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| Research Article

Enhancing Cost Accounting Based on International Financial Reporting Standards

Toshpulatov Azizbek Shermukhamadovich
Candidate of Economics, Associate Professor of the Department of Accounting, Tashkent State University of Economics, Tashkent, Uzbekistan,
tshazizbek@gmail.com.
ORCID: 0009-0009-0163-7699;

Abstract: This article explores the specifics of cost accounting in agro-industrial clusters, focusing on methodological issues of accounting in accordance with International Financial Reporting Standards (IFRS). It also investigates the methodological aspects of identifying cost origination points, determining short-term, medium-term, and long-term perspectives, and accounting for costs in product cost within agro-industrial clusters, with the aim of effective cost management based on IFRS.

Keywords: cluster, costs, cost management, cost origination points, cost, cost recognition.

INTRODUCTION

Today one of the urgent issues of further development of the industrial sector is the formation of a system of clusters in this direction, the definition of their legal status and the introduction of integration of industry enterprises. Combining the activities of such integrated industry enterprises through agro-industrial clusters and regulating their activities serves as a program guide for the development of the industry. One of the most priority tasks today for the entities carrying out structural transformation and diversification in the industrial economy, as well as for agro-industrial clusters, is to minimize costs in order to maximize profits. In order to reduce production costs in the activities of agro-industrial clusters, the first priority today is to invest in deep processing and value-added creation. One of the important directions of the strategy "Uzbekistan - 2030" is "ensuring the welfare of the population through sustainable economic growth "1 through "development of 'driving' industries and full use of the industrial potential of the regions, bringing the level of cotton fiber processing up to 100 percent and establishing the production of 400 thousand tons of man-made and blended fiber to meet the demand for high quality fibers".

Literature review

The economic reforms being implemented in our country are aimed at further developing the activities of agro-industrial clusters, as a result of which they serve as an important program guide in ensuring their integration with industries. A number of legislative documents adopted by our President are a clear example of this, including the Decree of the President of the Republic of Uzbekistan dated September 30, 2024 "On additional measures to introduce new market mechanisms in the agro-industrial sector of the republic and to establish industrialized gardens and vineyards" PF-151, Decree of the President of the Republic of Uzbekistan dated December 12, 2023 "On additional measures to further develop free market relations in agriculture" PF-205, Decree of the President of the Republic of

Uzbekistan dated November 16, 2021 “On measures to regulate the activities of cotton and textile clusters” PF-14, as well as the adoption of other regulatory documents for the development of the sector, serve as a program guide in determining their organizational and legal foundations, specifying the directions of activity, as well as regulating financial activity.

At the same time, one of the aspects that deserves special attention is the rational use of available resources and the correct determination of their directions. This means that cost accounting in agro-industrial clusters is of particular importance.

In foreign practice, the segment of accounting for production costs is an integral part of accounting, which makes it possible to plan, control, manage and evaluate the organization’s activities in order to optimize its financial results. In our practice, production cost accounting is an important part of the accounting system.

In international accounting practice, current period expenses are named according to their cost (expenses) or losses (losses). This is done to differentiate between the concepts of current and future expenses.

The term “expenses” is used in IFRS when commenting on the expenditure of income to be received in the future (expenditure). From this point of view, expenses are an intermediate category between the expenditure of resources and the recognition of period expenses. They demonstrate the assessment of used resources. In financial statements, they are reflected in the company’s assets until they are recognized as expenses or losses.

In IFRS, expenses mean a decrease in economic benefit during the reporting period, which is expressed by a decrease or loss of the value of assets or an increase in liabilities that leads to a decrease in capital.

1. Materials and Methods

In this research, the concept of cost management was studied based on data collection, observation, and a systematic approach, in order to determine the concept of effective cost management in them and its level of development. Comparative and systematic analysis, and economic-statistical methods were also used in order to effectively organize cost accounting.

2. Results and Discussion

Foreign experience shows that the grouping and distribution of production costs are organized in such a way that it is possible to quickly monitor the formation of profit in the production process and sales, and therefore the costs are grouped by a minimal number of items.

The main focus is on the distribution of costs between certain types of products. In most cases, undistributed costs are considered related to the overall result - profit. Figure 1 below shows the classification of items of production costs that make up the cost of goods sold in accordance with International Financial Reporting Standards.

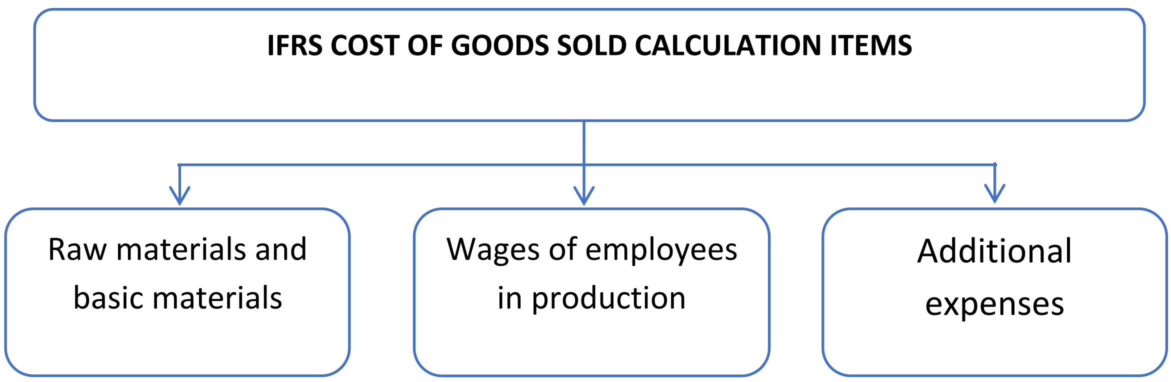

Figure 1. IFRS cost of goods sold calculation items.

As we can see from the figure, if the expense items that make up the cost of goods sold based on International Financial Reporting Standards are accounted for by dividing them into three groups, in our practice, according to the “Regulations on the composition of production and sales costs of products (works, services) and the procedure for forming financial results” 2, expense items are classified into five groups, as shown in Table 1 below.

Table 1

Comparative classification of production cost items

№	Cost elements	
	According to Regulation No. 54	According to IFRS
1.	Material costs	IAS 2 "Inventories"
2.	Labor costs	IAS 19 "Employee Benefits"
3.	Social tax expenses	IAS 19 "Employee Benefits"
4.	Depreciation expenses	IAS 16 "Property, Plant and Equipment" IAS 38 "Intangible Assets"
5.	Other production costs	IFRS 16 "Leases" IAS 23 "Borrowing Costs"

According to International Financial Reporting Standards, there is no single standard for expenses and their accounting in accounting; each expense item is reflected in a specific standard. Some requirements for cost accounting are set out in standards such as IAS 40, "Investment Property" and IFRS 9 "Financial Instruments", as there is an organic link between these elements of financial reporting.

Studying specific elements of expenses, it is worth noting that in accordance with IAS 16, depreciation expenses are recognized as the real value of the asset or another value replacing its real value, excluding the residual value.

In accordance with paragraph 11 of IAS 19, if an employee provides services to an enterprise during the reporting period, the enterprise shall recognize the amount of short-term benefits provided to workers payable in exchange for those services as follows: liabilities (accrued expenses), once the previously paid amount is retained. If the amount previously paid exceeds the undistributed amount of payment, the organization should recognize this excess amount as an asset (advance expenses), for example, advance expenses, for example, in the amount that leads to a reduction or refund of future payments; contributions for which another standard requires or allows the inclusion of the value of the asset (e.g., IAS 2 and IAS 16) are excluded.

The amount of remuneration received after the employee's employment ends is determined by the enterprise (possibly the employee as well) by the investment income received as contributions paid to the insurance plan or paid to the insurance company after the employment ends.

Taking into account the reflection of material expenses, we emphasize that, in accordance with paragraph 10 of IAS 2, the value of inventories must include all costs associated with purchase, processing, as well as other costs incurred to ensure the current location and condition of the reserves.

In addition, this standard has rules for accounting for production costs and calculating the cost of goods sold. In addition, this standard contains rules for accounting for production costs and the cost of goods sold, the main rules of the standard include rules for selecting calculation methods that affect the amount of profit for the reporting period. It also provides recommendations on:

distribution of indirect production costs;

distribution of complex production services;

limiting the expenditures between capitalizable and non-capitalizable expenditures on the balance sheet.

It is impossible not to agree with the opinion of O.D. Kaverina, because she distinguishes two features of IAS 2 from the point of view of accounting for production costs.

Firstly, paragraph 10 of the standard regulates the traditional method of accounting for expenses for accounting (absorption costing). With this method of accounting for production and accounting expenses, unlike the alternative method of "direct costing", production expenses absorb variable and fixed expenses. Direct spending is not allowed for financial reporting. In foreign enterprises, it is used only in the preparation of management reporting.

In accordance with IAS 2, in particular, in paragraph 14, normative accounting is also used in accounting; the standard justifies the inclusion of excess expenses in recurring expenses, in other words, the complete inclusion of a decrease in profit during the reporting period. Excess losses of raw materials, wages, etc. should not be included in the reserves reflected in the asset balance. The normative method is allowed to be used for the assessment of material reserves, unfinished works and finished products.

Secondly, in paragraph 10 of IAS 2, three groups of expenses are included in the cost of production:

variable direct costs in production;

variable indirect costs in production;

fixed indirect costs in production.

According to IAS 16, the cost is the amount of cash and their equivalents or the fair value of other payment given to purchase the asset at the time of acquisition or during the construction period, or if applicable, according to the clear requirements of other IFRS (IFRS) , it consists of the amount recognized by such asset in the initial recognition.

An object of fixed assets is recognized as an asset if the following conditions are met:

the company is likely to receive economic benefits in the future related to this object;

if the cost of this object can be reliably estimated.

The recognized fixed assets object is regularly depreciated during the useful life, as in local practice. Each part of the asset, the value of which is significant relative to the total value of this object, is depreciated separately.

Depreciation expenses for each period are recognized as expenses in the statement of financial results. In international practice, companies can use a certain method for calculating depreciation, which should more accurately reflect the model of obtaining economic benefits from this asset in the future.

Currently, the straight-line method of depreciation calculation, the method of reducing the balance and the method of production units of the product differ. Approaches to methods of illuminating additional information are mutually consistent with "Organization Expenses" and IFRS. However, if there are business habits or relevant requirements of regulatory documents and a contract is concluded, an additional condition is introduced that expenses are recognized in accounting.

In other words, unlike IFRS, expenses cannot be recognized only on the basis of the accountant's professional conclusion on reducing economic benefits; it must be documented.

As a result, significant differences arise in the statement of financial results according to International Financial Reporting Standards and National Accounting Standards. Comparative descriptions of cost accounting according to IFRS and BHMS are reflected in Table 2.

Table 2

Comparative analysis of cost recognition in IFRS and BHMS standards

NAS (National Accounting Standards):	IFRS:
Expenses are incurred according to specific contracts, legal requirements, and business practices.	This condition is not required.
The amount of expenses can be determined.	The amount of expenses can be reliably measured.
There is confidence that economic benefits will decrease as a result of the practice.	Economic benefits decrease due to a future decrease in the asset or an increase in the liability.
Expenses are recognized on an accrual basis.	Expenses are recognized on an accrual basis.
Expenses must be documented.	The reflection of business transactions is not dependent on the presence or absence of primary documents.

International Financial Reporting Standards require that additional information be disclosed in the statement of financial results or in the notes to the financial statements regarding the composition of expenses. This is primarily due to the fact that information about the specific nature of expenses is useful for forecasting future cash flows when a classification based on the distribution of expenses is used.

Conclusion

International Financial Reporting Standards provide for the disclosure of expenses if the nature and amount of expenses are significant. In particular, it is possible to disclose information about: writing off the value of inventories to net realizable value or fixed assets to recoverable value, as well as returning such writing off; disposal of fixed assets objects; outflow of investments; settlement of court proceedings.

Thus, the introduction of IFRS helps to effectively manage expenses in enterprises, properly reflect their accounting in the cost of goods sold, as well as increase the efficiency of the information supply system for management, which, in turn, has a positive impact on increasing the competitiveness of organizations.

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