## INTERNATIONAL PRACTICES OF COST ACCOUNTING AND DIRECTIONS FOR ITS IMPROVEMENT

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Annotation: This article is dedicated to the international practices of cost accounting and directions for its improvement in our country. It examines the role of cost accounting as a key component of financial and management accounting, along with its subject and object. The differences between the concepts of costs and cost price are analyzed, and the main objects of cost accounting are identified.

**Keywords:** Cost accounting, management accounting, financial accounting, costs, costing, international standards, reporting, managerial decisions

The international experience of accounting systems consists of components such as financial accounting and management accounting. From this perspective, the discipline of accounting is currently studied by dividing it into financial accounting and management accounting. Financial accounting primarily provides information to external users in the form of financial statements, while management accounting is a subsystem that delivers useful information to internal users, namely managers, to aid in decision-making. Within management accounting, a distinct subsystem known as cost accounting has emerged, with its own specific subject and object. So, how does this subsystem relate to the concepts of costs and cost price? Are costs and cost price the same, or do they differ? What are the main objects of cost accounting? These questions hold significant importance for the development of cost accounting, which is now taking shape in our country based on foreign experiences.

Based on the above research, it can be concluded that studying cost accounting as a separate discipline, with its own subject and object, is appropriate. We propose including this discipline in the curricula of "Accounting and Auditing" educational programs.

We consider it advisable to include the following as the main directions for improving cost accounting in our country:

1. As mentioned above, cost accounting is a component of management accounting. Therefore, establishing it as a separate branch of study and defining its subject and object are of utmost importance.

- 2. To align the components of cost price with international standards, raw materials, labor costs, and overhead production costs should be recognized as its main categories. Their components should be developed accordingly. It is advisable to revise the Regulation "On the Composition of Costs and the Formation of Financial Results" in our country.
- 3. The application of modern systems in cost accounting, such as process costing, job order costing, absorption costing, variable costing, standard costing, and activity-based costing (ABC), should be expanded by developing methodological recommendations.
- 4. A format for preparing and presenting cost accounting reports should be proposed. This report should enable the disclosure of the "Cost of Sold Finished Goods (Works and Services)" indicator in financial statements.

Currently, the cost accounting system is being developed as a system. The cost accounting system refers to a set of periodic processes and procedures used to measure, record, analyze, and interpret information related to the cost price object and to prepare cost accounting reports. In the literature on cost accounting, the following four activities of the cost accounting system are highlighted: 1) Measuring cost price; 2) Recording cost price; 3) Analyzing cost price; 4) Preparing cost accounting reports.

Cost accounting is one of the most important components of management accounting, as it not only provides information to management but also serves as an information source for other components of management accounting. Therefore, it can be rightly said that cost accounting forms the foundation of management accounting. The prestigious organization in the field, CIMA Institute, has provided specific definitions for the concepts of Costing, Cost Accounting, and Cost Accountancy:

"Costing is a set of techniques and processes used to determine cost price. These techniques consist of principles and rules that regulate the procedure for determining the cost price of products and services. These methods are defined based on the characteristics of different industry sectors".

Similar definitions are provided in other sources: "Costing refers to the principles and rules used to determine: (a) the cost price of products, such as chemical products, televisions, and other goods, and (b) the cost price of services, such as electricity, transportation, and other services."

Cost Accounting involves establishing budgets, standard costs, and actual costs for operations, processes, activities, or products, as well as analyzing deviations, profitability levels, and the social use of funds.

A well-known scholar in the field, Weldon, defines cost accounting as "the classification, recording, and proportionate allocation of costs to determine the cost price of products and services, preparing data for management to exercise control and oversight."

Cost accounting primarily tracks processes related to the consumption of resources, including materials, labor, and other resources. Its purpose is to provide information on product cost price, process cost price, service cost price (including utilities), inventory cost price, and more, to enable managers in setting prices, determining optimal stock levels, and making decisions regarding resource consumption and storage.

Based on the definitions provided above, we develop a definition that encapsulates the key characteristics of cost accounting: "Cost accounting refers to a system that identifies, classifies, allocates, and evaluates the cost price of manufactured products, services, activities, and processes to determine and analyze actual costs for planning, pricing, continuing and expanding production, optimizing costs, incentivizing employee performance, and making decisions in other management areas."

The main issue in cost accounting is to reliably and objectively determine product cost price, provide managerial accounting to management for decision-making, develop alternative options for management decisions, and determine the cost price of a product unit.

Several factors influence the complex operation of the cost accounting system and the volume of information processed. In a textbook on cost and management accounting, the objectives of cost accounting) include the following:

- Analyzing and classifying all costs to determine their relevance to production costs of products and services
- Establishing standard cost pricing to determine the production cost price for each product unit, work, operation, process, division, or department for services
- Providing management with indications of inefficiencies and various forms losses, such as materials, time losses, expenses, or equipment usage, and software costs; analyzing the causes of unsatisfactory results may also be directed towards making adjustments to budgets based on the results of the analysis

- Providing periodic profit and loss statements and balance sheet data during the financial year at intervals convenient for management, such as weekly, monthly, quarterly, or other time periods intervals not only for the entire business unit as a whole but also by department departments or product segments; the profit and loss statement should detail a detailed breakdown of the reasons for profits and losses by the contributing factors that caused the total sum
- Identifying sources of cost savings in production through studying the methods used, types of equipment, products, and layouts; daily, weekly, and monthly information is necessary for making operational and constructive decisions
- Comparing actual cost figures with estimated figures and assisting management in evaluating future figures, providing quotes, and implementing a price-fixing policy
- Indicating what the product cost price should be through preparing standard costs, where actual costs are recorded for comparison with standard costs
- Preparing comparable cost price information for different periods and production volumes
- Ensuring the ability to prepare profit and loss statements and accounting balances through a perpetual inventory system without conducting unscheduled inventory checks or warehouse inspections, as well as enabling adjustments in short time intervals; additionally, this system should facilitate production planning and address various shortages and losses in warehouses
- Supporting various short-term decisions, including setting price quotas for special customers and offering discounts on various products during economic downturns.

In conclusion, cost accounting should be regarded as a key component of management accounting. The cost accounting system is defined as a system that establishes operational plans (budgets), standard costs, and actual costs based on the recognition, classification, and allocation of costs for finished products, works, services, workshops, departments, activities, and other cost price objects, as well as conducting deviation and profitability analysis. Based on a review of advanced literature in the field, the objectives of cost accounting have been identified. These objectives serve as a foundation for organizing cost accounting in enterprises and organizations and for setting tasks for cost accountants.

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