

Organizational performance improvements through the design of internal controls, accounting records and determination of unit production costs in industrial smes of transformation, service and assembly

Mejoras del desempeño organizacional mediante el diseño de controles internos, registros contables y determinación de los costos unitarios de producción en las pymes industriales de transformación, servicio y montaje

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Abstract

Organizations nowadays need to improve their performance, which is why it is necessary to have all the elements that are part of their administration, especially in the financial area. These SMEs (industrial processing, service and assembly) that have been investigated were found to lack financial information in relation to their production costs and support in terms of internal control elements, accounting records, as well as the calculation of return on investment and recovery of the same, which is achieved through the sale price of products and services offered. The small and medium-sized enterprises (SMEs) that were investigated and derived from their problems, the objective of this study is to show the improvements established for each participating entity and the recommendations suggested at the end of the project as a contribution to this research. The methodology suggested in the participating economic entities, following a description of them, in a period of time and by convenience sample and the application of a procedure consisting of a series of several four stages: analysis of financial data, improvement of internal control of operations, accounting records and determination of unit cost and % of profitability. Contributing in this inquiry this series of procedure and carrying it out, gives the certainty of contributing to a better performance of each one of the organizations and allowing with it to generate valuable financial information and profitability with percentage analysis.

Resumen

Las organizaciones en actualidad requieren consta mente mejorar su desempeño, por ello es necesario contar con todos los elementos que forman parte de su administración, en especial en el ámbito financiero. Estas Pymes (industriales de transformación, de servicio y de montaje) que se han investigado se les detecto la falta de información financiera en relación a sus costos de producción y respaldo en cuanto a los elementos de control interno, registros contables, así como el cálculo de rendimiento de su inversión y recuperación de la misma, la cual se logra mediante el precio de venta de los productos y servicios que ofrece. Las pequeñas y medianas empresas (Pymes) que se investigaron y derivado de su problemática, se establece el objetivo de este estudio que es mostrar las mejoras que establecieron para cada entidad participante y las recomendaciones sugeridas al término del proyecto como una aportación a esta indagación. La metodología sugerida en las entidades económicas participantes, siguiendo una descripción de ellas, en un periodo de tiempo y por muestra conveniencia y la aplicación de un procedimiento que consiste en una serie de varias cuatro etapas: análisis de los datos financieros, mejora de control interno de las operaciones, registros contables y determinación de costo unitarios y % de rentabilidad. Contribuir en esta indagación esta serie de procedimiento y llevándolo a cabo, da la certeza de contribuir a un mejor desempeño de cada una de las organizaciones y permitiendo con ello generar valiosa información financiera y rentabilidad con análisis porcentual.

Internal Controls, Accounting Records, Unit Cost

Controles internos, Registros contables, Costo unitario

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Introduction

The economic entities will always be looking for ways to improve and have an avant-garde approach to what the markets in which they interact require from their products, in order to satisfy their customers.

It is extremely important to improve everything necessary and have timely and clear information, especially in their production processes, in the registration of their financial operations and in the determination of their unit costs.

These will allow them to set prices based on the recovery of their investment and calculate unit costs as a key to compete with fair prices in these markets.

In the case of industrial companies, which are linked in this research, were a group of small and medium-sized entities, with which a linkage agreement was established through a professional practice of costs, a case of the Technological Institute of Sonora (ITSON case).

Within the inquiry process, 4 stages were established, where they were carried out: questionnaires, reviews and observations as well as analysis of their financial data; some problems were detected in these organizations, and it was observed that they should improve the aspects of: internal control of their financial operations incurred during the production process, in their accounting records to determine their unit costs in order to support their administrative decisions and decide a more real and competitive price according to the particular case of each of the SMEs participating in this project.

The objective is to show the improvements established for each participating entity and the recommendations suggested at the end of the project as a contribution to these companies.

Theoretical framework

In recent years it has been observed that companies are constantly changing, always looking to improve their operations, their structure and the way of doing business.

The opening to international markets, technology such as web platforms, and alliances with other business entities has created an opening of opportunities for them, so it will always be necessary to be evolving as any business, regardless of the size or type of operations performed.

This allows them to seek to improve day by day, from their forms of production in conjunction with the elements of quality delivered by their suppliers, the style of production must have a greater demand in the care of the inputs, the measurement of quality in their processing, the constant review of the form of control in their systematizations, the care of possible waste and taking into account the compliance with their customers through the satisfaction and delivery of their final products.

In organizations it will be relevant to have philosophies and ways of working that go in all directions, but especially in those from which both qualitative and quantitative decisions are made. In this sense, establishing changes, improving, adapting internal controls that validate and support its operations as a starting process will be the key to determine the appropriate procedures as described by (García, 2010).

Continuous improvement is identified as a management where the entity focuses on changing what is not working or innovating what is necessary or eliminating what is no longer working (Guerra, 2010), while Hernandez (2023) considers that companies are more efficient when working as a team and increasing productivity, this is part of a continuous improvement process.

In order to keep improving their performance, entities need to verify internally that they have an adequate internal documentary control that supports the financial operations that are constantly carried out. For this reason, the theory describes it and focuses on maximizing human labor, which helps to make processes efficient through the use of machinery, tools, products, raw materials and others (Valverde, 2020).

The internal control activities according to Meléndez (2018) establish procedures and measures that support in the case of SMEs (industrial and service entities) in their financial operations such as: the acquisition of materials, payment of salaries and control of manufacturing expenses, as well as control of human resources through the hierarchical structure, productivity control, attendance and everything that helps the administration of the companies.

Internal controls are directly related to the accounting records which will support the periodicity of its operations that are inherent to the production process which is defined as García (2010) comments.

Guardo and Andrade (2008) mention that financial operations at the time of registration must be supported by the internal control that each of them requires. They also describe that these operations are the accounting record of the financial decision made by the entity for an executed transaction.

Therefore, the financial operations that are made in terms of purchases of raw materials, materials, payment of salaries, payment of expenses, payment of debts, contributions to the company, customer collection, cash sales among many that are made every day, is that precisely the support of the same arises, through the documentary internal control.

In a specific case such as the production process, which is carried out in SMEs, since they transform goods and services, having a backup of the financial investments made will undoubtedly require internal controls for each of its production cost elements, as described by (Guardo and Andrade, 2008).

The concept of productive process mentions Quiroa (2019) is the set of tasks and procedures used for the production of goods and services. The process can be managed by stages, by elements of the productive process and by low production characteristics.

Chávez (2020) mentions that the process is a set of coordinated activities that plan the development of products and services under special characteristics and seek to meet market demands.

The production process will involve costs incurred in the stages or activities that are consumed at the same time that the products and services are produced.

For this purpose, it is necessary to have the accounting records validated in the accounting systems managed by each of the entities in order to quantify what was incurred in the process. Guajardo and Andrade (2008) highlight the importance of carrying out these accounting operations that arise from the production process in the elaboration of products or services, as the case may be.

The quantification of costs that are part of the production process, as in the following cases:

The quantification of the purchases made of the inputs to start the productive process, is going to require a backup supported by an internal control that validates such need and for them the following are required:

- a) Material Requisition. Document that supports the production request to the materials warehouse department within the production area.
- b) Purchase order. Document that originates from the materials warehouse to the purchasing department.
- c) Purchase order. Document that supports the materials requisition, the warehouse order up to the purchase request to the suppliers.
- d) Warehouse receipt. Document that supports the entry of the materials offered by the supplier to be fulfilled all this procedure of beginning of the production and that finally will be emphasized in the accounting record of purchases.
- e) Accounting record as the first step of the cost incurred to calculate the cost of the production process.

| Date | Concept | Partial | Has to | To have |
|--|---------------------|---------|----------|---------|
| | Materials warehouse | | \$ | |
| | Creditable VAT | | \$ | \$ |
| | Suppliers XXX | | \$ | \$ |
| | sum equals | | | |
| concept of operation: purchase of materials of the month | | | | |
| elaborated | Revised | Record | # POLICY | |

Figure 1 Accounting record of purchases in daily policy
Source: Own elaboration

Subsequently, the production process continues by describing García (2010) the internal controls required and the corresponding accounting record in terms of wages and salaries or, as the case may be, direct labor, based on internal control processes and documents:

- a) Position in the organization chart: Sales, production, administration or other department.
- b) Attendance list or electronic card or fingerprint according to the corresponding schedule.
- c) Weekly or biweekly payroll according to the production period.
- d) Payroll receipt validating the payment obtained.
- e) Accounting record generated:

| Date | Concept | Partial | Has to | To have |
|------|-------------------------------------|---------|--------|---------|
| | Production cost | \$ | \$ | |
| | Wages and salaries | \$ | \$ | |
| | Sales expenses. Wages and salaries. | | | |
| | Taxes to pay | | | |
| | IMSS ISPT | \$ | | \$ |
| | Banks Banamex | \$ | | \$ |
| | sum equals | | \$ | \$ |

Concept of operation: payment of salaries for the period

| | | | |
|------------|---------|--------|------------|
| elaborated | Revised | Record | # expenses |
|------------|---------|--------|------------|

Figure 2 accounting record of purchases in expense policy
Source: Own elaboration

These accounting records are supported by internal controls as described and shown in Figure 2. As for the third stage of the process, the key operations were considered to be indirect manufacturing expenses generated for the completion of the process and for the use of the fixed assets required to complete the products and/or services, as the case may be.

Del Río (2010) describes that as part of the elements of internal control in relation to indirect manufacturing expenses, the following should be considered:

- a) Concentrate of indirect manufacturing and/or service expenses in the period incurred.
- b) List of fixed assets required for production, as well as their calculation sheet for depreciation and amortization.
- c) Use of proration policies.
- d) Accounting records in policies.

| Date | Concept | Partial | Has to | To have |
|------|---------------------------------------|---------|--------|---------|
| | Indirect Manufacturing Expenses Light | | \$ | |
| | Banks | | | \$ |
| | sum equals | | \$ | \$ |

Concept of operation: indirect manufacturing expenses of the month

| | | | |
|------------|---------|--------|----------|
| elaborated | Revised | Record | # POLICY |
|------------|---------|--------|----------|

Figure 3 accounting record of purchases in expense policy
Source: Own elaboration

These control documents support this type of accounting operations that track the costs incurred in production, as mentioned by Napoles (2010).

It will also integrate the records that combine the production costs in relation to the three elements: materials, wages and salaries - indirect manufacturing costs - giving a cost of production or service as the authors described as (Garcia, Del Rio and Napoles, 2010) in terms of accounting mechanics and obtaining the report of the statement of cost of production.

| Date | Concept | Partial | Has to | To have |
|------|--|---------|--------|---------|
| | Production Cost in Process: Materials Wages and salaries Manufacturing overhead | | \$ | |
| | Stock materials Wages and salaries Indirect Manufacturing Expenses. | | | \$ |
| | sum equals | | | |

Concept of operation: transfer of costs incurred in production.

| | | | |
|------------|---------|--------|----------|
| elaborated | Revised | Record | # POLICY |
|------------|---------|--------|----------|

Figure 4 accounting record of purchases in daily policy
Source: Own elaboration

Once the production cost elements are added and finalized, the cost of sales can be determined, so it will be necessary to send it to the finished goods warehouse as shown in figure N.5.

| Date | Concept | Partial | Has to | To have |
|------|--------------------------------|---------|--------|---------|
| | Finished product warehouse | | \$ | |
| | Cost of Production in Process. | | | |
| | sum equals | | | \$ |

Cost of the finished product ready for sale.

| | | | |
|------------|---------|--------|----------|
| elaborated | Revised | Record | # POLICY |
|------------|---------|--------|----------|

Figure 5 accounting record of purchases in daily policy
Source: Own elaboration

By obtaining the cost of production and in relation to the volume of production, the cost of sale of the product is determined and this accounting basis will allow setting a selling price to the public. Therefore, by carrying out internal controls and accounting records, it is possible to determine a cost concentrate, which serves as an administrative basis to check if the costs incurred increase or decrease, then the price could change and this is an improvement for the organization.

The production cost according to García (2010) mentions that it is the sum of all the efforts of raw materials, wages and salaries and indirect costs to produce or provide a service, hoping to obtain a benefit in the future, which is the profit through the selling price.

According to Napoles (2010), the selling price is the value at which goods and services are offered in a market and that the customer is willing to pay for it.

For small and medium-sized enterprises (SMEs) it is a great performance for the organization to know and take care of the resources they invest in their goods and services, undoubtedly this facilitates the management of their business. Having clarity in the resources invested allows them to always measure their profitability through the price.

For the Ministry of Economy (SE, 2023), SMEs are small businesses that, depending on their number of workers and level of income generated, are identified as: micro, small, medium and represent a large participation in the gross domestic product and in the generation of employment.

Methodology

The linkage with the productive sector such as entrepreneurs and managers of small and some medium-sized enterprises (SMEs) has allowed generating a descriptive analysis of the problems they face in relation to the lack of internal controls that support the financial accounting operations in the context of their productive processes, also has a low performance in the calculation of unit cost of products and some services offered, which is why this inquiry is supported by an agreement of agreements linked to the professional practice of costs, where they could apply elements of information search and analysis of hard data to which they had access and also identified the processes incurred in the development of their products.

Objects of study 20 small and medium-sized companies linked through the professional practice of costs during the period from January to May of fiscal year 2023.

Materials: Use of data analysis that are directly related to the financial operations of the items generated in these businesses in the elaboration of their products and services. Students studying the seventh to eighth semester of the Public Accountant program. In each of these businesses, a series of questions, descriptions of their processes, method of observation and data collection of such accounting operations and the support of accounting and financial controls of the same were applied directly to the manager or owner of the company, or the person to whom he is managing it.

Procedure

Phase 1 In this stage, the linkage agreements with the entrepreneurs were concentrated, authorizing to work with their companies (from each of the 35 participating SME companies) signing and authorizing the generation of the information related to the financial accounting operations generated during the productive process and the internal control backup of each one of them.

In this phase, some needs were detected to improve these internal control documentary formats, due to their lack of compliance to validate these operations, as well as the method of observation in the companies themselves.

Phase 2. Here were concentrated the total of financial accounting operations ranging from: the needs of requisition of inputs, the amounts of purchases acquired for a period of one month, considering the highest month of production, as well as the expenses generated by the concept of wages and salaries and social security deriving with it the fulfillment of the payroll during the same selected period of the production of that month.

All the financial operations were directly related to the production process of a selected month in each one of the SMEs, also the indirect expenses that go in this way with what the production of the good or service requires, concentrating on it each accounting item, the amount of the month and the application of the proration policies.

These data were raised in the questionnaires used with the entrepreneurs or manager of the companies.

Phase 3. Analysis and concentration of the financial data of the accounting items that make up the cost of production formed by: the amount of raw material consumed in the month by each of the entities, the wages and salaries accrued in the same accounting period, the indirect expenses incurred as part of the final process.

Phase 4. In order to determine the unit cost of production, it was necessary to carry out the accounting process of the operations located as part of this research. For this purpose, expense policies, journal policies and transfer policies were made in relation to the elements of the production cost: raw materials, wages and salaries plus indirect manufacturing expenses.

Finally, the follow-up of these phases was carried out, as part of obtaining the results of improvement for the performance of the SMEs.

Results

In relation to the results obtained, the composition of Table 1 shows the type of industrial SMEs investigated in number and %.

| Industrial company | # | % |
|--------------------|----|------|
| Transformation | 7 | 35% |
| Services | 12 | 60% |
| Mounting | 1 | 5% |
| total | 20 | 100% |

Table 1 Industrial and service SMEs

Source: Own elaboration

As can be observed, 35% of them are from transformation industries such as: food, clothing and furniture; while 60% correspond to 12 service companies and 1 assembly company.

| Company type | Requisition | Order | Order | Entrance | total |
|----------------|-------------|-------|-------|----------|-------|
| Transformation | 7 | 6 | 7 | 7 | 27 |
| Services | 12 | 10 | 12 | 12 | 46 |
| Mounting | 1 | 1 | 1 | 1 | 4 |

Table 2 below shows the internal control designs in relation to the improvement of raw materials and/or materials in the industrial and service SMEs.

Source: Own elaboration

Here we quantify the internal controls of the materials that are proposed as improvements and support for the investments made in these resources.

| Company type | Organization chart | Payroll | Payroll receipt | Cost per man hour | total |
|----------------|--------------------|---------|-----------------|-------------------|-------|
| Transformation | 7 | 7 | 5 | 7 | 26 |
| Services | 12 | 12 | 10 | 6 | 40 |
| Mounting | 1 | 1 | 1 | 1 | 4 |

Table 3 Design of internal controls over wages and salaries in industrial and service SMEs.

Source: Own elaboration

In this table the internal controls for the industrial SMEs were elaborated, such as: organization chart, payroll, payroll receipt and man-hour cost in the period in which the cost was incurred for each one of them, giving a great number of improvements to their performance.

| Company type | Depreciation | Apportionment | Expense Ratio |
|----------------|--------------|---------------|---------------|
| Transformation | 7 | 7 | 7 |
| Services | 12 | 12 | 12 |
| Mounting | 1 | 1 | 1 |

Table 4 Design of controls for SMEs in relation to Indirect Manufacturing Expenses.

Source: Own elaboration

Here was improved for the performance of the control of indirect manufacturing expenses in the industrial and service SMEs, considering that the necessary formats for the control and distribution of expenses were 100% complied with.

| Company type | Sales | Administration | Production | total |
|--------------------------------|-------|----------------|------------|-------|
| Transformation (embroidery) | 3 | 3 | 3 | 9 |
| Transformation (bakery foods) | 1 | 1 | 1 | 3 |
| Transformation (footwear) | 3 | 4 | 3 | 10 |
| Transformation (sausage foods) | 10 | 0 | 4 | 14 |
| Transformation (construction) | 4 | 4 | 7 | 15 |
| Transformation (chemicals) | 0 | 1 | 3 | 4 |
| Transformation (carpentry) | 2 | 1 | 2 | 5 |
| Services (taqueria) | 5 | 5 | 1 | 11 |
| Services (transport) | 2 | 2 | 3 | 7 |
| Services (food) | 1 | 4 | 1 | 6 |
| Services | 0 | 5 | 0 | 5 |
| Services (cellular) | 1 | 2 | 2 | 5 |
| Services (dinner) | 0 | 1 | 2 | 3 |
| Services (room washing) | 2 | 1 | 7 | 10 |
| Service (painted) | 0 | 1 | 2 | 3 |
| Services (Taqueria) | 0 | 4 | 3 | 7 |
| Services (dinner) | 0 | 2 | 1 | 3 |
| Services (clothing) | 0 | 2 | 1 | 3 |
| Services (holiday events) | 3 | 0 | 1 | 4 |
| Assembly (bicycles) | 1 | 1 | 2 | 4 |

Table 5 Number of employees distributed in the functional areas of the Industrial and Service SMEs

Source: Own elaboration

As can be seen, the number of direct jobs in industrial and service SMEs range from 3 to 15 employees.

They range from 3 to 15 employees, so the benefit is observed in the generation of work and in the economic participation taking care of their performance.

In order to understand their own economy, the financial statements that determine the unit cost of their products and the production cost statement were obtained, for this purpose Table 6 is shown.

| Company type | Unit cost | Edo. Production Cost |
|----------------|-----------|----------------------|
| Transformation | 7 | 7 |
| Services | 12 | 12 |
| Mounting | 1 | 1 |

Table 6

Source: Own elaboration

This result shows the amount of unit cost and production cost reports that provide industrial and service entities in making appropriate financial decisions.

In Table 7, Unit Costs for Transformation SMEs.

| Type of company Transformation | Unit cost | Sales price | Utility % |
|--------------------------------|--------------|--------------|-----------|
| Bread | \$3.01 | \$8.00 | 62% |
| Sausages | \$89.57 | \$130.00 | 31% |
| Carpentry | \$3,591.64 | \$7,000.00 | 49% |
| Biotechnology | \$30.12 | \$210.12 | 86% |
| Footwear | \$1,323.92 | \$5,100.00 | 74% |
| Construction | \$143,131.32 | \$550,000.00 | 74% |
| Tortillería (tortilla chips) | \$43.68 | \$62.00 | 29% |

Table 7

Source: Own elaboration

This table shows an organizational improvement of great magnitude, since it shows the unit cost of each participating entity and allows a reliable basis of the investment made by setting a price for the processing industry.

| Services | Unit cost | Sales price | Utility % |
|-------------------|-------------|-------------|-----------|
| Caps | \$5.09 | \$75.00 | 93% |
| Bread | \$3.146 | \$5.00 | 37% |
| Jelly | \$8.98 | \$15.00 | 40% |
| Embroidery | \$41.75 | \$150.00 | 72% |
| Carnitas tacos | \$20.56 | \$38.00 | 46% |
| Transport | \$845.82 | \$9.00 | 30% |
| Asada tacos | \$21.35 | \$30.00 | 29% |
| Taquizas | \$15,869.67 | \$24,975.00 | 36.5% |
| Cenaduría (toast) | \$12.68 | \$35.00 | 64% |
| Washed | 750 | 1500 | 50% |
| Consultancy | \$1,241.26 | \$2,000.00 | 38% |
| Cell phone | \$700 | \$1,200 | 42% |

Table 8 Unit costs vs. sales price, profit %

Source: Own elaboration

Here you can see table 8, which measures the sales

The sales volume is measured and in the same will have the investment recovery and the performance parameter that any business unit can expect. In table 9 SMEs assembly:

| Mounting | Unit cost | Sales price | Utility % |
|----------|------------|-------------|-----------|
| Bicycles | \$3,770.18 | \$8,000.00 | 47% |

Table 9

Source: Own elaboration

This is the only company studied that performs the assembly service and its unit costs, achieving 47% gross profitability.

Finally, these results allow us to fulfill the objective of this research, which is to show the improvements achieved in this group of small and medium-sized companies.

Each of these results shows the improvements that were made to each of the participating organizations, ranging from internal control documents in terms of materials, then the designs established in the area of direct wage and salary expenses, controls in the registration of indirect manufacturing overhead operations and the participation of workers in the areas of functions of the entities such as: sales, administration, production.

Other improvements that were achieved are the obtaining of financial reports that allow making adequate decisions such as the calculation of the unit cost and production cost statement.

These improvements are supported by the accounting records that various authors such as García (2010), Cárdenas (2011) point out on the accounting mechanism of production costs and services.

Guardo and Andrade (2008) argue that the accounting records and their production mechanics are used to identify unit costs and production cost reports.

The most important finding is that in spite of having SMEs that have been in existence for some time, the lack of internal controls and calculations of unit production costs is a deficiency, and despite manual support or accounting information systems, at this stage the businesses lack adequate internal controls.

Controls and records that are made through documents in their daily productive operations and that the most important thing they should always handle is to have a traditional basis of unit costs in their production processes.

Undoubtedly the recommendations that are observed in the bibliography are an adequate contribution at the present time in spite of the ease of handling technology.

Conclusions

The results show in each of the figures and tables provided, the improvements achieved from the internal control documents in relation to the elements of production: raw materials, wages and salaries to indirect manufacturing costs.

As inputs, documents that support the operations of the accounting mechanics of the production process and services. The calculations achieved through the financial information regarding the obtaining of each unit cost by entity.

Estimated sales price fixations for each entity. Profit yield % of each entity achieved through the difference between the gross unit cost and the difference between the selling price.

On the basis of Improvements in Organizational Performance through the Design of Internal Controls, Accounting Records and Determination of Production Costs in the SMEs linked to the Professional Practice of Costs, each of these results is described.

The finding sustained is that this type of methodology supports any economic entity to determine its controls, records and financial reports.

Also the argument of the writers del Rio (2010) and Chavez mention that the production process is the key to determine the costs incurred and be the starting point for measuring profitability in any business.

Achieving the stated objective and the methodology proposed in this research.

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