

## IMPROVEMENT OF ACCOUNTING AND AUDIT OF OPERATING COSTS OF INNOVATION

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**Abstract.** This article provides a detailed definition of the concept of innovation. It also identifies key components of the innovative life cycle and provides recommendations for reducing the credit constraints for Uzbek enterprises and developing the financial system as a whole. As part of the audit of innovation activities in Tajikistan, a risk assessment methodology, audit methodology, and risk assessment methodology were developed. This ensures transparency of innovative solutions, their economic self-regulation and transparency in the audit process.

**Keywords:** innovation, innovation process, innovative activity, commercialization, participatory approach, intellectual property, basic innovations.

### INTRODUCTION

In New Uzbekistan, striving for innovation in every sphere and working on the basis of modern approaches is considered one of the most important tasks. Comprehensive support for innovative activity, the development of the national innovation system, the improvement of mechanisms for introducing advanced technologies, and the development of priority areas in science and technology are integral parts of the large-scale economic reforms being implemented in the country. For this purpose, within the framework of the Presidential decree dated July 15, 2018, “**On additional measures to encourage the introduction of innovative projects and technologies into production,**” the Republican Fair of Innovative Ideas, Technologies, and Projects being organized serves to strengthen effective cooperation between the state, science, production, and business. Shavkat Mirziyoyev’s speeches on innovative development and auditing activities hold an important place in Uzbekistan’s socio-economic development and international relations. In his addresses dedicated to innovation and financial control, the President mainly focuses on economic reforms, the introduction of new technologies, and issues of public financial management. In order to ensure the financial

stability of innovative projects and evaluate their efficiency, expenditure auditing serves as an important tool and plays a key role in ensuring the effective use of financial resources.

### METHODS AND APPROACHES

Several methods are employed in conducting the research to collect and analyze reliable data. In particular, data gathered through sociological surveys, interviews, and questionnaires form the empirical basis of the study. In addition, statistical analyses, economic modeling, and case study methods are used to assess the effectiveness of cost auditing in innovation activities. Furthermore, economic analysis is carried out using the financial statements of enterprises and other relevant information throughout the research process. This approach helps to more deeply examine the role and significance of accounting and auditing of innovation-related expenses, as well as to develop recommendations aimed at ensuring financial stability.

### RESEARCH METHODOLOGY

**The purpose of this research** is to comprehensively and scientifically study the issues of improving the accounting and auditing of innovation activity costs. The research methodology focuses on identifying the following key aspects. In this process, the following methodologies are applied:

**Theoretical basis** — The research is based on theories of innovation activity costs, accounting and auditing, as well as national and international standards. This constitutes the scientific foundation of the study.

**Complexity of methods** — The research employs analytical, comparative, regulatory and legal, economic-statistical, expert evaluation, modeling, induction, and deduction methods. Through these methods, theoretical and practical results are integrated.

**Scientific novelty and practical relevance** — The research results are aimed at increasing the efficiency of accounting and auditing of innovation activity costs, ensuring their transparency, and bringing national accounting practices closer to international standards.

This approach contributes to the effective, transparent, and reliable implementation of accounting and auditing of innovation activity costs, reduces risks, and provides a financial basis for strategic decision-making.

### LITERATURE REVIEW RELATED TO THE TOPIC

In the works of local scholars, particularly U. V. Gafurov, issues of stimulating small businesses to increase their activity in implementing innovations through the establishment of special funds aimed at financially supporting innovation in Uzbekistan are examined. In

Otojonov's research, issues such as applying the results of effective innovative projects in practice to develop the innovative activity of small business entities are discussed.

In the studies by Umarov, S. S. Saidkarimova, and Sh. B. Oblaqoulova, the innovative potential of industrial enterprises and its indicators are analyzed. Their works examine the essence, structure, and indicators that reflect the innovative potential of industrial enterprises.

Empirical studies conducted in the United States show that B. Lev and T. Sougiannis, P. Healy and D. Chambers, and other researchers argue that capitalizing expenditures on research and development increases the realism of a firm's market value. As a result of these studies, paragraph 54 of IAS 38 was adopted, which stipulates that expenditures on research activities are capitalized when certain criteria are met.

**THE FOLLOWING OBJECTIVES MAY BE PURSUED IN IMPROVING THE ACCOUNTING AND AUDITING OF INNOVATION ACTIVITY COSTS:**

1. Ensuring accurate and proper recording of innovation costs, reducing errors in auditing, and enhancing the reliability of financial statements;
2. Separately accounting for innovation activity costs by type and analyzing their efficiency and profitability;
3. Accurately assessing the financial condition of an enterprise through the correct and transparent presentation of information in the accounting and auditing process;
4. Determining the efficiency and profitability of innovative projects based on accounting and audit data, which serves as a basis for making strategic decisions;
5. Optimizing accounting and auditing methods in accordance with national and international standards to ensure effective accounting of innovation costs.

Innovation activity plays an important role in the development of any enterprise or organization. The effective implementation of this process largely depends on proper cost accounting and a well-organized auditing system. Accounting and auditing serve as key tools for controlling innovation activity costs, evaluating their economic efficiency, and ensuring the reliability of financial reporting.

The interrelationship between innovation activity and the audit system, transparency of financial control, and integration of new technologies contribute to sustainable economic development. However, there are also shortcomings in the accounting and auditing of

innovation activity costs, and as a result of the research, recommendations to address these shortcomings have been proposed through scientific innovations.

## RESULTS

The results of the study include a number of important conclusions aimed at improving the accounting and auditing of innovation activity costs. These results are of great significance for enhancing the financial efficiency of innovation activities, ensuring accurate cost accounting, and effectively organizing monitoring. Our scientific findings are explained as follows:

### 1. Underdevelopment of audit methodology

The lack of a specialized methodology for auditing innovation activity costs creates significant challenges. Since the results of innovative projects are often long-term and associated with uncertain changes, it is difficult to properly analyze them within primary financial records. Auditors need to accurately assess the outcomes of innovative projects, their effectiveness, and related liabilities.

### 2. Lack of transparency

A major problem in auditing innovation projects is the lack of transparency and incomplete disclosure of information due to personal or commercial interests. This situation complicates the accurate and reliable implementation of financial monitoring and auditing. In some cases, insufficient information may be available regarding the use of funds, their proper allocation, and the results of innovative projects.

### 3. Uncertainty and high cost of innovative projects

Another shortcoming is the lack of clear and reliable indicators for evaluating the effectiveness of innovative projects. New technologies and projects often do not demonstrate stable results in the short term, making it difficult to assess their financial outcomes. In such cases, audit teams may face challenges in drawing accurate conclusions.

### 4. Challenging conditions and implementation period

Innovative projects often encounter technical and financial difficulties during the process of implementation and testing of new ideas. In such projects, costs change and are updated frequently, requiring timely monitoring and analysis. This may create additional difficulties for auditors.



### 5. Low level of integration of digital technologies

There is a low level of comprehensive use of digital technologies in the financial auditing of innovation activities. Problems related to the automation of modern auditing practices and the implementation of digital monitoring systems—whether due to workforce limitations or organizational constraints—lead to difficulties in accurately assessing innovation project costs.

### 6. Insufficient data availability

Problems may also arise in collecting the data necessary to evaluate innovative projects. In some cases, complete and reliable information on project sustainability outcomes or expenditures incurred is not available. This increases the risk of auditors drawing incorrect conclusions.

### 7. Failure to consider competition

Accurate assessment of innovation activity costs requires consideration of the competitive environment and the direct impact of competition in the private sector. Auditors should pay close attention to competitive conditions and market changes when conducting evaluations.

Taking the above issues into account, the following recommendations were proposed. Scientific solutions to these shortcomings will help ensure the effective implementation of auditing in both the public and private sectors. Below are the proposed scientific solutions aimed at addressing these deficiencies.

## CONCLUSION AND RECOMMENDATIONS

Increasing the financial efficiency of innovation activity and the rational use of available resources have a significant impact on the sustainable development of the economy. The successful implementation of modern innovation processes depends on the effective organization of financial mechanisms and the rational allocation of investments. From this perspective, cost auditing serves as an important tool for accurately assessing the financial results of innovative projects and improving their efficiency. The research results show that cost auditing plays a crucial role not only in analyzing the financial condition of innovative projects, but also in increasing their profitability, ensuring the efficient use of funds, and reducing risks. Maintaining accurate and reliable financial reporting, properly monitoring costs, and ensuring their targeted use contribute to enhancing the overall effectiveness of innovation activities. At the same time, certain problems exist in the cost auditing process that may negatively affect the effectiveness of innovation activities. First, the insufficient precision of cost analysis methods and their limited applicability in the innovation sphere may reduce efficiency. Second, the

inadequate use of modern digital technologies and automated analytical tools may undermine the reliability of cost audit results. Third, issues related to the reliability and accuracy of financial data hinder the comprehensive financial evaluation of innovative projects.

Therefore, to ensure effective financial management of innovation activities, it is necessary to improve cost auditing, refine its methodology, and widely introduce modern analytical approaches. This will not only enhance the financial sustainability of innovative projects but also facilitate the development of their long-term growth strategies. It is extremely important to properly account for all forms of financial support received for the implementation of innovation activities. Investors require assurance that their funds are being used efficiently in a company's innovation activities, are properly accounted for, and are transparently disclosed in relevant financial statements. Under the current chart of accounts (BHMS No. 21), there is no specific account designed for the systematic accounting of sources of financing for innovation activities. As a result, this lack of a structured system makes it difficult—and in some cases impossible—to obtain reliable information on sources of innovation financing and to prepare reports required by investors. Therefore, it is considered appropriate to introduce separate accounts within account group 8800, **“Accounts for Targeted Receipts,”** to record financing of innovation activities from the state budget and other sources, as follows:

**8850 — “Targeted Budget Financing of Innovative Projects”** (state, regional, and local);

**8851 — “Targeted Financing of Innovative Projects from Legal Entities and Individuals”** (including business angels, individual participants in crowdfunding platforms, and others).

It is recommended that these accounts be applied in innovative enterprises and companies engaged in innovation activities in accordance with established accounting procedures. Within the framework of renewing long-term assets, enterprises implementing innovation activities mainly rely on bank loans as a source of financing. However, for companies producing innovative products, access to such funds is limited, since the outcomes of such projects are uncertain, the risks are high, and the payback period is long-term.

**Table 1**

**Accounting for Targeted Financing of Enterprise Innovation Projects**

Transaction Description	Innovative Active Enterprise		Innovative Enterprise	
	Dr	Cr	Dr	Cr
Receiving financing for innovation activities	5110	8850, 8851	5110	8850, 8851
Acquisition of innovative products	2010	1010, 6710, 6510, 6010	0800, 4410	6010
Covering expenses related to innovative products	6710, 6510, 6010	5110	6010	5110
Recording innovative product receipts	1100, 2800	2010	0100, 0400	0800
Closing of targeted financing accounts	8850, 8851	8530	8850, 8851	8530

Source: Author's developmen

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