

MODERN COST ACCOUNTING METHODOLOGIES AND THEIR APPLICATION IN INVENTORY VALUATION

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Annotation: This article explores the critical need for advanced cost accounting methodologies in Uzbekistan to enhance managerial decision-making, reduce production costs, and improve competitiveness in global markets. It highlights the challenges faced by enterprises due to outdated cost accounting practices and the absence of modern costing systems, which hinder efficient cost management and the adoption of innovative reporting formats. It emphasizes the importance of incorporating purchase costs, conversion costs, and other overheads in inventory valuation, as well as the necessity of evaluating inventories at the lower of cost or net realizable value.

Keywords: Cost accounting, inventoriable costs, inventory valuation, IAS 2, cost management, production overhead, conversion costs, managerial accounting, financial reporting, Uzbekistan.

The issue of teaching cost accounting as a separate discipline in our republic, implementing the most advanced cost accounting methods, managing costs, introducing modern costing systems, utilizing cost-related information for financial and managerial accounting purposes, adopting innovative cost reporting formats, and incorporating advanced foreign experiences has not yet been fully resolved. This, in turn, negatively impacts the adoption of effective managerial decisions and the realization of opportunities to reduce costs. In some enterprises, costs remain high, leading to difficulties in producing competitive and export-oriented products. All of the above, including the objective need to develop a methodology for product cost accounting that meets modern requirements, necessitates in-depth scientific research in this field.

In foreign literature, "inventoriable costs" are defined as all expenses related to inventories, which are accumulated as an asset on the balance sheet from the moment they are incurred until they are transformed into the cost of goods sold. The characteristics of their formation in the manufacturing, trading, and service sectors are described as follows: "In the manufacturing sector, all production costs are considered inventoriable costs. For example, in the case of Cellular Production,

a mobile phone manufacturer, direct materials (e.g., computer chips released from raw material inventory to production), direct manufacturing labor costs, and manufacturing overhead costs become part of a new asset as the production process begins and finished goods (mobile phones) are completed. Thus, these production costs are absorbed into work-in-progress inventories and finished goods inventories to be accumulated in the cost of the created assets."

According to paragraph 10 of IAS 2 "Inventories," "the initial (historical) cost of inventories includes the cost of purchase, costs of conversion, and other overhead costs incurred in bringing the inventories to their present location and condition." International standards suggest that the cost accounting issue is approached from the perspective of inventory cost formation. The cost of inventories includes the purchase cost, conversion costs, and costs related to bringing inventories to their present location and condition.

According to international standards, inventories must be valued at the lower of (a) cost or (b) net realizable value. IAS 2 states that "the initial (historical) cost of inventories includes all costs of purchase, costs of conversion, and other overhead costs incurred in bringing the inventories to their present location and condition."

Based on this rule in IAS 2, the cost of inventories can be broken down into the following components:

- All costs related to the purchase of inventories (cost of purchase);
- Costs of conversion;

Other overhead costs related to bringing inventories to their present location and condition. According to this standard, the costs of purchase include the purchase price, import duties and other taxes (excluding taxes recoverable by the entity from tax authorities), transportation, handling, and other costs directly attributable to the acquisition of finished goods, materials, and services. Trade discounts, rebates, and other similar items are deducted when determining the cost of purchase. The international standard also notes that, in some cases, costs of purchase may include exchange differences arising from foreign currency transactions for recently acquired inventories.

From these provisions, the costs related to the purchase of inventories can be determined methodologically as follows: Added: 1.1. Purchase price of inventories; 1.2. Import duties and other taxes (excluding taxes recoverable by the entity); 1.3. Transportation costs; 1.4. Handling and other costs directly related to the acquisition of inventories. Deducted: 1.5. Trade discounts, rebates, and other similar items.

According to international standards, conversion costs include costs directly related to the production of a product unit, such as direct labor costs, as well as production overhead costs, which are considered significant cost components. "Production overhead costs are those costs indirectly related to the cost object, beyond direct material and labor costs, and are allocated based on specific allocation criteria." In some literature, production overhead costs are also referred to as indirect costs, as they cannot be directly traced to a specific product type that serves as the cost object.

Production overhead costs can be divided into two categories: variable production overhead costs and fixed production overhead costs. Examples of variable production overhead costs include indirect materials and labor costs, while fixed production overhead costs include expenses such as factory building maintenance, equipment depreciation, and factory management and administrative costs. Variable production overhead costs are directly dependent on production volume, meaning they change proportionally with changes in production volume. Fixed production overhead costs, however, remain constant within a relevant range, regardless of production volume. During the reporting period, both variable and fixed production overhead costs related to manufactured products are allocated to conversion costs based on specific allocation criteria.

Other overhead costs are included in the cost of inventories to the extent that they are incurred in bringing the inventories to their present location and condition. For example, non-production overhead costs or costs related to product development for specific customers can logically be included in the cost of inventories.

Additional Insights:

To address the challenges outlined, enterprises in Uzbekistan must prioritize the integration of modern cost accounting systems, such as activity-based costing (ABC) and just-in-time (JIT) inventory management, which have proven effective in advanced economies. These systems enable more accurate allocation of overhead costs and reduce waste, thereby lowering overall production costs. Furthermore, leveraging digital tools, such as enterprise resource planning (ERP) software, can enhance the transparency and accuracy of cost data, facilitating better decision-making. Training programs for accountants and managers on international standards like IAS 2 and advanced costing techniques are essential to bridge the knowledge gap. By aligning with global best practices, Uzbek enterprises can improve their cost efficiency, enhance product competitiveness, and strengthen their position in export markets. This transformation requires collaboration

between academia, industry, and policymakers to foster a conducive environment for research and innovation in cost accounting.

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