

REGULATION OF PRODUCTION COSTS AT MANUFACTURING COMPANIES AS
ECONOMIC PERSPECTIVE.

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Abstract: The paper studies methods to improve company competitive capability through implementing state-of-the-art mechanisms of controlling, managing and organizing costs in manufacturing industry procedures.

Key words: manufacturing company, operating costs, quantity, manufacturing costs, expenses, manufacturing.

The strengthening of market economy relations in the world has led to the need for comprehensive development of production processes at industrial enterprises, improving the methodological foundations of its organization. In particular, the possibilities of achieving a relative competitive advantage over other competing enterprises are expanding by increasing the efficiency of regulating production costs at industrial enterprises, which increases the need to develop modern methods for implementing, managing, controlling and regulating production costs at industrial enterprises.

In the economic literature, many scientific views on the formation of production costs in industrial enterprises are formulated, while theories of this type express various scientifically based opinions on the directions of formation of production costs. In particular, the scientific views of such scientists as F. Kene¹, K. Marx², A. Smith³, D. Ricardo⁴, A. Turgot⁵, J. B. Say⁶, F. Engels⁷ on the formation of production costs in industrial enterprises are evaluated in the economic literature as classical. In this regard, in the structure of production costs, it is necessary to give priority to labor costs and other types of costs. At the same time, labor costs have a significant impact on the market price, i.e. the price of goods and services offered by the enterprise.

The priority of labor costs in the formation of production costs in industrial enterprises by the classical economic school is explained by the fact that during the formation of these scientific

¹ Кенэ Ф. Отдельные экономические продукты. М.: Соцэкгиз, 1960. - 551 с.

² Маркс К. Энгельс Ф. Избранные произведения: в 3 т. 2. М.: Политиздат, 1985. - 543 с.

³ Смит А. Исследование о природе и причинах богатства народов. М.: Соцэкгиз, 1961. - 198 с.

⁴ Рикардо Д. Сочинения. Начало политической экономики и налогового обложения. Т. 2. М.: Политиздат, 1955. - 360 с.

⁵ Тюрго А. Размышление о создании и распределении богатств: Ценности и деньги / пер. я доп. проф. А.Н. Миклешевский. Юрьев: изд.-во "К. Мзтисена" - 1905. - 100 с.

⁶ Сей Дж.Б. Трактат политической экономики / Ж.Б. Сей. - Москва; Изд.-во "К.Т. Солдатенков". 1896. - 400 с.

⁷ Энгельс Ф. Анти-Дюринг. Переворот в науке, произведенный господином Евгением Дюрингом. М.: Политиздат, 1973. - 483 с.

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views, production relations were based on relatively manual labor, i.e. the role of the human factor in the production process was high. Therefore, the developed scientific views on the organization of production costs at industrial enterprises in the conditions of modern economic relations are fundamentally different from the theories of the classical economic school. Nevertheless, it is considered scientifically and practically significant that some scientific views on the organization and formation of production costs in industrial enterprises by representatives of the classical economic school have not lost their specificity for modern production practice.

One of the achievements of classical approaches to the formation of production costs in industrial enterprises is the development of the "proceedings of the theory of value". According to him, the cost of a product - is the total labor cost spent on it⁸. This scientific vision, developed by D. Ricardo, was considered as the "law of value" in the conditions of capitalist production. This scientific point of view can serve as a basis for the fact that in modern production relations today, the presence of characteristics characteristic of the practice of setting the cost of production, that is, calculating all types of costs spent on its production, has not yet lost its significance.

Also, according to the "Say's Law", developed by J.B. Say, who is considered a representative of the classical economic school - when forming production costs in industrial enterprises, it is necessary to ensure the most effective ratio between labor, capital and the value for which the factors of production are calculated. And to ensure such a balance, it is necessary that complete freedom is formed in the national economy of the country⁹. In the modern system of economic relations, this scientific theory has not yet lost its relevance both in scientific and practical terms, due to the fact that when forming production costs from its various compositions, relevant considerations were expressed to improve production costs at industrial enterprises by choosing the most optimal option and using it in practice. "Say's law" is also called as "Market law" or "Sales theory" in some economic studies devoted to the organization and formation of production costs in industrial enterprises.

In scientific studies conducted by representatives of the neoclassical school of economics, who had scientific views on the formation and improvement of production costs in industrial enterprises, such as A. Marshall¹⁰, L. Walras¹¹ and P. Samuelson¹², the factors of production and formation of the market price of goods in a competitive market were studied. According to their scientific views, when studying production costs at industrial enterprises, the relationships between "last", and "normative values" were analyzed, including "normative profitability", "normative productivity", "normative revenues" and "normative costs". In the conclusions formulated in the course

⁸Рикардо Д. Сочинения. Начало политической экономики и налогового обложения. Т. 2 М.: Политиздат, 1955. - 360 с.

⁹Сей Ж.Б. Трактат политической экономики / Ж.Б. Сэй. - Москва; Изд.-во "К.Т. Солдатенков». 1896. - 400 с.

¹⁰Маршалл А.: Чистая теория внешней торговли; и чистая теория домашних ценностей / Альфред Маршалл [Чистая теория домашних ценностей]. Лондон: Лондонская школа экономики и политических наук: 2-е издание, 1935. – 602 стр.

¹¹Вальрас Л. Элементарная чистая политическая экономия - М.: Изограф, 2000. - 448 с.

¹²Самуэльсон П. Цены факторов производства и товаров в состоянии общественного равенства // Вехи экономической мысли, Т. 6. Международная экономика – М.: ТЭИС, 2006. – С. 391-409

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of the study, it is noted that the established "normative values" should differ at different enterprises, depending on the possibility of conducting economic activity. It was also mentioned that "normative quantities" play an important role in shaping the market price of goods and services.

According to the analysis, in comparison with the classical school of economics, it is clear that the priority of microeconomic approaches in research conducted by representatives of the neoclassical school of economics is close to the scientific views developed by them on the practice of forming and improving production costs in industrial enterprises today. Also, the "normative values" developed by representatives of the neoclassical school of economics and used in the research process are still widely used in the practice of most industrial enterprises today.

In the modern system of economic relations, production costs of industrial enterprises are estimated as an object of such branches as economic theory, enterprise economics, technology of organization and management of production processes, back-end accounting, personnel management, product quality management, technical and economic and financial analysis of enterprise activities, financial accounting and management accounting¹³. This circumstance indicates that today issues related to the organization of production costs and increasing its efficiency in industrial enterprises are one of the priority areas of various branches of science in the system of economic relations.

Based on the results of research conducted by representatives of classical and neoclassical economic schools, which played an important role in the formation of scientific theoretical foundations of market economic relations, it can be understood that the economic categories of production costs and production costs are interrelated concepts. This indicates the need to distinguish between the common and distinctive features of these two economic categories.

In research carried out by our economist A.Sh. Shodmonov, we can see that the concepts of production cost and production cost differ from each other. He believes that "production costs are all types of monetary expenses that an enterprise spends on acquiring economic resources for the purpose of producing products. The enterprise begins its activity with the purchase of material resources from the market, that is, equipment, machine tools, means of transport and communication for the production of products, raw materials, fuel, various materials, and labor from the labor market. Production costs can include such expenses as the costs of raw materials, basic and auxiliary materials, fuel and energy, depreciation of fixed capital, payroll and social insurance contributions, and interest payments. And the monetary value of all costs incurred by an industrial enterprise for the production of products is the cost of production"¹⁴. Based on this scientific view, it will be possible to conclude that production costs have a direct impact on the formation of production costs.

According to M. Boltaboeva, "the cost of production is a monetary expression of the total current costs of an enterprise for the production of products, its sale, performance of works or provision of services. In commodity production, the most important elements of prime cost - raw materials, basic materials, costs for electric power resources, mainly additional wages, social insurance contributions are made up of depreciation and other expenses. While the main product elements mentioned above

¹³Сараев А.Л. Организационные системы промышленных предприятий. Вестник СамГУ. № 1 (92). 2012.-с. 77-90

¹⁴ Shodmonov Sh. Ishlab chiqarish harajatlari [elektron manba]. URL: <https://qomus.info/encyclopedia/cat-t/ishlab-chiqarish-xarajatlari-uz/>

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represent production costs”¹⁵. Even from this scientific point of view, we will be able to see similar features of the description of economic terms such as the cost of production and production costs given by Sh. Shodmonov.

Economist M. Kovalchuk, clarified such concepts as "costs", "expenses", "costs" and "prime cost" related to production costs at industrial enterprises. According to this, the term "costs" is a broader concept than the terms "expenses", "costs" and "prime cost", and it is also concluded that any costs will be used to maintain production activities and develop them in the future¹⁶.

D..S.Toshnazarova believes that "production costs are a monetary expression of the value of all resources spent on achieving the intended goals (production of products, purchase of goods, provision of services, performance of works, implementation of projects). This term has many meanings, and different types of costs are used in different situations. For example, manufacturing enterprises incur numerous costs for producing and selling products to customers. These may include material costs, payroll costs, depreciation of machinery and equipment, repair costs, food and medical expenses for staff, electricity costs, food storage, advertising, delivery to customers, managers' salaries, telephone and Internet costs, and other expenses. The type and amount of costs will depend on the specifics of the organization's activities, its size, and other factors”¹⁷.

According to the analysis, in the process of studying production costs in the economic literature, scientists-economists have implemented various approaches, explaining this circumstance by the fact that the object of research, the purpose of the subject are different. In particular, in the modern economic literature, we can see that fixed and variable costs are mutually differentiated in descriptions, which gives the term "costs", based on the "Theory of value". In accordance with it, fixed production costs include such costs as payment obligations of the enterprise, taxes, depreciation deductions, rent, security service expenses, and salaries of management personnel. On the other hand, variable costs consist of the costs of raw materials, materials, fuel, transportation services, workers' wages, etc.¹⁸

In practical analysis, production costs at any enterprise are reflected in the accounting statements. For this reason, we believe that accounting concepts should also pay attention to the definition given in relation to the economic term "production costs". According to this, "production costs are expressed in a decrease in equity in the reporting period in the form of a decrease in assets or an increase in the volume of financial liabilities that are not related to the distribution of contributions

¹⁵ Boltaboyeva M. Tannarx [elektron manba]. URL: <https://qomus.info/encyclopedia/cat-t/tannarx-uz/>

¹⁶ Ковальчук М.Т. Учет затрат на производство и калькирование себестоимости продукции на предприятиях нефтегазодобывающей промышленности. Автореф. дисс. на соиск. ученой степени кандидата экономических наук. Москва 2004 – 28 с.

¹⁷ Toshnazarova D.S. Harajatlar va tannarx tushunchasi, ularning mazmuni va tavsifi. “Iqtisodiyot va innovatsion texnologiyalar” ilmiy elektron jurnali № 3, may-iyun, 2021 y. 31-41 betlar URL: https://iqtisodiyot.tsue.uz/sites/default/files/maqolalar/4_Toshnazarova.pdf

¹⁸ Shodmonov Sh. Ishlab chiqarish harajatlari [elektron manba]. URL: <https://qomus.info/encyclopedia/cat-t/ishlab-chiqarish-xarajatlari-uz/>

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of the enterprise in favor of the rights holders of equity claims”¹⁹." This description is a generally accepted rule in the field of Accounting discipline for the production costs of any enterprise.

In the foreign scientific literature, a distinction is made between permanent (ordinary) and non-dependent (unexpected, unusual) types of production costs of industrial enterprises (see Fig.1.1). According to it, the fixed production costs of an enterprise are the costs that arise as a result of the relationship between operational, financial and innovative scientific research that occurs in the course of the company's economic activity²⁰.

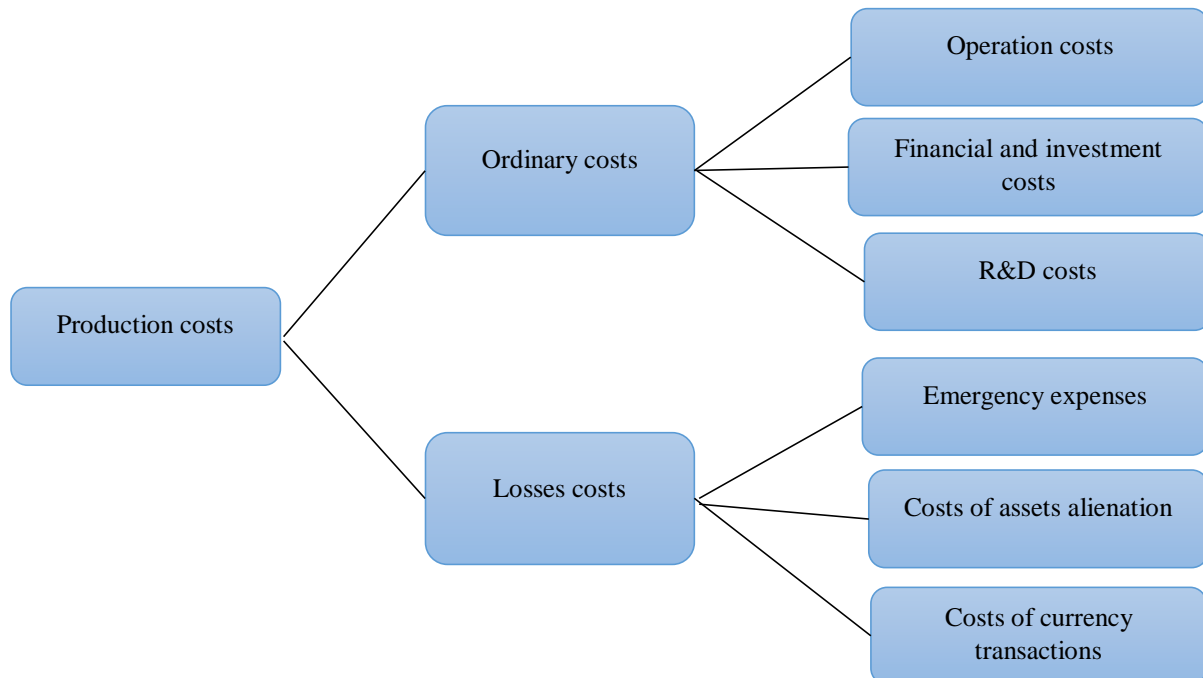


Figure 1.1. Description of production costs in industrial enterprises²¹

A significant part of the company's production costs is accounted for by operating activities, while operating expenses include costs related to the cost of products sold, sales costs, administrative management and other types of operating activities of the enterprise. Based on the operational pathways of the enterprise, it will be possible to distinguish between production-related and non-production-related types in terms of the ratio of these types of costs to the production process (see Figure 1.2).

According to the US cost analysis, "production costs" consist of the cost of materials, including the costs associated with converting these materials into finished products. This requires that all production costs are accounted for in the cost of finished products in accordance with the requirements

¹⁹ Toshnazarova D.S. Harajatlar va tannarx tushunchasi, ularning mazmuni va tavsifi. "Iqtisodiyot va innovatsion texnologiyalar" ilmiy elektron jurnali № 3, may-iyun, 2021 y. 31-41 betlar URL: https://iqtisodiyot.tsue.uz/sites/default/files/maqolalar/4_Toshnazarova.pdf

²⁰Dileep G. Dhavale. Product Costing for Decision Making in Certain Variable-Proportion Technologies. // Journal of Management Accounting Research (2007). 19 (1). – pp. 51-70. URL: <https://publications.aaahq.org/jmar/article-abstract/19/1/51/777/Product-Costing-for-Decision-Making-in-Certain?redirectedFrom-fulltext>

²¹ Created by Author.

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of GAAP (Generally Accepted Accounting Principles). According to it, there are such types of production costs as direct materials, Direct labor, and Manufacturing overhead²².

Based on the above, we can conclude that in accordance with international GAAP requirements, production costs are production stocks in the production process of products (works, services), as well as direct labor and overhead production costs spent on their processing, and that as a result of rational addition of these costs, the cost of finished products arises.

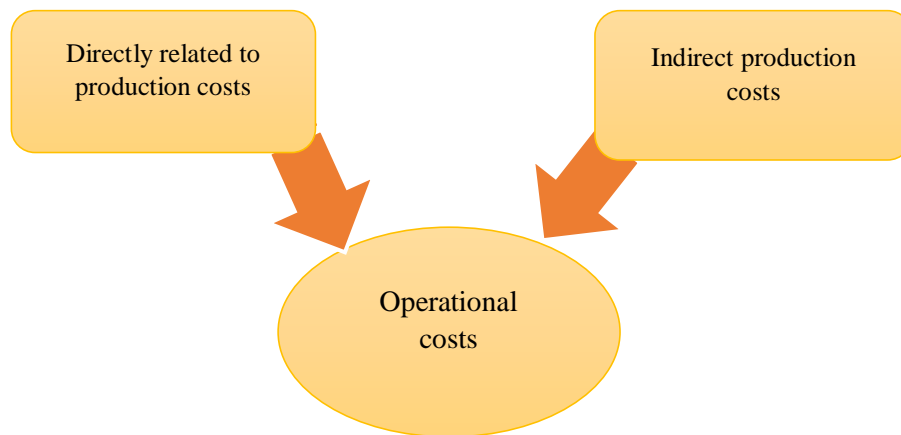


Figure 1.2. Production costs associated with the company's operating activities²³

In general terms, production costs are formed as a result of the realization of the cost of production. From this we can conclude that finding the cost of production in the cost of finished products is carried out in the form of the cost of finished products.

Depending on the method of assigning production costs to cost objects: direct and indirect production are divided into costs.

Direct costs - are costs that, by their economic nature, can be directly attributed to a specific cost object. For example, in the automotive industry, direct costs are the cost of the body, engine and other spare parts of the car, as well as the cost of paying for the labor of production workers engaged in the production of this type of car. These costs can be directly attributed to the cost of production, depending on which car was used up in production. Some literatures also describe the correct costs.

Indirect costs are those costs that, due to their economic nature, cannot be directly attributed to a specific cost object, first accumulated (accumulated), and then distributed according to certain criteria based on the cost of production. For example, the cost of paying a quality control inspector for automobile production cannot be attributed to the cost of a single car, since the work of this employee is considered dependent on quality control of several types of cars. Therefore, it is

²² Product Costing Calculation: What is Product Costing? [Web Resource], URL: <https://www.masterclass.com/articles/product-costing>

²³ Created by Author.

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advisable to distribute his salary in proportion to the working hours spent on quality control of each type of car.

In the research conducted by A.N. Makhmudov, it is scientifically proved that in the practice of our country, 12% of total indirect expenses can be attributed to the list of direct expenses (see Table 1.1). Studies have shown that at domestic industrial enterprises, the level of material consumption of products is partially combined with the predominance of mechanized processes. Thus, as a basis for the distribution of indirect costs, it is advisable to choose an indicator in which the main production combines the main material costs of workers and labor costs, which can be used in the distribution of total costs for prime cost and distribution of orders for finished production. The necessary information can be obtained from the data presented in the table, based on updated calculations²⁴.

Table 1.1

Manifestation of indirect types of production costs in the form of direct costs in the practice of Uzbekistan²⁵

Name of costs	Accounting basics
Consumption of electricity, gas, fuel, water and compressed air and other types of energy for starting machine tools, sewing machines, presses and other production mechanisms.	Cost centers, product names (orders, business processes), equipment units (fixed asset codes) realize the accumulated resource costs using electronic measurement tools and remote data acquisition
Package completion costs: costs for installing sewing and weaving machines, covering and spare parts	Number of processed products, parts and semi-finished products of their own production according to the list product types
Costs of moving goods within the enterprise	Remote online data acquisition for measuring the performance of electronic equipment for products (orders, business processes) and responsibility centers
Material costs not related to production (overspending of basic materials, semi-finished products, products, purchased products, fuel and electricity; loss of material resources)	Identification of materials, semi-finished products, purchased products, fuel and electricity based on documents drawn up in the process of operational control over the use of resources.
Costs of correcting products that are not	List of items of rejected goods (orders)

²⁴ Maxmudov A.N. Sanoat korxonalarida harajatlarini maxsulot tannarxiga taqsimlash metodologiyasini takomillashtirish istiqbollari. "Iqtisodiyot va innovatsion texnologiyalar" ilmiy elektron jurnali. № 3, may-iyun, 2022 y. 23-30 betlar. URL: https://iqtisodiyot.tsue.uz/sites/default/files/maqolalar/4_Makhmudov.pdf

²⁵ Вышеуказанный источник.

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suitable for use	
Costs of packaging and transportation of finished products to the place of storage	List of names of finished products (orders)

In the economic literature formulated by industrial enterprises on the organization, formation and regulation of production costs, based on the analysis of scientific ideas, it is concluded that production costs can arise not only in the formation of production costs, but also due to the results of economic activity of the enterprise that do not depend on it. This condition means that the part of production costs that leads to the cost of production is the basis for forming the cost of finished products.

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