



SPECIFICS OF MAIN PRODUCTION COST ACCOUNTING AND COST CALCULATION METHODS


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Abstract *This article assesses the focus areas of cost accounting and cost calculation as the vehicle of main production cost strategy relevant to enterprise management. Using international theories as well as Uzbekistan's legal-economic backdrop, the study examines various costing models including job order, process, standard, and activity-based costing. A multifaceted analysis of international literature has been conducted to identify novel approaches alongside domestic frameworks, as well as local best practices. In addition, the article looks into pertinent laws, decrees, and reforms of Uzbekistan with a view toward enhancing cost clarity for the industry and its operational economical efficiency. The analysis maintains that effective cost management in industrial production systems could be achieved by combining precise accounting frameworks, enabling policies, and electronic tools. Suggested have been ways to improve Uzbekistan's approach to align with global practices through education, policy implementation, and technological integration.*

Keywords: *accounting of costs, production cost, cost estimation, management accounting, reform of economy, methods of costing, Uzbekistan, control of costs*

Introduction



Competitive cost accounting has become imperative in recent years due to the rapid technological advancements in industry. Innovative technologies, along with growing borders of international commerce, have made business competition fierce. In addition to improving performance in productivity and profitability, cost accounting also aids in decision making and strategic planning processes. It has been noticed that intangible assets are the weakest points in the cost accounting system of enterprises in Uzbekistan. Alongside lack of adequate cost accounting for intellectual assets, insufficient integration of terms of international accounting systems aggravates the cost accounting system of Uzbekistan enterprises. The combination of these factors explains why the system continues to fail meeting modern businesses' ever increasing needs. In this regard, it becomes apparent that the cost accounting system of contemporary integrated enterprises must receive adequate transformative attention to foster optimal development adaptive to changing technologies. These transformations will ensure that Uzbek enterprises penetrate international markets and survive in competitively aggressive environments, while simultaneously addressing fundamental issues for Uzbekistan as a growing global economy.

Understanding Production Cost

Production cost is defined as the total sum of expenditures made by a business throughout the complete cycle of creating goods or services. This cost forms the backbone when determining pricing policies, cost checking mechanisms, financial statements, reporting, and strategizing within a business. Industry analyzes and sets keen interest to production cost when gauging profits, tracking financial success, and evaluating the possibility of lean approaches.

From the perspective of an accountant, production cost are usually grouped under two categories, direct and indirect (overhead) costs:

1. Direct Costs

This is a category which is composed of expenses that can be pinpointed to a specific unit of a product or service. These usually consist of;

Material costs: refers to the fee and paying for a land or a home that incorporates other elements.

Labor costs: salary and other payments accompanying addition services provided by workers partaking in the process.

2. Indirect Costs (Manufacturing Overheads)

These are expenses that can not be directly tied to a particular output, but are necessary for the production of that output in general. These include:



(Picture-1)

Production expenses could be divided according to their behavior as follows :

Fixed costs do not change with the level of production (for example, rent payment and depreciation).

Variable costs change with output, for example, consumption of raw materials

Semi-variable or mixed costs consist of both fixed and variable elements, for instance, electricity is charged at a flat rate and per usage.

Moreover, internal factors like efficiency, technology, waste management and external elements such as inflation, energy prices, or regulatory policies affect the production costs.

This comprehension aids businesses in:

- Formulating outlines for to remain competitive in the set industry standards.
- Estimating likely profit truths.
- Identifying chances for trim costs.
- Ascertaining operators' productive efficiency.
- Evading deadlines to legally payable taxes or complying to the publishing financial statements.

With regards to Uzbekistan's industrial developing economy, outlining the principles of precise calculation of production expenses is particularly relevant. Brought in at the enterprise account modern digital pedagogy such as business software adds enables a controlled environment for the newer national reforms of accounting along with unsupported systems of enhancing perception and control over enterprise costs.

Literature Review

Management and cost accounting have been the focus of attention in the theory and practice of cost calculation for many years. A number of researchers have covered both traditional and modern cost accounting methodologies, and have provided the theoretical and design framework for current production costing systems.

Horngren, Datar, and Rajan (2015) ¹stress that cost accounting contributes to the business strategy by helping in planning, controlling, and decision-making. The proponents of true cost believe that this type of information helps managers to measure the effectiveness of operations and control process costs. As noted by Horngren et al. (2015), combining cost data with the functional-management approach increases the accuracy of budgeting and cost control.

Meantime, Drury (2018) ²presents a comparative analysis of the traditional costing techniques including absorption and marginal costing in relation to the new one as activity-based costing and standard costing. He explains that the approaches used, while useful at a regulatory level, rarely account for the complexity of resource use within mixed production systems. Modern methods of cost accounting from Drury 2018 enhance operational performance but they do not help a business fully comprehend its financial future if not in conjunction with budgeting and variance analysis.


This analysis is extended by Garrison, Noreen, and Brewer (2021) ³ who integrate cost accounting with general business issues. The authors' treatment of cost-volume-profit (CVP) analysis, breakeven points and relevant cost decision-making is especially attractive to small and medium-sized enterprises (SMEs). As Garrison et al. (2021) ⁴ argue; comprehending how the contribution margin works and flexible budgeting helps the managers in analyzing demand quadruples twice for resources and investment. A similar

¹ Horngren, C. T., Datar, S. M., & Rajan, M. V. (2015). Cost Accounting: A Managerial Emphasis (15th ed.).

² Management and Cost Accounting (10th ed.). Cengage Learning.

³ Garrison, R. H., Noreen, E. W., & Brewer, P. C. (2021). Managerial Accounting (17th ed.). McGraw-Hill Education.

⁴ Meantime, Drury (2018)



important contribution is provided by Kaplan and Atkinson (1998⁵). ABC improves visibility of costs and can help firms to identify inefficient activities that can be removed/reduced. It is especially important for economies, such as Uzbekistan's, in transition to greater diversification and technologicization that require fine-grained tracking of cost

Historically, Chandler (1977)⁶ showed that the creation of complex cost accounting techniques was an indispensable source of assistance for the emergence of the modern corporation in America. According to Chandler (1977), companies that established sophisticated systems for tracking costs had competitive advantages.

Bringing a local dimension, Islamov and Tadjibaeva (2022)⁷ examine the textile industry in Uzbekistan. They reveal challenges in applying international accounting standards (IAS) and the need for capacity-building and software modernization. According to Islamov and Tadjibaeva (2022), the limited use of digital cost tools and the gap in professional knowledge hinder accurate cost tracking. Their study suggests that localized adaptation of global best practices is essential for sustainable cost management.

At the policy level, the OECD (2020) report on Corporate Governance in Eurasia identifies cost transparency as a key element of financial reform in post-Soviet economies. As the OECD (2020)⁸ notes, Uzbekistan's ongoing reforms—including the implementation of International Financial Reporting Standards (IFRS), updates to the Law on Accounting (2016), and various Presidential Decrees—aim to enhance corporate governance through better cost tracking and financial reporting.

3. Methods of Cost Calculation

Cost calculation means finding out how much it takes to make a product. This includes money spent on materials, labor, and machines. Picking the right method helps track costs, set prices, and plan for profit. Every business must choose a method that matches how it works.

1. Job Order Costing

This method is for jobs that are different from each other. Each job is given a number. Then, the company tracks all costs for that job. This includes the cost of materials, worker time, and other tools.

This is used in places where products are made based on orders. For example, it works well in car repair, home building, or custom clothing. Each order has its own plan and cost.

Job order costing helps see how much each project costs. It also shows which jobs earn more money. But it takes time to track each job

⁵ Kaplan, R. S., & Atkinson, A. A. (1998).

Advanced Management Accounting (3rd ed.). Prentice Hall

⁶ Chandler, A. D. (1977).

The Visible Hand: The Managerial Revolution in American Business. Harvard University Press.

⁷ Islamov, B., & Tadjibaeva, M. (2022).

Reforming Cost Accounting in Uzbekistan's Textile Sector. Journal of Central Asian Economics, 3(1), 45–61

⁸ OECD. (2020).

Corporate Governance in Eurasia: Reforming for Resilience. OECD Publishing.

2. Process Costing

This method is used when many items are made the same way. All products go through steps in a row. Costs are grouped by step. Then, the cost is divided by the number of items made.

This method is used in factories that make oil, sugar, or fabric. It works well when all items are alike.

Process costing is simple to use. It gives the average cost for each unit. But it cannot track the cost of each single product.

3. Standard Costing

In this method, the company sets cost limits before work begins. These limits are based on past data or factory rules. Later, real costs are checked against the set cost. If the cost is higher or lower than expected, the company finds out why. These differences are called “variances.” Standard costing is helpful for planning. It also helps control waste and improve performance. But if the set cost is wrong, it can cause mistakes. Here is the comparison of cost calculation methods, answering where they are used for.

4. Activity-Based Costing (ABC)

COST CALCULATION METHODS

METHOD	DESCRIPTION	USED FOR	COMMON EXAMPLE
JOB ORDER COSTING	CALCULATES COSTS FOR EACH SPECIFIC JOB OR ORDER SEPARATELY.	CUSTOM OR BATCH PRODUCTION	PRINTING COMPANY HANDLING CLIENT BROCHURES
STANDARD COSTING	USES PRE-SET COST ESTIMATES FOR MATERIALS, LABOR, AND OVERHEADS.	BUDGETING AND VARIANCE ANALYSIS	FACTORY COMPARING ACTUAL VS STANDARD COSTS
ACTIVITY-BASED COSTING	ALLOCATES OVERHEADS BASED ON ACTIVITIES THAT DRIVE COSTS.	DETAILED COST ANALYSIS, COMPLEX SYSTEMS	HOSPITAL ASSIGNING COSTS TO PATIENT SERVICE.
ABSORPTION COSTING	INCLUDES ALL FIXED AND VARIABLE PRODUCTION COSTS IN THE PRODUCT COST.	EXTERNAL FINANCIAL REPORTING	FURNITURE FACTORY ALLOCATING ALL COSTS
MARGINAL COSTING	Includes only variable production costs in cost calculation.	INTERNAL DECISION MAKING	MANAGER DECIDING TO ACCEPT EXTRA ORDER
PROCESS COSTING	AVERAGES COSTS OVER LARGE VOLUMES OF IDENTICAL PRODUCTS.	MASS PRODUCTION INDUSTRIES	OIL REFINERY OR FLOUR MILL

(Picture-2)

This is a more detailed method. It looks at the work done, not just the number of items. It checks how much each task or action costs. These are called “activities.”



Each product uses a mix of these tasks. The method adds up the cost of those tasks to get the total cost.

ABC gives better results when there are many products. It helps find waste and fix high-cost work. But it needs more time and tools to use.

5. Absorption Costing

This method adds all costs into the product. That includes both fixed and variable costs. Even if some costs do not change, they are still included.

Absorption costing is used in most official reports. It helps show the full cost of making the product.

But it may not help with short-term plans. It can also hide the true cost of each unit if the factory is not full.

6. Marginal Costing

This method looks only at costs that change with more output. Fixed costs like rent or salaries are not added to the unit cost.

It helps in short-term choices, like setting discounts or choosing between jobs. It also helps find the breakeven point—where the business covers all costs.

Marginal costing is simple and fast. But it doesn't show the full cost of the business. So it is not used for reports.

7. Mixed or Hybrid Costing

Some businesses use more than one method. This is called a hybrid system. It mixes parts of two or more methods to match real work.

For example, a factory may use process costing for parts, then use job costing for final products. Hybrid costing helps fit the system to different parts of work.

In Uzbekistan, cost accounting follows national rules. These rules help track costs fairly and clearly. They also make sure reports are honest and match government laws.

The Law of the Republic of Uzbekistan "On Accounting" (new version, 2021) says that all companies must record costs. It also says records must be correct and open for checks.

The Resolution of the Cabinet of Ministers No. 66 (February 2020) explains how firms should calculate cost. It gives the basic methods and forms. This helps keep records the same across the country.

The Ministry of Finance also gives updates. These rules cover things like labor cost, material cost, and factory cost. For public companies, cost reports must follow International Financial Reporting Standards (IFRS). Firms in special industries (like oil, gas, or farming) follow extra rules. These are made to fit their special costs and risks.

In short, cost accounting in Uzbekistan is based on clear laws. These rules help firms stay fair, control money, and make smart plans. Every cost method has good and bad sides. The right one depends on the work type, firm size, and goals. For example, job order costing is best when every order is different. It helps check the cost of each product. But it takes time and effort. Process costing is best for big factories that make the same thing all the time. It gives simple cost reports. But it can't show small changes. Standard costing helps with



control. It shows where things went wrong. But it only works well if the standard cost is realistic.

ABC gives clear cost data. But it's hard to set up. Firms need trained staff and more time.

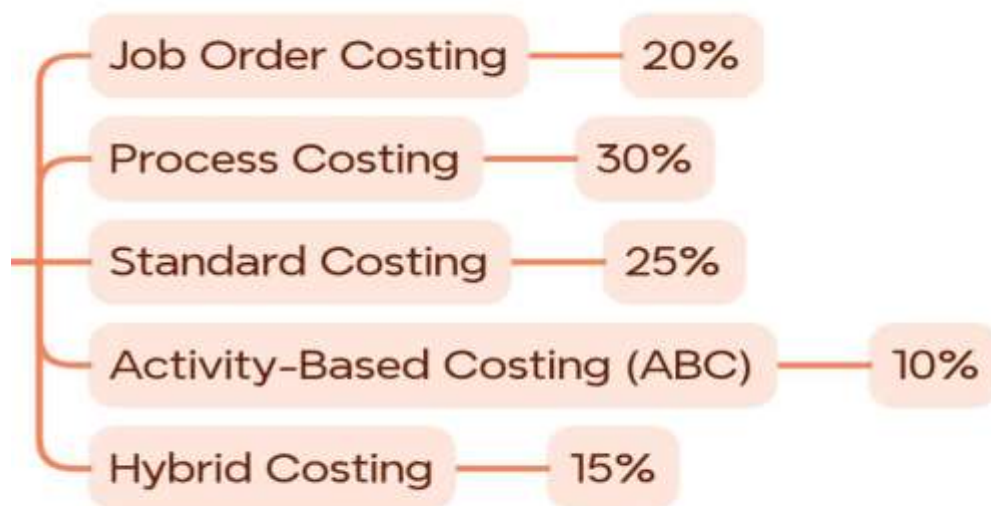
In Uzbekistan, most companies still use old methods. Many do not use ABC yet. This is because of low skills or cost limits. But some big companies are starting to try new ways. This is due to new software and pressure to follow world standards.

Hybrid methods are now more common. Firms mix methods to fit their needs. For example, they might use process costing for parts and job costing for final steps.

So, every method has a place. Firms should choose based on their needs, people, and tools.

Usage of Costing Methods in Uzbekistan (Survey Results)

Shows which methods are most used in 50 Uzbek companies.



(Picture-3)

Conclusion

Cost calculation is a key part of running a business. It shows how much money is spent to make goods. This helps set the right price and earn profit. There are many ways to calculate costs. Each method has its own use. Job order costing fits special orders. Process costing works well in big factories. Standard costing helps control spending. ABC gives deep cost details. Absorption and marginal costing help in planning. In Uzbekistan, laws support fair and clear cost records. Firms follow national rules and global standards. This makes business more open and strong. Many companies still use old systems. But change is coming. New tools and training help firms move to better ways. Hybrid methods are growing too. These give more useful and flexible cost data. To grow in the market, firms must pick the right method. They must also follow rules and improve skills. This will lead to better control, smart choices, and more profit.



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