other inputs into finished products or services. The cost of finished products arises as a result of the reasonable allocation of all labor and overhead expenses during production, reflecting the monetary value of resources spent to bring the product to its finished state."

A system of production costs and cost indicators has been developed. The following indicators are included in this system:

- Cost of resources issued to production (raw materials and supplies);
- Workshop production cost (determined by workshops);
- Factory/plant production cost (incomplete production cost);
- Processing cost;
- Full production and sales cost;
- Cost of finished products from production;

Cost of goods sold (COGS).

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