ENHANCEMENT OF INVENTORY ACCOUNTING AND AUDITING IN ACCORDANCE WITH INTERNATIONAL STANDARDS

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Abstract. *This article addresses the issues surrounding the refinement of inventory accounting and auditing in accordance with international standards. It comprehensively examines the primary international standards for financial reporting and auditing, their role in business, challenges associated with current accounting and auditing methods, and the advantages of adopting international standards. Additionally, the article sheds light on contemporary trends, changes in standards, and steps taken to enhance inventory accounting and auditing.*

Keywords: *inventory accounting, inventory auditing, International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), transparency in reporting, uniformity in reporting, innovations in accounting and auditing, modern accounting and auditing methods, transparency and trust.*

INTRODUCTION

In the modern economy, effective and accurate management of inventory plays a critical role in the financial stability and success of a company. This management involves precise and reliable inventory accounting, along with auditing these data for compliance with the actual state of affairs. However, not all companies adhere to the best methods and standards in this field. This can lead to undervaluation or overvaluation of assets, impacting the financial results of the business.

In light of this, the importance of enhancing the accounting and auditing of inventory becomes evident. Specifically, aligning these processes with international standards appears to be the most radical and effective step in this direction.

This article explores the theoretical and practical aspects of improving inventory accounting and auditing in accordance with international standards. Existing problems are analyzed, and possible solutions are proposed. This work aims to assist practicing accountants, auditors, and managers in enhancing the efficiency of inventory management.

In today's business world, inventory accounting and auditing play a pivotal role in ensuring the financial stability and transparency of enterprises. With the increasing scale of global trade and economic globalization, there is a growing need for compliance with international standards in accounting and auditing. In this article, we will examine the importance of improving inventory accounting and auditing in line with international standards, identify problems with existing approaches, and propose steps for resolution.

The Role of Inventory Accounting and Auditing in Modern Business

Inventory constitutes a significant portion of a company's assets and directly influences its financial condition. Effective inventory accounting and auditing enable enterprises not only to accurately assess their resources but also to make informed strategic decisions related to procurement, storage, and sales of goods.

International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA)

In the context of the global economy, where companies operate in various markets, it is essential to ensure uniformity in accounting and auditing. IFRS and ISA are designed to establish common principles that allow for the comparison of financial results among different companies, making their reports more accessible and understandable for investors, analysts, and other stakeholders.

Challenges of Current Inventory Accounting and Auditing Methods

Inevitably, differences arise in national accounting and auditing standards, complicating the comparison and evaluation of financial statements between companies from different countries. Traditional methods of inventory accounting may not fully reflect their actual cost, exposing companies to the risk of erroneous financial decisions.

Advantages of Adopting International Standards

The implementation of international standards in inventory accounting and auditing brings significant advantages. By ensuring uniformity in reporting, they enhance transparency and trust from investors, ultimately facilitating capital attraction and business development.

Current Trends and Changes in International Standards

The rapidly changing business environment and technological innovations are bringing changes to the requirements for inventory accounting and auditing.

INTERNATIONAL ACCOUNTING AND AUDITING STANDARDS FOR INVENTORY

International Financial Reporting Standards (IFRS) constitute a regulatory framework consisting of various documents such as standards and interpretations. These regulations govern the process of preparing financial statements by organizations in the commercial sector of the economy. The primary objective of IFRS is to ensure consistency and transparency in the reporting provided by companies to their users.

These standards are not oriented towards the internal needs of management but are instead focused on satisfying the requirements of financial statement users. Whether investors, creditors, or other stakeholders, users expect to receive high-quality and objective information for making informed decisions.

IFRS includes diverse documents such as the preface to IFRS, conceptual frameworks for financial reporting, standards and their interpretations, as well as additional guidance. Each of these elements is an integral part of the system designed to ensure the uniform application of standards. Thus, IFRS forms a unified framework, guaranteeing consistency and integrity in application.

It is important to note that each document within IFRS serves a specific function and has a unique role in ensuring the stability and accuracy of financial reporting. This systematic approach ensures that standards and interpretations cannot be used in isolation from each other. International Financial Reporting Standards (IFRS), comprising a system of standards and interpretations, form a complex of documents regulating the preparation of financial statements by organizations in the commercial sector. In addition to standards, the application of IFRS also considers appendices, which, while not part of the core standards, influence accounting procedures and financial information presentation.

One significant aspect of financial reporting regulation using IFRS is the recommendations approved for the implementation and use of international rules. These recommendations provide practical guidance on applying standards in various contexts and for various types of organizations.

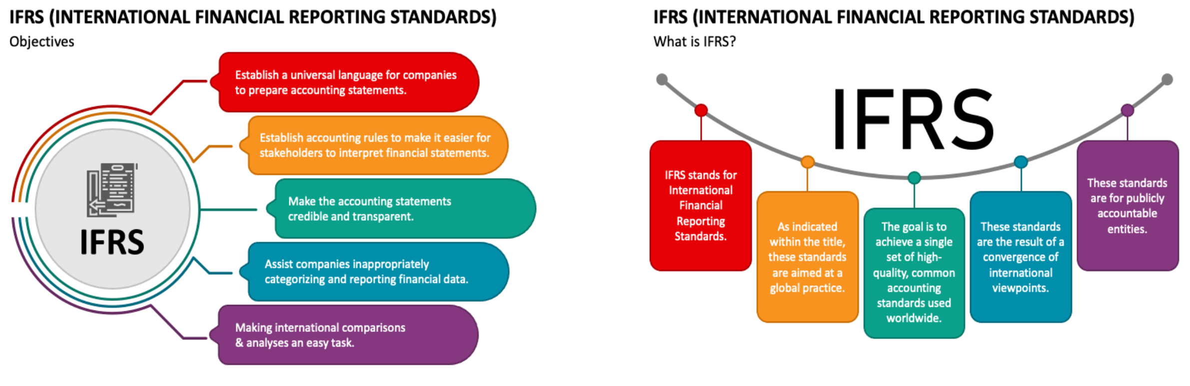

Fig 1. International Financial Reporting Standards (IFRS)

Financial reporting developed in accordance with IFRS has high informational value for various stakeholders. First and foremost, business partners find the opportunity to assess financial performance before making key economic decisions. This information not only contributes to more informed business relationships but also serves as a basis for forecasting and planning.

Investors, when deciding on investment strategies in various projects, find detailed and objective information about the financial condition of the company in IFRS. This facilitates the formation of rational investment strategies and improves transparency for the financial community.

Government bodies responsible for control and regulation in various areas of activity also find value in reporting according to IFRS. This information allows them to more effectively ensure companies' compliance with legislation and regulate economic sectors considering national interests.

Thus, financial reporting in accordance with IFRS not only provides a comprehensive financial overview of the organization but also serves as a tool for multifaceted assessment of its activities, thereby ensuring more effective functioning of market relationships and safeguarding the interests of various stakeholders.

INTERNATIONAL AUDITING STANDARD (ISA)

The International Auditing Standard (ISA) formulates the fundamental responsibilities of an independent auditor in the process of conducting an audit of financial statements in accordance with International Standards on Auditing. It establishes the key objectives that an independent auditor must pursue and elucidates the nature and scope of audit procedures required to achieve these objectives.

ISA also includes explanations regarding the scope and structure of the International Standards on Auditing as a source of legal norms. These standards encompass requirements that set out the basic responsibilities of an independent auditor applicable in various types of audits, including the fundamental obligation to comply with International Standards on Auditing.

This standard serves as a regulatory document aimed at ensuring standardization and efficiency in the process of auditing financial statements, as well as guaranteeing auditors' compliance with established norms.

ISA plays a significant role in ensuring trust and transparency in financial reporting, while establishing crucial standards to maintain a high level of independence and responsibility in the audit process. It is important to note that this standard is focused not only on the technical aspects of auditing but also on the ethical principles necessary to maintain the integrity and trustworthiness of audit results.

International Standards on Auditing set a high standard of reasonable assurance as a necessary requirement for the auditor when expressing an opinion on an organization's financial statements. This obliges the auditor to actively strive to eliminate material misstatements, whether arising from the audited entity's activities or due to errors.

The concept of reasonable assurance implies that the auditor must gather a sufficient amount of audit evidence capable of reducing audit risk to a level considered acceptably low. In this context, audit risk represents the risk of the auditor formulating an inappropriate opinion in case the financial statements contain material misstatements.

It is necessary to emphasize that despite the auditor's efforts to achieve reasonable assurance, absolute assurance cannot be attained. The audit process is subject to certain limitations, underscoring the relative nature of the persuasiveness of audit evidence and not excluding the possibility of remaining risks.

In light of these factors, most audit evidence, upon which the audit opinion is formulated, represents more persuasive evidence that convinces the auditor of the reliability and fairness of the financial statements, rather than absolute guarantees. Thus, the expression of reasonable assurance in the context of International Standards on Auditing underscores the pursuit of a high level of persuasiveness while acknowledging a degree of uncertainty.

To ensure the auditor attains reasonable assurance in accordance with International Standards on Auditing (ISA), the standards contain clear formulations of objectives, requirements, and application recommendations, along with other explanatory materials. In the planning and execution of the audit, ISA compels the auditor to apply professional judgment and maintain professional skepticism.

The procedures outlined in ISA (International Standards on Auditing) encompass the following fundamental steps that an auditor must undertake to achieve the objective of reasonable assurance:

Risk Identification and Assessment: Identification and assessment of risks of material misstatement, arising from both fraudulent activities and errors. Foundation based on an understanding of the audited organization, including its operations and internal control system.
Evidence Gathering: Obtaining a sufficient amount of appropriate audit evidence that supports the presence or absence of material misstatements. Developing and implementing relevant audit procedures in response to identified risks.

Opinion Formation: Forming an appropriate opinion on the audited financial statements. Basing opinions on conclusions drawn from the analysis of accumulated audit evidence.

The audit process in accordance with ISA underscores the necessity for not only the practical application of audit procedures but also the utilization of analytical thinking, professional judgment, and skepticism. It is crucial to note that each of these stages is interrelated and aimed at ensuring a high level of persuasiveness in the audit opinion, considering potential risks and constraints specific to the audit context.

The need for ISA arises from the integration of countries with their national accounting systems and financial reporting into the global system. ISA is designed to regulate the uniformity of organization, procedures, and documentation of audit results worldwide. However, ISA does not override national standards (regulations existing in various countries' economies).

ISA is applied diversely in different countries. For instance, in Russia, the Netherlands, and other countries, ISA serves as a basis for developing their national standards. In the United States, England, Canada, Sweden, there are national provisions. Nevertheless, ISA requirements are still considered in practical activities in these countries. In some states like Nigeria, Sri Lanka, etc., ISA is adopted as national standards.

As is known, ISA should only be applied to material aspects. However, global practice allows deviations from them to achieve the highest efficiency in audit examinations. In such cases, auditors are obligated to provide well-founded justifications for such deviations.

The IAASB (International Auditing and Assurance Standards Board), a committee within the structure of the International Federation of Accountants (IFAC), develops ISA. The primary objectives pursued by this committee in developing ISA include:

Harmonizing national rules and other regulatory documents in the field of auditing to provide high-quality services to the global community. Raising the level of professionalism of auditors in countries where it is below the global average.

The International Federation of Accountants recognizes the existence of national audit standards in many countries worldwide. It seeks to consider differences and develops audit standards that can be accepted at the international level. If national standards comply with ISA, audits and services performed in accordance with them are equated to audits conducted in accordance with ISA. If national standards contradict ISA, organizations that are members of IFAC must make efforts to incorporate principles based on ISA into their national audit standards.

ISA is utilized in various ways:

- As national audit standards (Cyprus, Nigeria, etc.).
- As a basis for developing their audit standards (Russia, the Netherlands, Austria, etc.).

Accepted for information and guidance in countries where there are national standards in the absence of regulation of a particular aspect by their own standards (the USA, etc.).

Fig 2. International Financial Reporting Standards (IFRS). Important areas of transition

Relationship between ISA and IFRS

International Financial Reporting Standards (IFRS), developed by the International Accounting Standards Board (IASB), a part of IFAC, are a key element of the regulatory framework governing the preparation of organizations' financial statements. In this context, the interrelation between international financial reporting standards and auditing is manifested in several aspects that define the interaction between auditors and audited organizations.

Firstly, a unified terminology has been achieved, used both in IFRS and International Standards on Auditing (ISA). The alignment of terminology ensures a standardized understanding of the objectives and objects of the audit, preventing potential disagreements between auditors and individuals responsible for financial statement preparation.

Secondly, auditors use IFRS as a common standard and criterion for assessing the compliance of the audited financial statements with established requirements. In preparing financial statements in accordance with IFRS, audited entities are obliged to comply with all enacted standards, which is also reflected in ISA containing direct references to IFRS and other documents developed by the IASB.

During the updating of ISA, the focus shifts towards the content of reporting standards. An example is the new edition of ISA 570 “Going Concern” starting from the financial statements for the year 2000, which includes references to IFRS 1 to determine the appropriateness of the assumption and the concept of "material uncertainty." This represents a change in approach, as the previous edition did not contain such references. Thus, the interrelation between international financial reporting standards and auditing is an important element of consistency and comparability in the field of financial accounting and verification.

ADVANTAGES OF APPLYING INTERNATIONAL STANDARDS IN THE ACCOUNTING AND AUDITING OF INVENTORY

International Financial Reporting Standard (IFRS) - 2 provides various methods for inventory valuation, including weighted average cost, first-in, first-out (FIFO), and specific identification. The choice of a specific inventory valuation method is an important aspect of proper accounting management at an enterprise, depending on the nature of its operations. Companies should strive to use a method that does not distort financial results.

Addressing issues related to inventory accounting and valuation is strategically significant for the accurate formation of the opening balance when transitioning to IFRS. Currently, many companies are developing a chart of accounts based on the approved Basis, making it particularly relevant to consider the possibilities of accounting software for organizing analytical accounting.

It is suggested to use the existing production accounting chart of accounts while simultaneously configuring multidimensional analytical accounting. Instead of creating separate accounts for various expense categories, such as material costs, wages, and overhead expenses, it is proposed to configure all production accounting accounts for multidimensional analytical accounting, as exemplified by the "Main Production" account.

Each cost item can also be detailed according to the specifics of technology and the organization of the production process, using, for example, a two-tier organization of analytical accounting. For the "Work in Progress" subsection, the configuration of accounts for analytical accounting is performed similarly to production accounts, and work in progress is accounted for according to the existing scheme. In this context, the use of computer programs allows for more efficient transfer procedures and operations for closing work in progress amounts.

Another significant practical advantage of applying international audit standards is the use of a risk-oriented approach, which includes three sequential stages:

Risk Assessment

At the first stage, risks are assessed by performing relevant procedures aimed at identifying and assessing possible risks.

Development and Execution of Additional Audit Procedures

Subsequently, additional audit procedures are developed and executed in response to identified and assessed risks.

Auditor's Opinion Formulation

In the final stage, the auditor formulates their opinion based on the assessment of the sufficiency and appropriateness of the collected audit evidence and prepares the audit report.

The application of a risk-oriented approach ensures a more qualitative and efficient audit. The auditor's understanding of risks associated with the auditee's activities significantly increases the likelihood of identifying significant risks of material misstatement in the financial statements.

Key advantages of the risk-oriented approach in conducting audits include:

The ability to conduct risk assessment procedures up to the completion of the reporting period. Optimization of the auditor's work by identifying and assessing only significant risks. Allocation of audit areas among members of the audit team based on their competence and experience. Strengthening the internal control system through decisions made regarding the conduct of control test procedures and informing management about identified risks. Reflecting causal relationships in the auditor's working papers.

CONCLUSION

In conclusion of this study on the improvement of inventory accounting and auditing in accordance with international standards, several key findings can be highlighted:

International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) constitute essential tools that provide unified principles and approaches to inventory accounting and auditing. Their application enables the enhancement of financial reporting quality and the efficiency of audit procedures.

The implementation of a risk-oriented approach in auditing inventory allows auditors to more accurately and efficiently assess the risks of material misstatement in financial reporting. This method supports informed decision-making and optimizes audit processes.

The transition to IFRS demands thorough preparation and the implementation of corresponding accounting systems. Companies must also possess a deep understanding of inventory valuation principles. The selection of valuation methods should align with the unique characteristics and activities of each company.

The application of a risk-oriented approach in auditing inventory not only ensures a high probability of identifying significant risks but also contributes to a more efficient utilization of audit team resources.

Given the constant changes in the global economy and business environment, companies and auditors must be prepared for continuous adaptation to new requirements and standards. The evolution of audit technologies and methodologies provides new opportunities for enhancing the efficiency of inventory accounting and auditing processes.

In summary, adherence to international standards and the application of a risk-oriented approach play a pivotal role in ensuring transparency and reliability in financial reporting. This foundation is crucial for making informed business decisions and gaining trust from stakeholders.

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