The Peerian Journal

Open Access | Peer Reviewed

Volume 35, October, 2024

ISSN (E): 2788-0303

Website: www.peerianjournal.com

Email: editor@peerianjournal.com

Aligning Inventory Accounting In Uzbekistan With International Standards

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Abstract: This article presents an overview of research on harmonizing inventory accounting with international financial reporting standards, based on the measures implemented in recent years to align the existing accounting and financial reporting system in Uzbekistan with International Financial Reporting Standards (IFRS). The study focuses on the efforts to bring the accounting of inventories in line with international standards within the framework of these broader initiatives. Recognition, valuation, and accounting of inventories. Scientific proposals and practical recommendations have been formulated based on the experience of foreign countries regarding the methodology for determining their cost.

Keywords: international financial reporting standards, inventories, actual cost, net realizable value, valuation, financial statements.

Introduction

In recent years, Uzbekistan has created a regulatory framework and is conducting practical work to bring the existing accounting and financial reporting system into line with International Financial Reporting Standards (IFRS). The Ministry of Economy and Finance of the Republic of Uzbekistan, as the authorized body for the introduction of IFRS, is responsible for the implementation of the tasks set out in the Decree of the President of the Republic of Uzbekistan dated February 24, 2020 No. PP-4611 "On additional measures to transition to international financial reporting standards." In particular, over the past period, the Ministry signed an agreement with the Fund for International Financial Reporting Standards on November 11, 2020, providing for the translation of IFRS documents into the state language and obtaining the right to use them in other languages.

"Uzbekistan-2030" Strategy defines a number of priority tasks for ensuring the well-being of the population through stable economic growth in our country. It aims to double the size of the economy by 2030 and enter the ranks of "countries with higher than average income", effective use of the local raw material base and development of industry based on advanced technologies, development of "driver" sectors of industry and full exploitation of the industrial potential of the regions, the volume of added value in the industry to reach 45 billion dollars and create 2.5 million jobs, the production of import-substituting products by large enterprises and the expansion of cooperative relations with regional enterprises, the establishment of modern technological industrial zones in each district, the processing of yarn in textiles to 100%, and high in order to meet the demand for high-quality fabric, it consists of launching the production of 400,000 tons of artificial and mixed fibers, doubling the production volume of construction materials, and expanding the development of new types of energy-efficient materials.

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As it can be seen from these priority tasks, it is important to increase the amount of stock, materials and raw materials and their effective use in the further expansion of production in the industry, agriculture and service sectors. As a result, it is urgent to adjust the inventory accounting to the requirements of international standards of financial reporting.

Literature review.

In the course of our research, the concept of inventories, their economic nature and importance, as well as their classification were widely studied. Usually, the concept of inventory is broader and includes supply, production and sales processes. We will focus on the definitions and concepts given to inventories in the international standards of financial reporting and accounting regulations in our republic. In particular, the international accounting standard called "Reserves" (IAS-2) provides a detailed definition of Inventories and its essence is fully disclosed. It is indicated that the purpose of this standard is to determine the procedure for accounting for inventories ("Inventories" IAS 2.1).

The main issue of accounting for reserves is to determine the amount of expenses that will be recognized as an asset and carried forward until the related revenues are recognized. gives It also provides guidance on the costing formulas used to calculate costs to inventory value.

In this standard, the following definition of inventory is given: "Inventories: are assets in the form of raw materials or materials used in the process of production or services, intended for sale in the normal course of business, in the process of production for sale" ("Inventories" IAS 2)

The concept of inventories is given the following definition in the national accounting standards: "inventories are kept in the course of activity for the purpose of later sale and are in the process of production, as well as in the process of producing products, performing work or providing services, or administrative and social- material assets used for the implementation of cultural tasks" ("Reserves" IAS 2. Clause 1).

The procedure for accounting for reserves under Russian and American standards is significantly different: some types of assets included in reserves under RAS are not recognized as reserves under US GAAP, and different approaches are used to estimate reserves. Therefore, these differences should be taken into account in advance to reduce the number of corrections during the transformation.

If we focus on the foreign experience in accounting for inventories, USGAAP accounting for inventories ARB 43, Section 4 "Accounting Research Bulletin Valuation of Inventory" (Accounting Research Bulletin 43 (Inventory Pricing)) in which the general principles used in the valuation of inventories or inventories are described, and the amendments to Section 43 of Inventory Accounting (Costs of Inventories, Amendment to ARB 43, Chapter 4) clarify some issues of costing. (No. 151 FAS151).

If we refer to the experience of the Russian Federation in accounting for inventories, in Russia, the regulation PBU 5/01 "Accounting for inventories" applies in accounting (PBU 5/01).

According to this Regulation, attention is paid to the following as inventories, including:

engaged in producing products, performing works or providing services as raw materials or materials;

intended for sale (finished product, goods purchased from a supplier);

used to meet the needs of the enterprise.

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In our republic, economists have widely studied the nature of inventories, their classification and evaluation, including, according to A.Ibragimov: "Inventories are used in the course of activity and in the process of producing products, performing work or providing services, as well as administrative tasks. are working capital used in implementation" (Ibragimov, 2008).

A. Karimov and others in his work, inventories were studied as production reserves and expressed their opinion that they ensure the normal continuation of the production activities of the economic entity (Karimov, 2004).

In his scientific research, M. Khaytboev cites the opinions and scientific approaches of many foreign and domestic economists, for example: according to Z.I. Kruglyak, production reserves are considered the main element of the organization's economic activity. plays an important role in determining the financial status and economic potential, because they have a large weight in the structure of assets (Hayitboev, 2023).

According to J. Schreibfeder, the efficient management of reserves serves to satisfy consumer demands and maximize net profit (Schreibfeder, 2006).

Methodology.

In the analysis of inventories in financial reports, the generally established methodology of financial analysis was studied. Today, due to the diversity of normative procedures regarding the organization of financial analysis, traditional methods and directions are widely used in its organization. Analysis of inventories is expressed as part of indicators of financial condition. In our opinion, the main tasks of the analysis of the financial situation are summarized and composed based on the sources. Current (operational) financial analysis of financial analysis is of particular importance in inventory analysis. This method of analysis is carried out in the context of the impact of inventory on the financial situation in the implementation of plans for inventory or in the implementation of transactions related to inventory.

We think that it is appropriate to organize the inventory analysis in the following stages.

first, defining the purpose of inventory analysis and creating a plan;
second, collecting a database on the analysis of inventory;
third, the procedure for direct analysis of inventories;
fourth, summarizing and formalizing the results of the inventory analysis;
fifth, preparation of decisions on inventory analysis;
sixth, realization of the results of inventory analysis.

In the balance sheet, which is a source of information in the analysis of inventories, they are classified as "non-financial current assets of non-financial assets".

In the conducted researches, the inventory was analyzed horizontally, and scientific conclusions were given based on the obtained results. Horizontal analysis of inventories evaluates changes in their condition by comparing the indicators of these stocks. Also, on the basis of horizontal analysis, it is possible to assess their changes in absolute and relative terms.

Analysis and results.

Differences between the rules for recognizing inventories in the accounting of Uzbekistan, the USA and Russia can be seen in the table below (Table 1).

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firstly, Russian PBU 5/01 Inventories do not include unfinished assets, this aspect is also present in our practice, that is, in IAS No. 4 entitled "Inventories", and also according to US GAAP, they include assets used for management needs. does not include

secondly, in PBU 5/01, the value of inventory is indicated within the specified limit, but not exceeding 20,000 rubles, this practice is also set with a limit of 50 times the minimum wage. But there is no such provision in US GAAP.

Table 1
Comparison of the concept of inventories within countries [1]

Uzbekistan	Russia	USA	IFRS
NAS No. 4. Inventory	*PBU 5/01 Inventories*	*ARB 43, "Inventory Valuation"*	*IFRS 2 Reserves*
Inventory - material assets that are kept for the purpose of later sale in the course of operation and are in the process of production, as well as used for the production of products, performance of work or provision of services, or for the implementation of administrative and socio-cultural tasks;	Inventory - engaged in the production of products, performance of works or provision of services as raw materials or materials; intended for sale (finished product, goods purchased from a supplier); used to meet the needs of the enterprise.	Inventory - will be shown to be recognized as current period payments regardless of whether they meet the "very unusual" criteria. Inventory are tangible assets intended for the purposes of realization and production	Reserves - intended for sale in the ordinary course of business; is in the process of production for sale; are assets in the form of raw materials or materials used in the process of production or provision of services

If we study the research on inventory accounting on the example of the member states of the Organization of Turkish States (TDT), the largest member of the organization is Turkey IFAD, a national professional organization included in the GAAP Convergence study, and the accounting system for inventory accounting is fully international standards of financial reporting. is carried out

[1] Author development as a result of research

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Volume 35, October, 2024 ISSN (E): 2788-0303

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on the basis of requirements, in this respect, the account of commodity stocks almost does not have specific features.

Clause 8 of *NAS* No. 4 in our practice states: "Inventory is recognized as an asset if:

if there is certainty that the organization will receive future economic benefits related to the asset;

if the value of the asset can be reliably estimated;

if the property rights to them are transferred." (No. 4 *NAS*. "Inventories").

As a result of the research carried out, the differences between international and national standards for inventory accounting are shown below.

Table 2
Differences between IFRS "Inventories" No. 2 and NAS "Inventories" No. 4[2]

Indicators	According to IFRS No. 2	According to NAS No. 4
Presentation of financial statements	In the statement of financial position, it is reflected in the aggregate only through the item "Reserves". The composition of reserves and information on its calculation are explained in detail in the footnotes	In the accounting balance, the article "Good material reserves" is reflected together with its composition
Recognition of reserves	Reserves are recognized based on whether they meet the definition and requirements for asset recognition	The elements of commodity material reserves are listed by name. Criteria for inclusion in inventory and farm equipment are established based on service life and cost at the time of purchase.
Cost estimation methods	Standard cost method or retail price method	Simple, normative, ordered, staged, and in trade organizations, the method of cost inventory assessment can be used
Overspending	It is recognized as an expense without being included in the cost structure	Included in the cost component

In the international standard (No. 2 IFRS), when evaluating reserves, their cost is based on the following elements:

- shopping expenses;

[2] Author development.

- processing costs;

- other expenses.

According to the standard, the following equations are used to determine the cost of reserves:

1) Purchase costs = purchase price + import duties and other taxes + other costs - sales and rebate discounts.

(transportation, loading and unloading and other costs directly included in the cost of finished products, materials and services).

2) Processing costs = direct manufacturing costs + fixed and variable manufacturing overheads.

(direct labor costs).

3) Other expenses = expenses to bring the reserves to their current location and condition.

(non-manufacturing overheads or costs of designing products for specific customers).

According to the results of the research, it is proposed to express the procedure for determining the cost of inventories in international standards by the following formula:

AS=RS + PrS + OS (1)

Here:

cost - (ASActual cost);

purchase cost - (RSPurchase cost);

stock processing cost - (PrSProcessing cost);

other overhead costs - (OSOther overhead costs).

In our opinion, the inventory moves from the procurement process, and as a result of its movement, the cost items are added to it, that is, it accumulates costs and increases its total amount. This action continues until the stock is ready for sale. The cost incurred at each stage of the movement can be included in the inventory cost only at this stage.

The following was carried out in the coordination and harmonization of the current NAS No. 4 "Inventories" with the international NAS No. 2 "Reserves" (the project of this new NAS is presented in the appendix):

first, the name of the standard was changed to "Reserves" (in practice it is called "Commodity reserves");

secondly, the concept of "Scope of Application" was introduced in the standard in accordance with the international standard, which stated the following: "The standard is not used by budget organizations and is not applied to the accounting of financial instruments";

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third, in the definitions given in the standard6, reserves, net realizable value, and true cost were approached by authorship;

fourth, the reserve evaluation procedure has been further clarified, and the cost, procurement costs, processing and other costs have been methodologically improved;

fifth, reserve cost estimation methods and calculation formulas were harmonized with the international standard;

sixth, the formation of the net sale value of reserves and the procedure for its calculation were clarified;

seventh, reserve accounting systems and reserve outflow estimation methods have been improved;

Eighth, the procedure for disclosing information about reserves in financial statements has been brought into line with international standards.

Also, as a result of the research, international standards were deeply analyzed and studied. In particular, according to the provisions of the international standard of financial reporting No. 23 IFRS "Expenses on debt", in some cases it is determined that expenses on debt should be included in the cost of inventories. This requires a full understanding of the essence of the following two concepts:

first, "debt costs" are interest and other costs incurred by the organization in connection with borrowing funds.

second, "qualifying asset" is an asset that necessarily requires significant time to prepare for use or sale for the specified purpose ("Expenses on Debts" No. 23 IFRS).

Therefore, in order to include debt expenses in the cost of inventory, these assets of the enterprise are required to be included in the qualified assets. It is worth noting that financial assets and inventories that are produced or otherwise built over a short period of time are not considered qualifying assets. Also, assets that are ready for use or sale for a specified purpose at the time of purchase are not considered qualifying assets.

It should be noted that some problems and difficulties may arise in determining the direct relationship between qualified assets, namely:

use of a number of debt instruments to obtain debt funds at different interest rates;

when lending to other organizations within the group under different conditions;

fluctuations in exchange rates;

operating in a highly inflationary economy;

using foreign currency-denominated or foreign currency-linked debt.

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As a result, determining the amount of borrowing costs directly attributable to the purchase of a qualifying asset is difficult and requires judgment.

Summary.

In conclusion, the wide introduction of international standards of inventory accounting and the methods used in foreign countries into the practice of our republic will lead to the further improvement of inventory accounting and inventory accounting system based on the requirements of international standards.

As a result of researching the theoretical and normative bases of inventory accounting, the following scientific conclusions were reached and scientific proposals were made.

1. In the study, the author's approach to the concept of inventories was given: "Inventories are economic resources used in the production process, transfer their value completely to the value of another product, have an almost significant share in the structure of current assets of enterprises, and are the most important in assessing the financial condition of the enterprise appears as one of the important indicators".

2. In our opinion, we believe that it is appropriate to include an article entitled "Recognition of assets and liabilities" in the current "Accounting" law. In this regard, the following sentences should be reflected in the law:

"Recognition of assets and liabilities in accounting and financial statements that have the possibility of future economic benefits and the value of which can be reliably estimated is determined by national accounting standards."

3. Pursuant to paragraph 3 of the Decree of the President of the Republic of Uzbekistan No. 4611 dated February 20, 2020 "On additional measures for the transition to international standards of financial reporting", harmonization of the current NAS No. 4 "Inventories" standard in accordance with international standards of financial reporting in order to:

- according to paragraph 2 of the standard, according to the 5th sentence: "the procedure for determining the financial results on the outflow of goods and material reserves and clarifying the information about them in the financial reports";

- according to the definitions given in paragraph 3 of the standard: "Inventories are assets in the form of raw materials or materials that are intended for sale as a result of normal activity and are in the process of production, used in production and used in the process of providing services and performing work";

"Net realizable value - reworded as the selling price less the costs of bringing inventory to use in the ordinary course of business and the costs necessary to make the sale;

- instead of the current value in paragraph 3 of the standard, it is appropriate to introduce the following concept: "Fair value is the price that can be received from the sale of an asset or paid for the transfer of a liability in a normal transaction between market participants on the date of inventory valuation."

- in clause 15 of the standard: "trade discounts, rebate discounts, etc. on purchase costs of goods and material stocks are deducted from purchase costs";

- It is necessary to include a new section under the name "Other expenses" in the composition of NAS No. 4 and completely transfer the current article 17 to its composition and add the following articles in accordance with international standards:

We believe that the above proposed article will make it possible to further harmonize the accounting and reporting system with International Financial Reporting Standards (IFRS).

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