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ECONOMIC SUBSTANCE OF INVENTORIES AND CONCEPTUAL FOUNDATIONS OF THEIR RECOGNITION BASED ON INTERNATIONAL STANDARDS

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Abstract: This article highlights the issues of accounting recognition, valuation, and theoretical, methodological, and conceptual research on the economic substance of inventories in enterprises. Methodological differences between National Accounting Standards (specifically, NAS No. 4 "Inventories") and International Financial Reporting Standards (IAS 2 "Inventories") are comprehensively and thoroughly compared and analyzed. As a result of the study, a scientifically and practically enriched author's definition of inventories is provided, and a 3-stage conceptual system of criteria for recognizing inventories as an economic resource has been refined. Furthermore, scientific conclusions and practical recommendations have been developed for harmonizing national legislation with international standards.

Keywords: inventories, IAS 2 "Inventories", NAS No. 4, economic resource, author's definition, recognition criteria, cost, net realizable value, financial statements, principle of prudence.

I. INTRODUCTION AND RELEVANCE OF THE RESEARCH

The acceleration of the global economy, the globalization of investment flows, and the increasingly deeper integration of countries into international economic relations make ensuring the transparency and openness of enterprise activities a primary task. Today, International Financial Reporting Standards (IFRS) serve as a single universal language for foreign investors, creditors, and counterparties to objectively and reliably assess the financial stability and asset condition of enterprises.

In the Republic of Uzbekistan, significant work has been carried out in recent years to radically reform the accounting and financial reporting system and align it with internationally recognized principles. In particular, the Resolution of the President of the Republic of Uzbekistan dated February 24, 2020, No. PQ-4611 "On additional measures for the transition to International Financial Reporting Standards," as well as the tasks outlined in the Development Strategy of New Uzbekistan, created a solid legal and methodological foundation for increasing financial reporting transparency and unifying national standards with international ones.

Among the current assets of economic entities, inventories constitute the most substantial and dynamic part. According to statistical and empirical data, the share of inventories accounts for 30–50% of total assets in manufacturing enterprises, 40–60% in agriculture, and up to 80% in trade and supply organizations. Inventories represent the physical foundation that ensures the continuous and rhythmically stable operation of an enterprise. Therefore, proper valuation of inventories, accurate

cost formulation, timely and complete recognition, and truthful presentation in financial statements are of decisive importance in determining an enterprise's financial results (profit or loss), profitability indicators, and net asset value.

However, distinct methodological and conceptual discrepancies persist between the current National Accounting Standard No. 4 (NAS No. 4) and International Accounting Standard 2 (IAS 2 "Inventories") regarding inventory recognition, conceptual definition, accounting for certain inventory types (such as biological assets, service inventories, low-value and fast-wearing items), and their measurement. In practice, these discrepancies cause complexities and errors during the transformation of financial statements into the international format. This emphasizes the utmost theoretical and practical relevance of the topic of this article.

During this scientific research, methods of scientific abstraction, comparative analysis, induction and deduction, system approach, grouping, logical analysis, and structural analysis were widely utilized. The theoretical and methodological basis of the research comprises scientific works, textbooks, and articles by foreign and local economists dedicated to inventory accounting and their valuation under international standards.

Specifically, among foreign economists, renowned specialists such as D. Kieso, J. Weygandt, T. Warfield, B. Needles, C. Nobes, and D. Alexander comprehensively analyzed the mechanisms of recognizing inventories in financial statements based on the principle of prudence, determining their net realizable value, and reflecting impairment risks. In Uzbekistan, scholars who established scientific schools in accounting and IFRS—such as B. Khasanov, S. Tashnazarov, D. Pashakhodjayeva, K. Urazov, Sh. Ergasheva, A. Ibragimov, and others—have researched the adaptation of national standards to international requirements, the improvement of NAS No. 4, and industry-specific features of inventory accounting.

An analysis of the existing literature demonstrates that most studies treat inventories predominantly as physical-material items or merely as objects of legal ownership rights. However, under the conceptual framework of modern international standards, assets are primarily regarded as active economic resources capable of bringing future economic benefits and cash inflows to the enterprise. Hence, there arises a need to re-examine the economic essence of inventories from a modern perspective and clarify their conceptual criteria.

II. ANALYSIS AND RESULTS

Evolution of the Inventory Concept and the Author's Definition

In traditional accounting, inventories are broadly divided into three classical categories: raw materials and supplies, work-in-progress, and finished goods/merchandise. However, a comparative analysis of NAS No. 4 and IAS 2 "Inventories" shows that in our national standard, inventories are primarily limited by legal ownership rights and physical form. In IAS 2, primary emphasis is placed on the economic purpose of the asset, its role in the operating cycle, and the future economic benefits it brings to the enterprise. Based on an in-depth study of existing theoretical approaches and taking into account practical needs, the author proposes an updated and expanded economic and conceptual definition of inventories:

Author's Definition: "Inventories are a set of strategic active assets and economic resources held for sale in the ordinary course of business, consumed in the process of production or rendering of services, guaranteed to bring direct or indirect future economic benefits (cash flows), and whose value is variable under the influence of market dynamics."

The scientific and theoretical novelty of this author's definition is explained by the following key aspects:

1. Inventories are recognized not merely as static physical assets, but as active economic resources possessing dynamically changing value;
2. The condition that inventories must generate future direct (through sale) and indirect (through consumption in production to create goods) economic benefits for the enterprise is specifically emphasized;
3. In market economy conditions, value fluctuations of inventories and the necessity to measure them based on prudence are incorporated into the conceptual definition.

Comparative Analysis of Inventory Accounting under National and International Standards

A comparative examination of the methodological rules of NAS No. 4 and IAS 2 "Inventories" revealed a number of conceptual and practical differences. **Table 1** below presents these differences alongside **proposals for their elimination.**

Comparison Criterion	NAS No. 4 (National)	IAS 2 "Inventories" (International)	Methodological Difference & Proposal
Measurement Basis	Valued solely at historical cost (initial cost).	Valued at the lower of cost and net realizable value (NRV).	Introduce valuation at NRV and an impairment allowance system into national accounting.
Biological Assets	Livestock and plants are included in inventories.	Regulated separately under IAS 41 "Agriculture".	Reclassify biological assets out of inventories into a dedicated separate standard.
LIFO Method	Excluded from accounting practice.	Strictly prohibited.	Full alignment and harmonization exist.
Service Inventories	Service costs are not considered inventories.	Standard service costs prior to sale constitute inventory.	Reflect standard service costs as inventory.
Tools and Equipment	Contains an artificial cost threshold of 50 times the BCA.	No cost threshold; classified as PPE or materials based on nature.	Abolish the artificial 50-time BCA limit and harmonize classification rules.

Table 1. Comparative-conceptual analysis of NAS No. 4 and IAS 2 "Inventories"

Conceptual Criteria for Recognizing Inventories as Assets

According to the Conceptual Framework for Financial Reporting, asset recognition in accounting is the process of incorporating an item into the financial statements (Balance Sheet and Income Statement). As a result of the research conducted, a 3-stage conceptual criteria system for recognizing inventories in accounting was developed:

1. **High Probability of Economic Benefits:** The probability that future cash flows or other economic benefits will flow to the enterprise from the inventory must be greater than 50% (probable);

2. **Reliable Measurement:** The purchase cost, conversion costs, or other costs of the inventory must be documented and reliably measurable;
3. **Control and Transfer of Risks:** Legal title to the inventory as well as all associated risks and rewards must be fully transferred to the enterprise (e.g., according to Incoterms conditions for goods in transit).

III. CONCLUSION AND RECOMMENDATIONS

Based on the scientific and empirical research conducted, the following conclusions and recommendations have been formulated:

1. It is necessary to fully harmonize NAS No. 4 of the national accounting legislation with the requirements of IAS 2 "Inventories" and adopt a newly revised national standard. In doing so, it is advisable to remove biological assets from the scope of inventories and abolish the artificial threshold of 50 times the Base Calculation Amount (BCA) for tools and household equipment;
2. The proposed author's definition and the 3-stage recognition criteria for inventories will serve to properly reflect inventories on the enterprise's balance sheet, prevent their unjustified overstatement, and realistically assess the market value of the enterprise;
3. When measuring inventories, the principle of historical cost alone should be abandoned in favor of the prudence principle—valuing at "the lower of cost and net realizable value"—and broadly implementing an impairment allowance system in practice.

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