



ISSUES OF ACCOUNTING FOR EXCHANGE DIFFERENCES AND BORROWING COSTS IN THE FORMATION OF THE COST OF INVENTORIES IN ACCORDANCE WITH NAS AND IFRS

Yakubova Shamshinur Shukhratovna

Tashkent State University of Economics, PhD in Economics, Associate Professor shya.st83@gmail.com

Yakubova Shokhista Shukhratovna

Project coordinator for online educational products at NORMA LLC

DOI: https://doi.org/10.55439/EIT/vol11_iss5/a10

Abstract

Synchronization of accounting standards is an ongoing process in the international community. The convergence of national accounting with the approaches of international financial reporting standards (IFRS) simplifies international comparisons of elements of financial statements. This enables global investors to make effective financial decisions so that they can reliably see and understand what is happening with the company in which they want to invest. This article analyzes the main approaches to accounting for exchange rate differences and borrowing costs when forming the cost of inventories according to NAS and IFRS, and provides recommendations for bringing together the requirements of the national system for preparing financial statements of business entities with the concepts and approaches of IFRS for inventory accounting.

Keywords: international financial reporting standards (IFRS), national accounting standards (NAS), financial statements, inventories, accounting, assets, exchange rate differences, borrowing costs, advances, monetary item, qualifying asset.

Introduction

The introduction of International Financial Reporting Standards (IFRS) in Uzbekistan is one of the most important factors in improving corporate governance, investment attractiveness, competitiveness and business transparency.

The transition to IFRS has both positive and negative aspects for companies. The process of transition to IFRS is a complex and multifaceted process that must be in line with the pace of economic reality and the readiness of the current national accounting system and practitioners to innovate. As the economists T. Dargacheva and T. Shaydanov noted in their research, the application of IFRS is necessary to make business standards and accounting systems comparable between companies and between countries [9, 64].

The purpose of this article is to analyze the main approaches of accounting for exchange rate differences and borrowing costs when forming the cost of inventories according to national accounting standards (NAS) and IFRS, recommendations on convergence of requirements of the national system of preparation of financial statements

of economic entities with the concepts and approaches of IFRS on accounting of reserves are given.

Methodology

In the process of research, general scientific methods and methods of research were applied: dialectical and historical methods of knowledge, comparative, economic and system analysis, expert assessments.

Results and analysis

Inventories are an integral part of the financial reporting of virtually any organization. The process of providing organizations with production reserves and means of production, necessary for carrying out economic activities, is the most important object of accounting at organizations. It has a direct impact on the costs of the organizations and on the cost of production [11]. It is difficult to overestimate the importance of inventory valuation, since the reliability of the financial statements of the organization, presented as far as possible in the relevant reality, depends on the objectivity of its determination.

For accounting purposes, inventory is considered to be assets consumed or sold in the normal operating cycle of an entity, or used for a period of not more than 12 months.

A study of the requirements of national accounting documents shows that not all issues of inventory valuation are resolved in existing standards.

Table 1 below presents a comparative analysis of the main approaches to estimating the cost of acquired inventories according to NAS and IFRS.

Table 1

Comparative analysis of the main approaches of NAS and IFRS for inventory accounting ¹

	Accounting	Accounting under IFRS
Document	NAS No.4 "Inventories"	International Financial Reporting Standard (IAS) 2 "Reserves"
Document purpose	Determines the order of keeping of accounting of inventories belonging to legal entities (hereinafter - organizations) on the right of ownership, and their reflection in the financial statements.	Determining the treatment of reserves. The main issue in inventory accounting is the determination of the amount of expenditure that is recognized as an asset and carried forward until the corresponding revenue is recognized.
Scope of application	Not applicable to accounting for financial instruments	Not applicable to: (b) Financial instruments; and (c) Biological assets related to agricultural activities and agricultural products at the time of collection.

<p>Defining</p>	<p>Tangible assets held for further sale in the course of operations and in the process of production, as well as used in the production of products, the performance of works or the provision of services, or for administrative and social activities cultural functions</p>	<p>Inventories - Assets: (a) Intended for sale in the ordinary course of business; (b) In-process production for such sale; whether (c) Being as raw materials or materials to be consumed in the production or provision of services</p>
<p>Inventory and household supplies</p>	<p>Assets that meet one of the following criteria are included: Service life is no more than one year; Assets worth up to fifty times the basic calculated value established in the Republic of Uzbekistan at the time of acquisition, per unit (set), regardless of service life. The head of the organization has the right to establish in the accounting policy a lower limit on the value of assets for their accounting as part of inventory and household supplies.</p>	<p>No</p>
<p>Cost of inventory purchased</p>	<p>Included: customs duties and fees; amounts of taxes and fees associated with the acquisition of inventory (if they are not reimbursed (not taken into account)); payments made to supply and intermediary organizations through which inventories were purchased (commission); costs of certifying inventories and testing them in accordance with technical specifications associated with the acquisition of inventories; transportation and procurement costs for the procurement and delivery of inventories to the place of their current location or use; other costs</p>	<p>Includes all acquisition costs, conversion costs and other costs incurred to maintain the current location and condition of inventories</p>
<p>Acquisition of inventories at a discount</p>	<p>Discounts used by the buyer at the date of receipt of inventory, when there are supporting primary records, reduce the value of inventory purchased. Discounts arising (received) from the implementation of the terms of the</p>	<p>Trade discounts, assignments and other similar items are deductible when determining acquisition costs.</p>

	contract for the acquisition of inventories, after their acceptance, are applied to the results of financial and economic activities and do not reduce the value of purchased inventories.	
Deferred instalment purchase or inventory of inventory	Accepted for accounting at the cost of realizable without deferral or instalment payment. The resulting difference between the value of inventory sold without deferral or instalments and the total value of inventory purchases is recognized as financial expenditure (interest) during the deferral or instalment period, depending on the proportion of the current payment to the total deferral or instalment payments.	If the agreement in fact contains a financing element, the element of the difference between the purchase price of a conventional trade credit and the amount paid is recognized as an interest cost over the financing period.
Interest cost of borrowing to purchase or manufacture of inventory from debt	Not included in inventory cost	Cases where borrowing costs are included in the cost of inventories are defined by IFRS (IAS) 23 "Borrowing costs"
Cost of inventory purchased from foreign currency	Determined in soums by recalculating the amount in foreign currency at the rate of the Central Bank on the date of their acceptance for accounting based on the cost indicated in the primary documents confirming their acquisition (accompanying documents or cargo customs declaration), and including the corresponding costs associated with the acquisition of goods - material reserves provided for in paragraph 15 of NAS No. 4	Foreign exchange transactions accounting is regulated by the IFRS (IAS) standard 21 «Impact of exchange rate changes»
Measurement after recognition	At the lower of two values: cost (acquisition cost or production cost) as of the balance sheet date; net realizable value as of the balance sheet date	At the lower of two values: cost (acquisition cost or production cost) as of the balance sheet date; net realizable value as of the balance sheet date

The basic provisions for accounting for inventories according to NAS No. 4 “Inventories” determine the procedure for maintaining accounting records of inventories owned by an organization and reflecting them in financial statements. The national standard

includes in the concept of inventory material assets stored for the purpose of further sale in the course of business and in the process of production, as well as used in the process of producing products, performing work or providing services, or for carrying out administrative and socio-cultural functions (paragraph 3 of NAS No. 4). This definition is generally not very different from the concept of inventories under IFRS, where inventories are assets that are held for sale in the ordinary course of business, are in the process of being created for subsequent sale, or are intended to be used in the production of goods or provision of services (paragraph 6 IAS 2 Inventories). The economic purpose of having inventories is to make money on the difference between the selling price and the cost of the inventory, that is, to make money from the sale of inventories [3].

However, the scope of application of NAS No. 4 also includes accounting for inventory and household supplies, containers, animals for growing and fattening. IFRS does not have such a definition as “inventory and business supplies”. A common practice is for fixed assets (eg spare parts, components) to be treated as inventories and classified as current assets in the statement of financial position. This will result in an understatement of depreciation expense in the income statement because parts/components will only be recognized as an expense when they are used, which may be several years after the current reporting period. And when transforming financial reporting from the national system to the international one, part of the inventory and household supplies will be taken into account in the IFRS report as part of fixed assets if they meet the OS criteria [10].

Also, IAS 2 Inventories does not apply to biological assets related to agricultural activities and agricultural products at the time of harvest. Animals for growing and fattening are included in the accounting objects of another international financial reporting standard - (IAS) 41 “Agriculture” [6].

When forming the cost of inventories purchased for foreign currency, national accounting is based on the cost indicated in the primary documents confirming their acquisition (accompanying documents or cargo customs declaration). It is determined in national currency at the exchange rate of the Central Bank on the date of their acceptance for accounting [2, paragraph 24]. Accordingly, if an advance is paid to the supplier in foreign currency, then at the time the goods (services) are accepted for accounting, a difference may arise that is taken into account in the exchange rate difference accounts [8].

However, the procedure for accounting for exchange rate differences for accounting purposes under NAS and IFRS is different. Accounting for foreign exchange transactions is governed by IAS 21 The Effects of Changes in Foreign Exchange Rates. According to it, exchange rate differences are determined only by monetary items. These are units of available currency, as well as assets and liabilities receivable (payment), expressed by a fixed or determinable number of currency units [4, paragraph 8]. An advance paid for the supply of inventory is not a monetary item. Since this operation does not involve further receipt of funds in foreign currency.

The issue of including expenses in the form of interest for the use of loans in the cost of inventory purchased in whole or in part with borrowed funds requires special consideration. In accordance with paragraphs 5 and 7 of IAS 23 “Borrowing Costs”, interest and other costs that an organization incurs in connection with the receipt of borrowed funds are included in the cost of inventory if it is a qualifying asset - an asset that is being prepared for use by purpose or for sale necessarily requires significant time [5]. According to

paragraph 18 of NAS No. 4, when purchasing or producing inventory using borrowed funds, expenses in the form of interest on loans are not included in the cost of inventory acquired in whole or in part using borrowed funds. In national accounting there is a separate standard - NAS No. 24 “Accounting for borrowing costs”, which determines the procedure for accounting for borrowing costs. Paragraphs 12-20 § 2 of this NAS allow the capitalization of borrowing costs directly related to the acquisition, construction or production of a qualifying asset. However, according to paragraph 5 of NAS No. 24, depending on the specific circumstances, qualifying assets may be assets that require significant time to bring them to a state that allows them to be used for their intended purpose: buildings, structures, production machinery and equipment, intangible assets, power plants, investment property, etc. Qualifying assets do not include other types of investments and inventories that are produced routinely in large quantities, on a repeating basis, even if their production takes a long time (for example, the production of whiskey, wine, cognac, etc.).

We also note some differences in the approaches to valuing reserves after recognition. Under national accounting, in order to determine net realizable value, inventory is periodically revalued and its value is brought into line with current value. Inventories are revalued by recalculating the cost of their individual units based on documented current values of inventories, similar to those estimated at the date of revaluation. [2, paragraph 50, 51].

According to IFRS, assets should not be reported at a cost greater than the economic benefit expected from their sale or use. Therefore, if the cost of inventories exceeds the net realizable price, it is necessary to depreciate the inventories in the period in which the impairment occurred. The practice of writing down inventories below cost to net realizable value is consistent with the principle that assets should not be carried at a value in excess of the amount that can be expected to be realized from their sale or use [3, paragraph 28]. Estimates of net realizable price are based on the best available evidence of the amount that can be realized from the sale of inventory at the time such estimates are made. These estimates take into account fluctuations in price or cost that are directly attributable to events occurring after the end of the period to the extent that such events confirm conditions that existed at the end of the period [3, paragraph 30]. The sale of inventories at a price below cost after the reporting period (but before the financial statements are authorized) is an adjusting event in accordance with IAS 10 Events after the end of the reporting period and requires the inventory to be impaired in the reporting period just ended. If in subsequent periods the circumstances that led to the need to depreciate inventories to net realizable value cease to exist, and the inventories have not yet been used up, then the depreciation of inventories must be returned, but not higher than the original cost.

Conclusion and suggestions

The transition to IFRS is an important step towards ensuring openness and transparency of domestic companies, increasing their competitiveness, reducing the cost of borrowed funds and direct foreign investment. Using financial statements prepared in accordance with national accounting standards (NAS), it is impossible to fully guarantee a sufficient understanding by foreign investors of all aspects of the financial and production activities of companies in Uzbekistan. It is recommended to develop and make changes to the methodology for determining the cost of acquired inventories in order to bring the

requirements of the national system for preparing financial statements of business entities closer to the concepts and approaches of IFRS.

List of used literature

1. Law of the Republic of Uzbekistan «On Amendments and Additions to the Law of the Republic of Uzbekistan «On Joint-Stock Companies and Protection of Shareholders' Rights»» dated 06.05.2014 ZRU-370// <https://lex.uz/docs/2382411>

2. Order of the Minister of Finance of the Republic of Uzbekistan «On approval of the National Accounting Standard of the Republic of Uzbekistan (NAS 4) «Inventories», registered 30.06.2020, reg. number 3259// <https://lex.uz/docs/4890446>

3. IFRS (IAS) 2 "Reserves"// https://buxgalter.uz/folder?id=649998_mejdunarodnye_standarty_finansovoy_otchetnost_i&prodid=1_vse_zakonodaststvo_uzbekistana#

4. IFRS (IAS) 21 «Impact of Exchange Rate Changes»// https://buxgalter.uz/folder?id=649998_mejdunarodnye_standarty_finansovoy_otchetnost_odai&prodid=1_vse_konzazvostbekistana#

5. IFRS (IAS) 23 Borrowing costs// https://buxgalter.uz/folder?id=649998_mejdunarodnye_standarty_finansovoy_otchetnod_aosti&prodid=1_vse_zatelvo_uzbekistana#

6. IFRS(IAS) 41 "Agriculture"// https://buxgalter.uz/folder?id=649998_mejdunarodnye_standarty_finansov_otchetnosti&prodid=1_vse_zakonodasttel_uzbekistana#

7. IFRS (IFRS) 9 "Financial instruments"// https://buxgalter.uz/folder?id=649998_mejdunarodnye_standarty_finansov_otchetnosti&prodid=1_vse_zakonodasttel_uzbekistana#

8. И. Аббосхонова, И. Подольская. Чем отличаются курсовые разницы в целях бухгалтерского учета и налогообложения // https://buxgalter.uz/publish/doc/text183959_chem_otlichayutsya_kursovye_raznicy_v_celyah_buhgalterskogo_ucheta_i_nalogooblojeniya, 08.02.2023г.

9. Tatyana DARGACHEVA, Temur SHAYDANOV. On the issue of transition to IFRS in the Republic of Uzbekistan // Society and innovations Special Issue - 2, №01 (2020) / ISSN 2181-1415.

10. О. Даминов, Е. Таймазова. Трансформация в МСФО: основные средства. Газета НТВ / 2017 год / № 22 / Отчетность // https://gazeta.norma.uz/publish/doc/text132568_transformaciya_v_msfo_osnovnye_sredstva?paper=ntv

11. https://vuzlit.com/648417/tsel_zadachi_printsiipy_ucheta_revizii_proizvodstvennyh_zapasov