The considerations for some aspects of cost accounting system methodology

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Abstract

The main purpose of accounting, more precisely, its component called financial accounting, is to form reliable information about the property status and financial results of the organization. In modern economic conditions, the business has been evaluated not only based on property status but also based on the results of the organization's activities. Indeed, if the owner wants to reorganize production, to stop production altogether, it is important to assess the property status — in which case the information about the value of the property, and how much profit can be made from its sale is up to date. On the contrary, to develop the business, the enterprise needs to know more about the profitability of the enterprise, and its growth rates, when purchasing its shares in whole or in part, making decisions on lending, investing, and concluding cooperation agreements. This information will be the basis for thinking about the possibility of the enterprise not only once, but constantly earning more shortly, and accordingly to pay dividends, repay debts, and settle accounts with suppliers.

1 Introduction

The main goal of accounting, or rather, its component called financial accounting, is to form reliable information about the financial results of the organization's property and activities. In modern economic conditions, the business has been evaluated not only according to its property status but also according to the results of the organization's activities. In fact, if the owner wants to reorganize or stop production altogether, it is important to evaluate the property situation — then the information about the value of the property and how much profit can be made from its sale is relevant. On the contrary, for business development, the user of the report needs much more information about the usefulness of the enterprise, its growth rates, when buying the enterprise as a property complex in full or only its shares, making decisions on lending, investing, and concluding cooperation agreements. This information is an opinion about the possibilities of the enterprise to generate more income not only once, but constantly in the near future (we recall the principle of continuity of activity, which is included in the accounting policy and affects the content of the report), and accordingly pays dividends, repays debts, settles with suppliers, etc. will be the basis for conducting. From this, an important problem of the accountant is the formation of reliable

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2 Methodology
reflected in the report—the indicator that users of the report analyze more deeply and carefully than other indicators. The structure of costs added to the cost of services) and the Regulation on the procedure for the formation of financial results taken into account in the taxation of profits (approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan on February 5, 1995) and without understanding what the costs are, the accountant cannot make the right decision in conflict situations, and the auditing bodies (auditors or cannot defend their positions before the audit commission). This calls into question the extent of the benefit reflected in the report—the indicator that users of the report analyze more deeply and carefully than other indicators.

To be considered an expense, an outflow of assets must reduce capital. For example, can pay off accounts payable be considered an outflow of assets (after all, there is less money), but does it reduce equity? Obviously not, because in this case, both indicators (both assets and liabilities) decrease by the same amount, which means that their difference remains unchanged. The acquisition of raw materials means an increase in liabilities, but this does not reduce capital, because both liabilities and assets increase by the same amount. Importing finished goods means that one asset increases by an equal amount and others decrease by the same amount, so capital remains unchanged again.

Examples of expense recognition include:

- Unloading the product means that the asset is released in an amount different from the amount received by another asset related to it—receivables, because, as a rule, the cost of the product is less than its price;
- The attachment or recognition of penalties means an increase in liabilities without the occurrence of any assets;
- The recognition of the exchange rate difference reflects a decrease in assets without a decrease in liabilities or an outflow of other assets;
- The write-off of past-due receivables again represents a reduction in assets without a reduction in any liabilities or the creation of other assets;
- Depreciation refers to the depreciation of assets, but cannot be recognized as an expense, because it is accompanied by equally strong growth of another asset—work in progress.

Unlike expenses, expenses do not affect profit when they are recognized. One of the most important accounting processes—product cost calculation—would have lost its meaning if the implementation of expenses was related to the profit indicator. Costing is a product, which is a cost that is formed during production, but is recognized as an expense when the product is sold. Income, expenses and profit from its sale can be reflected only at the time of sale. In the production process, these indicators cannot be recognized precisely because they describe the transaction process and are not "available" until the product is sold. Production accounting is exactly the cost without the effect of any profit and loss, that is, as stated in all accounting standards, based on the need to calculate "on the amount of actual costs". To distinguish between the terms "expenditures" and "expenses", it is important to understand that making an expenditure does not reduce the capital of the enterprise.

Thus, at the heart of the problem under consideration, spending is a decrease in one asset with an equal increase in other assets or an increase in assets and liabilities by the same amount. This "flow" of value is reflected in the calculation accounts. In other words, costs are the accepted value of resources, the value of which can be estimated with a sufficient degree of reliability. It should be noted that spent resources are a problem of accounting in itself. For example, the intellectual resources of the organization's employees used in production, the value of the new technologies they own, or how to evaluate the knowledge and experience of the working team of managers—all these are still unsolved problems.

Expenses are incurred in a certain period. The end of the period of accumulation of expenses is determined by the moment when the conditions for recognition of the assets...
incurred for the purpose of their creation are met, or when the expenses incurred reduce the economic value of the organization without creating any additional property. Thus, after the end of the accrual period, expenses or assets or expenses are incurred.

Expenditures can lead to the formation of two types of assets—current and non-current assets. Current assets are assets that bring economic benefits to their owners during one production cycle (cycle), and accordingly, their value is recognized as expenses at the same time in the accounting practice. Non-current assets are assets that bring economic benefit to their owner for more than one production cycle (turnover), and accordingly, in accounting practice, their value is recognized as expenses many times during the calculation of depreciation. Expenditures made to create the value of current assets and aimed at their formation are called non-capitalized (non-capital) expenses.

Examples of spending to create current assets:
- consumption of labor resources, material resources, use of fixed assets and intangible assets for production purposes. In this case, the creation of a current asset is reflected simultaneously with the write-off of all accumulated costs.

Examples of spending to create non-current assets:
- expenditure of labor resources, material resources, use of fixed assets and intangible assets in the construction of a real estate object. In this case, the creation of a non-current asset is reflected by the simultaneous write-off of the entire amount of accumulated costs.

Both capitalized and non-capitalized costs can lead to the emergence of costs. In the first case, it usually means a negative, unexpected result, and in the second case, such an outcome may be normal or expected.

Examples of recognizing capitalized costs as expenses:
- expenses on scientific research, experimental construction and technological works that did not give positive results are recognized as expenses not related to sales; - investments in the creation of non-current assets are recognized as expenses in any outflow of unfinished objects in the sale, transfer to the authorized capital, unfinished construction, scientific research, experimental design and technological works, etc. in giving freely.

Examples of recognizing non-capitalized costs as expenses:
- the cost of performed works, and rendered services, is recognized as an expense at the time of signing the document or during the completion of a certain calendar period; - expenses incurred in connection with the lease of fixed assets are recognized as expenses during the end of the calendar period; - costs of production that did not yield results are recognized as costs in the event that a decision is made to stop production.

As a rule, various types of resources must be spent to create an asset or perform a work or service. It is the large number of operations on the use of one or another resource and the long period of their implementation that forces the accountant to calculate, if only one resource was used to create a product and only once, then there would be nothing to calculate. Here, by costing we mean the allocation and accumulation of costs incurred to create a product in separate costing accounts:

0800—capitalized expenses, 2000, 2300, 2500, 2600 for non-capitalized expenses (It can be said that, in our opinion, the naming of the accounts is not very correct, it would have been more clear if the 2500 account was kept as "General production expenses" and the 2600 account as "General economic expenses" would be, because general production costs cannot be costs independently—they are only part of the finished product, and overhead costs are costs only when using the direct costing method).

Thus, we are ready to draw up a general scheme of accounting for costs and expenses:
2.1 Reflecting expenses

Reflecting expenses involves spending various resources and accumulating capitalized expenses for the purpose of creating non-current assets; Dt2010, 2310 and others.

2.2 Recognition of assets

Recognition of assets involves taking into account the objects of non-current assets, for example, after the end of the period of accumulation of capitalized expenses; Dt2810 Ct 2010, 2310.

2.3 Recognition of expenses

Recognition of expenses involves taking into account the items of current assets after the end of the period of accumulation of uncapitalized expenses.

3 Results

Differences in costs and expenses are evident in virtually all areas. We have shown above that costs do not affect profit, profit is determined only by costs.
Another aspect is recognition time. Expenditure is recognized in the period in which resources of one type or another are used, and this value can be estimated with sufficient reliability. If the state of use of resources and their evaluation is confirmed by a document, that is, a certain preliminary document is drawn up, and then the measurement of the value of the spent resources is recognized as sufficiently reliable.

Expenses are recognized in the period when the object of current and non-current assets is written off (lost for various reasons or given to a new owner), or the expenses do not lead to the creation of an asset, when the period of performance of work, rendering of services is considered to be over. In this case, the expenses are recognized in accordance with the principle of matching income and expenses. This means that revenues are recognized only with corresponding expenses (expenses incurred in order to obtain those revenues), and vice versa.

If in the period of recognition of income, the enterprise cannot recognize and evaluate all the costs incurred to obtain it, then such income is recognized as belonging to future periods. The income of the future period is recognized as current income when the period enters when the income can be compared with the corresponding expenses to determine the financial result.

An example of recognizing future revenue:

- income from the involuntary transfer of assets. These incomes are recognized as current during the recognition of expenses: on fixed assets in proportion to the calculated depreciation, on current assets at the same time, during the write-off of the cost of materials or goods.

Expenses of the next period include the sums of expenses recognized in accordance with the rules established in accounting, but not related to the formation of income of the reporting period. In addition, expenses are recognized for the future period when the expenses formed by these expenses are the basis for receiving income for several accounting periods and the relationship between income and expenses cannot be clearly determined or can be determined indirectly. Thus, expenses of the future period, like expenses, do not affect the financial result of the reporting period.

Payments made or transfers of assets are recognized as expenses in future periods if they are made in an unconditional manner. If the work paid for with the specified assets can be returned in the conditions of refusal of consumption of services, then it is recognized in the report as a receivable instead of the expenses of the future period. If the amount of paid and non-paid funds can be reduced in accordance with the terms of the contract, then the difference between the paid (given) and returned funds will be considered as a penalty (costs not related to the sale) for refusing to fulfil the contract. For example, paying a quarter's rent in advance—accounts receivable, paying subscriptions to periodicals—are expenses, because, according to the rule, refusal to receive periodicals will not result in a refund of part of the paid funds.

If the transfer of assets was carried out in an unconditional order, but the enterprise refused to consume the relevant works and services, or for other reasons, it is sure that they will not be consumed, then the previously recognized costs of the future period are to make a decision not to consume the works, services are recognized as losses (expenses not related to sales) in full.

Thus, the costs of the future period can be written off in the reporting period when the relationship between these costs and the received income is established, or it is determined that no economic benefits or assets will be generated from them.

The costs of the future period can be allocated to both expenses and expenses. In this case, costs are determined less than expenses.

Examples of the recognition of future period expenses:

- expenses include one-time payments for acquiring licenses, software rights, large advertising companies, etc.
Giving examples of when the expenses of the future period are recognized as operating is very complicated because the relationship between operating income and expenses in accounting generally does not exist:

- Payment of rent for the sub-leased building, following the terms of the contract, in which the rent is paid quarterly in advance and is non-refundable.

As far as non-sales revenues are concerned, no future period expenses can be incurred on them at all, because non-sales expenses, whatever their nature, do not correspond to any planning or period allocation.

If expenses related to past periods, that is, before the beginning of the reporting period, are identified, then they are recognized as expenses, regardless of what happened at the time—expenses or expenses expenses.

Examples of prior year expense recognition include:

- Expenses of the past period—untimely or under-calculated wages, depreciation of fixed assets and intangible assets, cases where it was determined that the account does not reflect the write-off of raw materials and materials for production, etc.

- Expenses of the previous period—exchange rate differences that were not calculated on time or were calculated in small amounts, fines and penalties for payment, cases where it was determined that the value of unfinished production was not reflected in the account in the case where a decision was made to stop it, etc.

Everything we mentioned above is a misleading theory that the accountant will need in the not-too-distant future when there is a "controller" who will call into question the veracity of the accounting reports. Today, all this seems abstract, because both the tax inspector and the auditor are currently primarily concerned with tax costs, not accounting costs. In fact, the denial of the differences between the concepts of costs and expenses has led to the emergence of a document that is practically impossible to enforce with its approval.

Therefore, we believe that if the NAS relies on the liability method of accounting for differences, this method is prohibited in the NAS (the NAS approach is how we would have paid tax on profits if the costs for tax purposes had been accounted for in the same way as in accounting. Applying IFRS if the whole of our assets allows us to answer the question of how we would have paid the tax on the profit if we had bought the tax options)—what is the point of proving that this method is possible if it is not possible to do it according to the rules presented in the NAS.

We will not consider the calculation of differences under IFRS methods, as this is not within the scope of our tasks. This article has a different goal, that is, the developers of NAS believe that performing the operations described in it is possible because it does not see the difference between costs and expenses. To do this, it is necessary to consider the example of the occurrence of a temporary difference that gives rise to a deferred tax asset.

On February 20, 2020, JSC "Sharq" bought a personal computer worth 120,000 soums with a useful life of 5 years. The rate of profit tax was 12 per cent.

For accounting purposes, the company calculates depreciation using the declining balance method, and to determine the tax base for profit tax, it uses the straight-line method.

In preparing the financial report and tax declaration for 2020, "Sharq" JSC obtained the following information:

The temporary difference that is calculated when determining the tax base for profit tax for 2020 is equal to:

$$20,000 \text{ thousand soums.} = 40,000 \text{ thousand soums.} - 20,000 \text{ thousand soums.}$$

Deferred tax assets for 2020 tax purposes were as follows:

$$20,000 \text{ thousand soums.} \times \frac{12}{100} = 2400 \text{ thousand soums.}$$
Table 1. Calculation of enterprise depreciation for accounting purposes

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<th>For accounting purposes (thousand soums)</th>
<th>To determine the taxable base for profit tax (thousand soums)</th>
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<td>On February 20, 2020</td>
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Calculated depreciation amount for 2020

Balance value of the fixed asset as of 01.01.2021

What is classified as an accounting expense in the NAS is not, in fact, just an expense. To understand what the problem is, let's introduce some conditional precisions that are missing in the given example.

The object considered the main tool is the personal computer used by the chief accountant of the enterprise. We estimate that the enterprise earned 50,000 soums of income for the whole year, and the enterprise did not spend anything other than the depreciation of this object. The taxable base is 30,000 thousand soums (50,000 - 20,000). (When the taxable profit is 30,000 thousand soums, the tax amount will be 3,600,000 soums (3,600,000 soums = 30,000*0.12).

In accordance with Article 1 of the Tax Code, only the part of the amount of depreciation calculated on fixed assets, which is used in the production of goods, works, and services, is considered as direct expenses. Therefore, the amount of depreciation of the fixed asset in administrative management is included in the indirect costs and is considered to be related to the period costs of the reporting period, that is, it is not applied to the unfinished production balances, finished products in the warehouse, and products that have been shipped but have not yet been sold during the reporting period. In our example, to determine the accounting profit, it is necessary to calculate what part of the depreciation expenses is included in the expenses and determine how it affects the tax base. For this, it was first left in the composition of unfinished production, due to this, it is necessary to allocate expenses that do not affect the accounting profit. Let us assume that the general economy expenditure is distributed among the three products in the ratio of 20%, 30% and 50%. The first product has no work in progress, the "work in progress" for the second product is 10% of the costs, and for the third product - 15% of the costs. Based on this information, it is determined how much depreciation is added to the cost of the finished product.

After that, it is necessary to separate the costs remaining in the finished product in the warehouse, which, as you know, does not generate profit. Half of the first product, 75% of the second product, and 30% of the third product will be sold. Based on this information, it is determined how much depreciation is added to the cost of goods sold. For this, we use the following table.

Table 2. Determining whether depreciation is added to the cost of goods sold.

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<th>Indicator</th>
<th>The first product, one thousand soums</th>
<th>The second product, one thousand soums</th>
<th>The third product, one thousand soums</th>
<th>Total, one thousand soums</th>
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The amount of depreciation included in the value of the finished product is as follows:

- 10,000 (12,000 x 83.33%)
- 15,000 (20,000 x 75%)
- 17,200 (20,000 x 86%)
- Total: 42,200

Only then can the amount of accounting profit be calculated:

32,800 thousand soums = 50,000 - 17,200 (not 10,000 thousand soums),

The difference in the amount of 22,800 thousand soums (32,800 - 10,000):

- The amount of depreciation remaining in the cost of unfinished production: 4,200,000 soums (40,000 - 35,800);
- The amount of depreciation remaining in the value of finished products in the warehouse: 18,600,000 soums (35,800 - 17,200).

Then we perform almost BHN 18 procedures:

1. The contingent cost of profit tax is calculated:
   3,936 thousand soums = 32,800 x 12%.
2. The amount of deferred asset tax is calculated:
   2,400,000 soums = 20,000 x 12%
3. Current tax on profit is calculated:
   6,336 rubles. = 3,936 + 2,400

The organization does not want to pay 6,336,000 soums instead of the 3,936,000 soums calculated on the tax declaration. The question of how to derive the current tax amount from the notional cost of profit tax remains unanswered.

4 Results and discussion

This issue can be resolved only if, when calculating the temporary difference, we compare not the expenses with the tax expense on depreciation, but the expenses on depreciation, the procedure for calculating them, as we have seen, is much more labor-intensive and long-term than the calculation of expenses. In other words, the temporal difference is equal to:

2,800 thousand soums = 20,000 - 17,200,

firstly, it differs in absolute terms, and secondly, the calculated temporary difference becomes a taxable temporary difference, the accounting expense for depreciation is 17,200 thousand soums less than the tax expense for depreciation of this object - 20,000 thousand soums, and the deferred tax asset is deferred tax shall be obliged to:

336 thousand soums = 2,800 thousand soums x 12%

In this case, the current profit tax will be equal to:

3,600 thousand soums = 3,936 - 336,

which, in turn, fully corresponds to all the indicators of the tax declaration.

Thus, the fact that the NAS developers deny the difference between costs and expenses makes it almost impossible to enforce the NAS — we simply can never get the tax amount on the books that correspond to the tax return. If we move from calculating differences based on the comparison of tax costs and accounting costs to calculating accounting and tax cost differences, then the labor capacity of operations increases very, very significantly.

Could we use the amount of the temporary difference being eliminated and the deferred tax asset in the example given in the NAS text? It was possible, but only in conditions where the enterprise did not have unfinished production and finished goods in the warehouse. It is specific only to trade organizations and organizations performing works and services (not for E3S Web of Conferences 402, 08050 (2023) TransSiberia 2023 https://doi.org/10.1051/e3sconf/202340208050 9
5 Conclusions

With this example, we wanted to demonstrate how the presence of work-in-progress and finished goods in the warehouse affects the size of the difference recognized in the composition of costs and the appearance of "separated" differences in the composition of the cost of work in progress and finished goods in the warehouse. Balances of shipped goods, expenses transferred on inter-branch turnover and other expenses that have not yet become an expense and therefore do not affect the size of the accounting profit of the reporting period have a similar effect.

The problem is that, for example, accounting for amortization as the reason for the occurrence of a temporary difference leads to the fact that these differences arise for comparison in the period when these expenses become expenses, and not in the period in which they are calculated.

From here, it is clear how significantly the indicators of deferred taxes change and how strongly the labor capacity of account operations increases. In such a large increase in labor capacity, the usefulness of information does not increase, but decreases.

Conflicts of Interest

The authors report no conflicts of interest.

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