

ISSUES OF ORGANIZING AUDIT OF QUALITY COSTS

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Abstract. This article is devoted to the issues of the role of auditing costs associated with quality and issues of reflecting costs related to the audit of prime-cost. Moreover, the article highlights some peculiarities of the industry as well as reveals mutual interrelations between accounting at the quality management and audit.

Key words: *accounting, audit, prime-cost of production, audit of quality management, assessment of quality costs, cost analysis, efficiency of costs aimed at quality improvement, audit of quality costs, production cost, audit of quality level in foreign trade.*

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Introduction

Currently modernization of the economy, deepening of reforms, creation of new production capacities, modernization of existing techniques and technologies, as well as their support are based on the accurate and efficient implementation of investment processes. In this regard a particular attention is being paid to the development and quality of foreign investments and loans attracted in the Republic of Uzbekistan. All spheres in our country are provided with comprehensive opportunities for further development of their activities. In particular, favorable conditions and opportunities are being created for the modernization of enterprises engaged in the production of goods, their technical and technological renewal, as well as a sustainable development of industrial enterprises in the economy. Meanwhile, the issues of raising productivity and quality of production at enterprises, as well as manufacturing of goods that meet the international quality standards and, ultimately, enhancing exports of such products have been steadfastly developing in our country. It should be noted that the level of quality of manufactured products and the role of quality costs in the prime-cost of product, in other words, proper and adequate quality control is also considered one of the topical current issues.

Quality-related costs also constitute a part of the prime-cost of goods. However, additional costs for raising the quality of goods are apparently reflected in prime-costs.

Literature review

The issues of accounting of quality costs, their theoretical and practical aspects have been studied by such foreign scientists – economists as Glazunov A.I., Gludkin O.P., Gorbunov N.M., Gurov A.I., James Evans, Yegorov I.A, Zorin Yu.V., Ilyenkova S.D., Mazur M.I., Mishin V.M., Moskvina V.A., Norton K., Okrepilov V.V., Pehtereva N.T., Prokopenko I., Rodopulo A.K., Tumasyan R. Z., Tsarunov I.N., Chepurinov I.P., Shapiro V.D. and others.

Moreover, our domestic scientists-economists have also made their significant contribution to the research of costs associated with the quality improvement. In this regard we can mention research papers of Belyi N.D., Jurayev N.Yu, Ibragimov A.K., Dismuratov R.D., Shoalimov A.Sh., Yusupova D., Kodirov S.I. and others. However, in the scientific research of the above-mentioned economists, a number of suggestions and recommendations have been made to

improve the quality of the product, but under current conditions the issues of separating costs of quality management from prime-cost, its accounting and audit and financial reporting have not sufficiently been analyzed yet.

Under current market conditions high quality of products is considered to be one of the key factors that determine its competitiveness. It should be noted, that high quality of the product depends on many factors, which, in turn, causes incurs costs. Different opinions have been expressed by economist-scientists on describing the content and essence of quality costs.

In particular, famous American scholars and scientists Josep Duran and Armand Fiegenbaum were the first who focused on the quality and with the aim of achieving a targeted quality they emphasized the need to compare quality costs with the quality standards.

B.A. Minin, referring to the process of quality analysis, expressed the opinion that “Quality should be properly analyzed to manufacture only high quality products”.

In this regard, S.Yu. Krichevskiy focused on quality planning and developed a planned system of product quality management. In addition, he divided the whole process into subsequent groups in terms of scientific, technical, organizational, economic and social factors of quality.

Uzbek economist N.D. Bely pointed out that the most urgent task is to create a product quality management system to eliminate obstacles and solve problems indirectly connected with the quality which were existing during the Ex-Soviet Union period. In his opinion, the quality management theory focuses on the quality management system, with emphasis on the necessity of accounting quality costs involved, as well as the other theories that are considered to be the category of processes that need to be studied.

From the point of view of A. Shoalimov, a scientist in economics, the use of different indicators for the quality of products manufactured in the industry, as well as the quality indicators depend on the product type. According to his opinion, “the basic indicators of the quality of the products

are the state standards of the manufactured products (GOST), industry standards (OST) and technical specifications (TU)”.

Thus summarizing the opinions of above-mentioned scientist it is possible to come to the conclusion that in this research paper we do not deny these points of view, however, we are studying the issues of reflecting the costs spent on the quality management system and organizing their audit.

Analysis and results

Strengthening economic potential of any country and raising the welfare of the population depends on the productivity and efficiency of the direct production network because raising production efficiency is the basic indicator that summarizes the results of economic activity of the enterprise under conditions of market relations.

According to the statement expressed by the President of the Republic of Uzbekistan Sh. Mirziyoev, “This can be achieved through the further development of international economic cooperation, including the expansion of relations with leading international and foreign financial institutions, continuation of a reasonable foreign debt policy, and efficient use of attracted foreign investments and loans”. One of the main ways to achieve such positive effects is to raise the quality of products that meet international standards.

High product quality is one of the key factors that determine the product’s competitiveness, and it depends on many factors, which, in turn, creates various costs. Definitely, the increase in the quality of products will make a strong positive impact on the exports growth.

Currently in our country the government pays a particular attention to the issues of production and export of export-oriented high quality products. In our opinion, one of the crucial and urgent issues is to determine the quality cost in the manufacturing of such products and to reflect such costs in accounting, as well as its arranging performance of their audit because raising the quality of the product causes additional quality related costs.

After gaining the independence, to the meet the requirements of the market economy our country has been implementing a number of reforms in all areas, and in the accounting system in particular. The results of these reforms are precisely seen in the development and adoption of the Laws of the Republic of Uzbekistan “On the accounting”, “On the audit activity”, National Standards of Accounting and Audit, Regulation “On the structure of costs on production and sales of goods (works, services) and the order of financial results’ formation” elaborated on the basis of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan №54 as of February 5, 1999 and other statutory acts in the associated with the accounting.

The Regulation states that quality related costs are included in the cost of production, however their peculiarities are not fully reflected. In other words, this concept implies that the works and services of a production nature include the performance of individual operations for the manufacture of products, processing of raw materials and consumables, testing to determine the quality of raw materials and consumables, monitoring compliance with established technological processes, repair of fixed production assets and others.¹

In our opinion, it would be efficient to reflect the following expenses in the above-mentioned Regulation: wages calculated for workers and employees involved in quality management, social security payments deducted from wages, depreciation of fixed assets used for raw materials and consumables, the cost of consumed electricity, certain quality of products manufactured in some industries, as well as the costs associated with the testing.

Moreover, we believe, that arranging the performance of audit of quality cost is considered to be one of the top target issues because accounting for quality costs promotes the necessity for their audit.

As far as we know, the objective of auditing the indicators that constitute production costs and prime-cost of the product is the actual determination of economic transactions and identification of the compliance of the taxation procedure with the applied statutory acts.

¹The Regulation “On the structure of costs on production and sales of goods (works, services) and the order of financial results’ formation” adopted on the basis of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan №54 as of February 5, 1999, article 1.1.4.

The Regulation “On the structure of costs on production and sales of goods (works, services) and the order of financial results’ formation” elaborated on the basis of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan №54 as of February 5, 1999 is considered to be the main statutory act which regulates accounting of production costs and taxation matters at the enterprises.

According to this Resolution, the costs associated with financial and economic activities of the economic entity are grouped as follows:

1. Production prime-cost of goods (works, services) include costs directly related to the production of goods (works, services), due to technology and organization of production. These include: direct and indirect material costs, direct and indirect labor costs, other direct and indirect costs, including overhead costs of a production properties.

2. Recurrent costs which are not included in the prime-cost include the costs that are not directly related to the production process, that is, the costs of managing business entities, the costs of product sales and other general business expenses. Thus it is obvious that costs associated with quality are not reflected in the above-mentioned statutory act.

The level of the product quality and the fact if the costs spent on this quality are included or not included in the prime-cost can be observed on the example of the recurrent expenses. Taking into account the fact that the quality of production at the manufacturing enterprises directly depends on financial and economic activity, accounting of these costs represents a topical issue.

In both of the above-mentioned statutory acts there are no opinions and comments on quality costs. Therefore, in our opinion, it is required to work out special methodology and technique for performing an audit of such kind of costs.

From our point of view it is recommended to mention the following suggestions on accounting and auditing of costs directly related to quality:

In our opinion, it is necessary to organize accounting for quality management costs by dividing them into production costs and recurrent costs. In this regard it will be required to open the following accounts: 6740 – for wages of employees and workers engaged in quality costs management; 6540 – for social insurance contributions imposed form wages; 0231 - depreciation of fixed assets used for processing raw materials and consumables to improve product quality; 2011 - costs of electricity consumed; 9450 - for storage and testing costs so that the products manufactured in specific industries attain a certain level of quality. In turn, it will be necessary to include above-mentioned accounts in the instruction of National Accounting Standard №21 “On charts of accounting in financial and economic activities of economic entities and their application”. This creates a sufficient basis for enterprise accounting to distinguish quality-related costs from production costs.

Implementation of these measures will enable to determine the amount of quality costs in the volume of sales of products, as well as the amount of the enterprise’s revenue, the quality of its export share and other similar indicators.

In addition, performing audit of the quality costs will enable an auditor to accomplish his activities in the shortest possible period of time using the information in the account mentioned above and to make the optimal decision on regarding the costs of the enterprise.

Thus we believe that as a result of its quality improvement, it is one of the topical issues of current accounting of quality costs.

CONCLUSION AND PROPOSALS

In the period of intensifying market relations in the country, one of the current high priority objectives is to improve the quality of products manufactured by industrial enterprises in order to ensure stability and development of various sectors of society and economy.

Nowadays industrial enterprises of our country pay a particular attention to the quality of their products in a competitive environment.

In this regard, the scientific article provides an opportunity to analyze and summarize the theoretical sources, as well as to make the following conclusions and proposals on improving the systems of accounting and audit of quality costs:

1. Reforms implemented by our country in terms of enhancing the quality of products give their positive results and comprehensive support of manufacturers of industrial products promotes a sustainable development of these enterprises.
2. It should be noted that currently the focus is made on raising the cost of manufacturing the goods of a high quality, including buying raw materials, as well as the costs associated with their storage and processing with the application of sophisticated modern technologies because at some industrial enterprises the major part of the prime-cost is represented by raw materials and additional semi-finished products.
3. Cooperation between manufacturing enterprises and foreign companies is expanding. They are demonstrating efficient and mutually beneficial performance in the sphere of production of high-quality products on the partnership basis. As a result, high quality products are manufactured since taking into account the fact that the competition gives an opportunity to enter the world market with just high-quality products thus it is particularly important to take into consideration the costs of such products.
4. Currently scientists conduct various researches devoted to manufacturing of products that can meet the needs of our people (introduction of different designs into products, testing, etc.) and this fact can result in the increase in quality related costs. That is why determination and accurate accounting of quality costs remains an urgent issue for the company directors and accountants.
5. Establishing appropriate accounting for additional costs for quality creates the basis for its audit. This, in its turn, requires conducting scientific research in the field of audit in our country.

In conclusion it should be noted that enhancing the role of the raw materials in raising the quality of products, using new advanced technologies, studying foreign experience of the experts in the field of creation of new types of products - all this leads to the improvement of production and increase of the export potential of the domestic market. Consequently, quality and efficiency have not lost their urgency.

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