

## **Theoretical Basis for Organizing the Accounting of Commodity Material Reserves**

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### **ABSTRACT**

*This article presents scientific and theoretical proposals and recommendations on the organization of inventory accounting in accordance with international financial reporting standards.*

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Today, as a result of the implementation of market principles, market economy relations are widely introduced in the Republic of Uzbekistan, when social political stability and continued economic growth are realized. This resulted in the creation of an appropriate legal framework in the Republic, the formation of market infrastructures, the renewal of the economy and the emergence of the systemic composition of production sectors as a separate composition of structures corresponding to the requirements of the current period. As a result of this, the growth of the economy of our country indicates that we are taking a place among the countries that are developing according to the results of 2019.

In this regard, our dear President Sh.M.In Mirziyoyev's appeal to Parliament "... Within the framework of the programs "prosperous village" and "prosperous neighborhood", large-scale construction and improvement works were carried out in 479 villages and Ovul, 116 neighborhoods in cities. This included 6.1 trillion soums or 1.5 trillion soums more than in 2018. In rural areas – 17 thousand 100, in cities – 17 thousand 600, in total 34 thousand 700, or almost 3 times more expensive and cozy houses were built than in 2016. The volume of industrial production increased by 6.6%, exports – by 28%. Proof of this is the fact that our gold and foreign exchange reserves increased by \$2.2 billion during 2019 and reached

\$28.6 billion."

Also, by the head of our country to the field of construction i.e., "... currently, the construction industry has become one of the most important "drivers" of the economy. This opinion is also clearly confirmed by the fact that the share of this industry in the gross domestic product exceeds 6 percent. For the further development of this network, it is necessary to harmonize building norms with international standards, implement modern construction technologies and materials, and radically reform the personnel training system for the industry. He also acknowledged that it is necessary to develop specific criteria for holding tenders and to introduce information technologies in the field", and that setting priorities and tasks for development in 2020 and the next 5 years is our main goal [1].

One of the main tasks facing countries on the path of sustainable development is to establish the production of quality products based on international standards and create a competitive environment between enterprises.

One of the important issues in the development of the economy of our country today is the efficient use of reserves and the effective organization of its accounting. In this regard, the composition of commodity material reserves in various sectors of the economy arises, the need to widely use international experience in order to properly organize their accounting. Because in the process of its integration into the world economy, it is important to group the commodity and material reserves adopted in international practice, analyze the composition, use it for its intended purpose, find optimal options for the remnants of commodity material reserves. Economic entities occupy a large share of commodity and material reserves in the structure of current assets, and their group includes raw materials and material used in the production process, unfinished production, finished products and goods. In the world economy, we can see that in recent years the share of commodity material reserves in the structure of circulating assets of industrial production networks has increased.

In the context of the liberalization of the economy, commodity material reserves determine the production and marketing policy of enterprises, therefore, they require a large amount of investment, and in this respect, commodity and material reserves are manifested as the main objects of accounting. Research shows that not always the norm of the need for commodity stocks in enterprises, their remains and assessment are not given enough attention, as a result of which a surplus is spent for such funds, that is, several times more than expected. Therefore, analyzing their composition and determining the optimal balances will provide an opportunity to effectively use the financial resources of the enterprise.

In the resolution of the president of the Republic of Uzbekistan dated February 24, 2020 No. 4611 " ... the issue of" harmonization of national accounting standards in accordance with IFRS" was highlighted. Of course, today positive work is being done on the coordination and harmonization of national accounting standards with International Financial Reporting Standards. Including in construction organizations, the combination of accounting with financial statements to international standards means the relevance of the implementation of a number of tasks. Especially in this area, goods are regulated through the use of material reserves and constant control of their consumption, accounting.

As a result of the analysis of the indicators of financial reporting of subjects in industrial sectors in the Republic of Uzbekistan, we can see that the necessary commodity and material reserves for their activities on a regulatory basis have an excess of balances than are relatively fixed.

Commodity material reserves are at different levels in industrial production, depending on the complexity of production processes, the degree of material capacity. Therefore, the composition of commodity material reserves varies depending on the reactivity of production and in accordance with the level of the production cycle.

It should be determined taking into account the fact that in order to correctly analyze the composition of commodity material reserves and use it optimally, they vary depending on their composition, weight and complexity.

When determining the composition of commodity material reserves and its analysis, it is necessary to focus primarily on the grouping of financial statements in international standards and their content in national standards. Because the correct categorization of them in accounting allows you to correctly

determine the cost.

In international standards, we can see that in the international standard for accounting (IAS) No. 2 "reserves", the procedure for establishing and grouping their contents is recommended as follows: "commodity-material reserves are the following assets:

- a) intended for sale within normal activities;
- b) have been in the production process for such sales; or
- c) assets in the form of raw materials and materials intended to be used in the production process or in the provision of services" [2]. So, we can see that the international standard is intended to take into account commodity stocks by dividing them into 3 groups.

The first group is assigned commodity values, that is, the procedure for accounting for the process of buying and using them for the purpose of resale.

The second group includes products that are in the production process and are intended for sale finished products, semi-factories, etc.

And in the third group, raw materials, materials, fuels and lubricants, spare parts, inventory and equipment, etc., which are used in the production or service process, are included. These values are used directly in the production process.

In this issue, accounting in the Republic of Uzbekistan is intended to be taken into account in the national accounting standards No. 4 "commodity material reserves". According to him, "commodity stocks in organizations can be in the form of:

- a) stocks of raw materials and materials, purchased semi-finished products and components, fuel, tare and tare materials, spare parts, inventory and economic equipment, as well as other materials intended for the production of products, performance of work, provision of services, service of production, administrative needs and other purposes;
- b) young animals in the pasture and pasture, adult animals, poultry, bee families, adult livestock released from the main herd to the unsuitable for sale, livestock received from abroad for sale;
- c) unfinished production in the form of details, trinkets, unfinished processing of items and their assembly, as well as unfinished technological processes. In organizations that carry out work and provide services, unfinished production consists of expenses for the performance of unfinished work (services) on which the acceptance and transfer documents are not formalized and the corresponding income is not recognized by the organization;
- d) finished product prepared in the organization (the final result of the production cycle-the finished asset, intended for realization and in accordance with the technical and quality characteristics provided for by the requirements of other documents in cases established by the contract or legislation);
- e) goods purchased (received) from other legal entities or individuals and intended for sale or resale without additional processing during the usual activities of the organization. In this case, objects of long-term assets (buildings, structures, vehicles, property (absolute) rights, etc.) can also be considered goods in cases where they are purchased for the purpose of subsequent sale or resale." [3]

Hence, we can see that national standards define accounting by dividing them into groups in terms of use. The issue of maintaining these values in the relevant registers of accounting is an issue that deserves special attention. In particular, in terms of their accounting in accounting accounts, the national accounting standards No. 21 establish the procedure for accounting as follows: "in the group of accounts accounting for materials, it is intended to be taken into account by dividing them into the following groups:

1010-raw materials and materials;

1020-purchased semi-finished products and components;

1030-fuels;  
1040-spare parts;  
1050-building materials;  
1060-pot and potting materials;  
1070- materials given for recycling;  
1080-inventory and farm equipment;  
1090-other materials."[4]

It should also be noted that this means that the accounts in the Department of commodity stocks are the first discharge accounts. It is possible to organize the process of accounting them taking into account certain groups and certain names, varieties, characteristics.

For example: to take into account the AI-93 brand gasoline, we can see that it is possible to organize an analytical account in the following order. 1030 - on the account named "fuels" we can see that a subchete named fuel can be used, which contains gasoline, and an analytical account 10300512-" AI-93 brand gasoline". In addition, in this group, that is, in a separate group in the Department of commodity and material reserves, the use of accounts that take into account the preparation and procurement of animals, materials in cultivation and feeding, accounts that take into account differences in the value of materials are established.

Hence, this standard indicates that it is recommended to keep them according to the accounting procedure by grouping the corresponding types. Thus, in the process of grouping commodity and material reserves, we can see that there are different opinions of Economist scientists.

In our opinion, the main issue is their correct grouping. Because, the material group participates in the supply, production and realism processes. Therefore, as a result of their correct grouping, the possibility of organizing their accounting is created and the possibility of determining the optimal level of investments (funds)spent on all types of commodity and material reserves and determining the optimal level in economic entities for storing materials. This creates the conditions for the constant provision of the activities of the subjects with these commodity and material reserves. That is, production ensures the continuity of the process.

At the same time, it provides an opportunity to save on additional costs associated with the preservation of excess commodity and material reserves in the warehouse, in places of production. In this issue, we can see that in Kazakhstan, according to the general accounts plan, a separate 1300- "reserves" section defines the accounting procedure for the following accounts. That is,

1310-raw materials and materials;  
1320-finished products;  
1330-goods;  
1340-unfinished production;  
1350-other reserves;  
1360-reserves for write-off of reserves [5].

We can see that the main emphasis in this matter is on the organization of the correct accounting of commodity stocks. Because, the correct accounting of commodity material values provides an opportunity to determine the cost of a product on an economic basis.

In our opinion, in the practice of accounting in the general order, we consider it expedient to take into account the following large types of commodity stocks:

- 1) raw materials;
- 2) unfinished production;

- 3) finished product;
- 4) goods;
- 5) other commodity-material reserves

As a result, the accounting of commodity-material reserves in this order forms the possibility of determining the influence of factors such as the result of production and completed production, ensuring the safety of the material and technical supply system, and manifests itself as a factor ensuring its adaptability.

Thus, the funds contained in the turnover form a circular circulation, that is, at the first stage, in the supply process, the subjects of labor necessary for production (raw materials, fuel, spare part, etc.) are purchased. Particular attention should be paid to the correct and justified conduct of the main materials necessary for production. And part of the subjects of Labor is filled directly at the expense of its own product, created at the previous stage of the production process. At the second stage of the circular turnover of the commodity production process, as a result of the production process, finished products are created, and the speed of the process of their sale affects the balance of commodity-material reserves.

The next important issue is the issue of a detailed consideration of the composition of commodity stocks. Because, depending on the nature of the networks, their composition may vary. For example, in the production of the automotive industry, the main material is details, spare parts and trinkets. Cement is considered to be materials extracted during production and prepared for processing. But spare parts for the automotive industry is a finished product for mechanical engineering.

Therefore, in the first case, working capital manifests itself as subjects of labor, in the second case, they are the product of Labor. However, in both cases, the description of circulation in them is the same: they go from one form of working capital to another, performing a full cycle during one stage. When categorizing these commodity-material stocks in detail, we can see that professor Ibragimov A. approaches as follows (see Figure 1).

Commodity-material reserves as an economic category are described differently in scientific and methodological and regulatory sources. In particular, national standards define: "commodity-material reserves – material assets that are held in the process of normal activity for the purpose of subsequent sale and are present in the production process, as well as used in the process of production, performance of work or provision of services or for the implementation of administrative and socio-cultural tasks." [3]

Different approaches to the categorization of this object of accounting are given by economist scientists. For example: the composition of commodity and material reserves by F.Gulumova included:

- that is, raw materials and materials used in the production of products, purchased semi-finished products, components, fuels, etc.;
- animals in the garden and pasture;
- incomplete processing of details, trinkets, items and unfinished production; finished product prepared in the organization;
- goods purchased from other legal entities and individuals [7].
- The Economist was approached by scientists Sh.Khidarov and X.Tukhsanov as follows:
- raw materials (components, fuels, etc.);
- unfinished production and semi-finished products, these - are taken into account at the level of preparation;
- finished products and goods. [8]



**Figure 1. Main groups of commodity and material reserves [6]**

In international accounting practice, however, standards have been developed that establish the basic principles (rules) of accounting for inventories [2].

One such standard is the so-called "reserves". The purpose of this standard is to establish the procedure for accounting for commodity and material reserves. The main issue in the accounting of commodity-material reserves is considered to be the cost of commodity-material reserves in what amount it should be recognized as an asset and taken into account until the income associated with them is recognized in the coming periods. This standard provides guidelines for cost and its subsequent recognition as cost, including its reduction to any net selling value. He also cites instructions on the formulas for calculating the cost used in determining the cost of commodity-material reserves.

This standard, therefore, provides guidelines for the cost and its subsequent recognition as an expense, including its reduction to any net selling value.

It also contains instructions on cost calculation formulas used in determining the cost of commodity-material stocks [2]. As can be seen from this definition, the standard description has a view, the commodity-material reserves, like our practice, are not explained separately (in detail). More emphasis is placed on raw materials and materials in production and intended for sale.

Technological (passing) reserves will have the property of transferring from one seller to the buyer in the material supply system. This will take a lot of time. As a result, the volume of commodity stocks may

exceed the necessary. Let's say, according to the orders placed on electrical equipment in industrial production, there will be a possibility that raw materials and finished products will accumulate in the warehouse even in the interval until their production and delivery to buyers.

The reason for the division of commodity-material reserves into cycles is that they are ordered in excess of what is necessary. As a result, problems arise with order delays, discounts, their storage and taxes.

In practice, reserve reserves will depend on supply and demand. Today's demand is more explained by the growing need for such reserves. On the one hand, while sellers wait for the price to increase, on the other hand, it causes the subjects to swallow, reducing production efficiency.

Accounting for the movement of commodity and material values in Russia is carried out on the basis of the standard requirements of No. 5/01 "Accounting of commodity material values". In this case, material reserves, finished products and goods are included in the composition of commodity material values. In the general case, material reserves are included, which are fully used in one cycle of production and added to the cost of production.

Commodity stocks can also be categorized according to the order of use, including:

- assets used in production (raw materials, materials, semi-finished products, fuel, construction and equipment intended for the implementation of the technological process of production of products, spare parts and assemblies, tires, fodder, mineral fertilizers, toxic chemicals, biopreparations and medicines, containers and other similar assets);
- assets for sale (finished products and goods);
- assets (inventories) used as labor tools;
- the assets that are valid in the composition of the motor after installation [9].

In the Republic of Uzbekistan, different definitions of commodity and material reserves are given by economist scientists. In particular, by N.Rakhmanov "commodity and material reserves are material assets of the first stage of the Capital Circle turnover, that is, production reserves that are not transferred to the production process and fully maintain their natural-material form; livestock grown and in the garden for the purpose of transferring or selling to the main herd; finished products from production; goods intended for sale; it consists of incomplete production and semi-finished products, as well as a brook in production" [10] is described as.

We can see that the issue of the composition of the commodity-material reserve by this author and its maintenance in accounting is revealed by the characteristics of the agricultural network. But in this definition we can see that the main issue is the finished product, the brand issues are overlooked. Because goods and finished products arise at the third stage of the Capital Circle turnover. For this reason, we believe that this definition should be expanded.

The next important issue is to clarify the basic principles of the account of commodity stocks. We can see that there are different opinions on this issue as well. In particular, by L.Mizyukaeva "in the process of accounting for commodity material reserves, it can be accepted at the following assessments:

- reserves of material production are accepted for accounting at its own cost in reality;
- the cost of commodity-material reserves includes all costs and transportation-preparation costs associated with the purchase and delivery of commodity-material reserves to their place of storage and bringing them to the appropriate state;
- assessment of commodity and material reserves established in foreign currency during the purchase of value is carried out in sums at the rate of the Central Bank of the Republic of Uzbekistan at the date of acceptance of reserves for accounting (registration of Customs cargo declaration – during import);
- their assessment during the transfer of commodity and material values to production (during the realization of goods) is carried out according to one of two methods of assessing stocks:
- by average cost (AVECO);

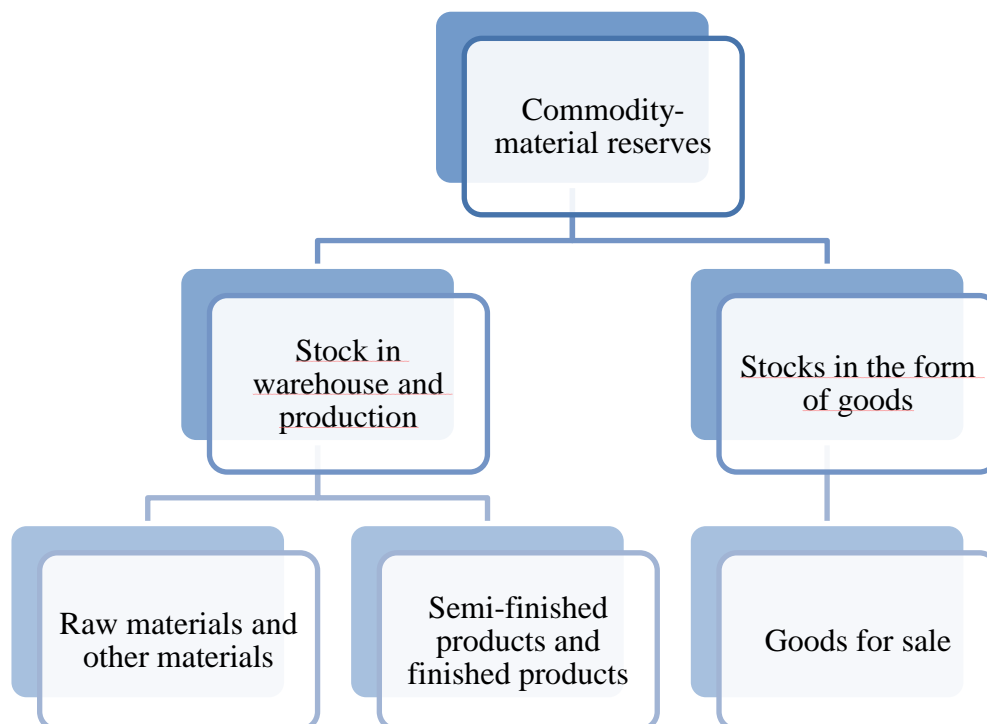
- at the cost of the first purchases at the time of purchases (FIFO).
- by the end of the reporting period, commodity and material reserves are reflected in the balance sheet by the value determined based on the methods of assessing the reserves used. That is, the value of commodity and material reserves on the balance sheet directly depends on the method chosen by the accounting policy of the enterprise for their assessment;
- inventory values are recorded in inventory accounting accounts according to the lower of two estimates - actual cost (purchasing price or production cost or market price net sales value);
- values that have been depreciated during the year, morally obsolete or have partially lost their initial quality are reflected in the accounting balance at the price that can be sold at the end of the reporting year, if it is lower than the initial cost of preparation (purchase), with the inclusion of the price difference in the financial results of the organization [11] expressed the opinion.

As a result of the study of the definitions and descriptions presented above, we consider it expedient to give a definition of commodity-material reserves in accordance with the activities of enterprises in industrial production sectors, explaining the content and essence.

In this case, we propose the following definition by the author: "commodity-material stocks are products of raw materials and materials in the form of production and commodity stocks, semi - finished products, finished products and goods intended for sale." Because this definition fully reveals the economic content of commodity-material reserves, based on the characteristics of industries of industrial production.

Based on this definition, we consider it expedient to categorize commodity-material reserves in their economic nature as follows (see Figure 2).

In our opinion, this definition and categorization meets the requirements of organizing the accounting of commodity and material reserves at enterprises of industrial production, evaluating them, maintaining current accounting and reflecting them in the report, organizing an internal control and analysis system, managing commodity and material reserves in general. It also complies with the basic principles of the calculation of commodity and material reserves.



**Figure 2. Categorization of commodity-material reserves.<sup>1</sup>**

<sup>1</sup> Developed by the author.



The group of reserves of industrial production includes only a significant amount of commodity-material values of various manifestations. At industrial production enterprises, it includes the following types of finished products and production reserves:

- raw materials and other materials;
- materials obtained for processing from customers;
- semi-fabricators of industrial production;
- semi-finished products;
- details, trinkets and other raw materials;
- container and container materials;
- petroleum products;
- inventory and devices;
- spare parts.

Thus, the above proposals and recommendations make it possible to correctly and effectively organize the accounting of commodity stocks in industrial production enterprises.

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