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IMPROVING THE MANAGEMENT ACCOUNTING OF MATERIAL PRODUCTION COSTS IN BUSINESS ENTITIES

Khusinov Ibragim Ismailovich
Professor, Department of Financial Accounting and Reporting PhD, Tashkent State University of Economics
Email: xusinovii@gmail.com

ABSTRACT

This article examines the emergence of problematic issues in the organization of product cost accounting at local enterprises and the development of proposals for its improvement.

KEYWORDS

Accounting, material costs, production, enterprise, improvement, expenses.

Introduction

The effective management of production costs is one of the central conditions for ensuring the financial stability and competitiveness of modern business entities. In particular, material costs represent a significant share of total production costs in many enterprises; therefore, their accurate accounting, control, and analysis directly affect product cost, profitability, and managerial efficiency.

In the context of intensifying market competition and resource limitations, enterprises are increasingly required to adopt management accounting systems capable of providing timely, reliable, and analytically useful information. However, in many domestic enterprises, management accounting for material production costs remains largely formal and fragmented. Although accounting systems generate substantial amounts of data, this information is often underutilized in decision-making processes due to limited methodological development and insufficient adaptation of advanced international practices.

The problem is further aggravated by the fact that traditional accounting methods are frequently focused on recording historical costs rather than supporting managerial forecasting, control, and optimization. As a result, enterprises face difficulties in identifying inefficient resource use, monitoring deviations from planned material consumption, and allocating indirect costs in a way that reflects actual production processes.

The academic literature suggests several approaches to improving cost management accounting, including standard costing, activity-based costing (ABC), and direct costing. Each of these methods offers specific advantages for cost planning, control, and analysis. Nevertheless, their implementation in practice requires adaptation to the organizational, technological, and informational characteristics of enterprises.

The purpose of this study is to identify the main problems in the organization of management accounting for material production costs and to develop proposals for its improvement in business entities. The study seeks to answer three main research questions:

1. What are the key shortcomings of the existing system of material cost accounting in enterprises?
2. Which management accounting methods are most appropriate for improving cost control and cost allocation?
3. How can these methods be integrated into a coherent framework for enterprise-level implementation?

The scientific contribution of the study lies in the systematization of modern approaches to accounting for material production costs and the development of an integrated methodological framework that combines cost standardization, variance analysis, responsibility accounting, and analytical cost allocation.

2. Methods

This research is based on a qualitative analytical design and uses a combination of comparative, logical, and systems-based methods.

First, the study applies a comparative analysis of major management accounting approaches used in the accounting of production and material costs, with particular attention to standard costing, direct costing, and activity-based costing. These methods are compared in terms of their conceptual basis, practical advantages, and limitations in enterprise application.

Second, a content analysis of academic literature and regulatory sources was conducted to identify theoretical approaches to cost management and to assess the relevance of these approaches to domestic business practice. The study draws on both international and local scholarly sources, as well as normative documents governing cost composition and financial result formation.

Third, a systemic approach was employed to examine the interrelationship between cost accounting, internal control, operational planning, and managerial decision-making. This made it possible to identify not only isolated accounting problems but also broader organizational constraints affecting the effectiveness of cost management.

Finally, the study uses logical synthesis to develop an improved framework for management accounting of material production costs. This framework is designed to align with the operational needs of business entities and to strengthen the analytical and control functions of management accounting.

The methodological focus of the paper is not on statistical testing, but on developing a practically applicable and conceptually grounded model for improving accounting processes in enterprises.

3. Results

The analysis revealed several major deficiencies in the existing practice of accounting for material production costs in business entities.

3.1. Key problems in current practice

The first major problem is the insufficient use of management accounting data in decision-making. In many enterprises, accounting information is accumulated primarily for reporting purposes, while its analytical potential remains underutilized. This reduces the usefulness of accounting data for operational control and strategic cost management.

The second problem is the weak organization of material cost control. Enterprises often lack clear mechanisms for monitoring raw material consumption against established norms, identifying deviations, and assigning responsibility for excessive usage. As a result, overspending and hidden inefficiencies are not detected in a timely manner.

The third problem concerns the limited application of advanced costing methods. Although methods such as standard costing and ABC are widely recognized in management accounting theory, their practical implementation remains low. One reason is the lack of methodological guidance adapted to local enterprises. Another reason is insufficient managerial understanding of the benefits associated with these tools.

The fourth problem relates to the allocation of indirect costs. Traditional allocation bases frequently fail to reflect the actual drivers of resource consumption, which distorts product cost calculations and reduces the accuracy of pricing and profitability analysis.

3.2. Evaluation of cost accounting methods

Standard costing was found to be highly useful for enterprises seeking to strengthen operational control. Its advantage lies in the establishment of scientifically grounded consumption norms and the regular analysis of deviations from these standards. This method helps identify inefficiencies quickly and creates a basis for corrective action.

Direct costing is valuable for managerial decision-making because it distinguishes between variable and fixed costs, allowing enterprises to assess contribution margins and determine break-even points. This improves short-term planning and helps identify the most profitable products. However, its limitations include incomplete product costing for financial reporting purposes and the risk of underestimating the importance of fixed costs.

Activity-based costing (ABC) provides more accurate allocation of indirect costs by linking them to cost drivers and activities. This method is particularly relevant in complex production environments where overhead costs are significant. At the same time, ABC requires more detailed data collection and stronger analytical capacity, which may limit its adoption in enterprises with weak internal accounting systems.

3.3. Proposed framework for improving material cost management accounting

Based on the results of the analysis, the study proposes an integrated framework for improving the management accounting of material production costs.

First, enterprises should introduce a normative system of material consumption for major raw materials and supplies. These standards should be regularly reviewed in accordance with technological and organizational changes.

Second, management accounting should be organized by responsibility centers, allowing managers to track material usage and cost deviations by department, production line, or process stage. This strengthens accountability and supports performance evaluation.

Third, enterprises should implement variance analysis on a regular basis. Differences between standard and actual material consumption should be recorded, classified, and analyzed according to their causes. This improves internal control and helps prevent recurring inefficiencies.

Fourth, for indirect production costs, enterprises should gradually adopt cost-driver-based allocation mechanisms. Where full ABC implementation is not feasible, selected ABC elements may still be used to improve the accuracy of overhead allocation.

Fifth, accounting information should be integrated into managerial reporting in a way that supports real-time control and operational decisions. This requires the development of internal reports that summarize material usage, deviations, waste levels, and cost dynamics.

As a result, the proposed model combines the control advantages of standard costing, the analytical value of direct costing, and the allocation precision of ABC. Such integration improves both the reliability of cost information and its practical usefulness for management.

4. Discussion

The results of the study confirm that effective management of material production costs requires a transition from purely recording-oriented accounting to analytically oriented management accounting. This is consistent with contemporary approaches in management accounting theory, which emphasize the role of accounting as an information system for planning, control, and decision-making rather than merely a mechanism for documenting expenses.

The findings also demonstrate that no single costing method is sufficient on its own to address the complexity of material cost management in business entities. Standard costing is effective for operational control, but it may be too rigid if standards are not regularly updated. Direct costing supports managerial analysis, yet it does not fully solve the issue of comprehensive product cost formation. ABC improves accuracy, but its implementation can be resource-intensive.

Therefore, the main theoretical implication of this study is that an integrated methodological approach offers a more balanced and practical solution than the isolated use of any individual method. From a practical perspective, enterprises can improve cost discipline and managerial efficiency by selectively combining the most applicable elements of these methods.

Another important implication is that the effectiveness of management accounting depends not only on methodology but also on organizational readiness. Even well-designed accounting techniques will remain ineffective if managers do not use accounting information actively in operational planning and control. Thus, methodological improvement should be accompanied by stronger internal regulation, staff training, and greater managerial involvement in analytical accounting processes.

Overall, the study supports the view that improving the management accounting of material production costs can contribute to lower product cost, more rational resource use, and increased profitability in enterprises operating under competitive pressure.

5. Conclusion

This study examined the problems and improvement directions of management accounting for material production costs in business entities. The analysis showed that the current system in many enterprises is characterized by weak analytical use of accounting data, insufficient control over material consumption, limited use of modern costing methods, and inaccurate allocation of indirect costs.

To address these shortcomings, the paper proposed an integrated framework based on standard costing, variance analysis, responsibility accounting, and cost-driver-based allocation. The application of this framework can increase the transparency of material cost information, improve internal control, and support more effective managerial decision-making.

The study concludes that the modernization of management accounting for material production costs is not merely a technical accounting issue, but a strategic factor affecting enterprise efficiency and competitiveness. Enterprises that establish a more analytical, flexible, and control-oriented accounting system will be better positioned to reduce waste, optimize production costs, and improve financial performance.

At the same time, the study is limited by its conceptual and methodological nature. Future research should test the proposed framework using empirical data from enterprises, including comparative case studies and quantitative assessments of cost reductions achieved through improved management accounting practices.

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