

**POSSIBILITIES OF IMPROVING THE ACCOUNTING OF INVENTORIES BASED
ON IFRS**

Bayjanov Sarsengaliy Xalmuratovich

Karakalpak State University, Uzbekistan, Nukus.

e-mail: sbx2112@mail.ru

Тел.: +9989750003988,

Abishov Muxammed Sarsenbaevich

Karakalpak State University, Uzbekistan, Nukus,

e-mail: muxammedabishov@gmail.com

Тел., +998885070082

Abstract: This article demonstrates that when transitioning to international accounting principles, it is advisable to assess inventories at average prices, to assess inventories at current prices, to present their valuation as close as possible to the actual valuation for the reporting period, and to provide users of financial statements with complete and accurate information about inventories valued at current prices.

Keywords: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), inventories, FIFO, AVECO and LIFO.

In the current process of globalization, our country's economy is also occupying high positions on the world stage. In particular, the direct attraction of foreign investment into the country's economy, the creation and operation of free economic zones necessitate the organization of accounting based on international financial reporting standards. Currently, international financial reporting standards are increasingly being used by organizations in preparing accounting data aimed at meeting the needs of external users. This situation is undoubtedly explained by a number of reasons, such as improving the quality of information, reducing the cost of capital, and facilitating access to the capital market. As a result, today almost all countries are trying to use these international standards, which are the only accounting language for business, in their economies.

In particular, a number of measures are being implemented in our country in this regard. The adoption of the Decree of the President of the Republic of Uzbekistan "On Additional Measures for the Transition to International Financial Reporting Standards" (PQ-4611, 2020) serves as the legal basis for the work being carried out in this area. In accordance with this decision, starting from January 1, 2021, joint-stock companies, commercial banks, and enterprises belonging to the category of large taxpayers are required to prepare financial statements in accordance with the FEX, as well as to bring the training of specialists in this field into line with international standards, thereby attracting foreign investment, and other tasks have been defined.

At the same time, the New Uzbekistan Development Strategy for 2022-2026 (PF-60, 2022) outlines measures to further improve the investment climate and increase its attractiveness in the country, attracting 120 billion US dollars, including 70 billion dollars of foreign investment, in the next five years.

The use of FEXS in accounting serves as the primary tool for implementing these reforms. One of the essential topics of the International Financial Reporting Standards (FEXS) is the valuation of inventories, determining their cost, and reflecting them in the financial statements. This is regulated by FEXS "Supplies" No. 2. Currently, addressing issues related to the recognition of inventories, determining their cost, valuation, and reflection in financial

statements within international standards, as well as demonstrating best international practices in this area, is among the most pressing issues.

IAS 2 is a standard issued by the International Accounting Standards Board (IASB) that provides guidance on inventory accounting. The purpose of IAS 2 is to establish inventory accounting procedures and ensure their measurement at minimum cost and net realizable value. Inventories are understood as assets stored for sale in the form of materials or materials consumed in the process of ordinary economic activity, such as in the production process or in the production process or in the provision of services. Inventory Measurement According to International Standards (IAS 2), inventory should be measured at the lowest cost and net realizable value. The cost of inventories must include all costs associated with acquisition, conversion costs, and other costs associated with bringing inventories to their current location and condition. Costs should also include the allocation of additional costs arising in the production process. The net realizable value is determined as the approximate selling price in the usual business process, after deducting the approximate costs for completion and the approximate costs necessary for sales.

Price Formulas IAS 2 allows for the use of several cost formulas to determine the cost of inventories, including the first-in and first-out (FIFO) method, the weighted average cost method, and the special identification method. Companies can choose a cost formula that best reflects the flow of goods and the cost structure of their business.

Disclosure Requirements IAS 2 requires companies to disclose their accounting policies that will be used to determine the cost of inventories, including the total book value of inventories and any reduction to the net realizable value. The impact of IAS 2 is crucial for companies with inventory in IAS 2. Companies must carefully review the cost of their inventory and ensure its accurate valuation. Incorrect valuation of inventories can lead to overstatement of assets and profits, which can lead to incorrect reflection in the financial statements and potential legal or regulatory issues. IAS 2 provides guidelines for accounting for inventories and ensures their valuation at minimum cost and net realizable value.

Companies should carefully consider the cost of their inventories and use appropriate cost formulas to determine their value. Accurate inventory valuation is crucial for the reliability of financial statements and can affect the company's financial position and operations[1].

The purpose of this standard is to establish the inventory accounting regime. The main issue of inventory accounting is determining the amount of expenses recognized as an asset and transferred to future periods until the corresponding receipts are recognized. This standard provides guidance on determining cost and recognizing it as an expense, as well as reducing it to any net realizable value. At the same time, instructions are provided on the cost calculation formulas used to convert expenses into inventory value in this case.

The following should be reflected in these standard financial statements:

- (a) the accounting policy adopted for inventory valuation, including the cost calculation formula used;
- (b) the total book value of inventories and the book value of appropriately classified inventories for the organization;
- (c) the book value of inventories at fair value less selling expenses;
- (d) the amount of inventories recognized as expenses during the reporting period;
- (e) Any reduction in the value of inventories recognized as an expense during the reporting period in accordance with this clause.
- (f) Any reinstatement amount recognized as a decrease in the amount of inventories recognized as expenses during the reporting period in accordance with this clause.

(g) Conditions and events that led to a decrease or restoration of inventory value in accordance with this clause;

(h) the book value of assets pledged as security for obligations.

Information on the book value of the inventory group and the volume of changes in these assets is useful for financial statement users. Typically, inventories are divided into classes such as goods, raw materials, materials, work in progress, and finished goods. The amount of inventories recognized as an expense during the reporting period, often referred to as the selling price, consists of expenses previously included in the valuation of the currently sold inventory, overhead costs of undistributed production, and the excess amount of inventories over the production cost norm. The cost of goods sold, depending on the specifics of the organization's activities, may include other amounts, such as distribution costs. Some organizations use the profit or loss statement form, which is presented in other amounts instead of the cost of inventories recognized as expenses during the reporting period. In this form, the organization offers cost analysis using a classification based on the nature of expenses. In such cases, the organization reflects the expenses incurred for raw materials and supplies recognized as expenses, including wages and other expenses, along with the net change in inventories during the reporting period.

This standard should be applied by organizations starting from January 1, 2005, but organizations approve its application starting from previous dates. If an organization applies this Standard for the period before January 1, 2005, it must indicate this fact. The definition of the actual price in paragraph 6 and amendments to paragraph 7 were made to FEXS No. 13, published in May 2011. The organization must implement these changes in conjunction with FEXS No. 13. Amendments were made to paragraphs 2, 8, 29, and 37 of IFRS 15 "Revenue from Contracts with Customers," issued in May 2014, and 19 items were removed. The organization must implement these changes in conjunction with FEXS 15. Changes were made to two clauses of FEXS No. 9, published in July 2014. The organization must implement these changes in conjunction with FEXS No. 9. Amendments were made to 12 clauses of FEXS No. 16 "Lord" published in January 2016. The organization should support this change in conjunction with FEXS No. 16.

Correct and accurate valuation of inventories in accounting is of paramount importance. According to Article 17 of the Law of the Republic of Uzbekistan "On Accounting" regarding the valuation of assets and liabilities, inventory valuation is carried out at the lowest of the following two prices: actual cost (purchase price or production cost) or market price (net realizable value) at the balance sheet date [2].

Based on NAS No. 4 "Inventories," inventory valuation at the enterprise is carried out in the following two ways [3]:

Net realizable value method

The method of a constant share of gross profit from sales.

In International Accounting Standard No. 2 "Supplies," valuation is carried out in the following two ways [4]:

- Net realizable value method;
- Fair valuation method.

In the diagram below, the methods of inventory valuation according to BEMS 4 and FEXS 2 are presented in a structured form (Figure 1).

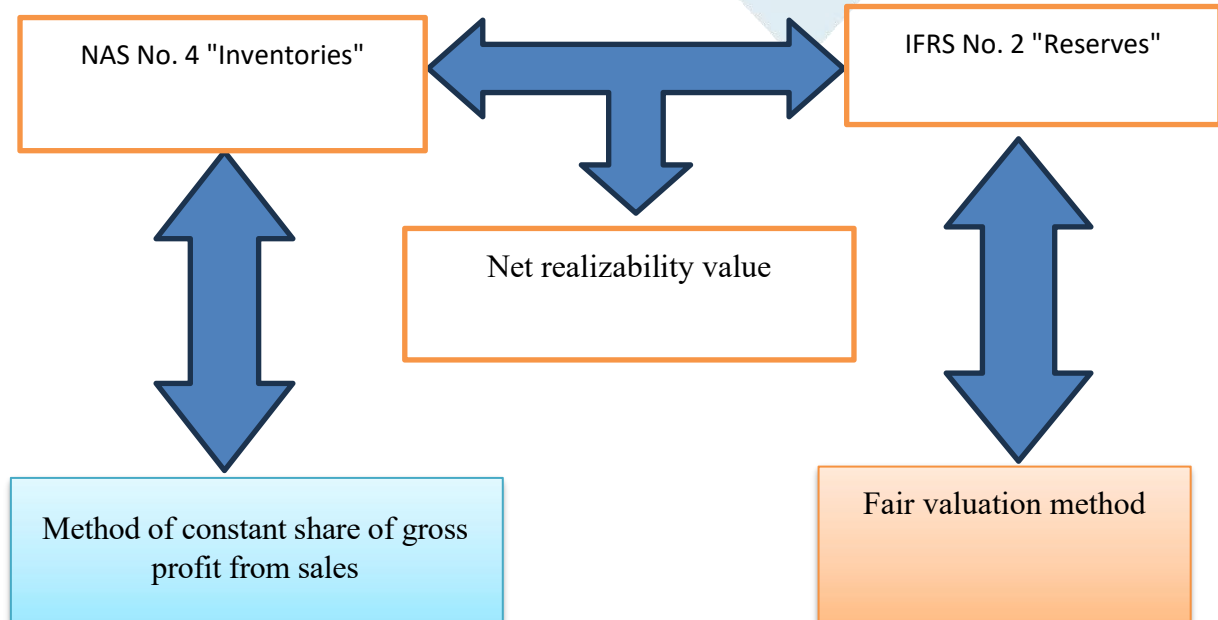


Figure 1. Methods of inventory valuation according to national and international standards¹

According to FEXS No. 2, reserves are:

- intended for sale within the framework of regular activities;
- in the production process for such sale or
- Assets in the form of raw materials or materials used in the production or provision of services.

According to A.E. Zhminko, "The accounting of inventories is the most problematic aspect of accounting, as the transition to the principles of international financial reporting standards implies that the correct valuation of inventories depends on the cost of goods sold and net profit" [5].

In their works, S.N. Tashnazarov and D.D. Pashaxodjayeva stated, "The cost of inventory (ZT) is the sum of the cost of purchased goods (ZXT), the cost of processing inventory (ZQIT), and other overheads (BO) [6]." This can be expressed by the following formula:

$$ZT = ZXT + ZQIT + BO \quad (1)$$

The international standard specifies the application of cost accounting methods at both actual cost and selling price. In international practice, the use of the FIFO, Average Value, and LIFO methods is envisaged in cases where it is impossible to identify all inventory valuations and apply this method. No. 16 stated that the LIFO method is not provided for in the new edition of the FEXS, citing the need to account for the cost of inventories.

Economists Sh.T. Ergasheva, A.K. Ibragimov, N.K. Rizayev, and I.R. Ibragimova, in their works, discuss the issues of accounting for inventories according to international standards [7]: "The main issue in accounting for inventories is the amount in which the cost of inventories should be considered as an asset and the income associated with them should be accounted for until future periods are envisaged." This standard provides guidance on cost and its subsequent allocation as an expense, as well as its reduction to any net realizable value. It also provides guidelines for cost calculation formulas used in determining the cost of inventories.

¹ Authors' development using Internet data

FEXS No. 2 "Inventories" allows for the use of various methods for determining the cost of inventories if the results of their use represent an approximate cost. The following are used to determine the cost of inventories:

1. Method of separate identification of specific expenses;
2. FIFO method (initial revenue - initial cost);
3. By the AVECO method.

Goods and materials used separately by business entities (precious metals, precious stones, and others) and not substituting for each other (i.e., they are not typically interchangeable), as well as those produced and intended for special projects, are valued using the separate cost identification method. In this way, special expenses are allocated to specific inventories. This method of illumination is suitable for products intended for special projects, regardless of whether they are purchased or manufactured.

According to the FIFO method, the cost of disposable units of inventories primarily includes the price of purchased or produced inventories, and the price of inventories at the end of the period is formed from the total price of the last purchased or produced units of inventories.

According to the AVECO method, the price of each unit of inventory is determined based on the weighted average price of identical units at the beginning of the period and the price of identical units purchased or produced during the period. Determining the price of each unit of inventory using the AVECO method is carried out by dividing the total cost of identical units, formed from the cost and quantity of inventory remaining at the beginning of the period, and the cost and quantity of inventory received during this period, by their total quantity. The average price can be calculated according to the method chosen by the organization, periodically, or based on the arrival of each new batch of inventories.

Table 1

Methods of inventory assessment used in the practice of foreign countries²

Countries	FIFO	Average price (AVECO)	Sale price	Others
USA	+	+	-	Method of retail sale
Germany	+	+	+	XIFO, LOFO, KIFO, KILO
France	+	+	+	-
UK	+	+	+	-
Italy	+	+	-	-
Greece	+	+	-	Method of stocking finished products
Spain	+	+	-	-
Luxembourg	+	+	+	Actual expenses
Netherlands	+	+	-	Method of storing finished and unfinished work
Portugal	+	+	-	Standard and special (market) value of reserves
Russian	+	+	-	Cost method for each unit
Switzerland	+	+	-	-
Sweden	+	-	+	Method of concluding a contract

² Authors' development using Internet data

Based on the data in Table 1, it can be concluded that the most common methods for accounting for inventories are weighted average prices (AVECO) and FIFO. Therefore, when transitioning to international accounting principles, it is advisable to assess inventories at average prices. Evaluating inventories at current prices allows for presenting their value as close as possible to the actual value for the reporting period. Inventories valued at current prices allow users of financial statements to obtain complete and accurate information. Accurate and comprehensible disclosure of inventory information in financial statements ensures the accuracy and transparency of accounting information.

In the context of the global economy, it would be advisable to utilize the best practices of developed foreign countries, such as the USA, Germany, and other countries, in the formation, classification, and evaluation of inventories in accordance with international standards. This, in turn, creates the opportunity for organizations to establish strict control over the entry, revaluation, and exit of inventories, while also ensuring the accuracy and transparency of financial statements.

It can also be said that in the current environment of increasing inflation, it is advisable to use the FIFO method for inventory valuation. Because in this method of cost estimation, as mentioned above, the cost of originally disposed inventories includes the cost of originally purchased or produced inventories, and at the end of the period, the cost of originally purchased or produced inventories is added to the cost of originally disposed inventories. This, in turn, prevents a sharp increase in the price of goods and products in the market.

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