



## Formation of an Assessment of Audit Services in Audit Organizations

**Abduganiyev M. A.**

Student of the TSUE Faculty of Finance and Accounting

### ABSTRACT

The article examines the issues of setting prices for services provided by audit organizations. In particular, internal and external factors affecting the assessment of services provided by an audit organization, as well as methods for assessing services, were studied.

### ARTICLE INFO

*Article history:*

Received 15 Jan 2022

Received in revised form

16 Feb 2023

Accepted 17 Mar 2023

**Keywords:** audit organization, audit services, evaluation, evaluation methods.

---

© 2023 Hosting by Research Parks. All rights reserved.

---

### Introduction.

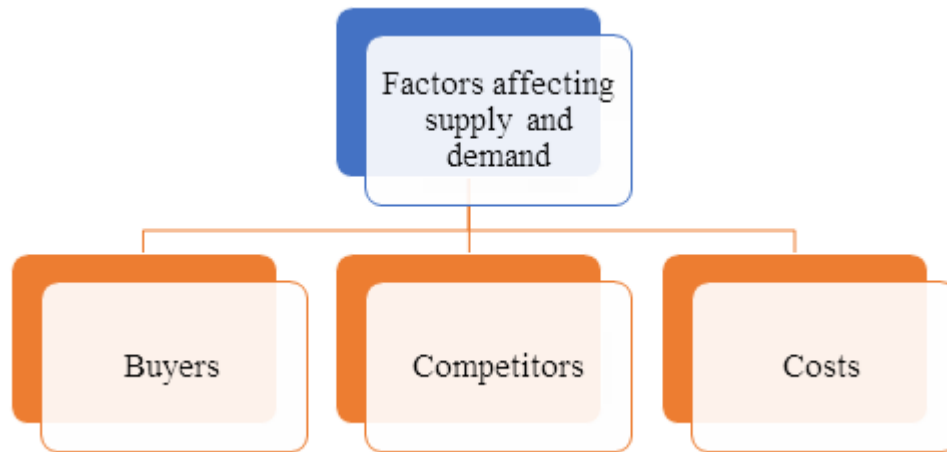
In recent years, the service sector has taken a leading place in the development of small businesses, turning into an integral system that unites a large number of service markets. This indicates that the development of the service sector and increasing the efficiency of the activities of the subjects of this sphere is one of the most pressing problems today. Audit services are one of the types of services that

are steadily developing in the provision of services in our country.

Accounting for the cost of services provided by audit organizations, calculation of the cost of services rendered, processes for determining the price for these services are important for the implementation of sustainable financial and economic activities of audit organizations.

### Main part

Services provided by audit organizations will be evaluated depending on supply and demand. We can classify the following three factors influencing the demand and supply of services (Fig. 1).



**Figure 1. The main factors influencing the decision to form an assessment.**

**Buyers** - Buyers influence the demand for services provided by audit firms. Therefore, the company must take into account its customers when determining the price of its services. For example, a high price may reduce the demand for a service. The heads of audit organizations try to set attractive prices for their services from the point of view of buyers in order to increase the volume of sales of services and maximize profits.

**Competitors** - each audit organization should be aware of the actions of its direct competitors. Knowing your competitors' service technologies, staffing capabilities, and other aspects will help you estimate your competitors' costs and can be important information when pricing their services.

**Costs** - Costs affect the cost of services provided by audit firms as they affect the provision of services. As a rule, the lower the costs associated with the production of products (rendering services) compared to their price, the more products (services) the company can offer the market. While costs are a key factor in product pricing, in most cases they are the starting point for pricing goods and services.

The magnitude of these factors depends on the specific conditions for the formation of pricing policy. For example, based on the study of the ratio of costs and benefits, that is, by conducting a CVP analysis, you can determine the minimum price that will provide a profit in a short period of time. To make decisions, managers need to take into account all estimated prices, as well as take into account the influence of the company's market strategy, discount policy, and similar factors on the price.

The factors influencing the process of making a decision on the pricing of a particular product can be divided into two groups: internal and external factors.

**External factors are determined by the market in which the company sells its products. The main external factors include:**

- ✓ general consumer demand for products (services);
- ✓ the number of competing goods (services) on the market;
- ✓ quality of competing products (services);
- ✓ current prices of competing enterprises for similar products (services);
- ✓ choice by buyers of high-quality or cheap (inexpensive) products (services);
- ✓ seasonality of consumer demand.

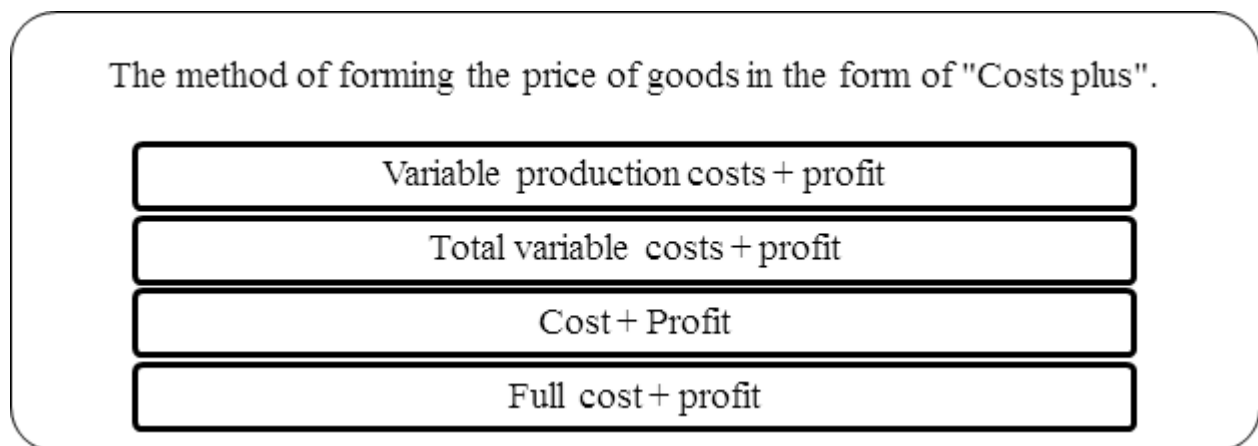
Thus, in order to make a final decision on pricing, it is necessary to have a good understanding of the market situation, as well as the needs of buyers and their requirements for the quality of a particular product (service).

**Internal factors** should also be taken into account when forming the estimate. The most important of these factors is cost. When determining the price, it is necessary to compare the costs with the possibility of covering them. Other internal factors may be:

- the need to cover long-term capital investments;
- quality of materials and work;
- the complexity of production;
- use of organic resources.

Internal sources of information about the situation on the market are reports from the sales department, reports from the marketing department, and the results of consumer demand analysis.

**Formation of estimates in the form of "costs plus".** The most common pricing method is cost-plus pricing. In this method, the selling price is determined by adding the amount of interest or markup to the cost of the product, regardless of how it is determined.



**Figure 2. Methodology for forming the price of goods in the form of "Costs plus"**

Enterprises usually use the full cost allocation method when calculating the cost of production. It is advisable to use the calculation of the cost price for variable costs (estimation based on marginal profit)

in the following cases:

- ✓ in comparison with competitors;
- ✓ when making decisions on assortment and structural changes;
- ✓ when setting the price for a new product (service);
- ✓ making decisions on additional orders and so on.

The cost-plus approach assumes that costs are the base to which a markup is added to arrive at the required price.

**Production costs + profit.** This method, also known as the gross margin method, uses total manufacturing costs as the basis for the calculation. This method is easy to use, since information on production and operating costs corresponding to a unit of production can be obtained from accounting registers and there is no need to divide costs into variable and fixed costs.

This method uses the following two formulas:

*Markup percentage = (Projected profit + Selling, general and administrative expenses) / Total production costs.*

*Price = total production cost + (markup percentage x total production cost per unit).*

**Variable costs plus markup.** The advantage of the marginal profit based product pricing method is that it provides detailed cost information by dividing total costs into variable and fixed costs. This makes it easy to marginal profits, costs, and volume changes and, as a result, allows reasonable prices for products at different production volumes. This method can be used to make pricing decisions in a variety of non-routine situations, such as when simulating special order situations. Both variable production costs and total variable costs (the total part of period costs) can be used as the basis for calculations.

The application of the method of forming an estimate based on marginal profit is advisable if the following conditions are met:

1. the cost of fixed assets used by the enterprise for the production of each type of product is the same;
2. the ratio of variable costs to other production costs is the same for all products.

The following two formulas are used for calculations:

*Markup percentage = (Projected profit + Fixed production costs + Selling, general and administrative costs) / Total variable costs.r*

*Price = variable production cost per unit + ( Markup percentage x variable cost per unit).*

**Determination of markup percentage.** *Return on investment (ROI) is often used as the basis for determining markup percentages.*

$$\text{Markup percentage} = \frac{\text{Planned profit} + \text{Administrative and commercial expenses}}{\text{Volume of production} \times \text{unit cost of production.}}$$

"Recommendations on the formation of the initial cost of audit services for the audit", adopted by the National Association of Accountants and Auditors of Uzbekistan and the Chamber of Auditors of

Uzbekistan on August 9, 2017, when evaluating the services provided by audit organizations (hereinafter Recommendations) Recommended.

These Recommendations have been developed in accordance with the Decree of the Cabinet of Ministers of the Republic of Uzbekistan No. 274 dated May 12, 2017 "On additional measures to ensure further improvement of the legal framework for the activities of audit organizations".

The recommendations recommend linking the cost of audit services to the foreign exchange balance (or gross revenue) and the amount of work that a certified auditor must perform in man-hours in an audited entity.

Expenses associated with an auditor's business trip are considered separate and increase the cost of the audit service.

If the audited business entity has more than three types of core activities or export-import operations, then the labor costs for each area of the audit of business entities should be increased by at least 20%.

In these recommendations, the minimum cost of man-hours worked by one employee of the audited organization is 50% of the amount of the base calculation. This cost of 1 man-hour includes all overhead costs of the auditor, mandatory fees and taxes. Labor and start-up costs should be determined for one year at all stages of the audit.

The initial cost of audits is determined on the basis of standard audit procedures and can be increased taking into account the increase in the amount of work (man-hours) depending on the terms of reference of the audit subject.

In cases of an increased amount of work, that is, when the audit is carried out in several stages, it is recommended to apply the following additional coefficients to the base estimates when determining the cost of audit services:

10% - in two stages (for example, the 1st half of the year and annually, or 9 months and annually);

20% - in three stages (for example, the 1st half of the year, 9 months and annually);

30% - in four stages (quarterly).

In cases where large enterprises or holdings have separate subdivisions located in other regions and / or districts, it is recommended to add 25% for each subdivision to the scope of work and cost of the audit determined for the main enterprise.

If necessary, if a division within the holding has its own divisions and branches, the scope of work and the cost of the audit are indicated in the "Calculation of the initial cost of audit services" and correspond to the division within the holding, it is recommended to determine the scope of work and the cost of the audit according to the criteria for income and balance sheet and add them to the total scope of work and cost of the audit.

The audit organization may submit its commercial proposals in the range from 80% to 130% of the initial cost of audit services. Cases of reducing the initial cost of audit services by more than 20% are considered price dumping.

### **Conclusion.**

Thus, when determining the price for services provided by audit organizations, "Audit services for conducting an audit", adopted by the Association of Accountants and Auditors of Uzbekistan and the

Chamber of Auditors of Uzbekistan on August 9, 2017, it is advisable to follow the recommendations on cost formation.

### References.

1. O‘zbekiston Respublikasining “Buxgalteriya hisobi to‘g‘risida”ni Qonuni (yangi tahriri). (O‘zbekiston Respublikasi qonun hujjatlari to‘plami, 2016 y., 15-son, 142-modda). <https://lex.uz/acts/2931253>
2. O‘zbekiston Respublikasining «Auditorlik faoliyati to‘g‘risida»gi Qonuni (yangi tahriri), 2000-y, 26may. <https://lex.uz/docs/64290>
3. O‘zbekiston Respublikasi buxgalteriya hisobining milliy standarti (1-son BHMS) “Hisob siyosati va moliyaviy hisobot”. O‘zbekiston Respublikasi Adliya vazirligi tomonidan 1998 yil 14 avgustda 474-son bilan davlat ro‘yxatidan o‘tkazilgan. <https://lex.uz/acts/828581>
4. Auditorlik tekshiruvini o‘tkazish bo‘yicha auditorlik xizmatlari boshlang‘ich qiymatini shakllantirish bo‘yicha tavsiyalar. O‘zbekiston buxgalterlar va auditorlar milliy assotsiatsiyasi va O‘zbekiston auditorlar palatasi tomonidan 2017-yil 9 avgustda qabul qilingan.
5. Ibragimov A., Ochilov I, Qo‘ziev I, N.Rizaev. Moliyaviy va boshqaruv hisobi. -T.: «Iqtisod-moliya», 2008. - 444 b.
6. Ochilov I. Qurbonboev J. Moliyaviy hisob. -T.:«Iqtisod-moliya», 2007.- 488 b.
7. Pardaev M.Q. Iqtisodiy tahlil. O‘quv qo‘llanma. 1 va 2-qism. -T.: «Iqtisodiyot va huquq dunyosi», 2001. - 176 b.
8. Мамажонов, А. Т., Юлдашев, Б., & Фозилжонов, И. С. (2016). ВЗАИМОСВЯЗЬ БУХГАЛТЕРСКОГО УЧЕТА И ЭКОНОМИКИ ПРЕДПРИЯТИЯ. ИННОВАЦИОННАЯ ДЕЯТЕЛЬНОСТЬ: теория и практика, (6), 17-21.
9. Мамажонов, А. Т., Юлдашев, Б. Т., Фозилжонов, И. С., & Эркинбоев, М. Р. (2016). Вопросы оценки нематериальных активов и их классификация. Экономика, социология и право, (6), 22-26.