

Improving the audit of inventory

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Abstract: The article contains comments on improving the accounting and auditing of inventory depreciation based on international accounting standards. Inventories mean stocks of products and goods. In manufacturing activities, this usually consists of raw materials, partially finished goods (work in progress) and finished goods expected to be sold to customers. In a retail or wholesale activity, inventories include stocks of goods purchased primarily for resale. The value of inventories affects the cost of sales shown on the statement of comprehensive income and thus directly affects profit. In addition, the value of inventories is often significant, so even a small error in their valuation can result in a significant loss of profit.

Key words: Audit, reserves, inventory, risk, accounting, raw materials and products, production, retail.



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KIRISH. Each firm, organization, business entity or enterprise must account for all the invents that are part of its working capital. They are intended to ensure the production process or participate in the production process for a certain period. Then they are fully or partially included in the cost of goods. Before accounting for inventories, it begins with settlement documents received from suppliers of products for payment for raw materials or materials on the basis of a bilateral agreement concluded. The buyer receives documents in which the enterprise undertakes to transfer the amount of money indicated in them to the supplier's account. These documents include payment requests - orders, invoices, waybills, etc. Any of their movements must be reflected in the accounting, that is, their acceptance and disposal are recorded in specialized books. Each book must be linked to accounting, numbered, and certified by the seal of the enterprise. They are stored in the safe of the chief accountant and are archived for at least five years after use.

The purpose of auditing inventories is to determine the correct and fair organization of the storage, economical use, and accounting of inventories. When checking the accuracy of the indicators in the inventory report, as well as the audit of other objects, it is necessary to first examine and study the balance sheet documents such as "Production stocks", "Work in progress", "Finished goods", "Goods received for sale", the general ledger, journal orders and other accounting registers and determine the equality between them. At the same time, it is necessary to verify the synthetic and analytical accounting data. It is necessary to check the timeliness and accuracy of claims from suppliers and contractors, as well as the accuracy of the balance of materials that have not yet arrived at the enterprise.

LITERATURE REVIEW. They emphasize the need to ensure close cooperation with customers and suppliers to improve the audit of inventories. This will help to improve the condition of inventories. They indicate the need to train and conduct advanced training courses for qualified specialists in inventory auditing. This will help to improve the quality of the audit process.

On February 25, 2021, our President signed the new version of the Law "On Auditing Activities". In accordance with it, auditing activities were excluded from the list of licensed activities. Now this activity is carried out only on the basis of international auditing standards. According to the law, auditing activities are carried out on the basis of the principles of independence, objectivity, honesty, professional competence and confidentiality. Auditors should be free from expressing opinions based on assumptions and should not allow factors that could damage their reputation [1].

On Amendments and Addenda to the Law of the Republic of Uzbekistan "On Accounting" adopted by the Legislative Chamber on March 3, 2016, and approved by the Senate on March 31, 2016. The law states: "Inventory inventories shall be valued at the lower of the two following values: the actual cost (purchase price or production cost) at the date of the balance sheet or the market price (net realizable value)" [3].

Article 6 of the Law of the Republic of Uzbekistan on Auditing Activities. The principle of objectivity and integrity states: "The auditor must adhere to the priority of public interests, be impartial and based on assumptions, not take risks in his professional judgment due to a conflict of interest or pressure from other persons, and not allow situations that negatively affect the reputation of the audit organization" [4].

ANALYSIS AND RESULTS. Commodity material reserves, depending on the enterprise's working capital and the direction of its activity, range from 30 to 90 percent. The financial and economic condition of the enterprise depends on the efficiency of using commodity material reserves. The role of the amount of commodity material reserves in the continuity of the production process in each manufacturing enterprise, firm, or organization is very large. Commodity material reserves, unlike fixed assets, fully transfer their value to the cost of the product during the production process. Therefore, the mobility of working capital is directly dependent on the effective use of commodity material reserves. The total amount of working capital for the enterprise is determined by higher organizations, that is, the relevant ministry. Based on these transactions and requirements, when organizing production, it is necessary to make efficient use of natural and material resources, and to widely demand secondary resources and by-products. The procedure and rules for summarizing information on the composition, quantity, movement, processes of their preparation, purchase, and revaluation of the inventory of goods and materials belonging to the entity, including those in transit and transferred for processing, processed, reprocessed, used for production and other economic purposes, raw materials and materials, and working capital are studied. The basis of the manufactured product is the main TMZs. For example, in mechanical engineering - metal, in furniture production - wood, in textile production - cotton, etc. Extractive industry and agricultural products are called raw materials. For example, oil, ore, cotton, sugar beets, etc. The correct details of machines and units received from other enterprises, etc. are called semi-finished products. Inventories are maintained in accordance with the National Accounting Standard (BHMS-4), approved by the Ministry of Finance of the Republic of Uzbekistan by order No. 44 dated August 27, 1998. To account for inventories (TMZ) in business entities, the following accounts are used: "Materials", "Raw materials and inventories", "Purchased semi-finished products and components", "Fuel", "Spare parts", "Construction inventories", "Container and container inventories", "Inventory and household equipment", "Other inventories".

Inventories are valued at the lower of cost or net realizable value, as determined by national standards. The cost of purchasing materials directly includes the following: purchase price, import duties and taxes, costs of certification of goods, supplies, commissions paid to intermediary organizations, taxes, services and other costs associated with the purchase of supplies.

The characteristics of commodity material reserves are as follows: the share of materials in the product, their continuous supply as a means of production, the registration of documents based on the accounting of materials in the warehouse and leaving the warehouse, their reflection in the cost of the product, and their visibility in the inventory of materials.

Inventories should be recorded in the balance sheet of the enterprise at the purchase price and the cost of all expenses related to the sale. This conclusion can be drawn as a result of the clear definition of the objects of management and financial accounting in the inventory account and its study. This is noticeable not only in material costs, but also in other accounting objects. As a result of improving the audit of inventory, the following benefits can be achieved:

- The accuracy of inventory calculations increases.
- The efficiency of inventory management increases.
- Costs decrease.
- Financial risks decrease.
- The overall efficiency of the enterprise increases.

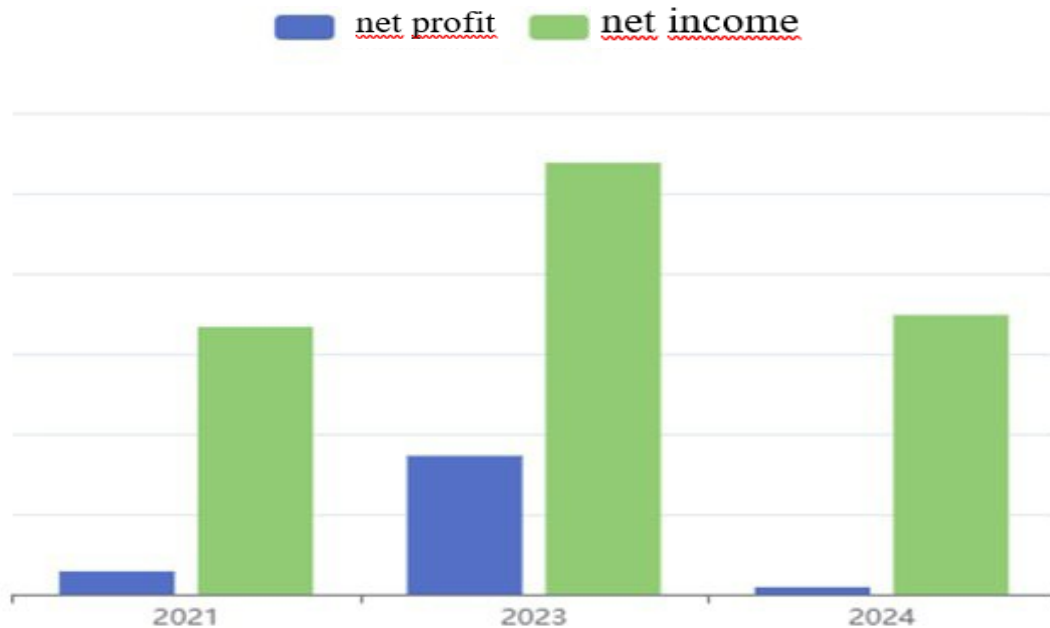
Improving inventory auditing plays an important role in increasing the financial stability of an enterprise and effectively managing the business.

Dekhkanabad Potash Plant, as one of the most important industrial enterprises in Uzbekistan, produces potassium salts, which are necessary for agriculture. Improving the audit of commodity material reserves is important for increasing the efficiency of this plant and ensuring its economic stability. The commodity material reserves of the plant consist of the following main parts:

1. Potash ore: The main raw material for potash fertilizers.
2. Chemicals: Substances used as additives in the production of fertilizers.
3. Packaging materials: Materials needed for the transportation and storage of fertilizers.
4. Plant equipment: Techniques and machines used in the production process.

The plant's activities play an important role not only in the domestic market, but also in export, which contributes to the economic development of Uzbekistan.

Figure 1. Annual revenue and profit graph of Dehqanabad Potash Plant JSC¹



The joint-stock company's net profit in 2021 was 57,410,279,000 sum, net income was 666,795,963,000 sum, net profit in 2023 was 345,473,172,000 sum, net income was 1,075,959,551,000 sum, and net income by October 2024 was 17,749,611,000 sum, net income was 696,482,923,000 sum.

Table 1

Financial performance of Dehqanabad District Potash Plant JSC²

Key financial indicators at the end of the year			
Indicator	2021	2023	2024
Net profit (%)	8.61	32.11	2.55
Return on capital (ROE)(%)	2.29	12.33	0.69
Return on assets (ROE)(%)	0.98	5.65	0.29
Debt ratio (%)	57.03	54.2	58.06
Debt to equity ratio (%)	132.73	118.33	138.45

The financial performance of the Dehqanabad Potash Plant is shown in the ratios presented in the table, where net profit, return on equity, return on assets, debt ratio, and debt-to-equity ratio are shown in percentages.

By improving the audit of commodity material reserves, the Dehqanabad Potash Plant can not only improve its economic performance, but also increase its competitiveness. The use of modern technologies and methods, improving the skills of employees, and strengthening internal control should be the main factors in this process. Such approaches will ensure the sustainable development of the enterprise.

CONCLUSION. The following conclusion can be drawn from the improvement of the inventory audit: In the conditions of modernization of the economy, the final stage of the economic activity process is to reduce the amount of raw materials and materials consumed in the cost of finished products as much as possible, while the price set for them, i.e. the cost, based on supply and demand, determines the rapid sale of the product, increasing demand for it.

This procedure for improving the audit of inventories allows you to identify the strengths and weaknesses of the organization, as well as create a basis for studying the financial condition of the company in order to solve its problems, such as making informed decisions, preventing administrative liability. The results of the audit and the future activities of the company directly depend on the level of knowledge, professionalism and qualifications of the audit staff. The main reason for this is that industry standards provide them with convenient and broad opportunities for decision-making.

¹ Made by author

² Made by author

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