

## Improving Cost Accounting for Product Quality Improvement

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### *Annotation*

*The article discusses the directions for calculating the costs of ensuring product quality, studied the structure and list of costs for product quality, and analyzed the costs of quality.*

**Keywords:** *cost accounting, cost of production, labor resources, materials, product quality*

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## **Introduction**

One of the factors in the growth of the efficiency of social production is the improvement in the quality of output. In the conditions of economic modernization, the improvement of product quality must be ensured with economical use of labour, materials and financial resources. One of the important directions for solving this problem is the improvement of economic methods of product quality management. It is the economic methods of management that are aimed at ensuring the interest of labor collectives in the economical use of production resources, reducing the cost of production, mastering new types of products, and also in producing high-quality products.

In the Republic of Uzbekistan today, a number of measures are being taken to improve the sphere of the economy, accounting and auditing. The practical implementation of the Action Strategy in the five priority areas of development of the Republic of Uzbekistan in 2017-2021, aimed at conducting fundamental reforms to liberalize and develop the economy, improve the business environment, and increase the competitiveness of economic sectors, ensures a stable positive trend in the socio-economic development of the country.

The measures taken in the republic to ensure macroeconomic stability, liberalize the foreign exchange market, introduce market methods for the sale of highly liquid goods, stimulate and support entrepreneurship created favorable conditions for the active involvement of the general population in entrepreneurial activity, and also provided a basis for further promotion of economic reforms.

At the new stage of the country's economic development, it is of particular importance to carry out deep structural transformations in the sectors of the economy, accelerate the process of transition to a competitive market economy with the formation of full-fledged markets for goods and services, improve and strengthen the system of social protection of the population, and introduce market principles in the management of state assets<sup>1</sup>.

Also, in order to improve accounting and financial reporting, the President approved the resolution "On additional measures for the transition to international financial reporting standards", which states that "joint stock companies, commercial banks, insurance organizations and legal entities classified as large taxpayers:

From January 1, 2021, they organize accounting and, starting from the results of 2021, prepare financial statements based on IFRS, with the exception of legal entities for which the legislation provides for an earlier transition period to IFRS;

ensure by the end of 2021 the number of employees of accounting services sufficient for the qualitative application of IFRS in the amount of at least three specialists who have a document on the successful completion of the subject "IFRS financial statements" as part of the international certification of accountants or one of the certificates "Certified International Professional Accountant (CIPA)", "the Association of Chartered Certified Accountants (ACCA)", "Certified Public Accountant (CPA)" and "Diploma in International Financial Reporting (DipIFR)" (further-international certification of accountant)».<sup>1</sup>

Also, cost accounting is carried out on the basis of the following regulatory assets:

1. Tax Code of the Republic of Uzbekistan (depreciation rates of fixed assets) 01/01/2020
2. Law of the Republic of Uzbekistan "about Accounting" from April 13, 2016 № ZRU-404.

3. Decree of the Cabinet of Ministers of the Republic of Uzbekistan dated February 5, 1999 № 54 “Regulations on the composition of costs and on the production and sale of products (works, services) and the procedure for generating financial results” (with additions and amendments in 2003, 2004 and 2005)
4. National Accounting Standards of the Republic of Uzbekistan.
5. International Financial Reporting Standards.

**Research methodology.**

Quality improvement cost analysis begins with an overall assessment of the implementation of the plan in terms of the number of planned activities and the funds allocated for these purposes. At the same time, it is necessary to distinguish between measures aimed at ensuring product quality and measures to improve the reliability, durability and other quality parameters of products. In the reporting period, above-planned ones can be introduced, therefore, in our opinion, the correct assessment of the results of the enterprise and its divisions in this area is ensured taking into account these measures.

The main sources of information for the overall assessment are data on the summary technical and economic results from the implementation of measures according to the plan for technical and organizational development and the creation, development of new products and improving the quality of products, management reporting on the implementation of the plan of organizational and technical measures and the costs of implementing measures, acts of completed works and implementation of activities, cost accounting cards for activities.

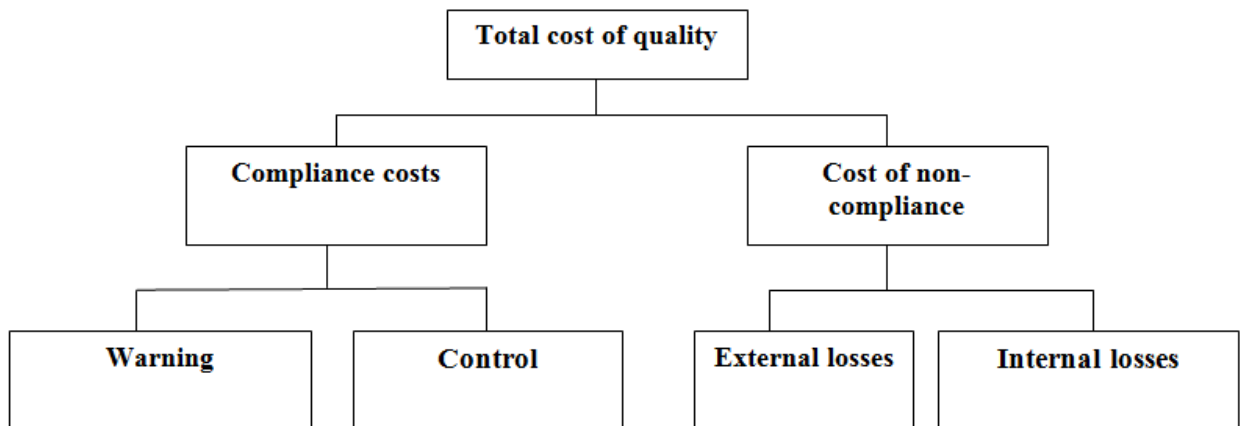
The costs associated with the implementation of measures to improve product quality are divided into one-time and current, their economic nature is different, and therefore, the methods of their analysis are also different.

Key goals of cost analysis and estimation:

- evaluation of investments in quality improvement:
- ensuring the required quality of the product, taking into account the minimum costs for its creation and operation;
- establishing the relationship between expenses and the results of the economic activity of the organization;
- identification of critical areas of production that require improvement.<sup>1</sup>

Costs are generally divided into the following categories:

- the cost of preventing the possibility of defects, i.e. costs associated with any activity that reduces or completely prevents the occurrence of defects or losses (costs for preventive measures or preventive costs);
- control costs, i.e. costs for determining and confirming the achieved level of quality
- internal costs for a defect - the costs incurred within the organization when the agreed level of quality is not achieved, i.e. before the product was sold (internal losses);
- external defect costs - costs incurred outside the organization when the agreed quality level is not achieved, i.e. after the product has been sold (external losses);



**Pic.1. The structure of the total cost of quality**

The categorization of these elements is largely arbitrary and minor differences in detail occur across organizations. This is not significant, since the collection, classification and analysis of quality costs is a purely internal activity of the company. What is really important is that within the company mutual understanding and agreement on the details is unambiguous. Cost categories should be constant, they should not duplicate each other; if any cost appears under one heading, it must not appear under another, and thereafter, in all subsequent cases, that cost must appear under the same original heading.

Further table №1 below provides a list of quality costs.

**Table №1 List of quality costs**

<b>Quality service</b>	<b>Chief Engineer Service</b>
Quality system planning costs Internal quality audit costs Costs of validating product quality by external bodies such as insurance companies, government agents, etc. Expenses for determining the causes of non-conformities with quality requirements The cost of launching and testing the finished product in production for delivery to the customer before delivery Other costs	Payment for the work of inspectors and test personnel, during scheduled inspections of production operations The cost of laboratory tests performed to assess the quality of supplied materials The cost of materials, samples, etc. subjected to destructive testing The cost of auditing the quality of technological operations, either in the production process or on the final product Other costs
<b>Accounting</b>	<b>Production service</b>
The cost of materials that do not meet quality requirements and the cost of their disposal and removal Costs of legal disputes and compensation payments Costs incurred as a result of a reduction in the selling price of products that do not meet original specifications Costs for marketing research Costs for	Costs incurred during the restoration of products (materials) to meet quality requirements by means of either alteration or repair, or both Replacement costs for unsatisfactory products during the warranty period The cost of assessing potential suppliers and materials before entering into supply contracts Costs associated with the technical preparation of inspections and tests of purchased materials

supplier analysis (maintenance of supplier ratings) Other costs	Other costs
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Next, we will analyze the cost of quality using an example. (Table№2)

**Table 2. Quality cost analysis**

Naming of expenditures	According to business plan	In fact	Dynamics	
	sum	sum	sum	%
Prevention costs	52 000 000,00	53 200 000,00	1 200 000,00	102,31%
Control costs	36 000 000,00	36 800 000,00	800 000,00	102,22%
<b>Total compliance costs</b>	<b>88 000 000,00</b>	<b>90 000 000,00</b>	<b>2 000 000,00</b>	<b>102,27%</b>
Internal costs	35 000 000,00	36 600 000,00	1 600 000,00	104,57%
External costs	40 000 000,00	41 500 000,00	1 500 000,00	103,75%
<b>Total non-compliance costs</b>	<b>75 000 000,00</b>	<b>78 100 000,00</b>	<b>3 100 000,00</b>	<b>104,13%</b>
Quality costs	40 000 000,00	41 400 000,00	1 400 000,00	103,50%
Organizational costs without quality costs	25 000 000,00	26 371 428,57	1 371 428,57	105,49%
<b>Organizations total costs</b>	<b>228 000 000,00</b>	<b>235 871 428,57</b>	<b>7 871 428,57</b>	<b>103,45%</b>

According to the results of the analysis, it can be seen that the cost of product quality has increased for each item.

When studying one-time costs for the implementation of measures to improve product quality, it is advisable to compare their actual level with the volume provided for by the estimate. At the same time, the comparison must be carried out both for the event as a whole and for individual divisions of the enterprise involved in its implementation.

When analyzing current costs associated with improving product quality, it is necessary to compare the level of actual production costs before the implementation of measures with the level of production costs after implementation. Such an analysis makes it possible to determine the total amount of current costs for the implementation of measures to improve product quality, their item-by-item breakdown and deviations in the context of items and measures.

### Analysis and results

The results of the conducted studies allowed us to draw the following conclusions and recommendations:

In the conditions of economic modernization, the costs of ensuring the quality of products are part of the total production costs directly related to the work and measures to ensure the release of products in accordance with the regulatory and technical documentation and planned targets.

An analysis of the actual costs of ensuring the quality of products at the surveyed machine-building enterprises and associations showed the following: the costs of ensuring the quality of products have a large absolute value, a significant share in the cost of production, and an upward trend. Carrying out work and measures to ensure product quality is associated with significant production resources and has an increasing impact on the cost of production, the growth rate of

costs for ensuring product quality significantly outpaces the growth rate of product cost. With the growth of costs for managing the process of ensuring product quality, there is a significant increase in losses due to the presence of defective products, a decrease in the level of product manufacturing quality. This indicates an inefficient use of costs for preventing the appearance of defective products, for assessing the level of product quality, and in some cases - for an insufficient amount of production resources invested in the process of ensuring product quality. The elimination of the noted shortcomings requires the strengthening of work in the field of accounting, calculation and planning of costs to ensure product quality. The cost of ensuring product quality is an important economic criterion for managing the process of manufacturing products.

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