

## **Influencing Factors on Changes in Accounting Policies**

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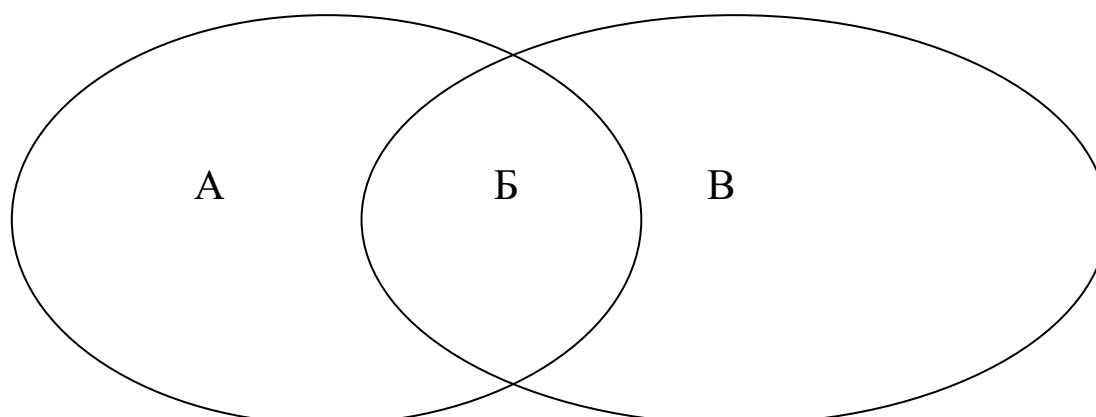
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### **Annotation**

This article discusses the stages of development of the legal foundations of the accounting system of the Republic of Uzbekistan in the years of independence and also considers issues, methodological problems of organizing production accounting related to the characteristics of business entities and changing the direction of costs in the formation of the accounting policy of the state.

**Keywords:** accounting policy, production accounting, production costs, output volume, cost volume, cost dynamics, international accounting standards, national accounting standard.

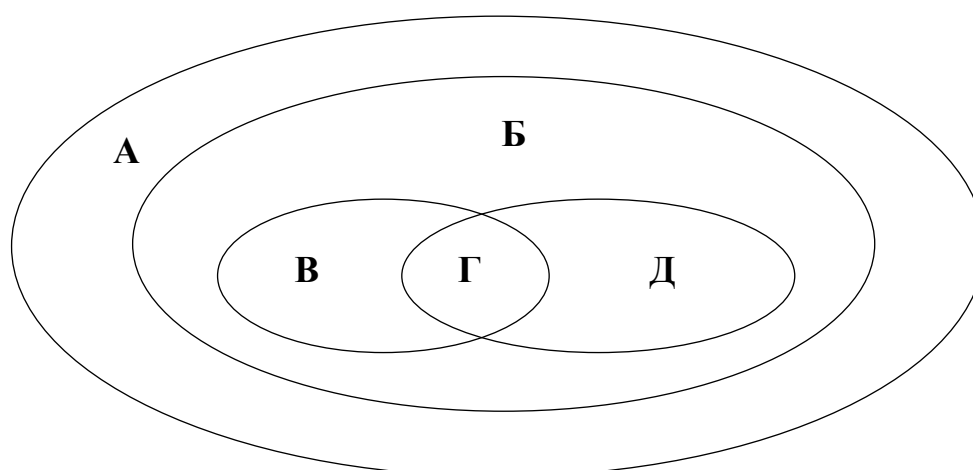
The accounting policy first received international recognition in 1973. In the same year, the International Accounting Standards Committee developed a standard called Disclosure of Accounting Policies. Since then, accounting policies have been interpreted in different ways as a result of different views. This term is reflected in the accounting system of the republic by order of the Ministry of Finance of the Republic of Uzbekistan dated July 26, 1998 No. 17-07 / 86 in the National Accounting Standard No. 1 "Accounting policy and financial reporting. Although this standard does not define an accounting policy, it is one of the first main sources for the use of the term "Accounting policy" in the economy and science of the republic. One of the common problems in the global accounting system today is the use of rational methods in the organization of self-supporting, which is one of the main factors affecting the financial results of business entities. This problem is relevant even in the most developed countries. This is evidenced by the presence today of different views in this area. No matter how much theoretical, scientific and practical research is carried out in this area, as a result of scientific and technological progress, new unexplored aspects of the problem arise. Among them, in addition to success in determining the financial results of economic entities that form the basis of the economy of the republic, the correct organization of cost accounting, which is the main source of protection against excess taxes, there are problems. In our opinion, "Accounting policy is a set of documents that have legal force, reflecting the application of generally accepted regulatory documents, principles and methods in the organization of accounting in accordance with the technological features of economic entities". Professor Ya.V. Sokolov in his book *Management Accounting: Myth or Reality?* accounting is divided into two parts, and their relationship is represented by the following figure:



**Figure 1.** Interdependence of accounting (Khasanov & Khoshimov, 2005)

Here: A - management accounting;  
 B - accounting policy;  
 B - financial accounting.

As can be seen from this figure, the author divides accounting into two parts, that is, into financial and management accounting, and shows that the accounting policy connects them. This connection mainly concerns business entities. In our opinion, each state has its own independent accounting policy. Based on the above, we want to express the structural structure of the accounting policy of each state in the following figure.



**Figure 2.** Organizational structure of accounting

Here: A - accounting policy of the state;  
 B - accounting policy of economic entities;  
 B - financial accounting;  
 G - national accounting standard;  
 D - management accounting.

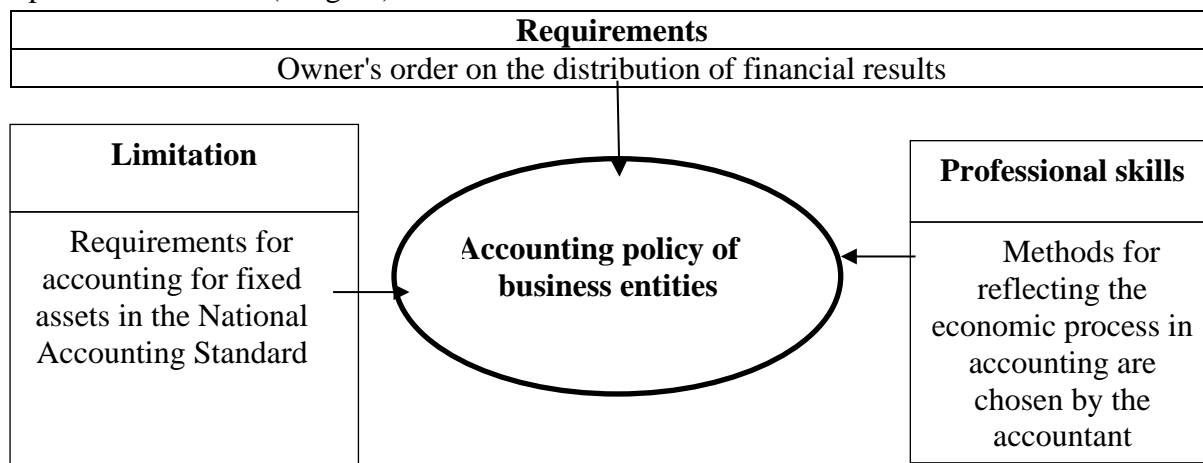
As you can see from the examples above, scholars give different definitions. Someone thinks that this is an "Accounting Policy", while others "Accounting Policy". This indicates that no consensus has yet been reached on this issue. It should also be noted that according to some views and opinions, accounting policies are also becoming more abstract. Article 11 of the Law of the Republic of Uzbekistan "On Accounting" assigns this task to the head of business entities. However, the chief accountant or accountant must be present during the development of the accounting policy of the enterprise. The accounting policy of an economic

entity should reflect the following and be approved by the head:

- plan of working accounts of accounting;
- forms of primary accounting documents and accounting registers, as well as the names of documents for internal accounting;
- the procedure for inventorying the assets and liabilities of the enterprise;
- methods for assessing assets and liabilities;
- the procedure and rules for the circulation of accounting documents, the technology for processing accounting data;
- the procedure for managing economic processes;
- other necessary solutions for the organization of accounting.

The content of the above should be specified in an accounting law or accounting standard. But this is not yet reflected in our legal documents. For this reason, managers and chief accountants (accountants) of many business entities do not understand the structure, content and essence of accounting policies. Factors influencing the formation of the accounting policy of economic entities:

- demand (national accounting standard, established by the owner of the property);
- restrictions (restrictions imposed by national accounting policies);
- professional skills (3-figure).



**Figure 3.** The ratio of factors influencing accounting policies (Kuter, 2015)

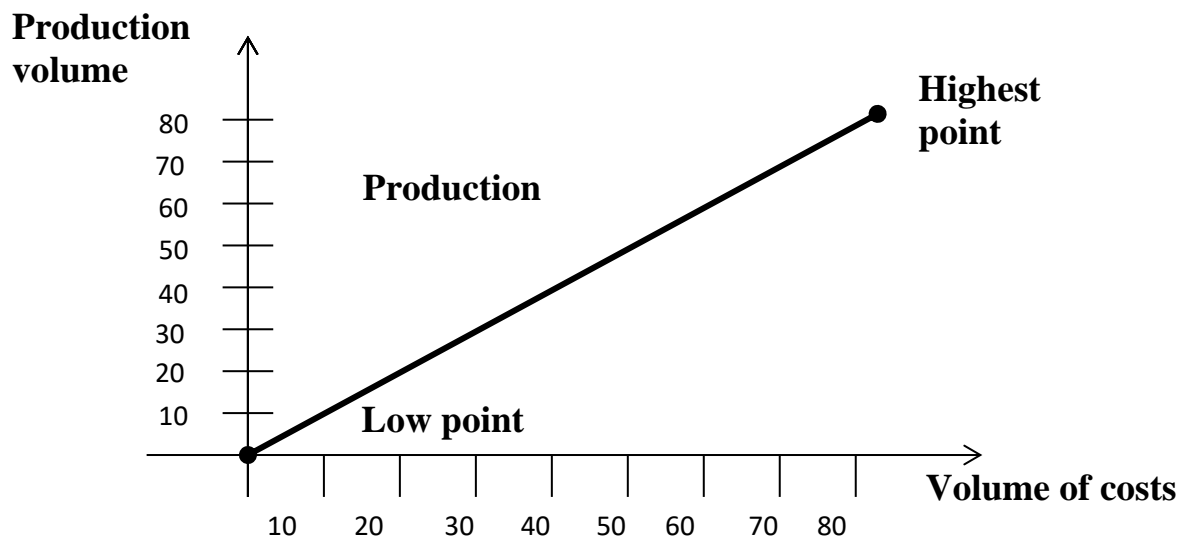
### Conclusions

National Accounting Standard of the Republic of Uzbekistan As stated in Standard No. 1 “Accounting Policies and Financial Statements”, “Accounting methods chosen by an organization when formulating an accounting policy are applied from January 1 of the year following the year of issue of the relevant organizational document from which newly created business companies are an exception. The accounting policy does not change during the reporting year. A change in the accounting policy of an economic entity is allowed in the following cases:

- upon reorganization of the entity (merger, spin-off, merger);
- change of owners;
- changes in legislation or accounting regulation system in the Republic of Uzbekistan;
- in the development of new accounting methods (Ministry of Finance of the Republic of Uzbekistan, 1998).

Many scholars have expressed their views on accounting policies. For example, according to the Russian scientist - economist, professor P.S. Bezrukikh, "Accounting policy is a set of accounting methods. This is the first observation, cost measurement, current grouping and generalization of business processes (Bezrukikh, 2000). And according to Professor N.P. Kondrakov, "The organization of accounting policy is the application of generally accepted accounting methods" (Kondrakov, 2001). M.S. Erdzhanov, S.M. Yerdzhanov give the following definition: "Accounting policy is a set of methods used by an enterprise for accounting and disclosure of financial statements" (Erjanov & Erjanova, 1997). Scientists of the Republic of Uzbekistan, Professor A. Karimov, F. Islomov and A. Avlokulov explain that "Accounting policy is a set of methods used by the head of an economic entity to maintain and prepare accounting (financial) statements in accordance with the basic principles" (Karimov, 2004). According to Professor N. Juraev, "Accounting policy is the development of methods that are selected from those allowed in the legal documents governing the accounting of business entities, as well as in cases where alternative methods are not provided or are not available at all" (Jo'rayev, Abduvaxidov, & Sotivoldiyeva, 2012). Article 11 of the Law of the Republic of Uzbekistan "On Accounting" assigns this task to the head of business entities. However, the chief accountant or accountant must be present during the development of the accounting policy of the enterprise. The accounting policy of an economic entity should reflect the following and be approved by the head:- plan of working accounts of accounting;- forms of primary accounting documents and accounting registers, as well as the names of documents for internal accounting;- the procedure for inventorying the assets and liabilities of the enterprise;- methods for assessing assets and liabilities;- the procedure and rules for the circulation of accounting documents, the technology for processing accounting data;- the procedure for managing economic processes;- other necessary solutions for the organization of accounting. To accounting policies in accordance with International Financial Reporting Standards, the interests of business entities, even if they are identified and taken into account. One of the main factors influencing the accounting policy of an enterprise is the production technology of an economic entity. One of these problems is the management and control of production costs in business entities based on modern methods. In the management and control of production costs, it is important to correctly group them, take into account, write off, determine the goal and direction. The purpose of tracking production costs is to determine their direction. An industry or process that is goal-oriented and requires some form of cost accounting determines the direction of cost accounting. Simply put, if the users of accounting data want to know what the costs are, the answer to the question is called forwarding the invoice. Of course, the answer to this question lies in the effective use of cost management and control methods. The purpose of cost management and control is to direct them in a certain direction. In the foreign economic literature, the following three directions for calculating the cost of production are indicated: 1) costs based on determining the cost of inventories; 2) production costs based on management decisions; 3) management and control costs. There are also alternative methods of categorizing costs in these areas, whereby the cost of inventory is grouped by cost in the reporting period and included in the cost of production, manufacturing costs, standard, custom and shared costs. Management decision-making costs: cost dynamics, future costs, non-recurring costs, time costs, variable costs and incremental costs. On the management and control of costs: adjustable and non-regulated costs and expenses are grouped by dynamics. Adjustable or manageable costs include standardized manufacturing costs that are managed and controlled according to certain standards. For example, attrition costs or the cost of raw materials and materials used to produce products can be considered manageable. Non-control or other costs include production costs due to variances. "Cost dynamics" means the change in costs depending on the level of production. In this case, the change in additional

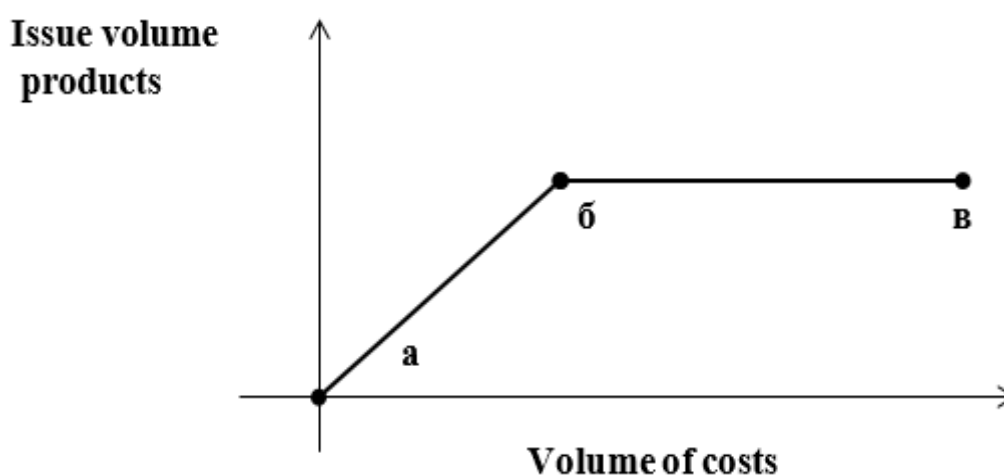
variable costs is taken into account. Such changes can be shown in [Figure 1](#).



**Figure 4.** Cost dynamics

As can be seen from [Figure 1](#), production costs constantly change with respect to output between the low point of production and the high point of production. In some cases, these costs may vary regardless of the volume of production of the product. For example, when changing production technology to bring the structure of the product in line with market requirements. The principles of cost accounting by distribution between products are not always correct in their management and regulation, since the production process of a product consists of different technological stages, and each of them is responsible for each technological stage. Therefore, even if you have information about the costs incurred in the production of a product, it is not possible to correctly allocate costs between each stage of production. This problem can be solved if there is interaction between those responsible for the expenditure of funds associated with costs and income. This approach to cost accounting is a method of accounting for responsibility centers. Regulated costs are managed through these centers. In some cases, unregulated or unmanaged costs can also be identified by the responsible center when preparing production reports. These costs are variances from estimates that are determined by comparing actual costs with target costs and examining the causes. Today, US companies are adopting a new approach to management costs by grouping production costs. In some manufacturing companies, production costs are divided into relevant (relevant costs) and irrelevant (sunk costs) costs. Relevant costs are the costs associated with making management decisions. Irrelevant costs are costs that are not related to management decisions. They persist even if the product is not produced. For example, depreciation, attrition, rent and similar expenses. Currently, one of the common problems in the field of cost accounting and product costing, as well as cost management, is the correct and fair allocation of uncontrolled variable production costs between products or revenues. According to the traditional procedure, the amount of deviations from the norm in terms of production costs is covered by the responsible person. If the responsible person is not identified, it will be covered by the financial results of the enterprise. Deviations from this rule can also be called unjustified losses. In any case, unjustified losses have a direct negative impact on the value of the product or the income of the enterprise. In some cases, deviations from the norm due to the correct management of production costs can also positively affect the cost of production or the income of the business entity. Sometimes the level of accuracy, speed, reliability, confidentiality and

improvement of information related to the economic activities of business entities, the use of rational methods for obtaining them depends on the knowledge and skills, understanding and skills of accounting personnel. The policy pursued by the state in this regard is also important in the management of production costs due to the impact on the accounting policies of business entities. Expenditures, as in other sectors of society, are governed by laws, rules, regulations and procedures adopted by the current government. For example, the adoption of the Regulation "On the composition of costs included in the cost of goods (works, services) for the production and sale of goods (works, services) and the procedure for generating financial results", which came into force on January 1, 1995, radically changed the principles of management. Prior to the adoption of the Regulations, all costs were included in the cost of manufactured products. With the introduction of the Regulations, the costs were divided into production and periodic, and only production costs began to be included in the cost of production. Non-manufacturing or overhead costs, which are general operating expenses, will be covered by the financial results of business entities. As a result, in the current chart of accounts, instead of the "General expenses" account, the "Recurring expenses" account appeared. It can be seen that the entry into force of the decree led to a decrease in the cost of production. The emergence of a new order of grouping and cost accounting also affected the methods of accounting for production costs, that is, the system of interconnection of accounts has acquired a new look, the functions of some accounts have changed. To date, there are different approaches to solving problems in the application of accounting methods. For example, representatives of the Italian, French and Anglo-American schools "Induction", from loneliness to community, representatives of the German school "Deduction", from community to solitude. From the point of view of existing and traditional experience, it is advisable to use "Induction" based on accounting methods for our accounting system. The main factor influencing the definition of accounting methodology in the sectors of our economy is the procedure and methods for grouping, accounting and writing off costs. From a structural point of view, cost management is also an important part of accounting. For this reason, many of our scientists are trying to justify the fact that cost accounting is carried out in management accounting, which is a separate part of accounting. Expenses can be grouped in different ways depending on the accounting and goals of the enterprise.



**Figure 5.** Dynamics of costs

The first theoretical and methodological substantiation of the grouping of costs by sectors of the economy of the Republic Regulation "On the structure of costs for the production



and sale of goods (works, services) and the procedure for generating financial results" and the second practical basis is the manufacturing feature of the network. According to the current regulatory documents and scientific and theoretical sources, the costs are grouped into those that are involved in production and those that are not involved, depending on the participation of the enterprise in economic activities. A - the beginning of production B - the end of the production process and the beginning of the process of preparation for sale C - the beginning of the payback period of the enterprise. In cost dynamics, the range of points a and b represents production accounting or production costs, the range of points b and c is the cost of the period or the cost of general operations. The set of points may vary depending on the period of production. Convergence of points can lead to lower production or recurring costs, while expansion means the opposite. [Figure 2](#) also allows us to define the production accounting methodology, that is, the methods and procedures used to group, record and write off costs between points a and b, the production accounting method, grouping, cost accounting between points b and c, and the write-off methods and procedures are methodology for cost accounting for the period. It can be argued that the final line or interval of points a and c constitute the methodology for calculating total costs. Based on the presented diagram, we can conclude that the content of production costs changes after a certain period and becomes the costs of the period. This means that production costs and recurring costs are not costs grouped separately, but are indicators that represent successive stages in the economic activity of an enterprise. But the methodology for organizing cost accounting at these stages is different. In world practice, accounting is a source of management at the macro and micro levels with data summarizing the stages of production, supply, sales, based on a chart of accounts that logically represents production, costs, revenue and profit. The basis of the financial and economic activities of enterprises is the cost system. That is, any financial and economic activity leads to the emergence of costs of a certain amount. The problems of the organization of accounting, which are still in effect, can be divided into problems of the national and international levels. The task at the international level is to organize and improve the global cost accounting system based on uniform standards. The International Committee on Accounting Standards (approved on June 29, 1973) published 29 rules covering the principles of organizing accounting and reflecting the methodological principles for processing accounting data, including:

1. Publication of accounting methods.
2. Valuation of stocks and work in progress.
3. Assess the financial condition of the corporation.
4. Calculation of depreciation charges.
5. Information about the financial situation.
6. Sources of funding.
7. Indicate the change in the report in accounting methods.
8. Accounting for enterprise development and research.
9. Express the events that occurred after the creation of the balance sheet.
10. Calculation of income tax.
11. The principle of presenting current assets and liabilities.
12. Accounting by type of activity (network).
13. Presentation of data explaining price changes.
14. Accounting for fixed assets.
15. Equipment rental account.
16. Accounting for production.
17. Accounting for the social fund on the account of the entrepreneur.
18. Accounting for state aid for firms and information provided upon receipt.

19. Calculation of exchange rate changes.
20. Accounting for mergers and divisions of enterprises.
21. Include interest on loans in the cost of acquiring and developing certain assets.
22. Information about transactions between subsidiaries.
23. Capitalization of borrowing costs.
24. Publication of information about partners.
25. Accounting for capital investments.
26. Reporting and accounting for the pension plan.
27. Accounting for investments and consolidated financial statements in affiliates.
28. Investment Accounting Association.
29. Financial reporting in conditions of high inflation.

Each norm is characterized by general principles of accounting organization, methods for evaluating accounting objects, proposed methodological provisions and rules. For example, the fourth norm of the commission, effective from January 1, 1977, includes 14 paragraphs, which express the content of the methodology and the basic principles, the concept of depreciation.

$$P = O_1 + B - (O_2 + P + Z)$$

where, P is the financial result of the period;

O<sub>1</sub>, O<sub>2</sub> - inventories at the beginning and end of the month, work in progress, balance of finished products;

B - production (sales) for the period;

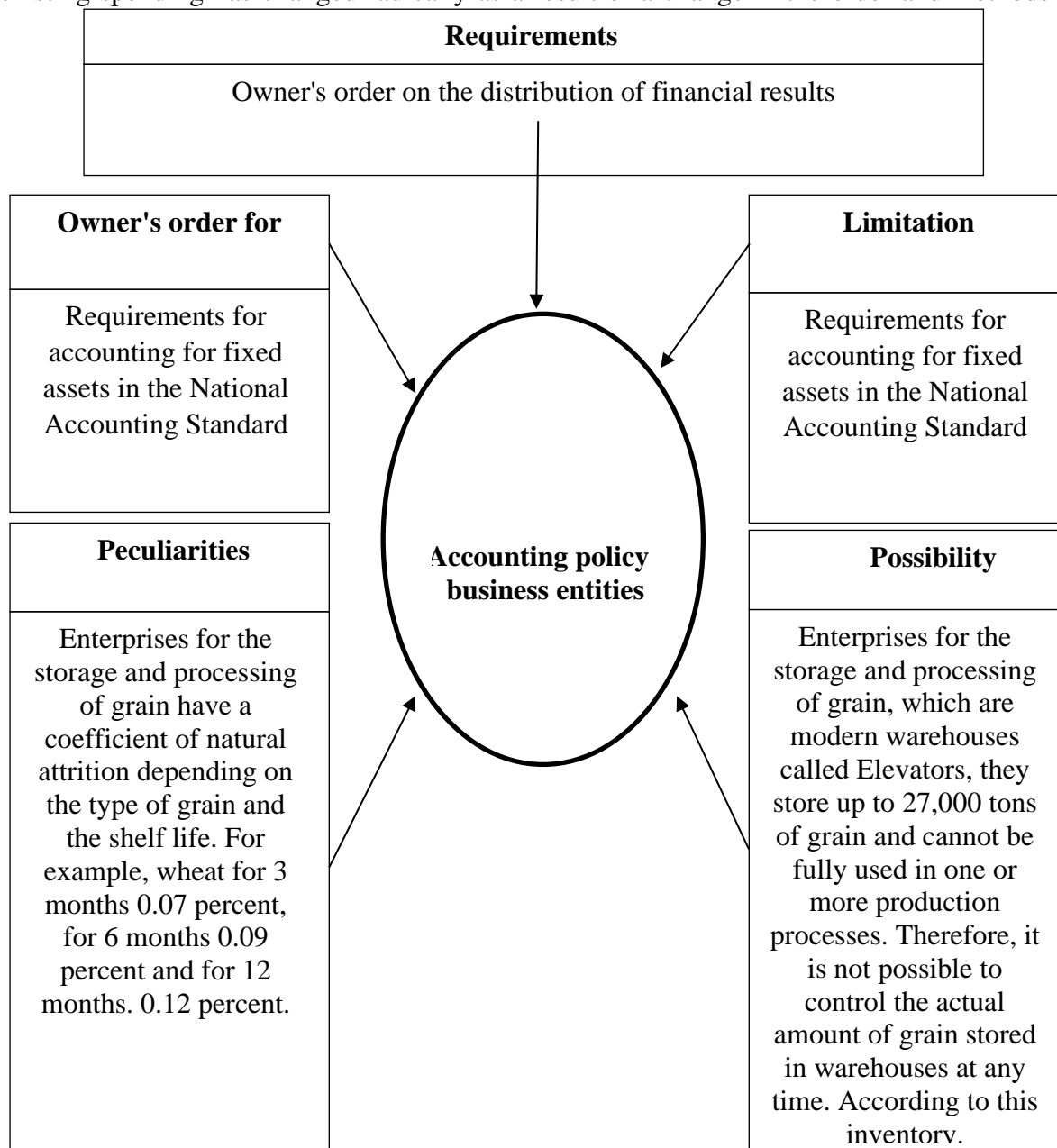
P - goods purchased during the period;

Z - types of costs for the period.

In the US, Canada and the UK, the final result of an enterprise is determined in two ways: - Accounting for production (sales) in order to determine the financial result based on a comparison of costs with the production (sale) of products by responsibility centers; - definition of production (sales) by types of products. The data of the second line is formed on the basis of grouping and cost accounting by location. This is one of the organizational features of the production account. The use and planning of the method "Costs - production (sales)" is recommended by the International Committee on Accounting Standards. This method, in turn, influenced the country's accounting system. On its basis, in settlements between enterprises, the "calculation" method was replaced by the "cash" method, that is, sales results are determined by the delivery of goods to the buyer. The introduction of such a method into our economy has led to a change in the rules, methods, principles in the financial and tax system. In particular, the methods and procedures for determining the final financial results of enterprises have changed dramatically, as a result of which the time period for determining their final financial results has been reduced. The shortening of the period for determining financial results has led to the need to use methods and techniques that correspond to changes in practice in the current accounting system. In accordance with changes in practice, as a result of the policy pursued by our government in this area, during the period of the planned economy, the structure of expenditures, which had a single look and meaning, was divided into two camps. As a result, the procedure and policy for determining the cost of production has completely changed. Regulatory legal documents have been developed to make such changes to the accounting system. With the introduction into practice of legal documents substantiating the new order of grouping, accounting and distribution of costs, the procedure, rules and methods that have prevailed for centuries have lost their force. The legal basis for the division



of costs into two independent sections is the Regulation “On the composition of costs included in the cost of goods (works, services) for the production and sale of goods (works, services) and the procedure for generating financial results”, which entered into force on January 1, 1995. According to this resolution, the costs were divided into production and non-production. From a theoretical and methodological point of view, this provision has become the main reason for changing the behavior, movement and direction of expenses in the financial and economic activities of the enterprise. As a result of economic reforms carried out on the basis of the goals set by our government and the process of economic liberalization, the direction and content of existing spending has changed radically as a result of a change in the order and methods of



grouping and organization. expenses. Changes in cost dynamics are shown in Figures 3 and 4 below.

**Figure 8.** The ratio of factors influencing the accounting policy, taking into account the technological features of economic entities

Figure 3 above shows that before January 1, 1995, costs moved in a straight line with production volume and increased towards the cost of production. Because at that time there was no main reason for changing the direction of costs, and the inclusion of all costs in the cost of production was determined by legal documents. Only through the application of the achievements of science and technology and the efficient use of labor and production resources, its movement has slowed down to a certain extent. Figure 4 also shows that due to the accounting policies of our government based on economic reforms, the value has changed regardless of the volume of production and is limited to a certain distance consisting of several intersections instead of the previous movement in a straight line. The distance between each cutoff point specifies its sum over the cost type. For example, the range of points a and b represent manufacturing costs, the range of points b and c represent overhead, and the range of points c and d represent transaction costs. The resulting cost dynamics implies a single production cycle. In our opinion, it is advisable to include such concepts as “feature” and “opportunity” among the factors influencing the formation of accounting policies of economic entities. This is due to the fact that each business entity, when forming an accounting policy, takes into account technological features (Figure-4). Figure 8. The ratio of factors influencing the accounting policy, taking into account the technological features of economic entities. Based on the above definitions, we conclude that accounting policy is not a simple term or an abstract thing, but a set of accounting documents that have a certain form, content, and legal force. Correct or incorrect formulation of accounting policies can positively or negatively affect the financial performance of economic entities. The formulation and disclosure of the accounting policy of the enterprise are based on the basic requirements and principles of the accounting policy of the state. How important the requirements are depends on the level of importance of the information required. Ambiguity in the required information will lead to inaccurate calculations. Uncertain calculations adversely affect economic decision making. The content of the above should be specified in an accounting law or accounting standard. But this is not yet reflected in our legal documents. For this reason, managers and chief accountants (accountants) of many business entities do not understand the structure, content and essence of accounting policies.

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