

ORGANIZING STRATEGIC MANAGEMENT ACCOUNTING FOR PRODUCTION COSTS IN BUSINESS ENTITIES

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**Abstract.** This article examines approaches to accounting for costs associated with work in progress in business entities and to organizing their strategic management accounting. It reviews studies by foreign and Uzbek economists in this field and synthesizes their views on the theoretical and methodological aspects of product cost calculation and the organization of strategic management accounting. The article also offers recommendations for improving the strategic management accounting of work-in-progress costs in business entities.

**Keywords.** production costs; product cost; overhead costs; strategic management accounting; cost accounting methods; work in progress.

### Introduction

The process of globalization, along with the increasingly intense competition in both domestic and foreign markets, requires business entities to define long-term strategic development directions and performance indicators. In countries with developed market relations, this process is regarded as a key factor of corporate success because it makes it possible to obtain timely and reliable information of strategic importance and to make sound management decisions [1].

Under conditions of globalization and intensifying competition, one of the most important factors ensuring the competitiveness of a business entity is the effective organization of strategic cost management accounting. In our view, this task cannot be fulfilled without the use of modern and innovative methods. It is especially important for industrial enterprises, where intersectoral competition is becoming stronger. In such an environment, it is no longer sufficient merely to determine production costs and product cost accurately; it is equally necessary to prevent unreasonable costs that may arise in the future.

In particular, the issue of correctly calculating the costs and cost of goods, works, and services produced by business entities, and of organizing the strategic management accounting of work-in-progress costs—one of the most problematic elements of the production chain—through the use of modern accounting methods remains highly relevant.

### Literature Review

The general methodological issues of production cost accounting have been discussed in detail in the works of A. Upchurch, E. Atkinson, R. Banker, P. Buer, C. Drury, K. Ward, and C. Horngren [1, 3, 10].

Among economists from the CIS countries, V.B. Ishavkevich, V.E. Kerimov, I.G. Kondratova, and V.F. Paliy paid special attention to organizing management accounting in enterprises on the basis of cost information, improving costing methods used in management accounting, and developing budgeting approaches [2, 3].

Among Uzbek economists, A.A. Abduganiev, N.B. Abdusalamova, U.U. Kostaev, A.Kh. Pardayev, B.A. Khasanov, A.A. Khashimov, and I.K. Giyosov examined cost accounting with due regard to the characteristics of the national economy and emphasized issues related to the organization of management accounting in practice.

At present, three main directions are applied in international practice in organizing and maintaining strategic cost management accounting [9]:

- through value-chain formation by line of business (M. Porter);

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- through tracing the increase in costs throughout the product movement cycle (B. Ryan);
- through strategic cost management (J. Shank and V. Govindarajan).

Accordingly, the organization of strategic cost management accounting is based on the following important principles [9]:

- the use of strategic cost management mechanisms;
- the formation of a value chain by line of business activity;
- the generation of information on cost growth over the course of product movement;
- the use of a product life-cycle perspective for decision-making.

The concept of value-chain formation was developed by M. Porter and is based on dividing a company's activities into primary and support groups [9, 10, 11].

Uzbek economists A.Kh. Pardayev and U.U. Kostaev, with the aim of organizing strategic management accounting more effectively in business entities, also proposed dividing activities into primary and auxiliary areas.

They recommend accounting for primary activities in the following links of the chain: production of goods; preparation of produced goods for delivery to the consumer; marketing (sale of goods); delivery; and after-sales service.

### Analysis and Results

In the current conditions of globalization, where competition in both domestic and external markets is becoming increasingly intense, the central issue is not only the precise measurement of product cost but also the prevention of unjustified costs that may emerge in the future.

In 1936, J. Harrison advanced the concept of calculating cost by focusing on expenses directly related to production (the direct costing method), and this approach later became widely used in practice.

The absorption costing method provides for determining production cost by allocating all costs between sold output and inventory balances. Under this method, both direct and indirect production costs are included in product cost.

Direct costing, by contrast, is based on dividing the total costs of a business entity into fixed and variable costs. Only the latter—that is, variable costs—are included in production cost, while fixed costs are treated separately.

As economic development continues, the need arises to improve cost accounting methods in line with modern conditions.

In this context, another method emerged: the functional costing system, or activity-based costing (ABC). This method links costs to the activities that generate them, thus enabling more accurate allocation and analysis.

The application of standard costing and activity-based costing makes it possible to determine full cost, which serves as a basic indicator for pricing and taxation purposes.

Later, based on the proposals and scientific conclusions of R.D. McIlhattan, R.A. Howell, and S.R. Soucy, these two methods were combined and came to be used under the name 'System in Time (SIT)'. This approach was designed to align cost accounting more closely with modern production processes.

In the middle of the twentieth century, a fundamentally new direction in cost management emerged. In particular, in 1963 S. Davidson argued that the growing role of strategy made a strategic approach to cost management an objective necessity. This direction includes:

- analysis of the value chain;
- analysis of strategic positioning;
- analysis of cost drivers.

The results of the scientific studies reviewed show that almost all economists regard the main purpose of strategic cost management as strengthening the competitiveness of a business entity in modern business conditions.

The difference between current cost management and strategic cost management lies in the latter's ability to reflect the specific features of a business entity and to provide decision-makers with information that supports long-term competitive advantage.

In national practice, one of the most significant problems in organizing strategic management accounting for work-in-progress costs within inventories is the lack of a consistent approach to including overhead costs in the cost of products being manufactured.

Economists and practitioners use different terms for overhead manufacturing costs, including 'general production costs,' 'overhead costs,' 'supplementary costs,' and 'secondary costs.'

In our opinion, the first step toward organizing and effectively maintaining the strategic management accounting of work-in-progress costs is to improve the classification of overhead costs. These should include the following groups:

- depreciation of fixed assets used in production (buildings, equipment, vehicles, technological transmission systems, etc.);
- utility costs incurred for production needs (heating and cooling, electricity, water supply, etc.);
- auxiliary materials (cleaning materials, lubricants, detergents, fittings, etc.);
- auxiliary labor costs (wages of workers employed in production warehouses, technical service personnel, and cleaning staff serving production premises, etc.);
- other costs.

The classification of overhead costs used for accounting purposes under national accounting standards is, in general, also consistent with the requirements of IFRS. Therefore, it may serve as an appropriate basis for organizing the strategic management accounting of production costs.

The results of the study also show that another important issue requiring a unified approach is the choice of a basis for assigning overhead costs to product cost. In our view, the most appropriate bases are:

- the working time of employees engaged in core production (labor hours);
- the operating time of equipment (machine hours).

At the same time, in current national practice, all costs other than direct materials and direct labor are often grouped together as overhead under national accounting standards. Such a broad grouping limits analytical usefulness for strategic decisions.

It should be noted that in international practice, depending on production volume, technological features, and the nature of operations, a variety of allocation bases are used to distribute overhead costs when determining product cost. These include:

- number of units produced;
- labor hours of workers engaged in core production;
- machine or equipment hours used in production;
- value of direct materials consumed in production;
- value of services rendered;
- other appropriate allocation bases.

When accounting for the cost of products that constitute a large share of current assets and remain problematic from a cost-management perspective, the strategic management accounting of work in progress should be organized by taking into account the specific production characteristics of each entity.

To organize the strategic management accounting of current assets effectively, each business entity should select accounting methods and analytical indicators in accordance with its labor, financial, and material capacities, as well as its sales opportunities.

The findings of the study indicate that another important issue awaiting a positive solution is the assessment of the share of work in progress among the current assets of a business entity. This indicator is important for substantiating the need to organize and maintain strategic management accounting.

**Table 1**

**Indicators substantiating the need to organize and maintain strategic management accounting of current assets (percent)**

No.	Current asset category and items	Base year, 2020	2021	2022	2023
1	Inventories, total	100	100	100	100
	1.2. Work in progress	30	41	45	51
2	Receivables				
3	Cash				
	Total				

The data in Table 1 show that the share of work in progress within inventories has displayed an upward trend from year to year. In the studied business entity, work in progress accounted for 30% of inventories in 2020, rising to 41% in 2021, 45% in 2022, and 51% in 2023. This confirms the need to organize and maintain strategic management accounting for work-in-progress costs as an important element of current assets.

**Conclusion**

In conclusion, it should be emphasized that every business entity must correctly account for costs associated with work in progress within inventories, since they constitute one of the core elements of the production process. For this purpose, it is advisable to improve both the classification of overhead costs and the bases used to allocate them to product cost.

As noted above, when accounting for the cost of products that occupy a significant share in current assets and remain problematic in practice, special attention should be paid to the strategic management accounting of work in progress. Such accounting should be organized with due regard to the entity’s production characteristics, resource potential, and market conditions.

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