

THE IMPORTANCE OF OPERATING EXPENSES IN MANAGEMENT COSTS

Turdieva Gulaida Omirbayevna

Karakalpak State University, associate professor,

E-mail: gulaidaturdieva@yandex.com,

Maulenberganova Khusnida Khursand qızı

Karakalpak State University, student of 2nd course,

E-mail: xursnidamaulenberganova16@gmail.com,

Abstract

The article focuses on the importance of operating expenses and their composition in banking activities, emphasizes the main normative documents on accounting of banking activities and their content in regulation. The importance of labor cost accounting in developed countries, as well as the main costs and their impact on net profit are studied using Kapital Bank data. The current year's cost structure is presented in the form of graphs and tables.

Keywords: labour, employee, bank activity, payment, salary, accounting.

Annotatsiya

Maqolada bank faoliyatida operatsion xarajatlarning ahamiyati va uning tarkibiga alohida e'tibor qaratilgan, bank faoliyati hisobini yuritishda asosiy huquqiy hujjatlarga va ularni tartibga solishning mazmun-mohiyatiga to'xtalib o'tilgan. Mehnat xarajatlarini hisobga olishning rivojlangan davlatlardagi ahamiyati va Kapital Bank ma'lumotlaridan foydalanib asosiy xarajatlar hamda ularning sof foydaga ta'siri o'rganildi.

Kalit so'zlar: mehnat, xodim, bank faoliyati, to'lov, ish haqi, hisob-kitob.

Аннотация

В статье уделено внимание значению операционных расходов и их составу в банковской деятельности, акцентируется внимание на основных нормативных документах по учету банковской деятельности и их содержанию в регулировании. Важность учета затрат на рабочую силу в развитых странах, а также основные затраты и их влияние на чистую прибыль изучены с использованием данных Kapital Bank.

Ключевые слова: Структура расходов текущего года представлена в виде графиков и таблиц.

INTRODUCTION

Commercial banks, including management costs, have a lot in common with corporate accounting, but they also have some differences. In this regard, when preparing financial statements, banks are guided by the following regulatory legal acts:

1. Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan", dated December 21, 1995 (with amendments and additions in 2018) [1].

2. Law of the Republic of Uzbekistan "On Banks and Banking Activities", November 5, 2019, LRU No. 580 [2].

3. Law of the Republic of Uzbekistan "On Introducing Amendments and Additions to the Law of the Republic of Uzbekistan 'On Accounting'", April 13, 2016, No. LRU 404 [3].

4. The Board of the Central Bank of the Republic of Uzbekistan – the Department for Combating Economic Crimes under the Prosecutor General’s Office of the Republic of Uzbekistan. Decision on amendments and additions to the resolution "On Approval of the Rules of Internal Control in Commercial Banks to Combat the Legalization of Proceeds from Criminal Activities and the Financing of Terrorism" [4].

5. Labour Code of the Republic of Uzbekistan, 30.04.2023.

Normative acts regulating accounting in banks are comprehensively set out in the Law of the Republic of Uzbekistan, April 13, 2016, "On Accounting". The law defines the regulations governing accounting, the structure of the accounting system, the protocols of bank accounts, the procedures for carrying out banking operations, as well as the methodology of document management. In addition, the procedure for accounting and other banking operations, which are based on international standards, is determined.

It is necessary to specify the number and type of financial statements related to accountants, and they must also be accountable for their work. Moreover, the procedure for accounting and other financial processes is established in accordance with international standards. Accounting in banks includes a number of tasks for accountants, such as:

1. Accelerating the turnover of funds in accounts, ensuring fast and timely customer service;

2. Performing other banking operations, such as accounting, cash management, currency exchange, credit processing, etc.;

3. Clearly recording the accounting report on transactions at the time of drawing up the report;

4. Properly registering cash receipts from the bank, ensuring that these documents are used correctly in different banking transactions and customer accounts;

5. Preventing the sending of insufficient or excessive amounts of monetary debts, material values, and miscalculations in financial forms;

6. Ensuring that bank officials handle transactions correctly, while securely storing financial documents;

7. Providing the ability to obtain information and verify the correctness of transactions and their formalization;

8. Strictly observing the working day regime in the bank;

9. Using modern computer equipment to optimize banking operations, reduce bank account costs, manage accounts, and prepare reports.

All banks in the Republic of Uzbekistan are responsible for conducting, registering, and accounting for transactions as specified in the database and its annexes. Therefore, financial information must be promptly sent to the bank’s branches upon signing agreements and coordinated with joint accounts.

Delayed access to banking account information can have negative consequences. For instance, financial statements of banks, their financial conditions, money circulation status, and the state of non-cash transactions in the economy are essential for the state. Hence, bank owners and shareholders consider this information crucial in understanding how bank loans are calculated, how they are utilized, and what financial results can be expected from operations with the bank's assets.

Accounting information is also significant for bank managers, employees, and customers. Bank managers and employees are particularly interested in the status of the bank's current assets, receivables, and expense structures. Customers, on the other hand, assess the bank's liquidity and financial stability. If customers notice a deterioration in the bank's financial situation, they may transfer their funds to another bank for security.

Many bank employees have become increasingly active in the banking industry. Depending on their job roles, they are compensated accordingly, including administrative costs. While some employees were required to work from home, their contribution costs varied. In order to improve the calculation of banking fees, best practices from developed countries were studied and analyzed.

LITERATURE REVIEW

As a result of studying these scientific studies, we found it necessary to clarify the meaning of wage payment. According to Convention No. 95 "On the Protection of Wages" (1949) of the International Labour Organization:

"The term of payment of wages, whether determined or measured, shall be determined in monetary terms by any mutual agreement or national regulations, including 'written or oral work' as a service performed by a person entitled to conclude a work contract."

In his interpretations of the Labour Code, Y. Tursunov stated that "the volume of work performed by the employee, the quality of work, the scientific experience of the employee, and the payment of wages in accordance with the terms of wage payment, compensation, and representative payments, etc., are taken into account" [8].

Such authors as A.A. Karimov, K.B. Urazov, and M.B. Polatov point out that companies are responsible for paying salaries to their employees [6]. It is also mentioned that the summation of financial balances indicates other necessary conditions.

N. Kondrakov defines employee salary differently: "An employee's salary is determined based on their scientific experience, the complexity, volume, and quality of the work performed, as well as the quantity, remuneration, and requirements for the employee's salary" [7].

It is widely believed that employees are compensated for their work, and all services are provided in return for labor. Some of the work is remunerated in the form of money, while others may contribute to a company's small profit.

In recent years, the operating expenses of banks have risen sharply as they have increased spending on new hires and technology [10]. Most private sector banks are also acquiring technology skills at significantly higher costs by hiring skilled resources

and experienced professionals in order to compete with financial technology companies.

METHODOLOGY

This article examines operating expenses and their composition in banking activities, emphasizing the main normative documents on banking activity accounting and their role in regulation. The importance of labor cost accounting in developed countries, as well as major costs and their impact on net profit, is analyzed using Kapital Bank data. The current year's cost structure is presented through graphs and tables.

A discrete statistical analysis of Kapital Bank's operating expenses from 2018 to 2022 has been conducted to evaluate trends and financial implications.

ANALYSIS AND RESULTS

The issue of wages has become one of the most pressing topics in the modern economy. The productivity of a country's labor force, the level of social independence, and the socio-psychological environment of society are largely dependent on wage policies. For this reason, accounting reports are prepared in the system for analyzing collected financial expenses, and the effectiveness of cost management in companies is evaluated accordingly.

One of the key conditions of a labor contract is that wages should be paid fairly, and the amount of work performed by an employee should be considered a criterion of value. This is especially important in industries such as mining, where accounting for labor costs requires accurate and up-to-date information from financial staff. At the same time, staffing levels change, working hours are adjusted, employee loan payments are managed, and various types of wage-related and non-wage payments are processed through accounting records for each factory employee.

The rules of labor relations are regulated by the Labour Code of the Republic of Uzbekistan. According to Article 11 of the Labour Act:

«The implementation of disciplinary responsibility shall ensure that employees maintain order in work-related relations and social interactions. The employer, on the other hand, must systematically pay for the service, comply with legal regulations, and ensure workplace security. »

Similarly, Article 243 of the Labour Act states:

«The procedure for payment of remuneration shall be determined by the service provider, including the amount of wages, the correlation between the terms and conditions of the service contract, other legal documents regulating employment, and the system of labor relations established by the contract. »¹. In other words, according to Labor act of the 243-Code², «The procedure for payment of remuneration for the service shall be determined by the service provider. The amount of remuneration shall be set in accordance with the terms and conditions of the service contract, other legal

¹ Labor Code of the Republic of Uzbekistan, 30.04.2023 <https://lex.uz/ru/docs/-6257288#-6263721>

² Labor Code of the Republic of Uzbekistan, 30.04.2023 <https://lex.uz/ru/docs/-6257288#-6263721>

documents regulating service provision, and the system of relations established by the contract.»

The amount of wages depends on various factors, including the employee’s scientific experience, job size, work quality, and working conditions. Bonuses and compensation payments are typically determined separately. Additional payments, such as allowances and compensation fees, are often provided for work conducted in unfavorable natural and climatic conditions or outside normal working hours.

However, under normal working conditions, employees receive only their basic salary, which does not require scientific expertise. The monthly maintenance fee represents the minimum wage and is used as a benchmark for credit and financial calculations.

One of the fundamental principles of labor regulation is ensuring that every employee receives fair and decent wages, which must not be lower than the minimum wage specified by regulatory enactments.

In developing countries, two major trends in wage determination have been observed. Some employers apply fixed wage systems, while others implement variable wage structures based on performance and economic conditions. These methods vary depending on national characteristics, but they aim to ensure fair and unbiased wage distribution.

Table 1: National wage systems in developing countries properties ¹

State	The goal of the system	Characteristics of the labor cost payment system
Germany	product quality	- factory tariff systems connected to the network; - one-time payment rates, which are derived from the official monthly wages;
France	Quality of work, level of commitment, initiative	- individualization of the fee; - price with points, including service, based on many comparisons; - the role of the cod liver oil
England	Company efficiency	- the advantage of participation in the acquisition; - high degree of flexibility
USA	responsible for the activity of businessmen	- according to the work done, - the salary of the employee is also adjusted to the temporary systems. — a combination of back and forth; - system of even rates; - upgrade systems
Japan	Effectiveness, practice	Take care of personal incompetence

¹ author did from using references

Conclusion from the Analysis of Foreign Experience in Wage Calculation

From the analysis of the experience of foreign countries in calculating wage structures, the following conclusions can be drawn:

1. In several economically developed countries (such as Germany, Great Britain, and France), budgetary institutions successfully implement one-time tariff systems for paying employee wages.
2. In developed economies, remuneration systems are integrated with state regulations. In addition to government control, incentives, long-term goals, and social support programs should be expanded.

Kapital Bank's Financial Performance and Cost Analysis

Kapital Bank has been operating as a private bank since 2001. After merging with Aviabank in 2004, it became a joint-stock commercial bank, and in 2008, it was restructured into a joint-stock bank. Over the years, the bank has demonstrated successful financial results and has adopted a unique operational policy that differentiates it from other banks.

Thanks to efficient cost management and the implementation of a cost-effectiveness analysis model, the bank's business efficiency has significantly improved. In 2022, the bank focused on expanding its interest rate business and directing its sales strategy toward universal lending, which contributed to a more diversified loan portfolio.

Table 2: Personnel and other operating expenses (in mln swm)¹

Indicators	2022 year	2023 year	Absolute difference (+,-)	Relative difference (%)
Salary and bonuses	428333	767692	339359	179,23
Unified social payment	50095	90095	40000	179,85
Other employee benefits	478428	857787	379359	179,29
Depreciation	84692	157719	73027	186,23
Membership fees	85658	138259	52601	161,41
Professional services	15018	101458	86440	675,58
Advertising	35764	53452	17688	149,46
Stationery	22696	27748	5052	122,26
Security	23127	36759	13632	158,94
Repair	23144	31453	8309	135,90
Charity and sponsorship expenses	20690	27748	7058	134,11
Other taxes, except income tax	11429	27427	15998	239,98
Communication	17775	27214	9439	153,10
Rent	13935	22501	8566	161,47
Other expenses	57681	39639	-18042	68,72
Other operation expenses	411609	704651	293042	171,19
All of personal and other expenses	890037	1562438	672401	175,55

¹ Financial statement information is taken from the website www.kapitalbank.uz

At the end of 2023, Kapital Bank reported the following financial figures: Total assets: 31.2 trillion UZS Total liabilities: 28.2 trillion UZS Total shareholders' equity: 2.9 trillion UZS Total income (excluding inter-branch transactions): 2,635 billion UZS

The bank's revenue growth was achieved through the systematic development of all strategic aspects of its business. Although operating expenses made up the majority of the bank's expenditures, they were adjusted according to the estimated deductions confirmed by the bank's financial policies.

In banking institutions, operating expenses typically include: Salaries and other employee-related costs, Rent and storage expenses, Administrative expenses.

We analyzed Kapital Bank's operating expenses from 2022 to 2023. In the next table, the expenses are categorized into the following forms: salaries, depreciation, advertising, and other operational costs.

The career strategy focuses on future development opportunities while also analyzing past processes and outcomes. It involves implementing effective measures and identifying specific steps to achieve desired financial results.

Profitability varies depending on multiple factors. In the process of investigating ways to improve profitability, special attention was given to key influencing factors that contribute to its growth. Among these, interest costs, operating costs, and impact units are considered essential financial instruments.

The table below illustrates Kapital Bank's current expense planning. A potential increase in salaries for qualified personnel and bonus payments is expected. In 2023, the total projected cost is 767.692 million UZS, representing a 79% increase compared to 2022.

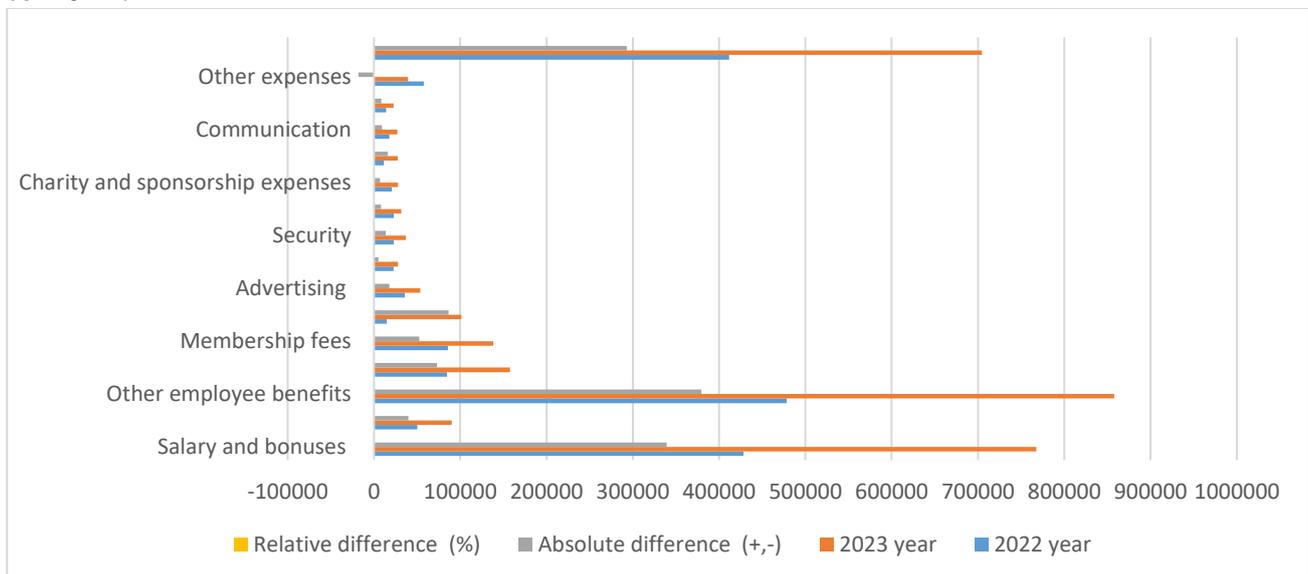


Figure 1: Kapital Bank's current expenses (in mln sum)¹

Instead of professional costs, the audit cost in 2023 amounted to \$4.758 million, while the remaining expenses were categorized as non-audit costs.

¹ Financial statement information is taken from the website www.kapitalbank.uz

As shown in Figure 3, the cost of the mining commission has doubled, and the professional fee has increased sixfold, indicating that overall expenses have not decreased.

Table 3: Discrete statistical analysis¹

Indicators	Obs	Mean	Std. Dev.	Min	Max
Year	5	2020	1.581	2018	2022
Interest income	5	7.533e+08	6.693e+08	1.312e+08	1.732e+09
Interest expense	5	5.018e+08	4.601e+08	1.563e+08	1.293e+09
Fee and commission income	5	4.866e+08	4.397e+08	2.154e+08	1.263e+09
Fee and commission expense	5	1.802e+08	2.347e+08	39071940	5.931e+08
Operating expenses	5	2.933e+08	1.043e+08	1.943e+08	4.669e+08
Net income	5	2.273e+08	1.873e+08	64259275	4.868e+08

As observed from the available data, the interest rate remains consistent with other rates; however, it has proportionally changed over time.

The operating costs have increased significantly over the past five years, rising from 237 million UZS to 1,562 million UZS.

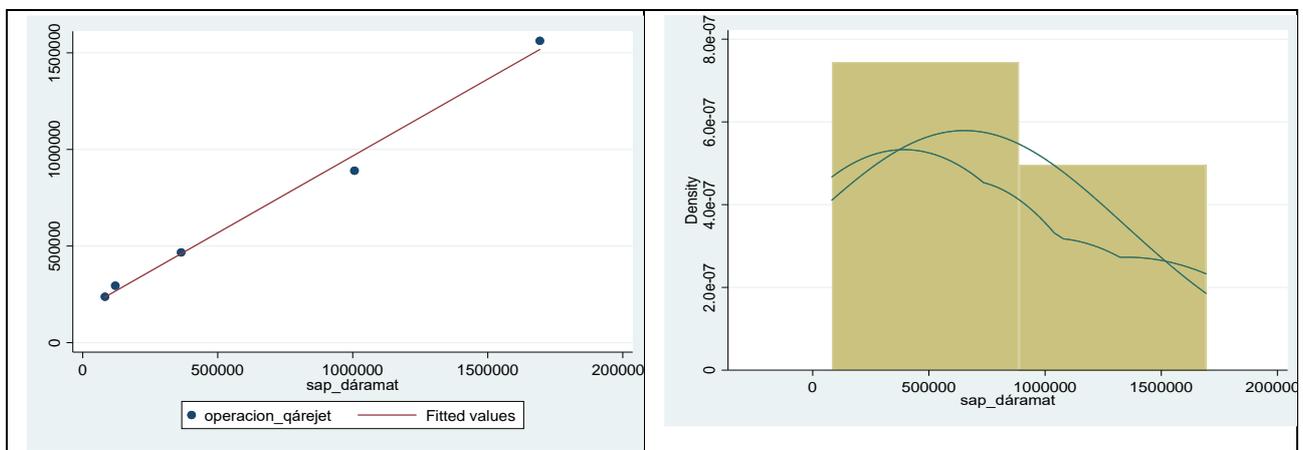


Figure 2: Operating dependence of revenues and expenses on net income²

This indicates that over the last three years, operating activities have doubled compared to the previous year. Operating expenses are closely linked to net income, and their proportional increase is evident.

From the regression analysis, we observe a strong correlation between the company’s operating expenses and its overall financial performance, as illustrated below.

¹Using STATA 17 software, the author summarized the results of the research studies.

² Using STATA 17 software, the author summarized the results of the research studies.

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Source	SS	df	MS	Number of obs	=	5
Model	1.2023e+12	1	1.2023e+12	F(1, 3)	=	381.14
Residual	9.4634e+09	3	3.1545e+09	Prob > F	=	0.0003
				R-squared	=	0.9922
				Adj R-squared	=	0.9896
Total	1.2118e+12	4	3.0294e+11	Root MSE	=	56165

operacion_~t	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
sap_dáramat	.7957196	.0407582	19.52	0.000	.6660087 .9254304
_cons	170452.4	36607.31	4.66	0.019	53951.56 286953.2

Figure 3: Effect of operating expenses on net income in Stata 17 ¹

We observe a strong correlation between current costs and recurring costs.

The regression equation is as follows:

$$y=170452.4+0.7957196xy = 170452.4 + 0.7957196xy=170452.4+0.7957196x$$

Based on this general equation, we can calculate the impact of changes in net income on current costs. According to the model, if net income increases by 1 sum, the operating expenses increase by 0.79 tiyin.

CONCLUSION AND RECOMMENDATIONS

In our opinion, the successful implementation of a payment settlement system requires strict compliance with state regulations in the regional sector, as well as the development of payment accounting systems based on practices observed in developed countries. These systems should be integrated with commercially viable solutions to enhance their effectiveness.

To positively influence worker behavior, it is recommended to adopt the most efficient remuneration methods from developing countries. These methods include: A “consulting” hourly rate, which is paid to an expert team of employees, A fee structure for work performed without a fixed tariff.

The economic rationality behind these methods ensures that regional goals can be effectively achieved while maintaining optimal cost efficiency.

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¹ Using STATA 17 software, the author summarized the results of the research studies.

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