

**FORMULATION OF ASSESSMENT OF AUDITING SERVICES IN AUDITING  
ORGANIZATIONS**

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**Abstract:** The article examines the issues of setting prices for services provided by audit organizations. In particular, the internal and external factors influencing the assessment of the services provided by the audit organization, the methods of assessment of the services were studied.

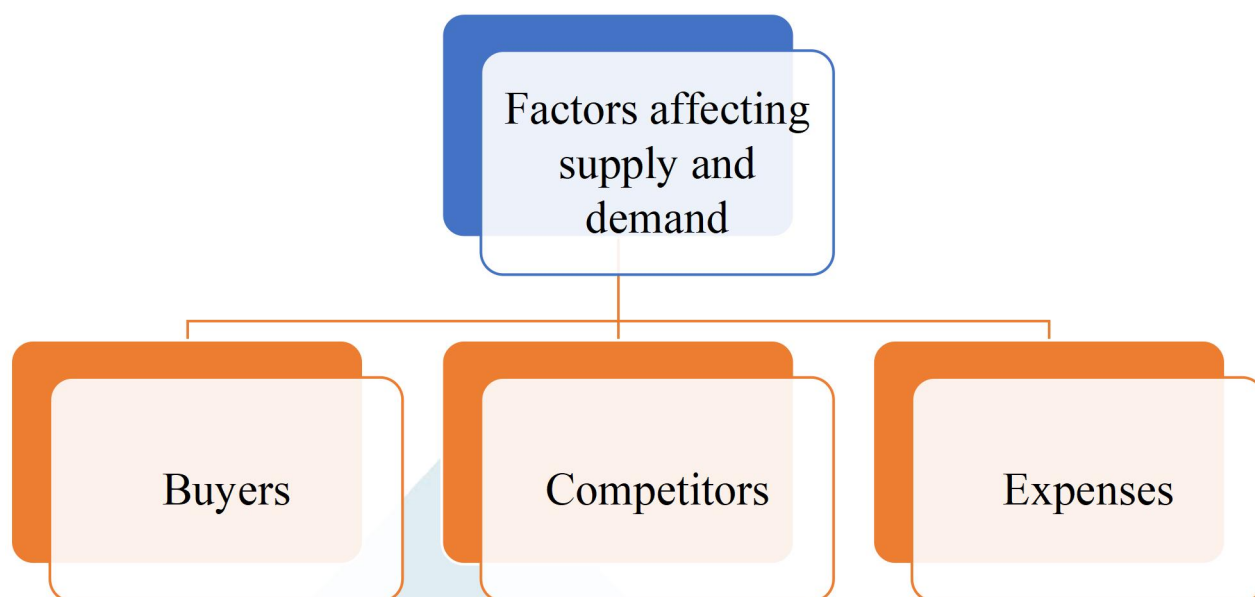
**Key words:** Audit organization, audit services, assessment, assessment methods.

In recent years, the field of services and services has taken a leading place in the development of small business, becoming a comprehensive system that unites a large number of service markets. This shows that the development of the service sector and the improvement of the efficiency of the subjects of this sector are one of the most urgent problems today. Audit services are one of the steadily developing services in the field of service provision in our country.

Taking into account the costs of the services provided by the audit organizations, calculating the cost of the services provided, and the processes of determining the price for these services are important for the implementation of stable financial and economic activities of the audit organizations.

**The main part**

The services provided by auditing organizations are priced based on supply and demand. We can categorize the following three factors affecting the supply and demand of services (Figure 1).



**Figure 1. The main factors affecting the decision on the formation of the assessment**

**Buyers** - Buyers influence the demand for services provided by audit firms. Therefore, the company should take into account its customers when determining the price of its services. For

example, a high price may reduce demand for a service. Managers 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** - every audit organization should be aware of the actions of its direct competitors. Knowing your competitors' service technology, staffing capabilities, and other aspects will help you assess your competitors' costs. which can be important information when pricing their services.

**Costs** – costs affect the cost of services provided by audit firms because they affect the supply of services. as a rule, the lower the costs associated with the production of products (providing services) compared to its price, the more products (services) the company can offer to the market. While costs are a key factor in product pricing, in many cases they serve as the starting point for pricing goods and services.

The size of these factors depends on the specific conditions in the formation of the price policy. For example, based on the study of the cost-benefit ratio, that is, by conducting a CVP-analysis, it is possible to determine the minimum price that will ensure profit in a short period of time. In order to make decisions, managers need to consider all the calculation prices and also take into account the impact of the company's market strategy, discount policy and similar factors on the price.

Factors affecting the decision-making process for pricing a particular product can be classified 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 purchase demand for products (services);
- the number of products (services) competing in the market;
- quality of competing products (services);
- current prices of competing enterprises for similar products (services);
- the choice of high-quality or cheap (low-priced) products (services) by buyers;
- seasonality of customer demand.

Thus, in order to make a final decision to form a price, it is necessary to understand the market situation, as well as the needs of customers and their requirements for the quality of this or that product (service).

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

- the need to cover long-term capital investments;
- material and labor quality;
- labor-intensiveness of production;
- use of organic resources.

Internal sources of information on the state of the market are reports of the sales department, reports of the marketing department, and the results of the customer analysis.

**Forming an estimate in the form of "costs plus".** The most commonly used method of price formation is price formation according to the "cost plus" principle. In this method, the realization price is determined by adding an amount of interest or markup to the cost of the product, regardless of how it is determined.

Methods of forming the price of the product in the form of "Costs plus".

Variable production costs + Profit
Total variable costs + Profit
Production cost + Profit
Full Cost + Profit

**Figure 2. Methods of forming the price of the product in the form of "Costs plus".**

Businesses usually use the full costing method in product costing. It is appropriate to use cost calculation on variable costs (estimate based on marginal profit) in the following cases:

- compared to competitors;
- when decisions on assortment and structural changes are made;
- when setting a price for a new product (service);
- making decisions on additional orders and so on.

The cost-plus approach takes costs as the base to which a mark-up is added to arrive at the required value.

**Production costs + Profit.** In this method, also known as the gross profit method, total production costs are taken as the basis of calculation. This method is easy to use because the information about the production and operating costs per unit of product can be obtained from the account registers and there is no need to categorize the costs into variable and fixed costs.

In this method, the following two formulas are used:

Markup Percentage = (Planned Profit Volume + Selling, General and Administrative Expenses) / Total Manufacturing Expenses

Markup = Total Manufacturing Costs + (Markup Percentage x Total Manufacturing Costs per Unit of Product)

**Variable costs plus overhead.** The advantage of the product pricing method on the basis of marginal profit is that it provides detailed information about costs by categorizing total costs into variable and fixed costs. This makes it easy to compare profits, costs, and changes in product volume, and as a result, allows for reasonable pricing of products at different production volumes. This method can be used to make pricing decisions in various non-standard situations, for example, in modeling situations related to special orders. Both variable production costs and total variable costs (the total part of period costs) can be taken as a basis for calculations.

It is appropriate to use the method of forming an estimate on the basis of marginal profit if the

following conditions are followed:

1. the cost of the 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 = (Planned Profit + Fixed Manufacturing Costs + SG&A) / Total Variable Costs

Markup = Variable manufacturing cost per unit + (markup percentage x Variable cost per unit)

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

$$\text{Interest percentage} = \frac{\text{Planned profit volume} + \text{Administrative and selling expenses}}{\text{Production volume} \times \text{Unit production cost}}$$

"Recommendations on forming the initial value of audit services for conducting an audit" adopted by the National Association of Accountants and Auditors of Uzbekistan and the Chamber of Auditors of Uzbekistan on August 9, 2017, in the assessment of services provided by audit organizations (hereinafter Recommendations) is recommended.

These recommendations were developed in accordance with the decision 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 basis of the activity of auditing organizations".

In the recommendations, it is recommended to link the value of audit services with the foreign exchange balance (or gross receipts) and the amount of work that the certified auditor should perform in man-hours at the audited entity.

Expenses related to the auditor's business trip are considered separate and increase the cost of the audit service.

If there are more than three main types of activity in the business company being audited, or if there are export-import operations, then the labor cost for each direction 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 base calculation amount. This 1 man-hour cost includes all auditor's overheads, mandatory fees and taxes. Labor costs and initial costs should be determined for one year at all stages of the audit.

The initial cost of audits is determined based on standard audit procedures and can be increased

taking into account the increase in the volume of work (person-hours) according to the technical assignment of the subject of the audit.

In cases of increased volume of work, that is, when the audit is conducted in several stages, it is recommended to apply the following additional coefficients to the base estimates when determining the value of audit services:

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

20% - in three stages (for example, 1st half-yearly, 9-monthly and annually);

30% - in four stages (quarterly).

In cases where large enterprises or holding companies have separate divisions located in other regions and/or districts, it is recommended to add 25% for each division to the scope of work and audit value indicators determined for the main enterprise.

If necessary, if the division within the holding has its own divisions and branches, the volume of work and the audit cost are specified in "Calculation of the initial cost of auditing services" and are appropriate for the division within the holding it is recommended to determine the volume of work and the audit value using the criteria of incoming revenue and balance currency and add them to the total volume of work and audit value.

The audit organization can present its commercial proposals in the range of 80% to 130% of the initial value of the audit services. Cases of reducing the initial value of audit services by more than 20% are considered price dumping.

## **Summary**

" Initial cost of auditing 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 appropriate to follow the recommendations on formation".

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