The Concept of Production Costs and its Composition

Shirinova Nigina Bobir-qizi
3-1IQT21 group of Economy and tourism faculty

Abstract: This article put forward ideas such as the concept of economic cost, the classification of costs to be made on the use of resources, the use of two different approaches – classical and neoclassical or modern concepts-in the research of production costs. Enterprise production costs include raw materials, basic and auxiliary materials, fuel and energy costs, fixed capital depreciation, wages and social security deductions, interest payments and other costs.

Key words: economic cost, production cost, expenditure, balance, enterprices, money, firm, economists, price, resources, goods, profit, transaction cost, product value.

Production units (enterprises, firms) in the national economy try to get more profit from the results of their activities. Any enterprise seeks to make a profit not only by selling its goods at higher prices, but also by reducing the costs of producing and selling goods.

One of the most important factors that determine the ability and desire of an enterprise to deliver products to the market is production costs. The production of any commodity requires the cost of economic resources, which have a certain value due to their relative scarcity. The amount of a good that an enterprise or firm tries to put on the market, on the one hand, depends on the price (costs) necessary for its production and the efficiency of using resources, and on the other hand, it depends on the price of the good sold in the market.

Economists calculate costs by adding all payments - external and internal payments, to the last normal profit. They are necessary to collect and store resources within the scope of the intended activity. If the accountant is interested in the financial balance of the firm or enterprise and he controls the assets and liabilities, evaluates the profitability of the enterprise (firm) in the past periods, on the contrary, economists and enterprise managers are interested in the future of the enterprise. They are faced with the task of how to reduce costs and increase profitability. They, in turn, are interested in economic or only costs necessary for the production of this type of goods. In this case, it will not be possible to produce another type of alternative product instead of this product, and certain types of resources are selected. As a result, the possibilities of using the company's resources at the best level are preserved.

Economic costs. Now we study production costs in the context of a separate firm or enterprise. Based on the concepts given above, we can say that economic costs are payments that a firm or an enterprise must pay, or that an enterprise(firm) must provide to suppliers of resources in order to attract the enterprise from the use of resources in alternative productions. is a benefit. Such payments can be either external or internal payments. Money payments made by the enterprise (firm) at its own expense to suppliers of labor resources, raw materials, fuel, transport services, energy, etc., i.e. money costs, are called external costs. In other words, but in addition to these, the enterprise can use only certain resources at its disposal. Costs incurred on the use of resources are called internal costs, i.e. non-reimbursed costs.

Costs incurred on the use of resources are called internal costs, i.e. non-reimbursed costs. From the point of view of the enterprise, the monetary costs of using resources for the most useful purposes are equal to its internal costs.

For example, the owner of a shopping mall uses the space at his disposal to build it. In doing so, he forgoes the benefit of the monthly plan, otherwise he could rent out the space to others and make a profit. Or, to take another example, the head of a private enterprise could give up his salary by outsourcing his management services to another firm.

If the selling prices of goods are mainly determined by external conditions that do not depend on the enterprise's activity, the production costs depend on the level of efficiency of the enterprise in organizing the processes of production and sale of finished goods. But for the production and sale of any goods, certain expenses are required.

Currently, two different approaches are used in the study of production costs - classical and neoclassical or modern concepts. According to the classical theory approach, production costs are all the live labor, money, and material costs incurred to produce a product. In general theory, the following should be distinguished:

1. social costs of production or product value;

2. individual production costs of the enterprise (firm).

Social production costs are the total (live and materialized) costs of socially necessary labor for product production. They show how much the production of this product has cost society. In the conditions of commodity production, social costs appear in the form of money and fall according to the value of the commodity:

w=c+v+m
where: w – social production costs or product value; s – cost of consumed means of production; v – cost of labor (salary); m is additional value.

Enterprise production costs mean all costs incurred for the production and delivery of goods and services to consumers:

k = s + v

Enterprise production costs include raw materials, basic and auxiliary materials, fuel and energy costs, fixed capital depreciation, wages and social security deductions, interest payments and other costs. The cost of production is the monetary expression of all costs incurred by the enterprise for production. Enterprise production costs can be divided into two: direct production costs and transaction costs.

Direct production costs are only a part of the unit cost of the product, including the costs associated with the production of the product. Production costs will be less than the cost of goods by the amount of profit.

The concept of transaction costs is related to the process of selling goods, and refers to the expenses incurred until they are delivered from the producer to the consumer. They are divided into two groups: additional transaction costs and net transaction costs. The costs of wrapping, packaging, sorting, loading, transportation and storage of goods are additional handling costs. These types of transaction costs are considered a continuation of production costs, are included in the value of the product and increase its value. Expenses are covered from the amount of money received after the sale of goods.

Net transaction costs are associated with the sale of goods and consist of salespersons' salaries, marketing (researching consumer demand), advertising, and similar costs. Net transaction costs do not increase the value of the goods and are covered by the profit after selling the goods created in the production process.

Concepts of production costs in the second direction were developed by marginalists and neoclassicists, who also take into account the classical theories in this regard to some extent. However, the peculiarity of these concepts is that they arise from the limitations of resources and their alternative uses in explaining production costs.

According to the theory of marginal costs, the resources used in the production process of the enterprise can be its own resources or hired resources. Accordingly, costs are divided into internal or external costs.

Production costs are one of the most important research categories of economic theory. Its task is to determine the amount and composition of costs for the production of products that ensure the stable development of the enterprise.

Cost studies show that the cash flow from the product produced and sold should not only cover production costs, but also ensure profitability. Profit is a factor that represents the essence of business activity and drives it. But achieving this goal directly depends on production costs. Therefore, the study of production costs is an important part of economic analysis.

An entrepreneur has a different approach to the costs and benefits of an enterprise. It should provide the best opportunities to generate profit within a given cost. Within the scope of certain benefits and costsoptimalshould be brought to the level, in whichProduction financing should not be expensive.An enterprise can only change the amount of its variable costs in the short run to increase production.

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