



## Methods To Improve The Accounting And Analysis For Assessing Inventories

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### ABSTRACT

The article is devoted to the peculiarities of accounting in organizing and maintaining inventory accounting at enterprises in accordance with the requirements of international standards. There is a review of the literature on inventories and much attention is paid to the methodology for their assessment.

### KEYWORDS

Inventories, valuation methods, actual value, market value, last-in-first-out (LIFO), first-in-first-out (FIFO), average value (AVECO).

### INTRODUCTION

Rational use of inventories, reducing the cost of production, is a factor in the growth of profitability and profits.

Inventories have a great impact on the financial results of the enterprise. It is known that the

global coronavirus pandemic has led to a sharp reduction in working capital at enterprises. This, in turn, reduced the level of their inventory turnover. Goods are inventories that account for a significant part of current assets and which include raw materials and

consumables used in the production process, work in progress, finished goods and goods.

The issues of further increasing the number of inventories are also highlighted as a separate task in the Action Strategy for five priority areas of development of the Republic of Uzbekistan. In particular, the priorities for economic development and liberalization indicate: "... further modernization and diversification of industry, aimed at accelerated development of production of finished products with high added value based on deep processing of local raw materials" [1, p. 48].

Therefore, one of the most important issues in the localization of production today is the efficient use of their resources, storage, transportation and sale of products, the development of infrastructure in the industry, increasing labor productivity through the rational use of inventories. This, in turn, requires the correct and timely organization and maintenance of inventory at enterprises. It also requires an effective analysis of the utilization of existing stocks.

## LITERATURE REVIEW

Various approaches of experts and economists can be seen in regulatory documents, literature and scientific developments on the concept of inventories, the order of their organization and maintenance, as well as their analysis. In particular, International Accounting Standard No. 2 defines: "Inventories are the following assets: a) held for sale in the ordinary course of business, b) in the production process for such sale, c) in the production process or in the provision of services, assets in the form of raw materials and materials intended for use" [2].

In accordance with IFRS 2 "Inventories": Inventories are assets:

- Intended for sale in the ordinary course of business is finished goods, goods for resale;
- In the process of creation for subsequent sale - work in progress;
- In the form of raw materials or materials intended for use in a manufacturing process or in the provision of services. [3]

The accounting regulation in the Russian Federation includes raw materials, supplies and goods for sale in inventories, and there is no clear definition of this concept. The republic's economists Sh.Khaidarov and Kh.Tukhsanov approached the classification of reserves as follows: "Raw materials and materials, including components and fuel, work in progress and semi-finished products, as well as finished products and goods" [4].

Russian economists emphasize that inventories, along with means of labor and labor, provide the production process of an agricultural enterprise, which consists mainly of raw materials, auxiliary products, fuel, semi-finished products, containers and other supplies [5, p. 776].

As a result of studying the above definitions and descriptions, we propose the following definition of reserves, which is suitable for the activities of enterprises in industrial sectors.

In our opinion, stocks are tangible assets at the first stage of the capital cycle, that is, production stocks that have not yet been transferred to the production process and fully retain their natural form, work in progress, semi-finished products, defective products, finished products and goods for sale.

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## ANALYSIS AND RESULTS

An important lever for ensuring the reliability and objectivity of accounting transactions is also confirmed by periodic inventories of funds, calculations and other balance sheet items. For example, the automation of accounting and analytical processes should be considered through the prism of supply, production and sales, which are provided by individual business operations in accounting. Depreciation of funds, wages, deductions to off-budget funds, release of materials into production, etc. are recorded during the production process. In the process of implementation, such operations as receipt of proceeds from sales, delivery of products to customers, write-off of production costs, and calculation of profit are taken into account. This allows us to conclude that the objects of study of accounting are the means, their movement in the process of production, distribution and circulation, as well as the sources of their formation and use.

It is known that inventories are accounted for as a separate object of accounting [6]. When organizing an inventory, it is desirable to pay special attention to their classification. Inventories include:

- Materials;
- Work in progress;
- Finished products and goods.

This article is devoted to the organization and maintenance of records of materials and analysis methodology. Because here the procedure for determining the value of work in progress (main production) and finished goods is relevant for the concept of management

accounting and requires separate study and research.

Basically, materials enter the enterprise as a result of the following actions, including purchases, shares in the authorized capital, free acquisition, transfer of long-term assets, identification of excess reserves, etc.

The actual cost of materials purchased from the enterprise consists mainly of the amounts paid under the contract and the cost of their purchase. This procedure is set out in international standards as follows: "The cost of purchasing inventories includes import prices, import duties and other taxes (excluding those that are later returned to the business entity by the tax authorities), transportation, loading and unloading, as well as the purchase of finished goods, products, materials and services, other general expenses directly related. Sales discounts, refunds, etc. should be deducted from the purchase costs [7, pp. 117-129].

In our opinion, one of the most optimal ways to keep records of materials at enterprises is to store these materials at cost. This is due to the fact that it is not always possible to determine the true cost of incoming materials. This can be convenient in terms of time and cost. In this method, the estimated cost of accounting for materials is taken:

- The price indicated by the suppliers of materials and raw materials;
- The actual cost of materials and raw materials for the previous months;
- Planned prices.

There are features of the assessment of materials at the time of write-off. In this case, the value is determined by the company's

accountant when writing off materials (or debiting production costs, that is, cost accounts) using the first income, first expense (FIFO) method or the weighted average cost formula (AVECO).

It focuses on using the same costing formula for all materials that have the same properties and are used in the same way. In turn, different costing formulas can be used for materials that have different properties and are used in different directions.

Abroad, the FIFO (First in First Out) method is also called the conveyor model. The essence of this assessment is that the first purchased material is sold first (written off as expenses), and, in turn, the items in the materials at the end of the period are bought last.

The last one came, the first one left (LIFO).

This inventory valuation method assumes that new inventory is sold first and that old inventory remains in stock. This method is practically not used by enterprises, as old stocks are rarely sold and gradually lose their

value. This leads to significant losses for the business.

The only reason to use LIFO is when companies expect the value of inventory to rise over time and lead to price inflation. By converting high-cost inventories into cost of goods sold, profit margins can be reduced for businesses. This allows businesses to pay less tax. [9, pp. 786-791; 10, pp. 861-873,]

In the AVECO formula, the cost of each item is determined by the weighted average cost of similar goods purchased or produced during the period, with the cost of similar goods at the beginning of the period. Depending on the conditions of the enterprise, the average value can be calculated periodically or with the receipt of each additional batch.

Example: The trading and production company “NUR-TEX” had 20 pieces of metal zippers worth 200,000 soums in stock as of January 1, 2019. (Unit price - 10 000 sum.).

In January, 85 more processors were received, with a total cost of 11 550 000 soums.

Received materials in January:

03.01.04 - 5 pieces at a price of 11 000 sum = 55 000 sum.

10.01.04 - 30 pieces at a price of 12 000 sum = 360 000 sum.

01.17.04 - 10 pieces at a price of 14,000 sum = 140,000 sum.

30.01.04 - 40 pieces a price of 15,000 sum = 600,000 sum.

Total: 85 pieces 1 155 000 sum.

Released for sewing 100 pieces of vests, the balance in the warehouse as of February 1, 2019 was 5 pieces.

Let's calculate the cost of the written off materials.

1. According to the average cost method:

$(200,000 \text{ soums} + 1,155,000 \text{ soums}) / (20 \text{ pieces} + 85 \text{ pcs.}) = 1,355,000 / 105 = 129,047, 62 \text{ soums} / \text{pc.}$

The cost of the written off materials will be:

$100 \text{ pieces} \times 12 904.7 \text{ soums} / \text{piece.} = 1 290 476 \text{ sum.}$

Balance as of 01.02.2019 - 5 pieces  $\times 12 904.7 = 64 523.5 \text{ sum.}$

2. According to the FIFO method:

The cost of the written off materials will be:

$(20 \text{ pieces} \times 10,000 \text{ soums} / \text{piece}) + (5 \text{ pieces} \times 11,000 \text{ soums} / \text{piece}) + (30 \text{ pieces} \times 12,000 \text{ soums} / \text{piece}) + (10 \text{ pieces} \times 14,000 \text{ soums} / \text{piece}) + (35 \text{ pcs.} \times 15 000 \text{ soums} / \text{pc.}) = 200 000 \text{ soums} + 55 000 \text{ sum.} + 360 000 \text{ soums} + 140,000 \text{ soums} + 525 000 \text{ soums} = 1 280 000 \text{ soums.}$

Balance as of 01.02.2019 - 5 pieces  $\times 15 000 \text{ soums} = 75 000 \text{ sum.}$

3. According to the LIFO method:

The cost of the written off materials will be:

$(40 \text{ pieces} \times 15,000 \text{ soums} / \text{piece}) + (10 \text{ pieces} \times 14,000 \text{ soums} / \text{piece}) + (30 \text{ pieces} \times 12,000 \text{ soums} / \text{piece}) + (5 \text{ pieces} \times 11,000 \text{ soums} / \text{piece}) + (15 \text{ pcs.} \times 10 000 \text{ soums} / \text{pc.}) = 600 000 \text{ sum.} + 140,000 \text{ soums} + 360 000 \text{ soums} + 55 000 \text{ soums} + 150,000 \text{ soums} = 1 305 000 \text{ soums.}$

Balance as of 01.02.2019 - 5 pieces.  $\times 10 000 \text{ soums} = 50,000 \text{ soums.}$

In a tabular form, at the beginning and at the end of the reporting period, the cost of written off materials in quantitative and value terms looks like this.

**Table 1**

**The cost of the written off materials in quantitative and value terms**

Methods:	Balance at the beginning of 01.01.2019			Cost of written-off materials		Balance at the beginning of 01.02.2019	
	Pcs.	Price	Soums	Pcs.	Soums	Pcs.	Soums
AVECO	20	10 000	200 000	100	1 290 476	5	64 523
FIFO	20	10 000	200 000	100	1 280 000	5	75 000
FIFO	20	10 000	200 000	100	1 305 000	5	50 000

The reason for this difference is obvious: prices for materials tend to raise, therefore, the later the materials are purchased, the higher their cost.

Choosing the right method for estimating inventory is important because it has a direct impact on a business's bottom line. Your choices can lead to dramatic differences in cost of goods sold, net income, and ending stocks.

Each method has its own advantages and disadvantages. For example, the LIFO method will give you the lowest profit because the last inventory items purchased are usually the most expensive, while the FIFO will give you the highest profit, since the first items in stock are usually the cheapest.

This method is not used in the Republic of Uzbekistan, and is also prohibited by International Financial Reporting Standards (IFRS).

To assess the most appropriate method, you need to look at changes in inventory values.

For example, if inventory costs are increasing or likely to increase, it is better to calculate the cost using the LIFO method. Since higher value items are considered sold, this results in higher costs and lower margins.

If inventory costs are falling, FIFO may be the best option for you.

For a more accurate cost, the FIFO inventory valuation method is used, as it assumes that older items that are less expensive are sold first.

It is also important to note that businesses cannot switch from one inventory valuation method to another.

### CONCLUSIONS AND RECOMMENDATIONS

As a result of the study of the methodology of accounting and analysis of inventories, the following conclusions were made.

First, the economic concept of reserves should be considered as an economic category based on the study of the basic rules, content,

classification and foreign experience set out in international accounting standards;

Secondly, since inventories are the link between suppliers of goods and consumers of products, we believe that the volume of purchases depends on the scale of production of enterprises, their exports.

Thirdly, it is desirable for enterprises to independently determine the methods of estimating reserves in accordance with their accounting policies.

You should analyze each method and apply one that accurately reflects recurring income and is appropriate for your specific business situation. The Financial Accounting Standards Board (FASB), in its Generally Accepted Accounting Procedures, permits both FIFO and LIFO accounting.

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