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Influence Of Production Costs on The Financial Condition of Enterprises

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Abstract: This article investigates the content of traditional factors affecting the financial status of enterprises. It examines important indicators whose magnitude directly impacts the financial stability of corporations. An analytical assessment is provided for each indicator that can significantly influence the overall state of enterprise activities. The document outlines specific techniques for assessing the profitability or efficiency of firms, considering the prevailing circumstances, and proposes definite strategies for upcoming periods based on the financial metrics of these organizations.
Keywords: financial status, loss, income, profit, marginal revenue, fixed and direct costs, mixed costs.

Relevance of the Topic: Cost management plays a pivotal role in a comprehensive set of measures to ensure the financial stability of enterprises. In the context of innovative development of business activities, costs are subject to constant change under various influences. Important measures include those that ensure alignment with financial recovery, particularly through categorical indicators such as total costs, income (profit), and pricing [5]. These collectively contribute to the financial status of an enterprise. There are other categorical factors, such as losses, taxes, exports (i.e., export decline), and inflation (inflationary income does not yield any positive outcomes in reality). Inflationary income (profit) is used to embellish the state of enterprises and to demonstrate how they cope with situations under adverse economic conditions.

Therefore, the financial condition of enterprises must be secured by phenomena such as mobility, activity, durability, stability, proximity to public demands, low capital intensity, high liquidity, and serving as a catalyst for reorienting business activities in various adverse situations. Of all the elements as indicators characterizing the financial condition of enterprises, the most overt and apparent is the financial potential of their production activities. This is clearly evidenced by the following cost indicators in the broad sense of the word, particularly production costs, which cannot be justified solely by a factor of influence too remote from today's new behavior characterizing the financial condition of the enterprise. Such indicators include:

- The share of assets in the total value of property;
- Wear and tear of production assets;
- Depreciation within established average norms;

The share of capital investments in long-term financial investments.

Of all the elements as indicators characterizing the financial condition of enterprises, the most obvious, lying on the surface, is the financial potential of their production activities. This is clearly demonstrated by the following indicators of costs in the broad sense of the word, in particular production costs, which cannot be justified

only by the factor of influence, too far from today's new behavior, characterizing the financial condition of the enterprise. These indicators include:

Share of assets in the total value of property;

- depreciation of production assets;
- depreciation within the established average rates;
- share of capital investments in long-term financial investments.

Here the sum of production assets ($\sum PA$) is determined by the traditional method (formula 1):

$$\sum PA = \sum FA + \sum PI + \sum PW, \quad (1)$$

$\sum FA$ - sum of assets;

$\sum PI$ - sum of production inventories;

$\sum PW$ - sum of work in progress.

From here, new approaches to defining the production of substance can be derived. In practice, by excluding the forces of nature from this sum, it will be possible to form costs of past labor and costs of living labor.

Review of Economic Literature.

Cost behavior, when considered in a broader economic context, exhibits a degree of uniformity. Despite seeming cliché, the reality typically resides in a balanced midpoint. Numerous scholars advocate for retaining the traditional system of cost determination, established over decades, citing its continuity as a fundamental advantage of the market mechanism governing enterprise expenditures. Conversely, a rigid, overly simplistic employment of this framework, often referred to as the "cost stance," can adversely impact enterprises engaged in innovative activities. Although the perspectives offered might appear starkly conflicting, they originate from a common, albeit not explicitly articulated, assumption: that cost forecasting merely reflects existing economic conditions as they have developed since the early 20th century. This perception is misleading. Cost estimation, employing diverse methodologies, should not be dismissed wholesale nor should deviations from traditional approaches be feared, as these could preclude the effective application of cost-related stipulations, particularly in tax base calculations. Adjustments to cost calculations are presumed necessary, particularly as they pertain to the production of innovative goods, which may fluctuate in volume. Administrative and managerial expenses might not vary, though they are dependent on the variable scale of production. Thus, a comprehensive understanding of cost dynamics requires the application of varied analytical techniques to accurately assess the operational status of enterprises.

For instance, within the framework of analyzing the dependency of costs on the production of innovative products (goods, services) and profits:

– By evaluating the efficiency of enterprises' production activities;
– Through financial forecasting (planning) of production volumes and profits;
– By resorting to making short-term decisions;
– Through decision-making on pricing overall, specifically on innovative products (goods, services).

The focus of the calculations being conducted is crucial, as noted by Z.R. Zainalov [4], S.S. Alieva, and Z. Akhrov. Addressing this task is complex because regulatory bodies enforce stringent control over cost magnitudes to ensure that these costs

contribute to budget revenue growth. Thus, irrespective of the scale of costs incurred (see Fig. 1), they must reflect and facilitate the activation of enterprise activities.

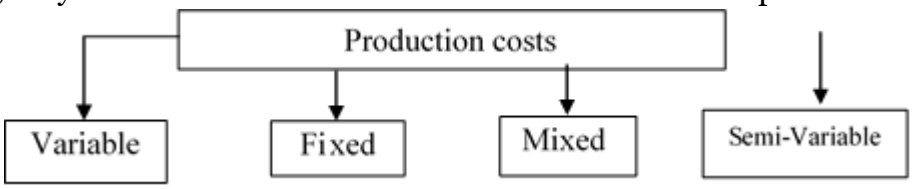

Figure 1. Costs Aimed at Activating Enterprise Activities

In the market for innovative products, such cost segregation is of critical importance. However, defining the permissible boundaries of costs for each direction by scale or volume is inadequate [4]. The economic boundary of costs should be determined considering the volume of production or its dynamics (variable, fixed, and accordingly, the selling price). Only then can their boundaries be more accurately anticipated [2].

Analysis of the Current Issue: Domestically, enterprises are rapidly and significantly changing their appearance. A crucial element of change in the regulation of financial resources is linked to their restructuring and orientation towards innovative activities. Between 2021 and 2023, the share of innovative product production in Samarkand's overall production volume increased on average from 11.3% to 17.5%, and by 2025, the share of innovative products in the total volume across other industrial enterprises is expected to reach 40%.

In this context, the primary directions of variable costs are primarily costs for materials and wages. Under these variable costs, overhead cost items (refer to the overhead cost scheme in Figure 2) may be included.

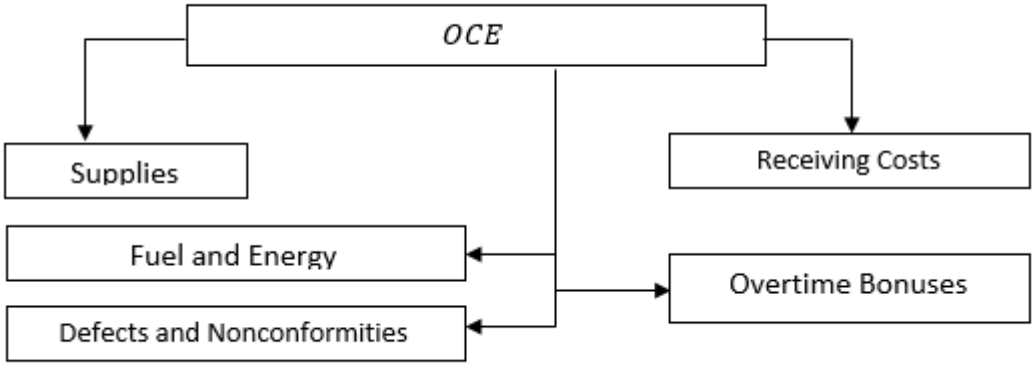

Figure 2. Indicators Contributing to the Formation of Variable Overhead Costs

We will attempt to determine their effectiveness in maintaining the normal financial condition of enterprises. Fixed Costs. Costs of this nature present new challenges to science and practice daily. This is associated with the fact that the indicators listed below - overhead costs - also form part of the fixed costs (Figure 3).

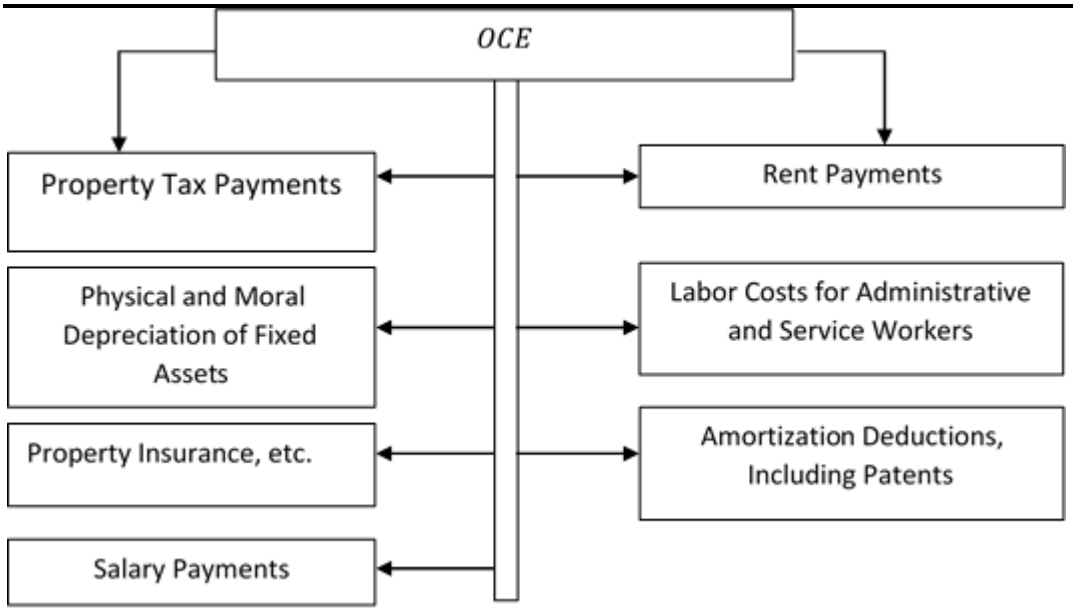

Figure 3. Indicators Constituting Overhead Costs Elements

The analysis of an enterprise's cost state does not conclude with the two priority types of costs. We must more thoroughly examine mixed (semi-variable) costs as well.

By nature, such costs may include commissions paid to intermediaries, such as trade and industrial agents. Therefore, this cost element is accompanied by the payment of salaries and service commissions (Figure 4).

It is noteworthy, based on Figures 1 to 3, that these types of expenses, as they existed until the mid-1990s, had essentially formed before the transitional period, and no attempts were made to alter them. Thus, the system for forming such cost types demonstrated its stability. Internally, it did not require self-development and could only be changed from the outside. Collectively, these are merely overhead in nature, making them inherently a type of mixed costs (MOE).

It should be mentioned that recent literature has extensively discussed fixed and variable costs, particularly within the context of the 1980s, and subsequently in the early years of the 21st century. Naturally, this was when the direction of the economic system was being decided, and the state of enterprise costs was hardly analyzed. There seems to be a consensus that those were prosperous years, thus there was nothing to discuss. However, this is not entirely accurate. There were both positive aspects and many lessons to be learned.

For the purpose of financial analysis—"costs-production-profit" or CPP as a criterion for evaluating the effectiveness of forecasting and understanding financial decisions—it is particularly important to focus on mixed costs (MOE).

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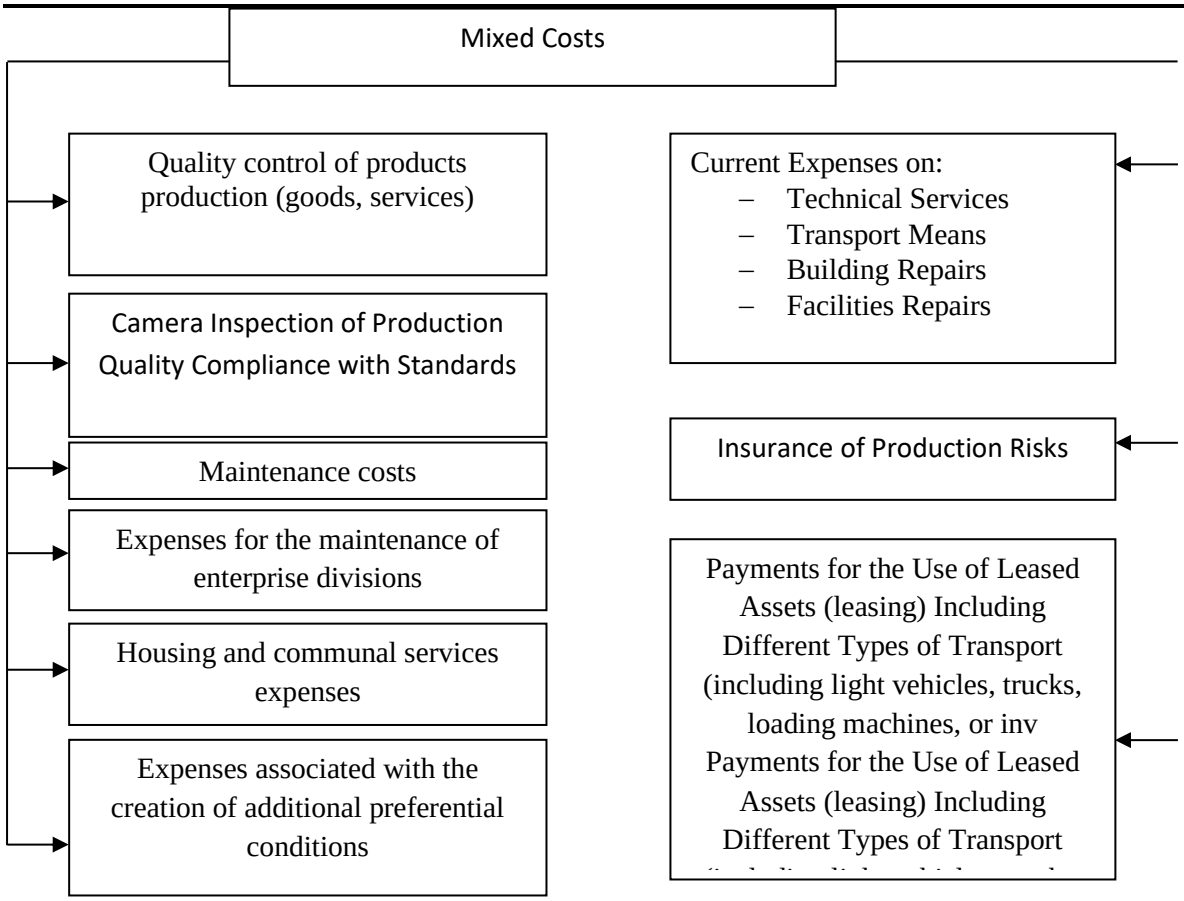

Figure 4. Indicators of Costs Associated with Mixed Overhead Expenses (MOE)

In this context, it is deemed necessary to segregate MOE into variable and fixed components. Analyzing the relationship "Costs-Production Volume-Profit," where Production Volume assists in addressing socio-economic tasks related to enhancing the autonomy of enterprises in economizing and using financial and material resources.

The goal of the analysis, i.e., CVP analysis, is to establish what has been achieved: growth in financial results, productivity level, or production volume. Expecting complete adequacy of all financial indicators to be forecasted (or planned) would be illusory.

Favorable financial outcomes depend on income, sales, costs, and profit of the enterprise. Experts have never claimed absolute accuracy in calculations to increase profit, production volumes, cost values, and other indicators. Any forecast, especially long-term, inherently contains elements of uncertainty (Figure 5).

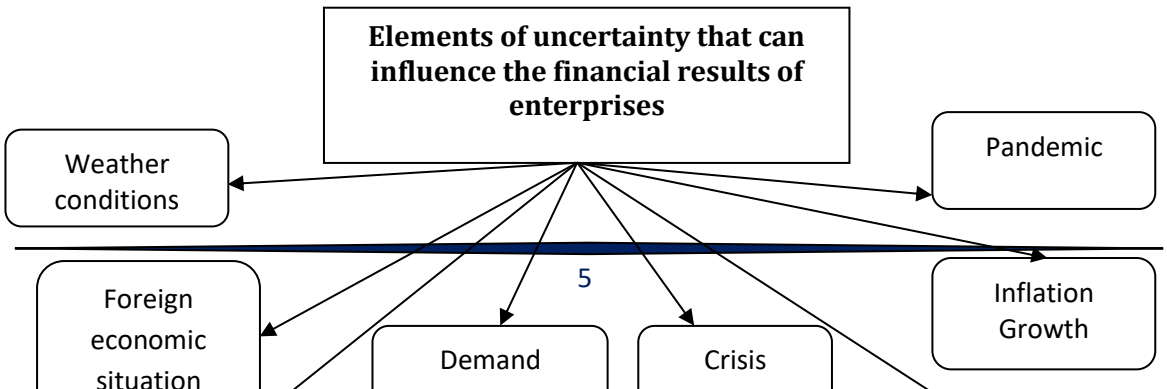

Figure 5. The Unforeseen Emergence with Absolute Precision of Circumstances Leading to Increased Costs and Reduced Profit for Enterprises

All of these impacts:

– Variable costs;

– The selling price of products (goods, services);

– Marginal income per unit (which is assumed to be independent of the level of production);

– Fixed costs (elements of which do not change with production level variations).

Suggestions and Recommendations.

Let us attempt to evaluate these indicators without questioning the accuracy of their definition methodology, based strictly on the provided data. If the actual profit of enterprises is lower than the forecasted profit, then we will be able to give a financial assessment of the state of enterprises. Of course, the degree to which actual cost parameters approach the forecasted tasks of enterprises is particularly important. Then, two indicators will definitely fall out of the calculation – the rate of production growth and the rate of sales turnover (goods turnover, service volume). For the rest, the match is quite high. For instance, fixed costs and a series of elements by shifted costs.

Incidentally, there is a minor degree of implementation of structural shifts in the income structure, particularly in marginal income. It is here that methods of direct income calculation according to the cost position still largely operate. However, this position does not include mechanisms for determining marginal income.

Considering foreign experience, CVP analysis should always be based on marginal income (MI), particularly on profit per unit. Therefore, it is important to anticipate the nature of its movement, as this indicator often changes regardless of whether production (goods, services) volume is increasing or decreasing.

It is important to anticipate all possible difficulties and negative consequences on the path to determining marginal income and sometimes profit. Therefore, in new conditions under CVP analysis, it is not necessary to use the break-even point(BEP) calculation, i.e., the point where sales revenue ($\sum SR$) matches total costs ($\sum TC$), i.e., where there is no profit and no loss. The approach here should, in our view, be the following: i.e., at the break-even point, all of them relate to the activities of enterprises. Therefore ∑PR (∑Ub) – this is the difference between ∑▒〖MI_oh〗 and ∑▒〖P_er R_asch〗.

Profit (loss) – is the difference:

∑▒〖〖MI〗_oh-∑▒〖P_ost R_asch 〗〗. This means that 〖TBUB〗_b is located where ∑▒〖〖MI〗_oh〗 equals ∑▒〖P_ost Z_at〗 (1 – 4). ∑*MIoh=P–∑PerZat,\sum MI_oh = P - \sum P_er Z_at,*∑MIo h=P–∑Pe rZa t, (1)

Here, the cumulative MI (C_MI_oh) should also not be overlooked. Hence: ∑*CMIoh=∑Oproiz×∑MIoh=∑Oproiz×(P–PerZat)\sum C_MI_oh = \sum Op_roiz \times \sum MI_oh = \sum Op_roiz \times (P - P_er Z_at)*∑CM Io h=∑Opr oiz×∑MIo h=∑Opr oiz×(P–Pe rZa t) (2)

∑*CMoh=PostZat+∑PR\sum CM_oh = P_ost Z_at + \sum PR*∑CMo h=Po stZa t+∑PR, (3) *TBUBb=PostZat:KoefVyrTBUB_b = P_ost Z_at : K_oef V_yr*TBUBb =Po stZa t:Ko efVy r, (4)

where: K_oef V_yr - revenue coefficient.

Thus, BEP by cash flows – is such a situation where there is neither cash balance nor overdraft. In budget development, the break-even point is a critically important indicator for evaluating the viability of projects and business plans. We believe that the forecasted revenue and break-even point can be called the safety margin (i.e., the safety margin, equilibrium point). It is usually expressed as a percentage, which allows you to see by how many percent the actual revenue should be less than planned for the enterprise to be in the loss zone. In addition, the safety margin should also be expressed in units of production and amount.

From the list of indicators for calculating ∑*CMIoh\sum C_MI_oh*∑CM Io h, it is evident that all of them concern the activities of enterprises, although they are now part of the financial results. To make these indicators mandatory, they must be included in the composition of the quality indicators of enterprises because everything depends on their magnitude, i.e., such as MI_oh, C_Z_at, Op_roiz, PR. The approach to them should, in our view, be freely handled and adjusted from the positions of enterprise interests.

However, the term of break-even should not be overlooked. Last, ∑PR and ∑Z_at may change depending on the volume of production. Hence the conclusion: effective levers are required that can ensure the interrelations between ∑Z_at and ∑Op_roiz, ∑OR_real, and ∑CPR. Specifically, to regulate these indicators, the entrepreneur must make optimal decisions regarding their regulation, relying on a balanced systemic analysis, it will be possible to determine TR_av OR_eal (the equilibrium point of realization (or sales volume)). Here, the revenue from product realization must precisely match the cost amount. However, this is not reflected in the financial statements of enterprises. Certainly, maintaining cost accounting is a necessary condition for regulating costs to prevent losses for enterprises.

Conclusion on the Research Topic.

With the advent of a new system of economic management, the issue of studying not only the positive aspects of financial indicator growth but also the aspect of break-even arises. The study of this issue should primarily rely on the results of systemic analysis, which can significantly influence production.

If, during the analysis of unprofitability, new, unaccounted circumstances arise (i.e., technical discoveries, external economic situations, etc.), then the financial decisions of the entrepreneur must respond to them. The most effective tool for adaptation to new conditions and emerging circumstances should become the reserves embedded in the plan, i.e., undistributed and previously unused resources.

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The considered multitude of financial levers for regulation, changing indicators (or shifts), should be presented with transparent requirements for their use, needing special caution and vigilance in regulating these indicators. This can only be ensured under the condition of optimal resolution of issues:

– concerning taxation in general;

– norms and standards during the realization (sale) of products (goods, services);

– regulation of prices, interest rates in close interconnection both among themselves and with planned innovative changes.

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