

ENHANCING COST ACCOUNTING PRACTICES IN THE ERA OF IFRS ADOPTION: A PATHWAY TO TRANSPARENCY AND EFFICIENCY FOR UZBEK ENTERPRISES

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Abstract. *Uzbekistan's ongoing transition to International Financial Reporting Standards (IFRS) marks a pivotal shift toward global financial transparency and investor confidence. However, this transition exposes critical gaps in traditional cost accounting systems, which were designed under Soviet-era command-economy principles and remain ill-suited for IFRS's fair-value and activity-based requirements. This study investigates how Uzbek enterprises—particularly in manufacturing, agro-industry, and services—can modernize their cost accounting frameworks to align with IFRS while improving managerial decision-making. Using a mixed-methods approach involving document analysis, enterprise case studies (n=12), and expert interviews (n=18), the research identifies systemic weaknesses such as outdated cost allocation methods, lack of activity-based costing (ABC) implementation, and poor integration between financial and management accounting. Findings show that firms adopting IFRS-aligned cost accounting report a 22–35% improvement in gross margin accuracy, better pricing strategies, and enhanced compliance readiness. The study proposes a phased national roadmap for cost accounting reform, including regulatory updates, professional training, and digital toolkits tailored for Uzbek SMEs. The results offer actionable guidance for CFOs, regulators, and accounting educators in emerging economies undergoing IFRS convergence.*

Keywords: *cost accounting, IFRS adoption, managerial accounting, activity-based costing, financial transparency, Uzbekistan reform, SMEs, digital transformation.*

INTRODUCTION.

Context: The IFRS Transition in Uzbekistan. In 2020, the Ministry of Finance of the Republic of Uzbekistan launched a national program to transition all large and medium-sized enterprises to International Financial Reporting Standards (IFRS) by 2026. This ambitious reform is part of broader economic liberalization efforts under the “Strategy for the Development of New Uzbekistan 2022–2026” and aims to attract foreign direct investment (FDI), integrate with global capital markets, and enhance corporate governance (Ministry of Finance, 2022).

While much attention has focused on financial statement preparation, auditing, and disclosure requirements, a critical but overlooked component is cost accounting—the backbone of internal decision-making, pricing, and performance evaluation.

Under the Soviet system, cost accounting in Uzbek enterprises was primarily normative and centralized, designed to meet state planning quotas rather than reflect economic reality. Costs were often allocated arbitrarily, with little regard for actual resource consumption or profitability by product line. Today, this legacy persists in many firms, creating a mismatch with IFRS principles that emphasize fair value, accrual accounting, and economic substance over legal form (IFRS Foundation, 2023).

The Cost Accounting Gap. IFRS itself does not prescribe detailed cost accounting methods—but it relies on accurate cost data for:

- Inventory valuation (IAS 2).
- Impairment testing (IAS 36).
- Capitalization of borrowing costs (IAS 23).
- Segment reporting (IFRS 8).

Without robust cost accounting, enterprises risk misstating assets, underpricing products, and misallocating resources—undermining the very goals of IFRS adoption.

Preliminary surveys by the Chamber of Commerce and Industry of Uzbekistan (2023) show that:

- Only 12% of surveyed enterprises use activity-based costing (ABC).
- 68% still rely on single overhead allocation rates (e.g., labor hours).
- 81% lack integration between their financial accounting and cost management systems.

This gap is especially acute in SMEs, which constitute 85% of Uzbek businesses but face limited access to modern accounting software and qualified personnel.

Research Objectives. This study addresses the following questions:

1. How does the transition to IFRS expose weaknesses in traditional cost accounting systems in Uzbek enterprises?
2. What modern cost accounting practices are most compatible with IFRS and feasible for Uzbek firms?
3. What are the measurable benefits of upgrading cost accounting under IFRS?
4. What policy and managerial measures can accelerate this transformation?

Significance. This research contributes to:

Practice: Providing a practical framework for CFOs and accountants to modernize cost systems.

Policy: Informing the Ministry of Finance and professional bodies (e.g., CIPA Uzbekistan) on training and regulatory needs.

Academia: Bridging the gap between IFRS literature and cost accounting in post-Soviet economies.

METHODS

1. Research Design. A convergent parallel mixed-methods design was used:

Quantitative: Analysis of financial and operational data from 12 enterprises (2020–2024).

Qualitative: In-depth interviews with CFOs, accountants, auditors, and regulators.

2. Sample Selection. Enterprises were selected from three sectors:

- Manufacturing (textiles, food processing – 5 firms).
- Agro-industry (cotton ginning, fruit processing – 4 firms).
- Services (logistics, tourism – 3 firms).

Criteria:

- Annual revenue > \$1 million.
- In IFRS transition phase (2022–2025).
- Willingness to share internal data.

3. Data Collection.

Financial records: Pre- and post-cost system upgrade data on inventory costs, gross margins, overhead allocation.

Semi-structured interviews: 45–60 minutes, recorded and transcribed.

Document review: Internal accounting manuals, IFRS implementation plans, audit reports.

4. Analytical Tools.

Quantitative: Excel-based variance analysis, margin improvement tracking.

Qualitative: Thematic coding using MAXQDA software.

5. Limitations.

Sample limited to medium/large firms; micro-enterprises not covered.

Short observation window (2–3 years post-implementation).

RESULTS

1. Common Cost Accounting Deficiencies

Deficiency	Prevalence (%)	Example
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Single overhead rate	68%	Allocating all factory overhead based on direct labor hours
No product profitability analysis	74%	Unable to identify loss-making SKUs
Manual data entry	82%	Spreadsheets used for cost tracking
No distinction between fixed/variable costs	61%	Hinders break-even analysis

Table 1: Cost accounting weaknesses in sampled enterprises

2. IFRS-Driven Cost Accounting Upgrades. Enterprises implemented the following improvements:

Activity-Based Costing (ABC): Used in 5 firms to allocate overhead based on actual activities (e.g., machine setups, quality inspections).

Standard Costing with Variance Analysis: Adopted by 7 firms for better budget control.

Integrated ERP Modules: 4 firms implemented 1C:Enterprise or SAP with cost accounting add-ons.

Direct Cost Tracing: Improved raw material and labor tracking using barcode scanners.

3. Measurable Outcomes

Metric	Pre-Upgrade	Post-Upgrade	Change
Gross margin accuracy	±15% error	±5% error	+66% precision
Inventory valuation variance	18%	6%	−67%

Time to close monthly cost reports	10 days	3 days	–70%
Pricing errors (loss-making quotes)	22%	8%	–64%

Table 2: Performance impact of cost accounting modernization

“Before ABC, we thought our cotton oil was profitable. After tracing real logistics and storage costs, we discovered it lost \$0.12 per liter. We restructured the product line immediately.” – CFO, Agro-Processing Plant, Andijan

4. Sector-Specific Insights.

Manufacturing: ABC revealed hidden costs in small-batch production.

Agro-industry: Seasonal cost fluctuations required dynamic allocation models.

Services: Time-driven ABC improved client profitability analysis.

DISCUSSION

1. Why Cost Accounting Matters for IFRS. IFRS does not replace managerial accounting– but it exposes its flaws. For example:

IAS 2 (Inventories) requires costs to include “all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.” – Traditional systems that omit logistics or quality control costs violate this principle.

IFRS 8 (Operating Segments) demands segment profit/loss disclosure. – Without accurate cost allocation, segments appear artificially profitable.

Thus, cost accounting is not just an internal tool—it’s a compliance enabler.

2. Beyond Compliance: Strategic Benefits. Modern cost systems empower firms to:

Optimize product mix: Discontinue unprofitable items.

Negotiate better supplier contracts: Based on true landed costs.

Respond to inflation: Adjust pricing using real-time cost data (critical in Uzbekistan’s 2025 5% inflation target context).

3. The Digital Enabler. Low-cost digital tools are making advanced costing accessible:

1C:ERP (widely used in Uzbekistan) now includes ABC modules.

Cloud-based platforms like Zoho Inventory offer real-time cost tracking.

AI-driven forecasting (e.g., in SAP) predicts cost behavior under different scenarios.

However, digital literacy remains a barrier—only 28% of accountants in the sample had received post-IFRS training.

4. The Human Factor. Technology alone is insufficient. Success required:

- Cross-functional teams (accounting + operations).
- Management buy-in.
- Change management to overcome resistance.

Problems, Solutions, and Policy Proposals

1. Key Challenges

Challenge	Root Cause
Outdated accounting education	Curricula still based on Soviet norms
Lack of IFRS-cost accounting guidance	Regulators focus only on financial statements
High cost of ERP systems	SMEs cannot afford SAP/Oracle
Auditor unfamiliarity	Many auditors lack ABC training

2. Practical Solutions for Enterprises.

Start with simplified ABC: Use 3–5 key cost drivers instead of 50.

Leverage free tools: Google Sheets templates for variance analysis.

Partner with IT Park: Access subsidized software through government tech hubs.

Conduct monthly cost reviews: Involve production managers in cost meetings.

3. National Policy Recommendations.

Develop IFRS-Compatible Cost Accounting Guidelines.

- Ministry of Finance should issue a “Methodological Guide on Cost Accounting under IFRS” for Uzbek enterprises.

Launch a National Cost Accounting Training Program.

- Partner with CIPA, Tashkent State University of Economics, and ACCA to certify 5,000 accountants by 2027.

Create an SME Cost Accounting Toolkit.

- Free, open-source templates in Uzbek and Russian for standard costing, ABC, and margin analysis.

Incentivize Digital Adoption.

- Tax credits for SMEs purchasing IFRS-compliant accounting software.

Integrate Cost Accounting into Auditing Standards.

- Require auditors to assess cost system reliability during IFRS audits.

“IFRS is not just about reporting—it’s about building a culture of economic truth. Cost accounting is where that truth begins.”

- Senior Partner, Big 4 Audit Firm, Tashkent

Conclusion. Uzbekistan’s transition to IFRS presents a unique opportunity to modernize not just financial reporting, but the entire cost management infrastructure of its enterprises. This study demonstrates that upgrading cost accounting—through activity-based methods, digital tools, and cross-functional collaboration—leads to more accurate financial statements, better strategic decisions, and stronger global competitiveness.

The path forward requires three pillars:

- Regulatory clarity from the Ministry of Finance.
- Capacity building for accountants and managers.
- Affordable technology for SMEs.

By treating cost accounting as a strategic asset—not just a compliance chore—Uzbek enterprises can unlock real value from IFRS adoption and lay the foundation for sustainable, transparent, and efficient business operations in the 2020s and beyond.

Future research could explore the role of AI in dynamic cost modeling, the impact of IFRS 18 (new income statement standard), and cross-country comparisons with Kazakhstan or Georgia, which are further along in IFRS implementation.

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