

WAYS OF EFFICIENT COST MANAGEMENT **BY ACCOUNTING POLICY**

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Abstract. This article considers the issues of cost management for the enterprises of the ferrous metallurgy industry, as well as reduction of the prime-cost of production by means of the cost management. In addition, the article focuses on the importance of accounting policies in the cost management. Moreover, on the basis of the research results the author has developed relevant proposals and recommendations

Key words. Ferrous metallurgy, costs, cost management, accounting policy.

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Introduction. As a result of the modernization, technical and technological renewal of the economy of the country, further development of industrial enterprises of the country has set forth new requirements for accounting. These requirements are primarily based on the conceptual provisions set out in the Law of the Republic of Uzbekistan “On Accounting” and other relevant statutory acts. In this regard they should constitute the basis for accounting for each subject of accounting and the compilation of reports according to their current circumstances.

The main internal document regulating accounting records is the accounting policy of companies. Development of the accounting policy at companies is influenced by many factors such as the form of organizational ownership and management, the type of activity, the type of macroeconomic business, current tax system, production capacity, professional competencies and skills of people engaged in accounting and other factors.

Literature review. National Accounting Standard №1 “Accounting policy and financial reporting” specifies that accounting policy represents a set of methods and techniques implemented by the head of the legal entity to conduct accounting and compiling financial reporting in accordance with its principles and foundations” (Collection of materials, 2011).

Specific principles, conventions, procedures, and practical approaches that are used by the enterprises of the ferrous metallurgy industry to prepare and compile a financial reporting, constitute the essence of the accounting policy.

The ferrous metallurgy company in the process of developing accounting policy should comply with the laws of the Republic of Uzbekistan on accounting and other relevant statutory acts. If there is no particular National Accounting Standard on a certain issue, with the aim of developing the most efficient accounting policy in terms of providing the users with a reliable and comprehensive information, the heads of the economic entities have the right to use their own orders and instructions.

Regarding the importance of this document, the statutory acts envisage that the accounting policy should be approved by the relevant organizational and executive documents of the head of the economic entity - orders, instructions and etc.

In general, the enterprises of the ferrous metallurgy industry have the following inherent peculiarities of their accounting policies:

1. Accounting chart of accounts.
2. Forms of primary accounting documents used in formalizing economic operations that do not foresee any samples for their performance.
3. Forms for statements used for internal accounting.
4. Procedure and terms for inventory tracking.
5. Significant criteria for assessing property and liabilities of the enterprise, techniques and indicators to reflect financial and economic operations.
6. Rules for processing documentation circulation and account data.
7. Order for supervision over economic operations.
8. Other necessary rules and regulations required to establish accounting.

The accounting policy is applied from January 1 of the year following the year of issuance of the organizational documents and other statutory acts and this fact implies that the new accounting policy is to be set at the end of the current year.

From the point of view of Ibragimov A., Ochilov I., Kuziyev I. and Rizayev N., accounting policy represents the specific principles and procedures implemented by a company's management and which are used to prepare its financial statements. These include any methods, measurement systems and procedures for presenting disclosures (Ibragimov and et.al, 2008).

In the opinion of K.B.Urazov, "Accounting policy is a set of rules or procedures by following which a company prepares its financial statements. They are primarily aimed at meeting the requirements of providing the users with the information required" (Urazov, 2005).

In our opinion, accounting rules and principles are quite different, so it is possible to conduct an independent accounting policy for each account.

The mechanism for financial management of the company is mainly relied on the accounting policy and consists of three parts:

1. Accounting.
2. Management accounting.

3. Production accounting.

From the point of view of I.Lvova, the accounting policy is developed on the basis of the following requirements: thorough reflection of the whole performance of the overall performance of the economic entity, timeliness, carefulness, superiority of content, sustainability, consistency, reliability, steadiness, transparency, completeness, neutrality of financial reporting (Lvova, 2010).

The accounting policies of the enterprises of the ferrous metallurgy industry are primarily aimed at establishing and maintaining a financial accounting which definitely includes certain elements of the management accounting. In addition, the selected method of calculating depreciation for fixed assets, the procedure for creating reserves for repairs, the methods of distributing future costs, methods of evaluating materials, etc. are referred to the cost accounting at the enterprises and are considered to be an indivisible part of the management accounting. However, currently enterprises of the ferrous metallurgy industry are primarily referred to the financial accounting, the methodology of the accounting policy by the financial accounting has been developed.

Therefore, the cost management of the enterprises in the ferrous metallurgy industry leads to the provision of a complete system of management and raising efficiency of managerial decision-making, as well as enhances the production efficiency. Cost management, its proper organization and implementation require the development of the accounting policy in the cost management system. In the accounting practice of the Republic of Uzbekistan, the methodology of the cost management system has not been elaborated in the accounting policy.

In the opinion of the author, creation of the cost accounting system and its implementation in practice in the process of developing accounting policy at the ferrous metallurgy industry facilitates improvement of the accounting of production costs and promotes accounting of the production prime-costs in terms of the economic efficiency. Developing and implementing the cost management system in the accounting policy enhances the responsibility of each Responsibility Center for their activities and ensures the efficiency of the managerial decision-making.

Discussion. One of the main technical aspects of accounting policy is the documentation circulation in accounting. In the author's opinion, the following measures should be undertaken to develop a document circulation at the enterprises of the ferrous metallurgy industry:

1. Analysis and classification of the operations carried out at the economic entity;
2. Identification and development of the primary documents used for carrying out operations;
3. Clearly specifying the places for the documents' compilation and their developers;
4. Determining documentation flow and the term and procedure for their processing.

The development of documentation circulation on the basis of these measures will enable to elaborate necessary documents and their structure at the ferrous metallurgy enterprises.

The list of documents used by the enterprises of the ferrous metallurgy industry, as well as the full range of economic operations in the registers is illustrated in the figure below (Figure 1).

1. Information of the Financial department – received by the Centralized accounting department: a statement on delivery of finished goods, a statement on the accounts receivable and payable of buyers, an invoice for confirmation of mutual settlements, a statement on calculations of exchange rates, bank statements.
2. Information of the Sales department – received by the Centralized accounting department: a statement on supply of the imported equipment and consumable materials and raw materials.
3. Information of departments – received by the Centralized accounting department: a turnover balance, a statement on the mutual settlements by inventory items (material assets).

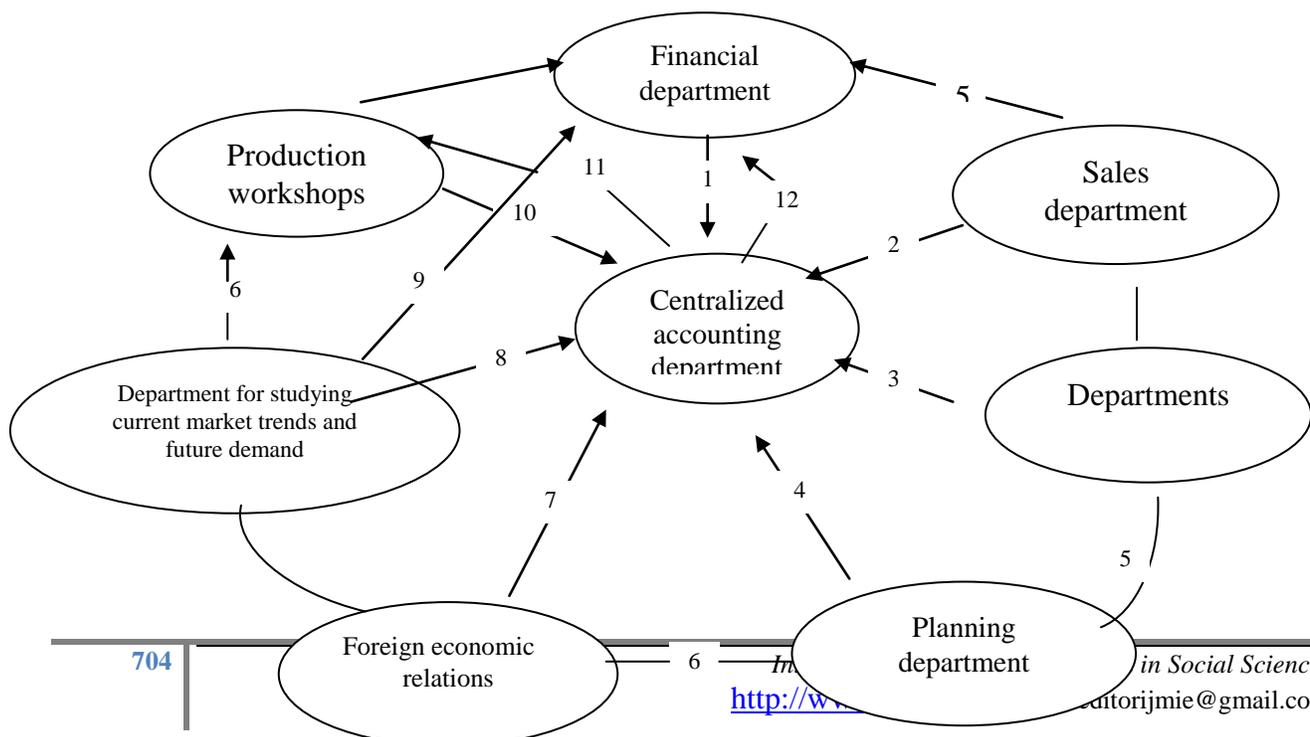


Figure 1. Documentation turnover at the enterprises of ferrous metallurgy industry¹

4. Information of the Planning department - received by the Centralized accounting department: planned calculation of finished products, estimate cost of maintenance of social infrastructure facilities.

5. Information of the Planning department – received by the Financial department: selling price of finished goods.

6. Information of the Planning department – received by the production workshops: planned calculation of finished products.

7. Information on the foreign economic affairs – received by the Centralized accounting department: information on the export-oriented production.

8. Department for studying current market trends and future demand - received by the Centralized accounting department: incoming documentation by the imported metals, statements on acceptance of production by the railway, Acceptance and Delivery certificate, certificate on exported goods.

9. Department for studying current market trends and future demand – received by the Financial department: the data on the export of production: the order confirming the fact of sending the goods for export, certificate on manufacture of goods, railways receipt.

10. Information of the production workshops – received by the Centralized accounting department: statements on costs of the inventory items (material assets), the data on calculating wages (orders, job cards), the data on creating costs of production workshops.

11. Information of the Centralized accounting department – received by production workshops: statement on calculating depreciation of fixed assets, statement on calculating wages, internal report on writing-off the materials.

12. Information of the Centralized accounting department – received by the Financial department.

Having thoroughly analyzed international and domestic experience, K.B. Urazov has classified the composition of the accounting policy at enterprises into three sections:

1. General provisions.
2. Organizational and technical provisions.
3. Methodological provisions (Urazov, 2005).

¹ Developed by the author on the basis of the research results.

From the point of the author, taking into account above-mentioned statements, when selecting accounting policies for ferrous metallurgy enterprises it is recommended to pay attention to the following factors:

- organizational and legal form;
- type of activity and peculiarities of the industry branch;
- volume of production and number of workers;
- establishing mutual interrelations of the taxation system with the budget (exemption from various taxes, tax rates, tax incentives);
- technical support and availability of technical facilities of the management process;
- availability of the efficient system of providing an enterprise with the information;
- internal control system;
- professional competencies and qualification of accountants;
- technical support of enterprise production activity;
- system of material gain and the system for material responsibility on the liabilities from the efficient performance of the enterprise;
- development strategy for financial and economic activity development.

Formulation of the accounting policy and compliance thereto are considered to be an essential factor for proper organization and implementation of accounting and compiling financial reporting, as well as it can make a significant impact on reliability of the information. Each enterprise should logically comply with the development of its accounting policies based on the inherent peculiarities. Under these conditions, in the process of developing an accounting policy, the unified methods are included in the accounting policy. Furthermore, if none operations are carried out it is necessary to develop methods that do not contradict current statutory acts and to formalize and implement in the accounting policies at the enterprises of the ferrous metallurgy industry. On the basis of our research, the author proposes to formulate the accounting policies of the ferrous metallurgy industry according to the following stages (Figure 2).

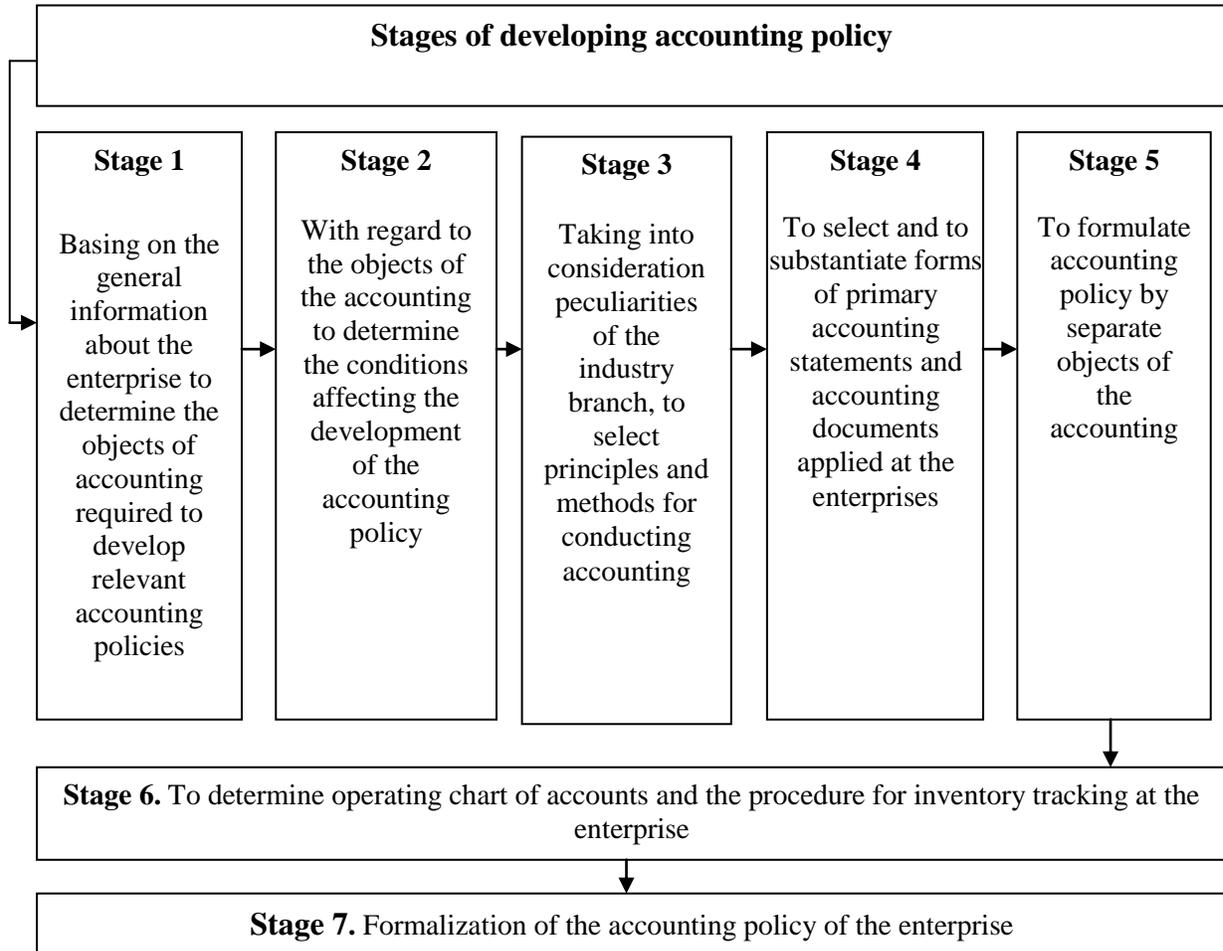


Figure 2. Stages for developing accounting policy at the enterprises of the ferrous metallurgy industry²

According to clause 16 of the National Accounting Standard №1 “Accounting policy and financial reporting”, financial statements of the enterprises include notes, accounts and explanatory letters (Collection of materials, 2011):

- information on the accounting policy selected by the enterprise and applied financial reporting;
- providing the data which is not specified in any financial statement;
- submitting additional analytical information required to submit accurate and reliable financial statements.

² Developed by the author on the basis of the research results.

In the opinion of the author, it is necessary to reveal the following issues of the methodological aspects of the accounting policy at the enterprises of the ferrous metallurgy industry (Figure 3).

The process of developing an accounting policy should consist of consistent logical steps and should involve all aspects of the financial activity. Only under these conditions, the efficiency and profitability of the enterprise will be raised. The accounting policy should be formulated in the way which will not cause the crisis or any kind of financial damage to the enterprise. In addition, it should promote financial soundness of the enterprise, reduce the probability of financial risk and further improve the business.

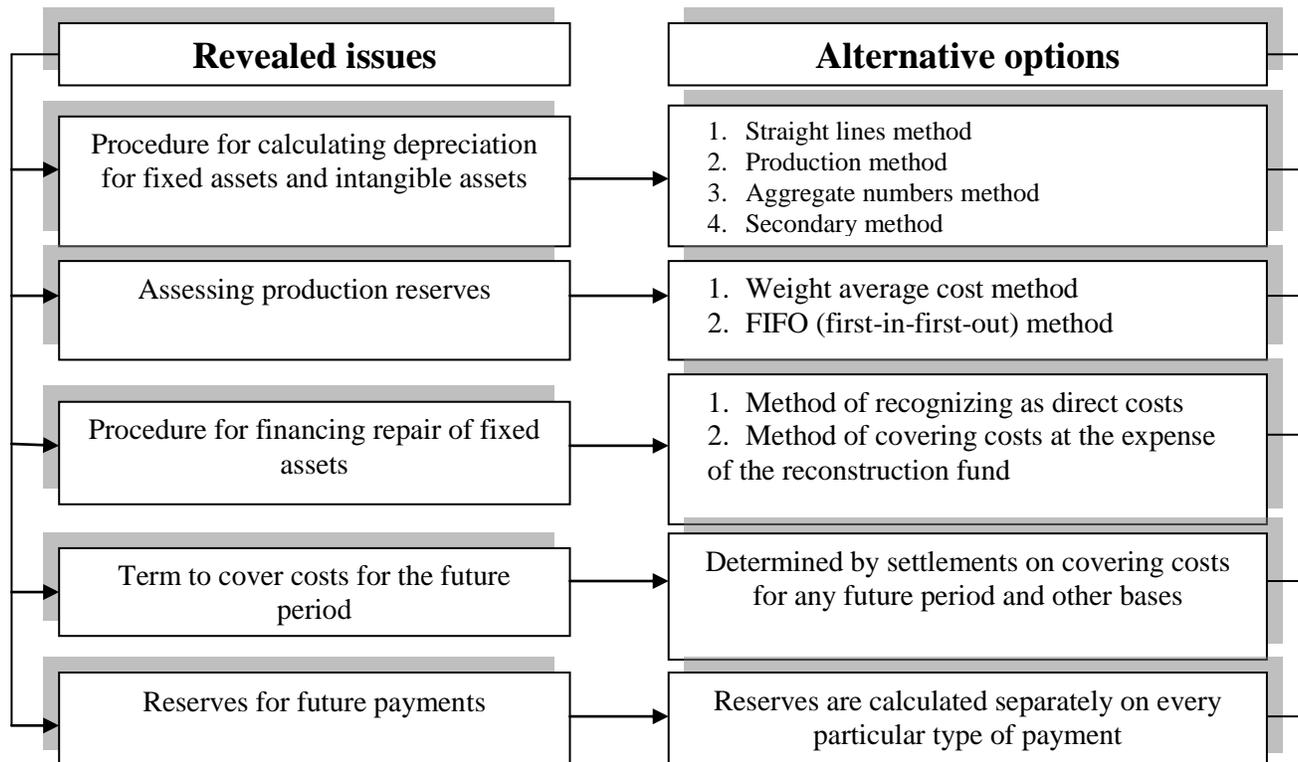


Figure 3. Basic issues related to the costs reflected in the methodological aspect of the accounting policy of “Uzbekistan metallurgical plant” JSC³

In our opinion, the development of the accounting policy and its application at the enterprises of the ferrous metallurgy industry is linked to the activities of all the subdivisions (structural units) of that enterprise. That is, the documents provided by the departments are essential in the performance of the enterprise (Figure 4).

³ Developed by the author on the basis of the research results.

Structural units	Names of documents submitted by the departments
Divisions	Documentation on certain business operations, production reports, report on material flow and others
Warehouses	Documents on the inventory items flow
Planning and financial department	Approved target figures by the types of the enterprise's performance (estimate cost for revenues and expenditures) and otehrs
Labour and wage department	Regulation on wages payment and remuneration of certain categories of employees, wage rates, salaries, staffing schedule and others
HR department	Orders on employment, dismissal, transfer to another position, a list of employees and others
Engineering-technical department	Documents on the vehicles' movement, their repar and other technical issues

Figure 4. Establishing accounting policy at the enterprises of the ferrous metallurgy industry by structural units⁴

Changes in the accounting policy may be provided only in the cases stipulated according to the established order or if any modifications in the financial statements of the economic entities may appear to be more reliable.

By selecting an alternative accounting policy, it is necessary to use all tax and customs privileges specified in the current legislation. In terms of further development of the economy, the accounting policy of the company is considered to be crucially important for reducing costs.

Within the framework of the global competitive environment, enterprises are required to develop accounting policies with the account of the complexity of production processes and elaboration of new methods of cost accounting. Thus currently costs of the enterprises of the ferrous metallurgy industry are regarded as the central object in the accounting system.

Therefore, it is necessary to pay a particular attention to the cost management, primarily, for planning and managing costs at the enterprises of the ferrous metallurgy industry. To pursue this

⁴ Developed by the author on the basis of the research results.

aim, first of all, it is required to start by selecting statutory acts regulating the prime-cost development. Then, application of alternative techniques of the cost management in the accounting policy, in particular, the methods aimed at reducing the prime-cost will make a positive effect.

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