



Ways to Write Off the Cost of Inventory

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ABSTRACT

In this article, the influence of the applied methods of writing off inventories on the value of their balance and the consumption of materials in the accounting of materials at the enterprise has been studied. Using practical examples and related findings, we illustrate the impact on financial statements of applying the weighted average cost and first-to-stock (FIFO) methods used in material valuation.

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Introduction. Raw materials, materials, fuel and other objects of labor are used by economic entities in the process of production. In the production process, they undergo technological processing and are completely consumed, and completely transferred to the cost of finished products in one production process.

Accounting for the purchase, storage and use of materials is an important part of the accounting work of the enterprise. In connection with the rapid change in the range of products, suppliers of material resources and prices for materials in a market economy, inventory accounting is of particular importance.

Main part. In the Republic of Uzbekistan, the issues of assessment and accounting of inventories are regulated by the National Accounting Standard (NAS) No. 4 “Inventories”.

In a market economy, the purchase price of materials purchased by an enterprise may change. Therefore, it can be difficult to determine their significance in the production of materials.

To determine the real cost of products (works, services), it is necessary to estimate the cost of material resources used to produce these products. The accounting method chosen to estimate the cost of inventories affects the cost of goods sold (works, services) and, accordingly, financial results. Businesses can choose inventory accounting options that provide the desired amount of profit.

In accordance with NAS No. 4 “Inventories”, it is indicated that the following methods can be used to evaluate materials when they are put into production:

- at the established cost of the relevant unit;
- by weighted average (AVEKO);
- at the initial cost of inventories at the time of acquisition of inventories (FIFO).

Consider the content of these methods for estimating the cost of inventories:

- 1) At the identified cost of the respective unit. This method is used by enterprises that fulfill special orders and have a small range of material resources (individual production, for example, the jewelry (jewelry) industry and car sales). This method provides for the accounting and control of each unit of material resources.
- 2) By weighted average. In this method, the cost per unit of inventory is determined by dividing the total cost of the inventory by the number of inventory. The balance of reserves, determined by this method at the end of the period, reflects all prices of all goods purchased in the reporting period, and allows you to soften prices;
- 3) The historical cost method of inventories at the time the inventories were acquired. This method is based on the assumption that the cost of initially acquired material resources must be transferred to the cost of previously sold products. During periods of rising prices, this method provides the highest possible profit.

It is advisable to use the unit cost method for the production of non-replaceable materials (precious metals, precious stones, and so on), which are used separately by an economic entity.

In accordance with NAS 4 “Inventories” under the weighted average cost method (AVEKO), the value of each unit of inventory at the beginning of the period is the weighted average cost of exactly the same units acquired or produced during the period, determined based on the value of exactly the same units issued. Under the first-in-first-out (FIFO) method, the cost of outgoing items of inventory includes the cost of inventory purchased or produced first, and the cost of inventory at the end of the period last. the total cost of units of inventory purchased or produced.

In the following example, consider the impact of material valuation methods on the value of the balance of materials and the amount of production costs.

Example. On the purchase of materials and their consumption for the production of "Namuna" LLC in December, the following information is available (table 1).

Table 1. Information on the purchase and consumption of materials by "Namuna" LLC in December

Date	Money turnover	Quantity	Price per unit, soums
Balance as of 1.12.2022		500	150 000
6.12.2022	Purchased	2 150	165 000
9.12.2022	Released to production	1 850	
14.12.2022	Purchased	1 800	170 000
20.12.2022	Released to production	2 150	
26.12.2022	Purchased	2 100	180 000
27.12.2022	Released to production	2 050	

First, consider the estimate of the weighted average cost of materials for production (Table 2).

Table 2. Estimation of material consumption using the weighted average cost method (AVECO)

Date	Input			Output			Remainder		
	Quantity	Price, thousand sum	Amount, thousand soums	Quantity	Price, thousand sum m	Amount, thousand soums	Quantity	Price, thousand sum	Amount, thousand soums
Balance as of 1.12.2022							500	150	75000
6.12	2 150	165	354750				2 650	162,2	429750
9.12	1 850			1 850	162,2	300014,2	800	162,2	129735,8
14.12	1 800	170	306000				2 600	167,6	435735,8
20.12	2 150			2 150	167,6	360320	450	167,6	75415,8
26.12	2 100	180	378000				2 550	177,8	453415,8
27.12	2 050			2 050	177,8	364510,8	500	177,8	88905,1

The average price of one unit of materials is calculated for the delivery of each batch of materials, when the cost of materials is estimated at the weighted average cost. This average price is issued until the delivery of the next batch of materials.

When estimating the cost of materials used for production at the enterprise, using the cost of materials at the time of purchase (FIFO) method, we obtained the following information (Table 3).

Table 3. Materiallar sarfini xarid qilingan vaqt bo'yicha dastlabki zaxiralar tannarxi (FIFO) usulida baholash

Date	Input			Output			Remainder			Consi gnment
	Quanti ty	Price , thousand sum	Amount, thousand soums	Miq- dori	Qua ntity	Price, thousand sum	Amou nt, thousa nd soums	Bahos i, ming so'm	Quantity	
Balance as of 1.12.2022							500	150	75000	1
6.12							500	150	75 000	1
	2 150	165	354 750				2 150	165	354 750	2
total	2 150		354 750				2 650		429 750	
9.12				500	150	75 000	-		-	1
				1 350	165	222 750	800	165	132 000	2

total				1 850	315	297 750	800		132 000	
14.12							800	165	132 000	2
	1 800	170	306 000				1 800	170	306 000	3
total	1 800		306 000				2 600	335	438 000	
20.12			-	800	165	132 000				
			-	1 350	170	229 500	450	170	620	3
total			-	2 150		361 500	450	170	620	
26.12			-				450	170	620	3
	2 100	180	378 000				2 100	180	378 000	4
total	2 100	180	378 000				2 550	350	378 620	
27.12				450	170	620				
				1 600	180	288 000	500	180	90 000	
total				2 050		288 620	500		90 000	-

When materials are put into production, their cost must be taken into account separately for each purchased lot when it is evaluated using the historical cost method (FIFO) at the time of purchase. The cost of raw materials used in this method is calculated based on the original purchase price. At the end of the reporting period, the cost of materials is reflected at the last purchased prices.

The different inventory write-off options affect two main financial categories:

- 1) on the cost of products (works, services) in terms of direct material costs and, as a result, on the formation of financial results and profitability;
- 2) to the amount of working capital in the balance sheet at the end of the reporting period, which corresponds to such categories of financial analysis as liquidity and financial stability.

Using the example above, we show the impact of the weighted average cost of materials to manufacture (AVECO) and cost of inventory at the time of purchase (FIFO) method on financial statements (Table 4).

Table 4. The impact of significant valuation methods on financial statements

Financial reporting indicators	AVEKO method, thousand soums	FIFO method, thousand soums	Difference
Material balance (500 kg)	88 905,1	90 000	-1 094,9
Costs (6050 kg)	1 024 845,9	947 870	76 975,9

As can be seen from the table, when using the AVEKO method in the context of increasing purchase prices for materials, the balance of materials at the end of the reporting period is reflected by 1,094.9 thousand soums more than when using the FIFO method, the amount of materials used for production is 76,975.9 thousand. UZS is underestimated compared to the FIFO method.

Conclusion. When inventories are retired, their valuation using the FIFO method makes it possible to reduce the cost of finished products (works, services) and increase the volume of inventory balances in inflationary conditions.

The AVEKO method is advisable to use for enterprises that always have a balance of inventories at the end of the reporting period and are aimed at increasing profits. It is advisable to use the FIFO method for enterprises that have losses in their financial statements and are trying to reduce them.

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