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*Inventory in Accounting and Reporting:
Problems and Perspectives*

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Title: Inventory in Accounting and Reporting: Problems and Perspectives

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Abstract

The inventory is the most important asset of the company, and it is impossible to imagine a company operating in any field without it. Inventory valuation affects the income statement, tax, balance sheet, cash flow statement, company borrowing ability, and so on. It is clear that inventory accounting is of exceptional importance to accounting and is an important process for companies.

The goal of writing this dissertation is to find out more about inventory accounting and to determine how to implement the accounting and reporting of inventory in real and current circumstances and also the understandings of persons about the information reflected in the literature view in the country area where we are researching. The research was conducted and used both quantitative and qualitative methods in research. The qualitative method is based on expert opinion, and the quantitative method is based on the survey.

Based on the results, determined that inventory accounting is not good enough in companies operating in our country. In particular, small and micro companies face more problems. Certain measures should be taken to address these problems, some of which are reflected in the Recommendations section.

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Introduction

The inventory is the most important asset of the company. Because there is an inventory of each enterprise regardless of the area in which it operates. That is, I can now show you an example of any company that works without the need for goodwill and financial asset. But I cannot say a company without an inventory. Therefore, inventory registration and accounting are of exceptional importance to the company. In general, inventory accounting is a key part of accounting for the evaluation and accounting of changes in inventories of the company. The cost of the goods sold during the period and the cost of inventory on the hand at the end of the period is determined by means of the inventory accounting. Thus, inventory accounting influences the income statement by determining net income and gross profit, the cash flow statement by affecting the calculation of income tax, and the balance sheet though determining current assets of the company. In addition, indirectly affects the company's sales and borrowing ability. All things considered; we see inventory accounting is how important process for the enterprise. Therefore, I decided to figure out such an important process is for the company how to implement and how the real situation is.

Research objectives

The study is conducted to determine how to implement the accounting and reporting of inventory in real and current circumstances and also the understandings of persons about the information reflected in the literature view in the country area where we are researching. So that, if we want to increase and strengthen our theoretical knowledge about inventories' accounting, there are many books available for this. However, if you want to learn how to use these real-life situations and to what extent they are applied, books may not be a good choice. Therefore, in this dissertation I used the survey method to explore the current situation.

Research scope

I use theoretical knowledge and research to achieve the goal in the dissertation. Both the survey and the expert opinion were used in the research. The expert opinions cover approximately 2016-2019, and also the survey was conducted in 2019. Thus, interviewers considering recent times have answered their questions in speeches. Given the resources I have used to get theoretical knowledge, I can finally state that the dissertation covers the years 2010-2019.

Methodology

I used both quantitative and qualitative methods during conducting the research. When I applied the quantitative method, I preferred to use the survey. The purpose of choosing this method is to see the difference between the theory and the real reality. Therefore, a questionnaire was prepared to achieve the dissertation research goals. It has been sent to many businesses located or operating in Baku to get answers to the questionnaire. At the same time, private negotiations with many accountants were conducted. Given all this, at the end of the survey, 148 accountants participated and expressed their views. The survey respondents differ by type of business or facility type. Thus, the survey has required the recording of the facility type and type of business. Although the question of business type is an open question, there are three options for state, specific and mixed according to type facility. As a result of the survey, telecommunications, consulting, retail, industry, marketing, and construction companies dominate the business. At the same time, private companies dominated the surveyed companies. These questions which I prepare for my survey were related to inventory accounting and helped to get some understandings. As a result, many companies operating in Azerbaijan appeared to have inventory accounting problems. However, due to there are some limitations in the survey, so no detailed information can be obtained. That is, according to given the concrete answers to the questions, it is difficult to clarify

the causes of problems. Therefore, I decided to apply the expert opinion method, which is another method of research.

It was clear from the foregoing that I used the expert opinion in the qualitative method of the research. My main goal in getting an expert opinion is to identify and study the causes and possibilities of existing problems. So, this research method is based on an interview, that is, a question scenario. When using this research method, I used short questions that will determine how inventory account has been processed, as mentioned above. Designed questions were prepared to explain most of the research paper content. After that, a meeting with experts was arranged to obtain answers to questions and was interviewed. Experts have not been randomly selected. The people interview to answer these questions are the leading people in this area. Although academics dominate among interviewees, they are people who are in contact with the market, that is, the real sector and the economy. Moreover, in order to get even more realistic information, I got an interview from a direct market, namely a company employee.

Dissertation outline

This dissertation covers the following topics:

Introduction: A chapter presents about motivation, research objectives and also research scope. Moreover, the chapter also demonstrates the methodologies and overview of the dissertation structure.

Literature view: This section provides information on how inventory records are implemented, ie inventory valuation methods, their superior and disadvantages, methods of inventory implementation, NRV and historical value. As a result, you can get theoretical knowledge of inventory in this section.

Methodology: This part reflects both methods which I used during conducting the research. So, the methods were used to determine how inventory accounting implements and how the real situation is and collect data.

Analysis and findings: This section also was analyzed the obtained data. The discussion of existing outcomes has been reflected.

Conclusion & Recommendation: This section summarizes the results of the general dissertation. At the same time, suggestions have been put forward to the identified problems.

Conclusion

This chapter summarizes the general outcome of the methods we use to reach the goal we have set. In addition, the importance of inventory accounting and some deficiencies in the used methods were demonstrated. Consequently, I can say that inventory accounting is not at a good level in companies operating in our country. Thus, despite the good situation in large and medium-sized businesses, there are some problems with applying inventory accounting in small and micro-companies. A number of measures should be undertaken to address these problems, and I have highlighted the most important of them in the Recommendations section.

Theoretical view

The expression ‘inventory’ has been determined in many forms, as registered in the literature. As an illustration, the word inventory doesn't possess the same meaning in the USA and in the UK. Namely, in American English and in a business accounting context, the expression inventory is generally used to specify the goods and materials that a business holds for the eventual purpose of resale. Different from American English, the word inventory, in British English, is more generally considered of as a list compiled for any formal purpose, like as the details of a property going to probate, either the contents of which a house let furnished.

Generally, inventories, as disclosed in the IAS 2, belongs to and includes assets that are held for sale in a regular course of business and these also cover finished goods and other assets that are in progress, i.e. WIP (work in process) and also raw materials.¹ To put it differently, inventory is the asset that is expected to be sold in the normal course of business. Important to realize inventory may not be instantly ready for sale. Given these points, inventory items can be one of the following three divisions:²

- Braced for sale in the normal course of business
- That is in process of being manufactured for sale
- The materials rather supplies meant for consumption in production process.

Given all this, we can say that there are three main types of inventories which include raw materials, the work in progress (WIP) inventory and the finished goods. Now, let's look at each of them separately.

¹ <https://www.ifrs.org/issued-standards/list-of-standards/ias-2-inventories/>

² Arnold Tony J.R., Chapman Stephen N., *Introduction to Materials Management*

First of all, let's look at the raw material. If stated as simply, raw materials are the unprocessed materials that used to produce a good. Namely, raw materials are the fundamental materials that manufacturing company purchases from its suppliers, that are utilized by the former to turn them into final products via implementing a set of production processes. For instance, flour is the basic material, namely raw material for an organization that produces cake, bread or pizza. On the other hand, must be remembered that it is very general and clear to observe that final product of a company are purchased as raw material for some other company. Let's try to explain this with an example. In the above-mentioned example, flour is raw materials for the baker, however, it also is the final products for miller. Although flour, in either case, is inventory, as you can see, in a different situation may be raw materials or the final product.

Optimizing raw material inventory is important. This is due to the fact that if a company holds large amounts of raw material in the stock, it will be exposed to more freight costs and the inventory will be worn. For example, raw materials in the pharmaceutical or food industry may be liable to decay. Unless they are used during the specified period, they can be dated or invalid and can not be used in production. Looking at it the other way, in order to meet the company's production requirements, it should always have a certain minimum level, which is chiefly followed in accordance with the market demand trend. Thus, it is important to optimize raw material resources.

Work in progress (WIP) inventory can also be referred to as semi-finished goods. They are raw materials which have taken out of raw materials stocks and are now incurring process of their progress into final products. They are a partly processed raw material that lies on a production floor. Thus, they haven't also reached the degree where they have turned into a final product.

The measure of inventory locked up like Work in Progress is below the better. This can be understood as inventory under the process that is no use until it

becomes converted into a final product. It may be marketable at some price nevertheless, it can't be sold to cause any earnings for a company's core business. In particular, in weak manufacturing systems, the WIP inventory is estimated as waste. Thus, the amount of inventory that is collected in any business form is minimized and time is spent to minimize and minimize the locked value to be as quickly as possible. The idea is that this capital can be invested elsewhere in order to make a better profit elsewhere, locked in the form of any inventory.

Finally, when it comes to finished goods, they are indeed a final product obtained after some applying of the production processes on the raw material and the semi finished goods explained above in article. They are saleable and their sale provides completely to the income from the core procedures of the company. As regards the inventory level of finished products, we should look at two types of industries. First, we will view the industries where mass production of finished products and sale will occur after production. Such industrial sample is the oil industry. The right approach is that a company which is such an industry retains the inventory of finished products as raw material inventory, namely, optimized level in accordance with demand in the market. In the meantime there are other types of industries where production of the goods depends on demand, ie production begins after the first order is received. Such industrial examples are the capital goods industries and the customized goods industries. Thus, in such industry the company, it is neither essential nor expedient to hold any finished goods inventory, because their finished goods held ready in reserve that never gets sold even if there are in the finished goods the slightest difference from the specifications of the new requirements of the customers. Thus, they will never be able to return, regardless of their investment in the preparation of finished products.

Inventory system

Although a company deals with production or merchandising, a clear accounting system with up-to-date records is important. Company can lose sales and customers if they are not available product that request by the customers in any style, quality or quantity. Also, enterprises should carefully monitor their inventory levels to limit their financing costs for large quantities of inventory transportation. Companies use one of the two types of systems for accurate inventory accounting: perpetual system or periodic system. Let's look at each of them separately.

If I start with a perpetual inventory system, I can point out that any changes in the inventory account are recorded continuously and maintained. Namely, in the inventory account, all buying and sales of the goods are recorded directly.

Thus, the perpetual inventory system has the advantages that require the inventory balance data to be upgraded and to reduce the number of physical inventories. In addition, the advantages of the perpetual inventory system are the following:³

- Prevents product out of stock
- Business owners understand customer options in a more precise way
- It enables business owners to centralize inventory management systems for several locations
- Each inventory provides higher accuracy due to the fact that it is registered in a separate book
- Provide valuable information to business owners, such as discounts, purchases, and refunds
- Reduces the level of physical inventory count

³ Steven M., Bragg, *Accounting for Inventory* (2013) / <http://www.yourarticlelibrary.com/inventory-control/6-main-advantages-of-perpetual-inventory-control/26151>

In general, there are some disadvantages to the perpetual inventory system which we pointed them in the below.

❖ Higher cost investment

The disadvantage of a permanent inventory system is the installation cost. Many systems require the buying and installing of the special equipment and the inventory software. This equipment read a barcode of each element; therefore, it is part of the sales center. Scanners are needful when the products are inventoried. The whole inventory should be included in the system, as permanent inventory systems are added to labor costs.

❖ Training

As a result of abovementioned occurred another disadvantage is training cost. Thus, employees need information using the equipment (such as a scanner) and software. Namely, they should know how to operations or use diverse equipment. Accounting staff needs the training to work to the inventory system.

❖ Misleading reliability

Employees can make mistakes when defining the level of inventory, entering quantities, scanning goods. In this time, a perpetual inventory system, also known as continuous inventory system may be misleading. In addition, vendors or employees can steal inventory.

❖ Increased the level of monitoring

In this circumstance, there is a need for more control so that worker errors and theft can be avoided. Therefore, most companies hire employees of security and receive equipment such as a camera security monitor.

Another way of inventory system is a periodic inventory system that used for measuring the level of inventory. Based on the periodic inventory system, the amount of inventory available is periodically determined in regard to the name.

So, at the end of each reporting period, or a specific period, a company determines the quantity of inventory. In addition, periodic inventory system requires the physical count for every period. All purchases made between physical inventory accounts based on the periodic inventory system are recorded in a purchase account. During the accounting period, the company purchases a number of inventories, which leads to an increase in the cost of the available inventory of the company. Generally, the inventory purchased during the period is debited in the Purchase account and is summed up with the inventory on hand at the beginning of the year based on what we have already mentioned. Thus, we determine the cost of the goods available for sale. In the end, in other words after the end of the accounting period, a certain amount of inventory may remain in the company's account. If we deduct ending inventory from the cost of the goods available for sale, we determine the cost of goods sold during the period. Given these points, the formula is as the following:

$$\text{Beginning inventory} + \text{Purchases} = \text{Cost of goods available for sale}$$

$$\text{Cost of goods available for sale} - \text{Ending inventory} = \text{Cost of goods sold}$$

Let's take a brief look at the elements of the above formula:

The beginning inventory is the amount of inventory available at the beginning of the accounting period of the company and is reflected in the company's accounting records as we know. It turns out that, the beginning inventory equals the cost of the inventory at the end of the previous accounting period. That is, the inventory amount at the end of the previous accounting period will be the beginning inventory of the immediately coming period.

The cost of goods available for sale equals the price spent on inventory which is able to for customers to acquire. To put it differently, the cost of goods available for sale is the buying price of whole merchandise which any retailer has willing for sale.

Ending inventory is the quantity of available inventory at the end of the accounting period of the company. To put it another way, the end-of-inventory is the amount of inventory available for sale at the end of the reporting period.

The cost of the goods sold is the calculation of all costs associated with the sale of a product, or more specifically, the direct costs involved in the production of goods sold in the company. This amount includes the cost of materials used to create a good product and direct labor costs. Nevertheless, it does not include indirect costs, such as sales costs and sales costs. The COGS is also called "sales costs". Normally, the value of the goods sold can be difficult depending on the number of products and the complexity of the production process.

Based on all this, I can say that the application of the periodic inventory system has a number of positive sides. Here are some of them:

- Ease of implementation

One of the greatest benefits of a periodic inventory system is quite easy to apply. Of course, it is less stressful than any other option for informing your inventory. Physically counting inventory is something you can actually do when you feel it. The majority of companies are working on this system once a year. But lastly, you can define it as "periodic" at any time. Please note that the yearly orders will be added by the end of the year.

- Low cost of implementation

If you still want the system to be easy, the periodic inventory system will be perfect. No need to invest in expensive software with this option. Technically, you do not have to spend most of your time except for a physical inventory. In addition, if during you do not get ready at that time, your expenses will never go technically.

- Ideal for smaller businesses

The use of periodic inventory systems is more appropriate and suitable for smaller enterprises. We talk about 3-5 people, limited inventory, and only a few orders within a few years. Larger businesses can also use this system, but everything is naturally more complicated, more than one employee, and thousands of orders per year.

- Simple calculations

Periodic inventory makes simple calculations to keep inventory account in the general ledger. Purchased elements are written on a purchase account; There is no entry to this account to keep accurate monthly inventory. At the end of every accounting period, the entrance is made to move the sold items to COGS. The end of the year is adjusted to reflect the inventory balance in the accounting period.

- Easy record keeping

Monthly required single records for periodic inventory are common sold goods and total purchased goods. The inventory is maintained through journal entries in the general inventory because inventory calculations do not require any accounting records. The only recorded physical records come from the yearly inventory account, which ends at the end of the reporting period.

The periodic inventory system works well for some types of business, especially with high sales volumes, although there are some disadvantages. Below I want to note that some of the deficiencies of periodic inventory systems are:

- Inaccuracies

If you're using a periodic inventory system, I can point out that you are dealing with something that is not very clear. This is one of the worst things you can say about periodic inventory. Remember that a year's accounting policy has changed

at the end of the year to reflect your physical inventory account. Therefore, the system is congenitally defective. If you use a periodic system, you cannot always provide the exact accuracy. Nevertheless, the periodic system is suitable for many businesses, so there is no problem. Companies such as those engaged in smaller businesses are referred to such businesses. But do not imagine that the formation or occurrence of the problem for large enterprises is a normal process. In this case, large companies also need to know that problems with the use of this system are not rare.

- Labor intensive

If the company has limited inventory, it will be easier to use the periodic inventory system with only a few adjustments per year. It is possible to do everything in an Excel document. However, as the business grows, the periodic inventory system can be quite difficult and problematic. Especially small businesses can be difficult to find time and energy to make sure that a routine inventory system is properly operated. Your mistakes may begin to appear.

- Lack of detail

While inventory levels are rarely detected, usually once a year, have a potential for errors and missed opportunities. For instance, once a year, the inventory results in the lack of details that make it difficult to identify and minimize the costs of inventory, such as shipping, purchasing and operating costs. On the alternative side, there are many opportunities, such as seasonal growth requirements, the company doesn't appear these opportunities due to lack of detail.

- Possible revenue losses

In the company, during the accounting period, the amount of inventory can be reduced as a result of theft, damage to goods and worker errors and other forms. Meanwhile, assessing and recording the amount of inventory may be difficult

under a periodic inventory system. At the same time, losses from the replacement of defective product are ignored. As a result, due to the fact that we are not aware of the warehouse, it is difficult to determine the number of inventories increases and to determine the revenue losses that may arise.

- Lack of valuable information

The disadvantages of a periodic inventory system are due to the lack of more information. It is possible to reduce costs and identify business opportunities by gathering information through simple and inexpensive technology. Thus, problems such as the quality problems can be predetermined without affecting many clients. At the same time, inventory decline is easier to detect. And business opportunities like increasing seasonal sales are visible.

Inventory evaluation

The estimate of inventories can be a complex process that requires the following to determine:

- I. The physical goods to be involved in the inventory
- II. The costs to be involved in the inventory
- III. The cost flow assumption to be adopted

I will explore these key issues in the subsequent three parts.

Costs included in Inventory

The costs included in the inventory are "all the costs of the acquisition, the conversion costs and other costs incurred the current condition of the inventories and in bringing it to the present location and condition." In this case, ie costs that are necessary to bring inventory to the present situation are divided into two parts, which are also periodic and product costs. Now let's look at each of them separately.

Product cost

Product costs include the costs involved in the production and creation of any product or service. These costs are added to the inventory and registered in the inventory account. Product costs are directly related to the production and include all expenses incurred in bringing the product to the present condition for sale. Such costs include, in general, direct labor, direct material and factory overhead. Sometimes product costs can include all labor costs. Thus, if the service is required to be delivered to the consumer, then all labor costs will be taken into account. Here's the salary tax, compensation and employee benefits, and so on. can be attributed.

I noted that product costs include direct labor, direct material and factory overhead. The three are listed below:

Direct material - Direct material costs include the raw materials used directly in the production of products. For example, when a company is a machine manufacturer, iron and similar materials used to produce machines can be an example of direct material costs.

Direct labor - Direct labor costs are the type of salary, type of insurance and benefit paid to employees directly involved in the production and production of goods. Most modern the Ford Motor plant uses robots for spot welding and painting, but manpower is used for assembly and other technical tasks. In this case, direct labor refers to wages of those who use the machine or line of the assembly line.

Manufacturing overhead - Factory overhead costs are indirect costs incurred when the product is manufactured. Examples of manufacturing overhead refers to electricity, natural gas, water, and sewer for operating the manufacturing facilities and equipment, factory management team, depreciation on the manufacturing equipment and facilities.

Thus, the value of the product unit in the market is calculated by dividing the total inventory by expenditure for production. The formula will look like the following:

(Total direct labor + Total direct materials + Consumable supplies + Total allocated overhead)

Product unit cost = $\frac{\text{Total direct labor + Total direct materials + Consumable supplies + Total allocated overhead}}{\text{Total number of units}}$

In the end, I can also point out that if the inventory was not sold, then the product costs are recorded as inventory assets. However, if the inventory is sold, it is recorded as the cost of goods sold at that time and appears as an expense in the income statement.

Periodic cost

Periodic costs cannot be capitalized, such as inventory, fixed assets, or expense. In other words, these costs are directly not related to production costs. From here it is clear that periodic costs are all expenses that are not covered by product costs. Office rent, commissions, selling expenses, general and administrative expenses, advertising expenses, executive and administrative salaries and benefits, depreciation expense and so on refer to examples of periodic cost. Non-periodic items are as follows:

- Prepaid expenses, such as paid rental costs
- Expenses included in inventories, such as direct material, direct labor and factory overhead
- Costs of fixed assets, such as purchased assets and capitalized interest

Based on all these notes, I can say that the periodic cost is not determined as the cost of the inventory, nor is it determined for a specific product. Such costs are not included in the cost of goods sold in the income statement. Therefore, periodic expense is shown as the expense during the accounting period. Therefore, it is usually included in the administrative expenses and sales section of the income statement.

If the value is used by the company in the current accounting period, that value is a periodic value. Otherwise, ie, if the use of value is linked to a product

or spread over a period of time, then that value is considered not to be a periodic value.

The cost flow assumption to be adopted

The cost of flows assumption means the existing methods of transferring the company's products cost to the cost of goods sold from its inventory. Obviously, the company receives inventory at several different prices during the reporting period. If we assume that the price of the inventory is based on its cost, at which time many purchase prices will be different, which should be used? As a result, a few systematic inventory cost flow estimates are used. Indeed, the actual flow of money is quite various. There is no requirement for the cost flow. The main goal is to choose what to use in a certain way.

FIFO is one of the methods used to determine the cost of inventories. As you see in its name, FIFO envisages the first deletion of the first acquired resource. That is, the inventory first produced, first purchased or at the beginning of the accounting period in the company will be the first sold inventory. From here it is clear that the new inventory is not sold. I just mentioned above that FIFO is used to determine the value of the inventory. More specifically, it is used to determine the cost of the goods sold and the ending inventory at the end of the accounting period. So, under the FIFO method, the cost of the goods sold will be the value of the first purchased inventory, and the amount of the ending inventory will be equal to the value of the new inventory.

This method also reasons matching past historical costs to the present cost. This results in the fact that the gross margin does not necessarily reflect the right income. Take, for example, an illustration. Let's assume that inflation has happened. As we know, the price of inflation in the market is rising. As a result, the cost of the newly purchased inventory will be higher than the cost of the previously purchased inventory. Thus, current revenues are adjusted to old and inexpensive inventories, higher net income is acquired at lower costs namely, are

resulted in the high-profit margin. Additionally, I can point out that, the inventory is inflated at the end of the reporting period due to the fact that the most recent inventory is generally received at high prices.

The FIFO method can be used with both the periodic inventory system and the perpetual inventory system. Therefore, many companies prefer FIFO's method of assessing inventory. In addition, the FIFO method has several advantages compared to other inventory valuation methods. But this does not mean that this method does not have the disadvantages. Now I will point out the negative and positive aspects of the FIFO method below.

1. The first advantage of the FIFO method is that it is easily understood and applied. That is, the goods purchased or produced when using this method are recorded in the same order.
2. Application of this method is more convenient and useful in case of a small volume of operations and the price of material is decreased.
3. As we know, the value of the ending inventory in the FIFO method equals the value of the most recent inventory. Hence, the inventory value reflects the market value of similar goods at the end of the reporting period.
4. This method helps to evade deterioration and obsolescence. As has been noted, first purchased materials namely, old materials are used first in the production. Therefore, the materials are used before wastage and deterioration. Thus, less damage is being made and the company's resources are used efficiently.

As for the negative aspects of the FIFO method, we can include the following:

One of the main drawbacks of the FIFO method is the fact that revenue is overestimation more than the current situation. This happens when the price of these commodities increases rapidly, i.e. when inflation occurs. I would like to note more clearly, the cost of new goods will be high in this situation. When

selling products, previously purchased products, in other words, old products in accordance with the FIFO method are used. Therefore, production costs are lower than expected. As a result, revenue is higher than expected. Thus, the financial statements do not reflect the financial position of the company and are misleading.

Under these circumstances, another problem of first in first out method is revealed. We have determined that the company's revenues are overestimated in the conditions of inflation. At the same time, we know that the company pays taxes on its income. It is clear from this that in the case of inflation, the company pays more taxes.

When explaining the FIFO method above, I mentioned that it used the matching concept. Nevertheless, the concept of matching is broken under the FIFO method. Because, according to the matching concept of accounting, the costs of the accounting period should be recognized in accordance with the income for the accounting period. However, when using the FIFO method, the first sale of old products, that is, the raw materials of the previous period is used in the current year, thus the costs are recognized to previous periods. In this case, the concept of accounting is violated.

When using the FIFO method, many orders may come. However, when the price is fluctuating, management of each batch related prices becomes difficult, complicated and clumsy.

The LIFO method, which consists of the initials of the words Last In First Out, determines the value of the inventory, in other words, is one of the methods used to determine the cost of inventory at the end of the accounting period and the cost of goods sold. The LIFO method works in contrast to the FIFO method. Because the most recent purchased products under the LIFO method are first used or sold. But this method is not so widely used. By reasons of the latest purchased

products are first sold in this method, previously purchased products are worn. As a result, the amount of waste of the company increases, suffer more, and the company can not use the materials efficiently. Under these circumstances, it is favorable to use the LIFO method in inflation conditions.

If you use LIFO in such a case, the price of the most recent inventory is always higher than the price of the previously purchased inventory. Thus, at the end of the reporting period, the cost of the inventory will be equal to the value of the previously purchased inventory. The value of the product sold will be determined based on the value of the most recent purchased inventory. At this point, the value of the sold product is high, which ultimately results in lower revenue. Because profitability is low, income tax is also low, ie the company pays less tax.

In essence, many companies prefer the FIFO method rather than the LIFO method. Because if a company uses a tax on the LIFO method, that company will use the LIFO valuation when presenting its financial statements to shareholders. Just as we have just mentioned, net income is lower than the LIFO method. Because net income is low, per share income is also lower. This is not favorable for shareholders.

It is clear from the above that the LIFO method has certain advantages and disadvantages. According to the following are some of the advantages, the LIFO method can be used by companies:

1. LIFO matches the latest expenses against current revenue:

When using the LIFO method, the most recent costs are matched to current revenue. However, in other methods of determining the inventory value, for example, the old costs in the FIFO method are matched to current revenues. When using the non-LIFO methods in inflation conditions, the costs are low and the

income is high. Albeit, the financial statements do not reflect the company's proper financial position.

In the LIFO method, the most recent costs are adjusted to current revenue and the quality and profitability of revenue increase.

2. The tax benefit and developments in the cash flows

Another positive feature of the previously mentioned is that there is a low tax burden. Thus, in the case of inflation, the most recent costs are matched to current revenues. The net income of the company is low and pays less income tax. As a result of the decline in income taxes, the company's cash flow improves.

3. Dividends

The items mentioned in the second paragraph are valid for the dividends. That is, under inflation conditions under the LIF method, the company gets less income. That is why it pays less dividends. But when using other methods, for example, FIFO requires more dividends for the shareholders, since revenue is more than just the current situation. From here it is understood that if we use the LIFO method, less dividends will be paid and the liquidity position will be maintained. On the contrary, if we use the FIFO method, then shareholders will require more dividend than expected, and there will be more pressure on the company's funding.

4. Physical flow of the inventory matching to the LIFO cost flow.

In some cases, the physical flow of the inventory fits to the LIFO cost flow. Let's look at the sample. For example, when placing products on the shelves, the most recent products are placed in the foreground. Thus, the most recently purchased products are sold first. As another example, we can look at the example of coal. Here coal is also collected, and the most recently obtained coal is placed so that these coals are used first.

5. LIFO decreases write-downs to the market:

Now, if we look at the future prices' reduction, we will see that this will not have a big impact on the company's net income. As you know, the most recent product under the LIFO method is used first, i.e. there is no high inventory value, they are sold or used first. Therefore, due to falling prices in the future, the probability of reducing inventory prices in the market will decrease.

Reduced earnings in inflationary time

As is well known, the use of the LIFO method is most prominent in the inflation period. When implementing this method, companies' revenues are reduced. In this case, investors do not understand the impact of the change in the report as a result of the company's transition to the LIFO method, ie the effect of LIFO and inflation on the report. Therefore, companies fear the impact on the investor and the reduce price of their shares.

Understatement of inventory

When Last in, First out used by company, the inventory value on the balance will be less visible because it is based on the old inventory. Because of the understatement of the inventory, the position of working capital seems to be worse than reality.

Manipulation of revenue

If the company uses the LIFO method, then that company can easily manipulate its revenue reports. So, by the end of the year, the company can easily change the acquisition pattern and manage the profit earned during the reporting period.

Additional cost

As a positive aspect of the LIFO method, I mentioned the lower income tax. But this will lead to the formation of additional costs that I will now mention. Thus, the companies using LIFO have understatement of inventory and the amount of inventory sold is overstated. Therefore, this process is forbidden by

most tax authorities. If the company uses the LIFO method, then they require additional documents from the company and transactions for tax liabilities calculation. This also creates additional costs.

This method, either expressed as Weighted Average Cost or simply Averaged Cost, is used to determine the amount of inventory remaining at the end of the period and the cost of the inventory sold. The inventory obtained through the AVCO method is collectively stored and causes loss of individuality on each party. Thus, it is fixed on the old or newly acquired inventory, and if the company applies the ACVO method, the products are consumed or used at random. Therefore, in contrast to the LIFO and FIFO method, the value of this method is determined as averaged value, and the unit price of the remaining inventory for the prospective sales and production costs is used. The average expense method determines the estimated cost of inventory based on the average price of all similar products in the inventory of each item in a stock. The average expense method is calculated by comparing the value of the existing inventory to the total inventory available for sale. Thus, the formula will be as follows:

$$\text{Weighted average unit cost} = \frac{\text{Total cost of units available for sale}}{\text{Number of units available for sale}}$$

Many companies around the world use the AVCO method. It explicitly points out some advantages in the average cost method. So, let's look at some of them.

Unlike the LIFO and FIFO method, the greatest advantage of the AVCO method is that if the company's inventory order is fast, the simplicity of calculation and it is easy to record. Thus, accountants are not required to monitor the volume and price of the purchased inventory. This leads to a decline in demand for workforce and employee errors.

The AVCO method for products that cannot be distinguished or products that cannot be distinguished one each of batch from others is more convenient

than the LIFO FIFO method. Such products can be included oil, iron or wheat. Because products under the AVCO method lose their individuality and are consumed or consumed randomly. AVCO accepts the flow of inventories at the same price as the individuality of each party loses when calculating the average. Therefore, it is more appropriate and relevant to such industries.

Another advantage of the AVCO method is that it automatically adjusts the effects of random price increases and decreases, especially at the end and start of the period. Thus, if the company recently purchased products at a price increase, the use of the FIFO method will result in an uncertainty as the amount of inventory at the end of the period increases. However, the AVCO method will dissipate the impact of the ground and thus better manage the sudden fluctuations.

As with other methods, certain deficiencies arise when applying the AVCO method. I tried to explain some of them below:

At the end of the period determined by the AVCO method, inventory costs may differ materially from those applied to similar products at that date. Thus, making the appropriate decision between the lowest value and the NRV rule is difficult. As the final equity figure for profit and current assets is significant, these figures may be invalid in order to make a decision and may require adjustments for valuation purposes.

An entity may use an expense plus a valuation strategy over the reporting period. At this time, each new purchase is different from the previous one. This leads to price changes. As a result, this activity of the company may cause dissatisfaction of the customers, but can also create difficulties for the potential customers and price decisions by the company.

As you know, products purchased by the AVCO method lose their individuality and are collectively evaluated. However, there are some products that to know age of them are important to the company during the use of those products. At this point, the AVCO method is considered to be less favorable than other LIFO and FIFO methods. Because it helps less than other methods.

When using the AVCO method, rounding up to decimal is implemented for inventory recorded. Such approximates result in large differences in large volumes of transactions at the end of the reporting period. As a result, the company's current assets and aggregate profit are deemed to be distorted.

Lower of Cost or Market and Net Realizable Value

Conservatism approach is used when preparing reports by accountants. The concept of conservatism suggests that these approach accountants use the smallest profit-making methods and avoid overstate the value of assets when a professional decision is made to evaluate transactions. Therefore, when using the Conservatism approach, the company applies either lower of cost or net realized value. Under a low cost method, the company's inventory must be presented at a lower value than the historical cost or market value in the balance sheet. If the market value of the inventory is not known, the net realizable value may be used. Now let's take a brief look at each one of them.

The Low Cost or Market (LCM) method is understood as the cost method of inventory valuation that evaluates its inventory value as its historical value or the lower part of the current market value. Historical value is based on the application of any of the FIFO, LIFO and weighted-average methods we know. Under the LCM method, if the purchase price of the product drops, the selling price of the product may fall or decrease.

Under LMC method, cost is recorded in either the historical cost or the market value at the balance sheet.

Net Realized Value (NRV) means the amount that the company expects to obtain. Hence, net realized value is sometimes referred to as the realizable value of cash. The NRV calculation process can be divided into several stages or steps, which include the following steps:

- First, determine the market price of the asset or the expected selling price

- Then we have to define all costs for the sale of an asset and its current condition. For example, here's the cost of production, advertising, transportation, etc. can be attributed.
- In the end, calculate the difference between the market value or the expected selling price of the asset and the costs of the asset's current position and sale.

Mathematically, a net exercise value can be determined by the following equation:

$$\textit{Inventory market value (Expected selling price) – Total production and selling cost = Net realizable value}$$

Methodology

In the first part, we considered general theoretical knowledge of inventory. Based on those mentioned, it is not difficult to find out how important inventory accounting is and how important it is for any business organization. Because simply speaking, an error in inventory evaluation will result in two errors. Thus, the inventory value at the end of the reporting period will be incorrect and as a result, the amount of inventory automatically at the beginning of the reporting period of the next year will also be incorrect. This is still a simple part. Inventory accounting incorrectness will generate incorrect gross profit, net income, cost of goods sold and at the same time, errors in current assets, total assets, working capital, and stockholders' equity. Therefore, inventory accounting for growth and survival in the competitive market today is one of the important issues.

Taking into account the importance of inventory accounting, it is necessary to determine how business entities in real life should go through this process. So, I did a research in this direction. As it is clear from the headline, I will mention the research and the methodology used to conduct it in this part of the thesis. The research provides information on the process of gathering, analyzing, exploring tools, designing to be used and the procedure that emphasizes the use of a particular method.

Research design

The research has been applied to determine the correct and effective inventory accounting in any business entity. At the same time, inventory accounting and reporting are also taken into account in conformity with International Accounting Standards. Thus, the implementation of a number of measures to eliminate the application of National Accounting Standards in Azerbaijan and the transition to international standards is an example of this. That is, the removal of the provisions of the National Accounting Standards and the

application of the International Financial Reporting Standards are carried out. Under these circumstances, in inventory assessment, generally in inventory accounting results from a number of problems.

Research problems

As has been noted this dissertation has several problems and the main problem can be shown as follows:

- I. Can any business entity in Baku make inventory accounting and reporting in accordance with both domestic legislation and International Financial Reporting Standards?

There are secondary problems with the principal problem:

- a. The determination to dispose of, evaluate and identify outdated, damaged, stolen, or over-stocked inventory.
- b. Determination of recording the incomplete usage, if the only portion of the product is used.
- c. Measurement of the accuracy of inventory aging when the items returned during canceled orders.

Research approach

When it comes to research approach, the information in this section refers to information that is divided into two parts: primary and secondary. Secondary data suggests theoretical information available on more research. We have already mentioned this in the upper section. Thus, it is understood that secondary information, as theoretical knowledge, reflects the information contained in the IAS relating to the determination of the value of the inventory, forms of calculation of its cost and other inventory accounting in accordance with our research.

However, secondary information does not provide full information and is used primary data to obtain more complete information. The main purpose here is to determine the awareness of persons about the abovementioned information in the country's area where we are researching, i.e., how implement the accounting and reporting of inventory in real and current circumstances. For this purpose, many business entities have been included in the study in Baku. Given the above, it should be noted that respondents in this population (Baku city) were fully dealing with inventory accounting and accountants.

It uses the primary information for this particular research, using different methods such as observation, survey, case study, expert opinion, etc. and also secondary data. It intends to involve both external and internal sources such as magazines, financial records, journals, adverts depending on the species and space of the the information needed.

The results and future prospects of the main and secondary phases of this research will be finally presented.

Case Study

At first, I would like to start my research with a case study. Because, the issue is of the most important way to deal with deciding the most proper methodology. Abovementioned summarizes the different kinds of inquiries and strategies that are generally fitting. Who, what and where questions can be examined through reports, authentic investigation, survey reviews, and interviews. In general, a case study is one of the approaches in why and how to understand questions.

Unlike surveys, usually the number of research units in a particular case is less than one survey, but the amount of detail available for each situation should be greater. Compared with practice, the case study researcher controls fewer variables than using a trial to investigate a situation. For example, the survey

collects information to summarize a number of organizations from all other organizations of the same type. But, contrary to the case study, the aim is to compare or replicate systematically one-to-one institutions in the study of various research issues in comparative situations among different organizations.

Let's take a look at all this above mentioned with practice question. Assume that, "A" company operates in any sector. So that, company held 1050 units of finished good item No 6943 in inventory on 1 May 2019. These were valued at 12,50 each. Also, this company discloses following information for the month of May 2019:

Date	Purchase			Sale		
	Quantity	Price	Total cost	Quantity	Price	Total cost
1-May	1050	€ 12,50	€ 13 125,00			
9-May				700	€ 30,00	€ 21 000,00
12-May	2800	€ 15,00	€ 42 000,00			
17-May				1750	€ 32,50	€ 56 875,00
20-May	1750	€ 17,50	€ 30 625,00			
29-May				1050	€ 35,00	€ 36 750,00

1. Suppose A company uses the periodic inventory system. What was the cost of good sold, ending inventory and profit, applying following method of inventory valuation?
 - a) FIFO
 - b) LIFO
 - c) AVCO

2. Suppose A company uses the perpetual inventory system. What was the cost of good sold, ending inventory and profit, applying following method of inventory valuation?
 - a) FIFO
 - b) LIFO
 - c) AVCO

Already we know that, under FIFO method the inventory first produced, first purchased or at the beginning of the accounting period in the company will be the first sold inventory. Contrast to the FIFO method, the most recent purchased products under the LIFO method are first used or sold. Accordingly, the solution to the problem will be as follows:

1. Company uses the periodic inventory system

$$\text{Beginning inventory} + \text{Purchases} - \text{Sale} = \text{Ending inventory}$$

$$1050 \text{ units} + 4550 \text{ units} - 3500 \text{ units} = 2100 \text{ units}$$

a) **FIFO**

Ending inventory

Most recent cost		
1750 units x € 17,50		€ 30 625,00
Next most recent		
350 units x € 15,00		€ 5 250,00
Cost of ending inventory		€ 35 875,00

Cost of good sold

Beginnig inventory	1050 x € 12,50		€ 13 125,00
12-May	2800 x € 15,00	€ 42 000,00	
20-May	1750 x € 17,50	€ 30 625,00	€ 72 625,00
Ending inventory			€ (35 875,00)
Cost of goods sold			€ 49 875,00

We can also solve this question even that:

Earliest cost		
1050 units x € 12,50		€ 13 125,00
Next earliest cost		
2450 units x € 15,00		€ 36 750,00
Cost of goods sold		€ 49 875,00

Gross profit

We should first calculate cost of sale

$$\text{Sale} = (700 \times €30,00) + (1750 \times €32,50) + (1050 \times €35,00) = €114 625,00$$

Sales	€ 114 625,00
Cost of goods sold	€ 49 875,00
Gross profit	€ 64 750,00

b) LIFO

Ending inventory

Earliest cost	
1050 units x € 12,50	€ 13 125,00
Next earliest cost	
1050 units x € 15,00	€ 15 750,00
Cost of ending inventory	€ 28 875,00

Cost of good sold

Beginnig inventory	1050 x € 12,50		€ 13 125,00
12-May	2800 x € 15,00	€ 42 000,00	
20-May	1750 x € 17,50	€ 30 625,00	€ 72 625,00
Ending inventory			€ (28 875,00)
Cost of goods sold			€ 56 875,00

Most recent cost	
1750 units x € 17,50	€ 30 625,00
Next most recent	
1750 units x € 15,00	€ 26 250,00
Cost of goods sold	€ 56 875,00

Gross profit

Sales	€ 114 625,00
Cost of goods sold	€ 56 875,00
Gross profit	€ 57 750,00

c) AVCO

It is fixed on the old or newly acquired inventory, and if the company applies the ACVO method, the products are consumed or used at random. The average expense method determines the estimated cost of inventory based on the average price of all similar products in the inventory of each item in a stock. Thus, the formula will be as follows:

Weighted average unit cost = Total cost of units available for sale / Number of units available for sale

Therefore, we should first calculate total cost of units available for sale, number of units available for sale.

$$\text{Weighted average unit cost} = \frac{\text{€13 125,00} + \text{€42 000,00} + \text{€30 625,00}}{1050 + 2800 + 1750} = \text{15.313}$$

Ending inventory

$$\text{Ending inventory} = \text{Units available for sale} - \text{Sale} = 5600 - (700 + 1750 + 1050) = \text{2100}$$

$$2100 \times 15.313 = \text{€ 32 157,30}$$

Cost of good sold

$$3500 \times 15.313 = \text{€ 53 595,50}$$

Gross profit

$$\text{Gross profit} = \text{Sales} - \text{Cost of goods sold} = \text{€ 114 625,00} - \text{€ 53 595,50} = \text{€ 61 029,50}$$

61 029,50

2. Company uses the perpetual inventory system

a. **FIFO**

Date	Purchase	Sale	Balance
1-May	Beginning balance		1050 x € 12,50 = €13 125,00
9-May		700 x €12,50 = €8 750,00	350 x € 12,50 = €4 375,00
12-May	2800 x € 15,00 = €42 000,00		350 x € 12,50 = €4 375,00 2800 x € 15,00 = €42 000,00 € 46 375,00
17-May		350 x €12,50 = €4 375,00 1400 x €15,00 = €21 000,00 €25 375,00	1400 x € 15,00 = €21 000,00
20-May	1750 x €17,50 = €30 625,00		1400 x € 15,00 = €21 000,00 1750 x € 17,50 = €30 625,00 €51 625,00
29-May		1050 x €15,00 = €15 750,00	350 x € 15,00 = €5 250,00 1750 x € 17,50 = €30 625,00 €35 875,00

- **Cost of ending inventory**

€ 35 875,00

- **Cost of goods sold**

€ 8 750,00 + € 25 375,00 + € 15 750,00 = € 49 875,00

- **Gross profit**

Gross profit = Sale – Cost of goods sold = € 114 625,00 - € 49 875,00 = €

64 750,00

b. LIFO

Date	Purchase	Sale	Balance
1-May	Beginning balance		1050 x € 12,50 = € 13 125,00
9-May		700 x € 12,50 = € 8 750,00	350 x € 12,50 = € 4 375,00
12-May	2800 x € 15,00 = € 42 000,00		350 x € 12,50 = € 4 375,00 2800 x € 15,00 = € 42 000,00 € 46 375,00
17-May		1750 x € 15,00 = € 26 250,00	350 x € 12,50 = € 4 375,00 1050 x € 15,00 = € 15 750,00 € 20 125,00
20-May	1750 x € 17,50 = € 30 625,00		350 x € 12,50 = € 4 375,00 1050 x € 15,00 = € 15 750,00 1751 x € 17,50 = € 30 625,00 € 50 750,00
29-May		1050 x € 17,50 = € 18 375,00	350 x € 12,50 = € 4 375,00 1050 x € 15,00 = € 15 750,00 700 x € 17,50 = € 12 250,00 € 32 375,00

- **Cost of ending inventory**

€ 23 375,00

- **Cost of goods sold**

€ 8 750,00 + € 26 250,00 + € 18 375,00 = € 53 375,00

- **Gross profit**

Gross profit = Sale – Cost of goods sold = €114 625,00 - € 53 375,00 = € 61 250,00

c. AVCO

Date	Purchase	Sale	Balance
1- May	Beginning balance		1050 x € 12,50 = €13 125,00
9- May		700 x €12,50 = €8 750,00	350 x € 12,50 = €4 375,00
12- May	2800 x € 15,00 = €42 000,00		3150 x € 14,722 = €46 375,00
17- May		1750 x €14,722 = €25 763,50	1400 x € 14,722 = €20 610,80
20- May	1750 x €17,50 = €30 625,00		3150 x € 16,265 = €51 234,75
29- May		1050 x €16,265 = €17 078,25	2100 x €16,265 = €34 156,50

- **Cost of ending inventory**

€ 34 156,50

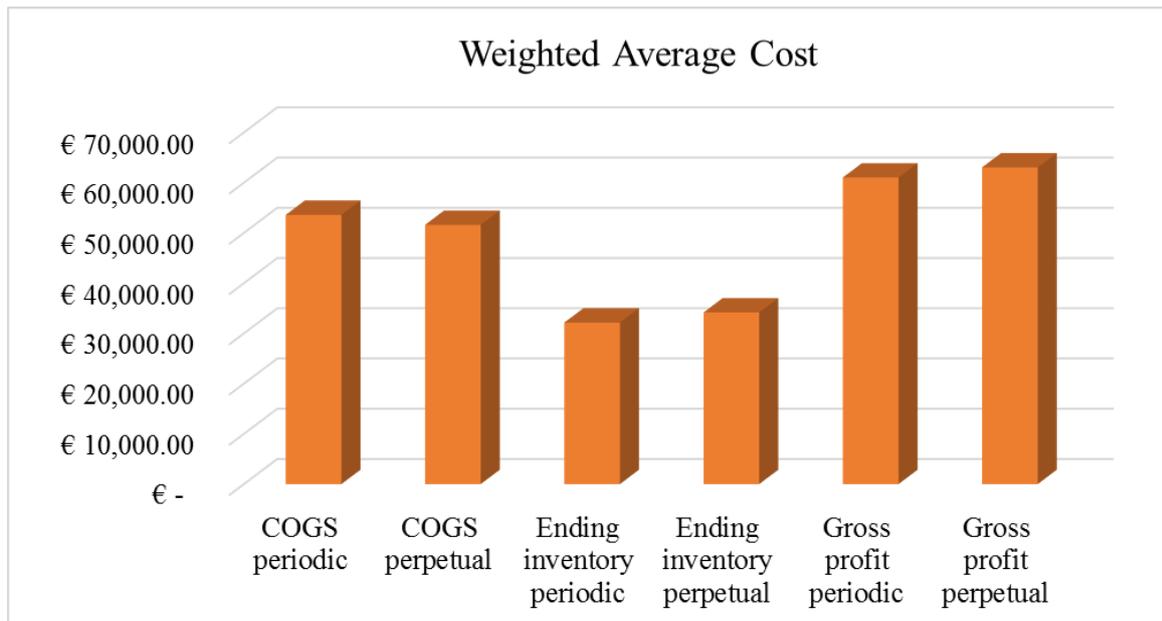
- **Cost of goods sold**

€8 750,00 + €25 763,50 + €17 078,25 = € 51 591,75

- **Gross profit**

Gross profit = Sale – Cost of goods sold = €114 625,00 - € 51 591,75 = € 63 033,25

As discussed earlier, the company may choose to pursue one of the two inventory systems - the perpetual inventory system or the periodic inventory system. However, the selection of the inventory system will, in contrast to the FIFO method, affect the ending inventory value and sales value of the AVCO method. This means that the indicators of the graphics will not be equal. So, let's look at the graph:



The given bar graph compares the value of ending inventory, cost of goods sold and gross profit under the AVCO method in both periodic and perpetual inventory system.

Overall, it is clear that the cost of ending inventory and gross profit recorded by far highest figures in the perpetual inventory system. By contrast, it is interesting to note that the value of the cost of goods sold contained the lowest figure in the perpetual inventory system.

When we use a periodic system as we know, inventory notes are kept/updated at intervals such as the end of each week or month and define inventory on the hand, namely the available inventory in the company. Thus, if we use a periodic inventory under the AVCO method, the calculations are performed at the end of the period. Therefore, the average cost is calculated based on all units which these units used for sale. That is, as we know from the first part, the available inventory for sale includes both inventories at the beginning of the period and inventory purchased during the period. For a unit, this average cost is applied to the units that are subsequently sold and to the units in the inventory.

The AVCO method is made on the perpetual inventory system when inventory transactions occur, as opposed to the periodic system when on the basis of the end of the period. In other words, inventory transactions are recorded

continuously, and we make the recalculation based on the average cost method when a purchase or sale is made, if we mention in more detail, then the new inventory is purchased. The determined average cost of a unit of the figure is used to set the cost of each purchase until a new purchase date. Sometimes this technique is also called a moving average method because of the change in value when using this method.

Now, looking at the bar graph in more detail, the periodic inventory system takes lead with the cost of goods sold, according to COGS under the periodic inventory system is 3.88% more than COGS under the perpetual inventory system. Under these circumstances, the company should determine which method prevails. Because the chosen method will affect the company's income statement and balance sheet. At the same time, information on COGS value allows investors, analysts, and managers to assess the company's bottom line. If a company applies a perpetual inventory system, then lower COGS will be calculated. As we know, we have determined the profits of the company when we subtract the company's revenue the cost of goods sold. Hence, the low cost of the goods sold brings about higher the company's profit. For some companies, this is more appropriate, because it is affordable to appear or be the higher profit of companies. More specifically, a great deal of revenue would be a great support for these types of companies to attract potential investors and lenders.

On the other hand, the lower value of the company's sold goods is not always appreciated good. Because, as we mentioned before, it increases the company's profit, and as a result, the company is involved in more income tax. In general, income tax is one of the company's largest costs, which can lead to a reduction in significant financial benefit. The existence of more income tax causes a decrease in cash flow and growth opportunity of the company.

It could be explained by the fact that figures for the value of ending inventory to gained advantage by perpetual inventory system were equal at €34,156.50. If a company uses a perpetual inventory system, then the inventory

value at the end of the reporting period, as seen in the graph, will be greater. As a result, this process will also affect the balance sheet and increase the company's assets. We already know that the huge asset value of the company helps to attract potential investors and lenders.

In the above paragraph, I noted that the ending inventory cost had an impact on the balance sheet, and also, the inventory value at the end of the reporting period may also affect the income statement. This effect is not directly and realized by the cost of the goods sold. Thus, the high value of the inventory at the end of the period causes the COGS value to decline. Therefore, the company's gross profit increase and ultimately affect income statement. At the same time, the growth of the company's profit will also lead to an increase in income tax. This, in turn, leads to a decrease in cash flows of the company.

Now let's look at the part of the gross profits of the graph. It is already clear from the aforementioned that the higher gross profit has been recorded in a perpetual inventory system. Thus, the difference between the periodic and perpetual inventory system for gross profit is € 2,003.75, namely about 3.28%.

First of all, let's assume that the company operates under a periodic inventory system. In this case, the company will have a lower income tax because its gross profit is low.

On the contrary, if the company uses a perpetual inventory system, then the company's gross profit will be high. Therefore, based on the company's current income, the income tax will be high. However, this means that the gross profit does not have an only negative side. So, if the company has a lot of profit, it may decide to expand its activities. Thus, high profits make it possible for the company to open other business locations, target other markets, acquire another business and extend operations abroad. Business expansion can also increase the company's profitability over time.

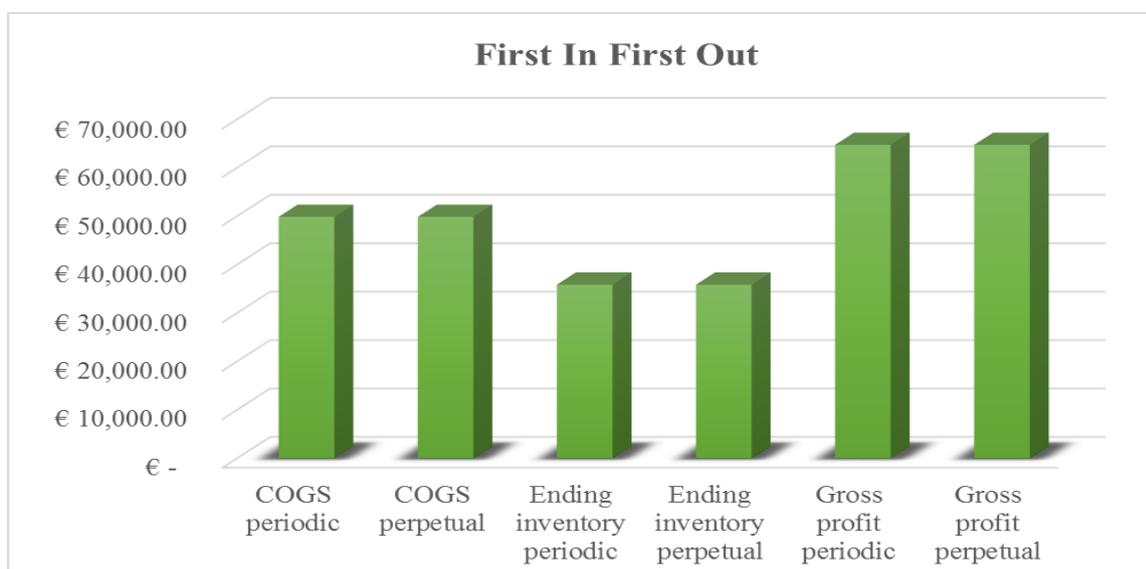
Revenues also play an important role in organizing the company's funding. Thus, high income can help the company to attract investors. Because a profitable

company seems to be a good investment option and the investor wants to earn higher profits from the company which it has invested. Therefore, the investor thinks the profitable company is a good chance to earn a profit. At the same time, companies, especially small companies, can also finance their own funds through debt. In this case, the amount of borrowing, and the amount the interest rate corresponding to for that loan should be repaid. Therefore, when the bank lends money to the company, the profitability of the company is one of the factors that play a key role. Under that circumstance, a company that is unable to earn a profit is considered a risk for the lender.

Highly profitable companies, especially small companies, can invest in new buildings, supply, equipment, labor, and technology infrastructure. Consequently, this investment by companies can help them earn a living in the future. At the same time, it can have a positive impact on the aforementioned creditors and banks. Thus, this growth allows the use of credit opportunity.

Under the AVCO method, we have reviewed briefly the application of both inventory systems, their graphical representation, and the possible impacts. Now let's look at the FIFO method in both the inventory system.

It is clear from the solution of the issue in the part of the case study that under the FIFO method has the same results, in either case, namely both periodic and perpetual inventory systems. Therefore, the chart will be as follows:



In any case, the FIFO method is often used to calculate the cost of the goods sold and the value of ending inventory for both perpetual and periodic inventory systems. Considering the application of the FIFO method under the periodic inventory system, we will see that inventory notes are updated at the end of the set period, for example, at the end of the week or at the end of the month. That is, when selling, the cost of goods sold in the periodic inventory system is not mentioned. At the end of the accounting period, the available inventory amount (ending inventory) is determined by a physical count and the cost of the latest purchases is used if the FIFO method is used to calculate the inventory value at the end of the reporting period. Thus, value at the end of the accounting period is calculated.

Now let's assume that the company prefers the use of the FIFO method under perpetual inventory system. According to abovementioned belong to the periodic inventory system, the inventory on the hand was counted and costs were only determined at the end of the period. The perpetual system is a more sturdy system. Through a perpetual system, it always retains the amount of goods that it has, ie the amount of goods available in the company. Because the cost of the goods sold under the FIFO method under the perpetual inventory system and the inventory account balance are calculated after each transaction. Modern information systems make it easy to keep track of uninterrupted prices for those products.

Given all the above, we can say that management can choose from any of the periodic or perpetual inventory systems. Ordinarily, although there is a difference between periodic and perpetual inventory systems, both systems within the FIFO give the same result. This is clearly visible from the graph. This is due to the fact that the oldest cost is used to determine the sales cost. In this case of logic, the most recent cost is used to determine the inventory value. Under

these circumstances, records are made in the same manner, the oldest is recorded initially, and the last one is at the end.

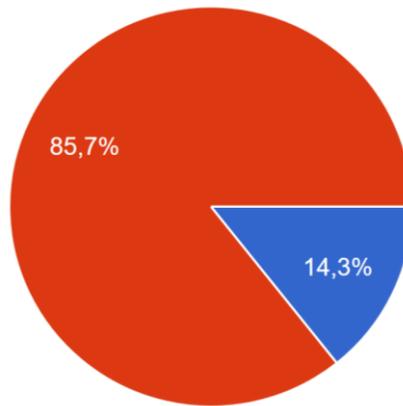
Research survey

If we want to increase and strengthen our theoretical knowledge about inventories' accounting, there are many books available for this. However, if you want to learn how to use these real-life situations and to what extent they are applied, books may not be a good choice. Therefore, I have chosen a new source in this dissertation. So I used the survey method to explore the current situation.

This is the method used to collect information about the empirical stage of the research. Therefore, a questionnaire was prepared to achieve the dissertation research goals. It has been sent to many businesses located or operating in Baku to get answers to the questionnaire. At the same time, private negotiations with many accountants were conducted.

Given all this, at the end of the survey, 148 accountants participated and expressed their views. The survey respondents differ by type of business or facility type. Thus, the survey has required the recording of the facility type and type of business. Although the question of business type is an open question, there are three options for state, specific and mixed according to type facility.

As a result of the survey, telecommunications, consulting, retail, industry, marketing, and construction companies dominate the business. The companies participating in the survey are grouped according to their type of facility as the following:



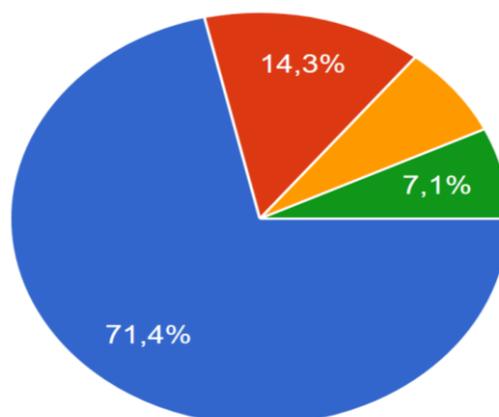
Here the red color shows that the enterprise is special, and the blue color is a state enterprise. Thus, as seen from the graph, more private companies participated in the survey.

The purpose of the survey was to obtain information about the analysis and testing of the hypothesis. Nine questions were made to determine the practical part of this work. These questions were related to inventory accounting and helped to get some understanding. With this intent, let's look at the questions and try to analyze them.

Question 1. *Are there intra-enterprise approved rules for the inventory registration?*

a) Yes b) No c) Other _____

The answers to the first question are described in the graphic below. So let's look at the graph of the analysis:



First, explain the meaning of the painted parts in the graph. The blue color, which has a larger proportion of the graphic, shows that the respondents were "yes" answer of the first question. The red color, as opposed to the blue color, shows that the answer is "no". The orange and green color reflect respondents who point to the "other" option. Individuals who are marking the "other" choice here share their personal views. Therefore, the "other" section of the graph is divided into two parts. In the section highlighted in orange, respondents responded to the first question, "such rules are being prepared in the enterprise." So, in the green section of the graphics, people have answered: "I do not know about it".

So obviously, "yes" of the answer to the first question has been more than the other choice. In other words, there are specific rules and procedures for registering an inventory inside the enterprise.

***Question 2.** How do you perform classification of inventories? Do you use scanning equipment or barcode coding?*

As the second question is an open question, the respondents have expressed their opinion in the answer to this question. Based on these answers, I can say that inventory classification at enterprises is at an acceptable level. That is, this classification is usually carried out on the basis of the rules established by the entity. For coding use, the bar and barcode coding are used in the larger and medium-sized businesses. It is not used in the small businesses and wholesale markets.

***Question 3.** How is maintenance and inventory of raw materials, semi-finished products and finished products?*

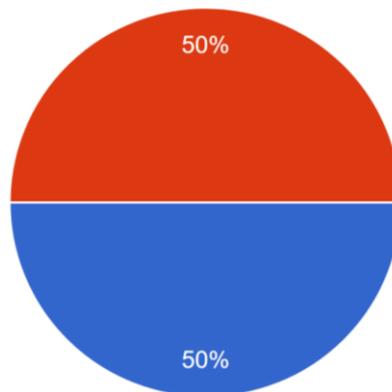
If we summarize the answers to the third question, we can divide them into two groups. The first group includes ERP users, and the second group includes companies who are carried out monitoring inventory with a specifically created

commission. The first group noted that the inventory counting was implemented on a regular basis on the basis of a different program. That is, the goods are included in the system via serial number or part number. After that, performed inventory counting through implemented concrete operation by used the software.

In the second group, a decision is made to inventory counting at the end of each year and the inventory counting commission is appointed. The contradictions between accounting data and actual inventory data are displayed. Then, the regulation of the controversy is determined.

Question 4. *What method do you use to record the movement of inventories?*

- a) *Periodic* b) *Perpetual*

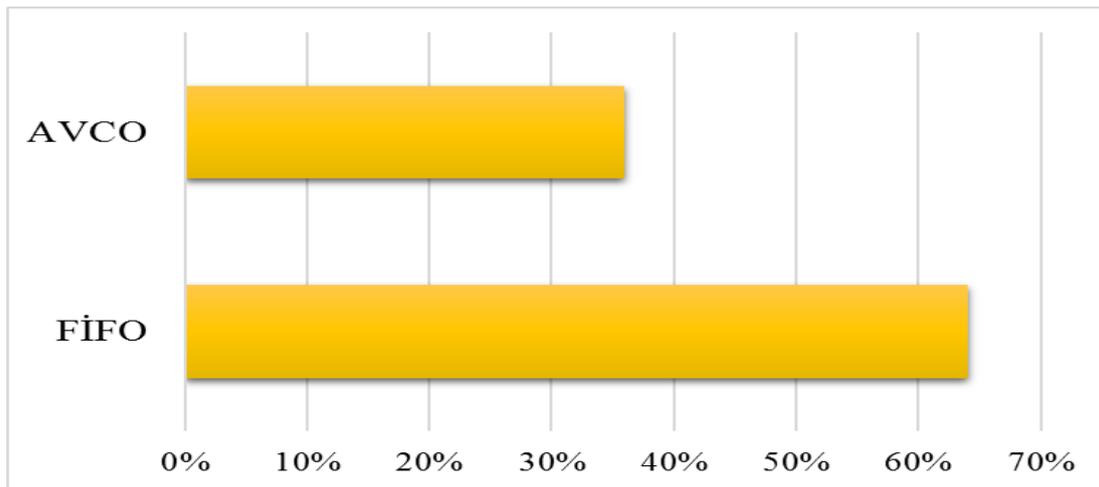


In the fourth question, the answers were equally distributed. Overall, it is clear from the graph that 74 portions of respondents chose the periodic inventory system and the others responses perpetual inventory system.

Question 5. *What method do you use to determine the cost of inventories?*

- a) *FIFO (First In, First out)* b) *AVCO (Average Value of Cost)* c) *Other* _____

In response to the fifty question, the respondents chose one of the options "a" and "b", namely the "c" option was not answered. The graphic of the responses is as follows:



As can be seen from the graph, "FIFO" option is more than "AVCO" option. Thus, 64% of the 148 respondents (n = 95) chose the option "a" and noted that the FIFO method was applied at their facilities. Other 53 respondents have chosen the option "b".

***Question 6.** What is implementation period of adjustments to the inventory and what is the key criterion here?*

Although many respondents are pass from this question, I would like to inform you of the available answers. Thus, an implementation period of adjustments to the inventory varies depending on the strategy and procedures defined by the companies. Among the answers, "once every 3 months and one every one-year" option is dominated. In response to the main criterion, the answer to "company strategy" is in the first place.

***Question 7.** How to identify, evaluate, and dispose of outdated, damaged, stolen inventory?*

In the seventh question, companies which have ERP system have noted that they have determined the value of outdated, damaged, stolen resources easily through the software. Accurate calculations are made easier when accurate inputs are made. In addition, among the responses are based on the carrying value and the residual value of the inventory based on the value remaining after the annual

amortization exposure. At the same time, there are companies that calculate the value of obsolete, damaged, stolen inventory with a certain percentage of their value.

***Question 8.** What kind of documents do you record for sale?*

The answer to this question is noted follows: electronic receipt, receipt, handover-takeover act, tax invoice, contract, act, invoice and check.

***Question 9.** How do you realize the accounting and reporting of inward and outward expenses?*

Based on the responses, I can point out that the companies involved in the survey determine inward and outward expenses on the basis of agreed contract. Inward expenses are added to the cost of goods. Outward expenses are calculated in the Other Expenses section.

Analysis and findings

Discussion and Determination of Result

As you know, the questionnaire is a process of gathering information covering various data collection methods, including questions. But how much is a survey good tool for data collection and research? In this dissertation, I conducted online and mobile surveys for research. Online surveys and mobile surveys have the potential to be the most effective method of research according to the cost but do not reach these respondents who can use alternative methods. If important respondents are out of the study, they may vary greatly from the results of online surveys and mobile surveys. So it turns out that there are flaws and weak points that should be considered in the surveys. Under these circumstances, let's look at the weaknesses of the survey:

First of all, I note that as one of the weaknesses of the survey, the respondents did not answer the questions of the survey honestly and accurately. Thus, the respondents can give different answers to the questions. That is, they cannot be 100% accurate with their answers. At this point, the issue of dishonesty occurs. This can happen for a variety of reasons, for example, to protect privacy. As a result, the respondents may not be comfortable and express unfavorable themselves in that situation.

Sometimes the questions in the survey can make people feel confused. At this point, the respondents answer such questions indefinitely or unnecessarily. In general, in this situation, the only choice the user has received is either to answer a meaningless answer and to complete the questionnaires or leave the questionnaires.

One of the other defects in question is the options available in the answers. Thus, respondents want to express their opinion on the question, but because the question is closed-question, they should choose one of the options given. For

example, people may sometimes continue to clarify a specific issue, but the question yes or not requires. As a result, the questions in the questionnaire can result in unclear answers. Because some response choices can be deciphered individually by the respondents. In general, the answer possibilities "yes" or "no" can be problematical. For example, if the "only once" opportunity is not available, respondents can "no" answer.

One of the problems I encountered when I conducted this survey was the fatigue of the questionnaire. That is after the survey is made, you send it to companies within the area you identified. You are then expecting that companies respond to the inquiry, and expect it to return to you, which results in fatigue. In general, this process is divided into two levels.

The first level consists of the questionnaire response fatigue. That is the answer is the waiting period after you have distributed this request. At this time, the companies we sent to respond to the survey are not inclined to respond to the survey. So, we get a lower response than we expected. So, we are suffering from low results.

The second level is formed during the survey. This is the result of a survey that involves questions that are answered or comprehended too long or irrelevant to companies which we sent the survey.

One of the problems that may arise when using the survey is sometimes misunderstanding of questions. Still, if you do an online survey like me, the probability of this problem is growing. When respondents meet misunderstanding, they respond to question on the basis of own comments because they cannot ask me or you during any misunderstanding. In this case, your questions may lead to different interpretations. Therefore, the answers can be subjective. The best way to avoid this situation is to make simple and easy-to-understand questions.

When you are preparing a survey, if you make open questions such as me, you will encounter another flaw in the questionnaire. Thus, in an open question, the respondents express their views on the issue. In this case, given that everyone has different opinions, we will get different answers. It may also be difficult to summarize these answers, that is to say, the come to the accurate conclusion.

Expert opinion

So far, you've gained information about the survey limitations in the section you read. Although the answers to the survey can be correct, we cannot say that the real situation reflects accurate. Therefore, I will use another method of research to find out more about the current situation at a point often overlooked. So, this research method is based on an interview, that is, a question scenario.

When using this research method, I used short questions that will determine how inventory account has been processed, as mentioned above. Designed questions were prepared to explain most of the research paper content.

After that, a meeting with experts was arranged to obtain answers to questions and was interviewed. Experts have not been randomly selected. The people interview to answer these questions are the leading people in this area. Although academics dominate among interviewees, they are people who are in contact with the market, that is, the real sector and the economy. The graph below describes the persons involved in the interview and their position in their company or enterprise.

First name, Last name	Company or enterprise	Position
Elsevar İbadov	Baku Engineering University	Deputy Dean of the Faculty of Economics and Management
Agamir Asgarov	Baku Engineering University	Docent
Sanan Huseynzada	Baku Engineering University	Senior Lecturer
Firudin Sultanov	Baku Engineering University	Head of the Accounting and Audit Department
Tahmasib Huseynov	Azerbaijan State University of Economics	Economist Lecturer
Elchin Jabbarov	Azercell Telecom LLC	Head of Accounting Section in composition Accounting and Control Section of Finance Department

The answers given by Dr. Elsevar İbadov were very valuable and important for my dissertation to summarize my opinion. Before I started talking, I mentioned the name of the dissertation which I wrote. At this point, Elsevar teacher noted how important the subject is. One of the things that are important for companies is the inventory accounting, but in some companies, it is not well organized, so we started interviewing. As a result, I summarized the answers to the questions as follows:

While inventory accounting is important for all businesses, some businesses are paying more attention to it. However, inventory accounting in companies operating in the service sector keeps in the background relatively. Nevertheless, inventory is still important in these companies. For example, the

airline is an enterprise operating in the field of service. The main activity is to arrange the flight, but here the inventory is used to carry out the flight, such as dinner and so on, which should be properly and accurately reflected in the record. Inventory accounting is also considered to be more important than those engaged in manufacturing and trading activities. Because it directly affects the formation of the cost value. Intra-enterprise inventory movements are recorded in such businesses. For this purpose, specific documents that constitute a serious report blank have been identified. In general, the inventory of enterprises is carried out according to the legislation. In addition, an entity's internal accounting policies have rules or procedures for registering an inventory that is appropriate and effective for the entity. Inventory accounting is initially carried out by its classification. The situation for classification in the enterprises operating in Azerbaijan is good. However, the inventory value is not so good for its role. As for bars and barcode coding, it is very good that most of the companies operating in the trading field use this system. Thus, using bar or barcoding coding increases accuracy, safety, speed, for this reason simplifying accounting, increasing effectiveness. However, this system is either less used or not used in wholesale centers that play an important role in our economy. This is not a good case. Following the classification of goods, issues of their storage and inventory occur. To do this, many spectacular ERP systems have been arranged. It is possible to make accurate records based on these systems. Simply the problem may be related to ongoing inventory. This is not a problem for technology-intensive businesses. In general, the system is used in large and medium enterprises in Azerbaijan.

In addition to the above, we also touched upon issues related to determining the value of the inventory, the costs incurred the realization of the sale and the evaluation of its value. In short, I noted these below:

One of the important issues is to determine the method of inventory valuation and choice of inventory system used in inventory accounting at enterprises. In Azerbaijan, enterprises can choose any inventory system according to their nature, structure, type of products they buy or sell. In fact, more periodic inventory systems are applied. Because perpetual inventory systems require more technology because they are more labor-intensive. As for value determination, the AVCO method is preferred. The Elsevar teacher also prefers the AVCO method, especially in the perpetual inventory system. Because if there is an increase in price during the accounting period, it will have an immediate effect. In addition, adjustment to inventory should be made in inventory records. However, this is not in good condition at enterprises operating in our country. In some companies, especially in smaller companies, it is in a miserable state. The absence of the ERP system creates problems in determining the value of outdated, damaged and stolen goods. At the same time, correction notes are performed every 1 year. There are also problems with determining the residual. In contrast to a small company, the availability of the ERP system in large companies makes it easier to determine the value of outdated, damaged and stolen goods. At the same time, it is continuously or adjusted within 3 months. As regards the sale, the documents are prepared according to the legislation. Transition to electronic invoice has eliminated non-formalities. However, the electronic invoice may require a number of documents, such as during a working meal required an invoice from a restaurant, consequently reasons some problems. However, the process is being improved. Inward costs are included in the cost of the asset. Sometimes there are certain problems in determining outward spending. This is due to the lack of sensitive separation. In general, they are taken into account in the evaluation of the product and are recorded as other expense.

Another interviewer is Mr. Agamir Asgarov, who worked as an accountant in many companies and at the same time providing consulting services to companies and currently acting as a teacher. The following extract summarizes the views expressed by Agamir.

Agamir said the recording of the inventory was of exceptional importance before answering questions. Taking this into account, it has been stated that inventory accounting at enterprises is trying to be implemented or implemented on a statutory basis. Thus, companies fulfill primarily inventory classification, which is an acceptable level at enterprises operating across the country. Even if companies use technology, this will accelerate and facilitate the process. As for bar and barcode coding, it is widely used in supermarkets and similar businesses. The application of barcoding improves accuracy, safety, speed, and also ensures inventory tracking. So, for example, if goods are not available in an existing warehouse or company, and it is necessary for them, it can be easily determined that it is in another branch or warehouse of the company. This, in turn, requires the company to have well-organized technology. Therefore, bar coding is not so widely used in low-income or small businesses. In such cases, such companies and many wholesale sales centers place codes on commodities, but they are mechanically registered. Registration of raw materials, semi-finished products, and finished products vary, in particular, depending on the company's strategy of inventory. This is done once a month in enterprises such as the market. The reason for this is to know the value of residual goods and to identify products that have been damaged, stolen or on the contrary overstocked inventory. However, inventory in companies operating in our country is carried out every three months. Regarding the issue, the choice of periodic and perpetual system of the company to keep records of inventory movements depends on the company's performance. Thus, periodic inventory is used in enterprises with seasonal activity or difficulties in determining the cost of goods. In other cases, a perpetual

inventory system is used. In practice, a periodic inventory system is often used for commodities that are usually smaller value but in larger turnover. When determining the method of calculating the value of inventory, the company pay attention to its strategy and activities. In Agamir's opinion, both methods are preferred in the country. The problem that exists here is when the AVCO method passes to the FIFO method or vice versa. Generally, the change and the reason for the change in the method used should be reflected in disclosure. However, in some companies, this is not so transparent. The teacher prefers the AVCO method to determine inventory value. In his opinion, this method reflects more realistic the situation of in the warehouse. Thus, in some enterprises, especially food-related companies, the most recent products are used or sold first. As I know, the LIFO method should be applied in this case. However, it does not allow the standard to be applied to ACCA as it relates to the switch. Therefore, the application of the AVCO method better reflects the situation. In addition, when using the AVCO method, the company's revenues are best reflected. Along with changes in the method are reflected in disclosure, inventory adjustments that are made by the company at a specified time. This period varies between three months and one year. If goods are sold, this sale is documented in the documents provided by the legislation. In recent years, the transition to electronic invoice has led to a number of advantages, such as a decrease in uncertainty in companies. Generally, when the documents are not compiled, there are certain sanctions, namely punishable by a defined amount of the state. At the same time, the cost in the company decreases and increase the revenue, consequently the income tax increases when there is not a document for sale. Therefore, businesses take into consideration the drafting and formalizing documents. During buy and sell such as inwards and outwards expenses can be formulated. These costs arise in accordance with the terms and conditions of the contract. In enterprises operating in our country, the inward expense is added to the cost value of the goods, and outward expense is used for the evaluation of the goods.

We continued my next interview with Mr.Sanan Huseyzada, BEU's Chief Teacher. Sanan teacher who in contact with the real sector also follows up on the changes that occur, and is trying to organizing transparent and efficient accounting standards. I must also point out that Husaynzade has been working as an accountant in many companies, so he has detailed information about the problems that exist. If I summarize the information I can get, I would like to note the following:

Sanan mentions that there are certain problems with inventory accounting in companies. Although companies implemented account under the law and even have rules or procedures approved for inventory registration within the company, however, certain problems may arise during the applied by the company. The classification of the inventory is based on a set of rules. It is good that the bar and barcode use are widening. It is currently used in more large enterprises and partly in medium-sized businesses. With respect to the maintenance and inventory counting of goods, it is carried out at the intervals within the enterprise. There are spectacular ERP systems for the inventory of goods. By using the same technology and software, it is possible to accurately and correctly inventory. The problem here is related to the semi-factory. So work-in-progress inventory information should always be included in the system. When fully automated, namely production technology, the information is transmitted directly. However, if human labor is used in the production of the product, then it is necessary to include information about the stage at which work-in-progress inventory is available and how much value added. According to the high demand and time required, this process does not work in enterprises. At the same time, there are certain problems in applying the method of recording inventory movements in companies. Thus, when the seasonal operating company, goods which cost cannot be determined, or when the cost of the goods is difficult to determine, the company also uses periodic inventory when it is sold 3-4 times a year. In other

cases, the perpetual method is preferred. There are, however, enterprises that they must actually use the perpetual inventory system, but apply a periodic inventory system. That is, the company continuously calculates the cost of the product but does not record it. One of the problems that may be encountered in companies is the choice of the method of calculating inventory value. Sometimes, companies switch from one method to another, which is also reflected in the disclosure. However, in some cases, the company has changed method several times during the lifetime, but not explicitly stated in these disclosures. In addition, damage, theft of inventory may occur. In this situation, there is difficulty in determining the exact value of the company. At the same time, inventory-related adjustments are not in good condition, and there are problems such as scarcity or over-stock of inventory. Usually, inventory adjustments are made every three months. The reason for this is the high number of goods, the low number of employees, the poor development of technology, or the lack of care within the company. However, we can not say that registration at all enterprises operating in our country is at this level. The situation with companies in which the ERP system is applied is better. The company should document these documents when selling goods. Modern systems are already used in this field. As we know, the transition to electronic invoice has started. It is currently being used by many companies. On the other hand, companies should consider inward and outward costs during inventory accounting. These costs may be based on the terms of the contract. However, there are certain problems in the process of registering these costs. Inward costs are generated at the time of purchase and are included in the cost of goods. Many companies recognize this cost as the cost of the item and consider it as an integral part of the inventory, and the cost is recorded as an advance payment. However, because these goods are not yet in the enterprise's warehouse if we prepare a financial statement, the report will be in error. Because, in the report, up to the amount of the advance paid in the company's

warehouse will show that there are the inventories. Under these conditions, we should also consider the possibility of not arriving goods.

One of my other interviewees is Mr. Firudin Sultanov, his opinions, and answers to questions are very valuable to me. As many people in the interview, he has also worked as an accountant in many businesses. At present, Associate Professor Firudin Sultanov works as a Head of the Department of Accounting and Auditing at Baku Engineering University. Now let's look at the designed conclusions on the basis of answers to Firudin Sultanov's questions:

Companies currently operating in our country are divided into two parts: tax accounting and financial accounting. At this point, companies make their decisions based on their financial records. During the period of the operating, inventory accounting is prepared in accordance with standards. Standards refer to the standard IAS2 on inventory. The company implements inventory accounting in strict reporting forms when preparing tax accounting. Now, the answers to these questions have been answered on the basis of financial accounting. For example, the classification of the inventory is also taken as based on a standard and the outcome of the inventory acquired by the company is determined as commodities, products and trading commodities. Nevertheless, there are still some problems with the classification of inventory by the companies. As for scan equipment and bar coding, there are currently companies using this system in our country. But the number of companies that do not use it is enough. Even companies that do not use is more than the companies which use barcoding. This is not acceptable at all. Of course, scan equipment and barcoding require certain technologies and software, and there is a need for a certain amount of funds to support it. However, this amount has been considered satisfactory for your gain and benefit. In general, if we look at the use of coding in Azerbaijan, we can divide it into 3 places: Good, Normal, and Never. From here it is understood that this system is well organized in the companies with the

ERP system. For example, when the product is sold, the data in relation to the product is deleted. But let's assume that the company does not have special software and uses Microsoft EXCELL. In this case, the use of barcoding will not be qualitative. Storage and inventory of raw materials, semi-finished products, and finished products are also of exceptional importance in accounting. Despite the fact the storage appears simple, the form and location of the goods can be changed according to the type of goods. For example, as a simple example, we can show food products that they should be kept in the refrigerator. In addition, normal products are customized according to the humidity standard. At the same time, it is important to place the shelves in the warehouse. Products sold or used more frequently should be placed closer to the warehouse and further to the front. Here you have to pay attention to the efficient use of the warehouse and the proper placement of the goods. There are separate technologies to easily find any inventory. There are also companies using such technology in Azerbaijan. In addition, the company also uses codes to easily find goods. As for inventory, here counting is one of the key factors. The census can be carried out according to the ABC model. But Firudin Sultanov did not encounter the used of the ABC model in his practice. When choosing a method for registering an inventory movement, the company chooses one of two methods, taking into account its characteristics, activities and internal accounting policies. However, the FIFO method is used more between AVCO and FIFO to calculate inventory value. According to Mr. Firudin, the FIFO method is more convenient. Because it is difficult to explain formulated average cost as a result of calculating the AVCO method for the founder or manager. However, it is easier to substantiate the use of the FIFO method the sake of the value was the cost of originally purchased inventory. At the same time, the teacher added that if the US GAAP was used in the country or allowed to use the ACCA LIFO method, most of the companies operating in the country would use this method. Companies have adjustments associated with inventory but are not in good condition. In fact, adjustments are made in monthly

or annual form according to counts. These are the intermediate ones used by monthly companies. Nevertheless, they are difficult to calculate the cost of outdated, stolen or damaged products in the company. In addition, companies that do not have specific software will be able to delete those goods directly but are not registered. This process does not occur in companies using double accounting, because if you delete them on one side, then this should be reflected in another account. During sales, the documents are prepared and documented in accordance with the rules. In the modern era, the electronic invoice has evolved on the basis of technology development. Electronic invoice has some advantages, the most important of which is the increased transparency. The increase in transparency, and more accurately, the introduction of the electronic payment will lead to the development of the accounting system within the company. However, there are some shortcomings in the use of electronic payment. Thus, when using the electronic invoice, some documents may be required, one of which is the invoice. For example, you want that shop or restaurant to give an invoice on the basis of your taxpayer identification number when you purchase any product or during a restaurant your meal, which can cause problems. Inward costs are included in the cost of the asset. Sometimes there may be problems with determining outward costs. In general, they are taken into account in the evaluation of the product and are recorded as other expense. But administrative expenses differ from overhead.

One of my experts, who interacts with the real sector and keeps up with updates, is Mr. Tahmasib Huseynov. He currently works as an economist lecturer at the university. Based on the answer to the questions during the interview, I obtained the following extract:

Inventory accounting is carried out in each enterprise. However, special attention is paid to inventory accounting in companies operating in the manufacturing sector. There are certain rules that apply to account for an

inventory during the period of activity that is reflected in the company's internal accounting policies. The next registration process is expected to be implemented in accordance with the requirements. First of all, if we look at inventory classification, we can see that there are certain problems. Thus, classification in companies operating in our country is at an acceptable level. But in accordance with it is significant, it is not so good. Thus, classification in large and medium enterprises is at a good level. This is because such companies have separate accounting, technology or software. But small and micro-enterprises are not the same as the situation. This may also be due to the lack of an accounting department. Thus, such companies usually have an accountant, and he cannot do all the work properly and accurately. More precisely, micro and smaller companies auditing are not mandatory, and therefore such problems create. In addition, small businesses do not use bar and barcode coding. This is due to the lack of technology or software in companies as I mentioned earlier. But it is good that large and medium-sized enterprises are widely used in scan equipment and barcode coding. This creates conditions for tracking goods and simplifies accounting. Regarding the inventory counting of raw materials, semi-finished products, and finished products, a special commission is set up to determine the implementation of this process. The Commission determines the interval and scope of the inventory implementation. At the same time, serious accounting forms are drawn up as inventory is the technology used by these companies. As you know, the availability of software in large and medium enterprises facilitates the implementation of this process and ensures accurate and correct execution. Enterprises may choose from any of the two inventory systems for inventory movements according to their nature, structure, type of products, they buy or sell. In general, the periodic inventory system is used when a company operates seasonal, or it is impracticable to determine the cost of goods, or it is difficult to calculate the cost of goods. In other cases, a perpetual method is preferred. Regarding the method of calculating the value of the inventory, the teacher should

think that this choice should defined method which it is more favorable on the basis of the company's activities, that is, its nature. For example, it is more appropriate to use the AVCO construction and light industry method in FIFO food industry. At the same time, there may be a change in the method used, i.e. from the FIFO method to AVCO or vice versa when there is a change in the nature of the goods. In this case, the cause of the transit should be reflected in disclosure. Generally, inventory changes can be mentioned adjustment. For example, it is important to determine the value of the goods and to register it when it is stale, damaged or stolen. But, unfortunately, many companies do not properly register outdated, damaged or stolen goods. Simply, the process of reducing the number of goods is fulfilled. In general, the lack of good organization of this process can lead to a shortage of goods or overstocking. It turns out that the inventory notes in companies are not in good condition. Even in small companies, even in a miserable state. It is a good case that documents that are meant for sale compile and documented in companies. In recent years, certain measures have been taken to switch to the electronic invoice. Of course, the application of the electronic invoice has some advantages. It has led to increased transparency. As a result, companies are required to register their sales documents. They are even drawn up and register officially document on the purchase. Of course, it is of paramount importance in accordance with purchasing documents. Because it helps the entity recognize its expenses. If the expense is not recognized, it will appear more revenue and will pay more income tax at this time. Expenses should be taken into account when calculating the inventory, both inward and outward. Inward costs are used to generate the product's cost, while outward costs are used to evaluate the product. However, some companies have defects in the proper registration of these expenses. For this reason, educated professionals are needed.

In the section we have considered so far, we have learned how inventory records can be implemented in companies operating in the country. We have

clarified the existing problems, the advantages, and disadvantages of the procedures applied during inventory count based on the answers of academics. Now let's get information about using inventory accounting directly from the market, that is, an expert working at the company right now. In other words, my other interviewee is Mr.Elchin Jabbarov, Head of Accounting Section in composition Accounting and Control Section of Finance Department at Azercell Telecom. First of all, let's look at brief information about Azercell.

Azercell Telecom, a limited liability company (LLC), was established in January 1996 and began trading on December 15, 1996, as the first GSM operator in Azerbaijan. Since its inception, Azercell has established its leadership position in the telecommunications market. Azercell Telecom LLC is the leading mobile operator in Azerbaijan with a market share of more than 4.5 million subscribers. The share of Azercell Telecom in Azerbaijan's mobile telecommunication market is about 48%. At present, Azercell covers 99.8% of the country's population and 80% of the country's territory (20% of the occupied territories are out of reach). Azercell has invested more than \$ 1 billion US in the implementation of projects aimed at the development of the country's telecommunication sector and improving social welfare. According to the Ministry of Taxes, Azercell is the largest taxpayer in the non-oil sector. In short, we can say that Azercell Telecom is the largest mobile operator in Azerbaijan. Mr.Elchin Jabbarov has been working as an accountant for more than 15 years at Azercell. Based on our conversations based on his answers, I obtained the following extract:

The inventory accounting in the companies is carried out in accordance with certain rules. Of course, the legislative basis is primarily taken. However, rules or procedures for the implementation of this process are also established within the entity. At present, there are internal procedures for inventory accounting in Azercell. Inventory classification is in good condition in companies. Some companies classify inventories as we do. Thus there are special

classes for the classification of the inventory and belong to one of the classes according to the indices of the goods. For example, classification is as follows: fixed assets - office equipment - computer - notebooks and so on. That is, the classes are in the hierarchical form according to the classification. In large companies, or more clearly, companies using technology do use or bar code. Also used in Azercell without coding. Thus, while maintaining coding, fixed assets are recorded in serial numbers, raw materials, and party numbers. In general, there are several advantages to using a bar or barcode without coding. Thus, using the bar or barcode coding increases accuracy, safety, speed. As a result, the effectiveness increases. When using scan equipment or bar code, some problems may occur for example loss of data or be the weakness of server protection systems. However, there are separate technologies to avoid these problems, though there is a need for funding to possess that equipment or software. Inventory counting of raw materials, semi-finished products, and finished products can be carried out monthly, yearly, depending on company policy. Based on the ERP system used in the company, this is done continuously. At the same time, the company should select the inventory system that is appropriate for the inventory movement, depending on the entity's performance. In Azercell, currently using a perpetual inventory system. Regarding the method of calculating the inventory value, our company uses the FIFO method. However, in some cases, a specific method is used to determine the value of some commodities. It is used not only in us but also in a number of other companies. Thus, the value of the goods is determined by the actual costs incurred in the formation of certain commodities. This method is not used in food areas. The customized value method is used to calculate the value of higher value goods. We can include cars, boats or yachts, as well as jewelry products. Inventory adjustment records have an exceptional place in inventory accounting. This is done within a certain period, depending on the company's strategy. The availability of special software in large companies creates a permanent record

of adjustments. For example, at Azercell is constantly pointed out in the adjustment on the basis of the existing software, and implementing count in the warehouse every year. Again, technology is used to determine the value of outdated, damaged and stolen goods. Thus, when entering the goods, information about it is entered into the system, and eventually, whenever any of the aforementioned events occur, it is easy to obtain information and determine the value of that item. In general, the documents required for purchase and sale are prepared and issued by the company. The transition to the use of electronic invoice has begun recently. The electronic invoice is also used in our company. At the same time, I think that almost all enterprises operating in our country are using an electronic invoice. However, according to Elchin Jabbarov, the use of an electronic invoice should be optimized. Because, when using electronic payment, a number of documents are required, for instance, you want that shop or restaurant to give an invoice on the basis of your taxpayer identification number when you purchase any product or during a restaurant your meal. This can sometimes lead to difficulties. Inward and outward costs should also be taken into account during inventory accounting. Many companies have mistakes in recognizing and accounting these costs. Thus, Inward costs are formed during the purchase and are included in the cost of the goods. However, due to this expense forms the cost of the goods, companies consider it as an integral part of the inventory, and the cost is recorded as an advance payment. Since these goods are not yet in the enterprise's warehouse, if we prepare a financial statement, the report will show that in the company's warehouse has the inventory up to the amount of the advance paid. But this process changes from company to company. For example, the delivery of goods in Azercell is carried out on a contract with another company. Although inward costs are included in the cost of the goods, the cost of the payment is not recorded as an advance account.

The summary of the answers of the interviewees was reflected in the next section.

Conclusion

In general, I would like to note the general results in this section that these findings are based on more and more problems. In the next section, I will mention the recommendations about I point out results in this section or the problems I am summarizing.

The results are based on theoretical knowledge, the case study, and the answers to the survey. Since it is close to the current situation, it has also been used as an interview, that is, expert opinion. Thus, experts, such as interviewers, have broad ideas and information about the company's problems that have been shared with me. This information is extremely important, and the information they provide is primarily valuable in the research.

Finally I can point out that I have achieved the following results:

Based on survey findings and expert opinions, I can point out that one of the inventory accounting problems is inward and outward expenses. Many interviewees noted in their speech that recognition and recording of these costs were not properly implemented. So, let's take a look at each of these two expenses. Let's start with the inward expenses first. As we know, this expense is included in the inventory cost. Therefore, some companies note the payment of inward spending as an advance payment on the account. The problem arises exactly here. Thus, products are not in the company's warehouse when paying for products to be delivered. When the company records expense as advance payment account, prepare the company's financial report. At this time, the report indicates that the number of the inventory is up to cost of the advance paid in the company's warehouse. This is not true. At the same time, the likelihood that such goods may not be included should also be considered. As far as the problem of Outward is

concerned, the problem that arises here does not differ much from the above. Because outward expenses are determined on a contractual basis and are used for product evaluation. As a result, outward spending should be recorded in the "Other Expenses" account. However, some companies include it in the product cost.

One of the problems mentioned during the interview is related to inventory adjustment. Inventory adjustment problem is that it is not being properly implemented or incorrectly specified by the time of registration. Thus, adjustment notes are prepared monthly and yearly. The main criterion for preparing monthly is the low number of employees, the lack of technology, or the low level of accuracy in the company. Sometimes adjustments are not corrected in companies. It is impossible to determine the value of outdated, damaged and stolen goods, and their registration is incorrect. Even some small businesses do not register, and outdated, damaged and stolen goods are directly deducted from the inventory. In general, incorrect adjustments have a direct impact on inventory management. That is, a shortage of goods may occur during the activity period. Or, on the contrary, the end of the period may be overstocked goods. It turns out that companies do not know how much goods they need, that is, how much goods they will require.

During the talks with academics working in various fields of business in Azerbaijan, they noted that there were some problems with inventory evaluation. At first, the problem I'm going to mention occurs in the transition between the methods. That is, the company should reflect the transition information in explanatory notes when the AVCO method is in the process of transition to the FIFO method or vice versa. However, some companies do not implement this or do not correctly indicate the cause of the transition among the methods. The biggest problem is observed in shops or wholesale centers that seem small but are to have a certain place in our country's economy. So, here, no valuation method

is selected correct, or the selected method is not properly implemented. More specifically, let us assume that the entity will use the FIFO method during the reporting period. However, when the value of the goods increases, the cost of the goods sold is determined based on the value of newly purchased goods. As we know, the cost of inventory that was most recently purchased in the FIFO method are marked as cost of ending inventory at the end of the reporting period because the first purchased inventory was first sold or used. Consequently, the entity determines the cost of ending inventory at the end of the reporting period based on the value of newly acquired goods. This also creates an incorrect report.

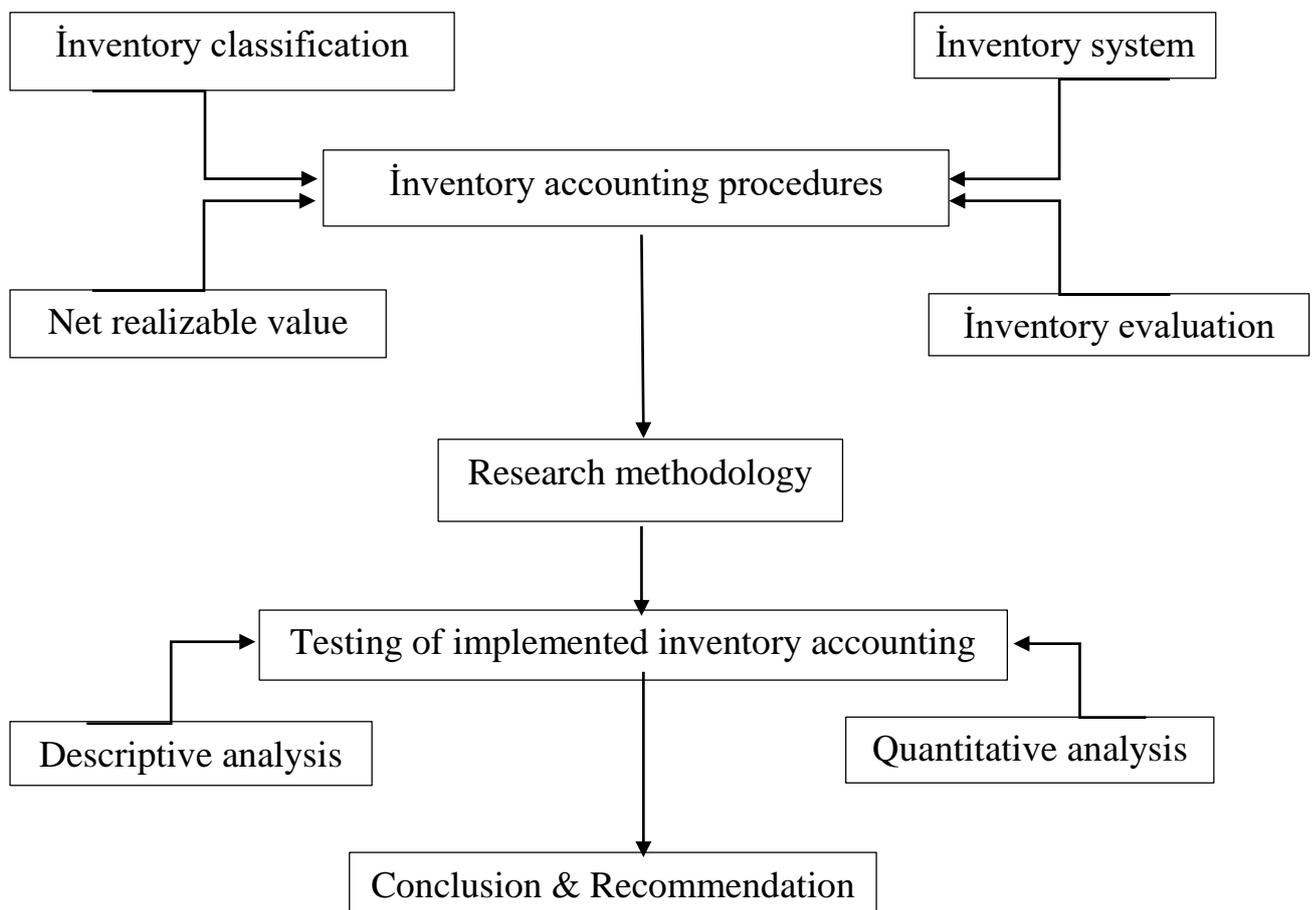
Another result of my research is the use of bar code and scan equipment. Bar code and scan equipment are widely used in recent times. But the number of those who do not use is sufficient and even more. In general, in our country, using bar code and scan equipment are divided into 3 groups, those who use, do not use, and partially use it. Although supermarkets and other shops are widely used in bar code and scan equipment, wholesale centers that operate in the trade and are a part of the country's economy do not use bar code and scan equipment. In some wholesale centers, codes are used, so they put codes on the goods. However, the application of this method will lead to simple results. That is when selling a product using bar code and scan equipment, information about it is removed directly from the system, or it is easy to access information about the storage space in case of any need. Because when using bar code and scan equipment information about the goods is entered into the system and as a result, it is possible to carry out the goods tracking. However, through the codes used by wholesale centers, it is difficult to access information quickly and easily. Partially used companies use bar code and scan equipment, but there are deficiencies in servers' protection system and data loss. However, companies that are partly used do not have special technology or software to reduce or remove these shortcomings. In

general, using bar code and scan equipment without the well-organized technology or software is not profitable, so you can not get quality results.

One of the results that arose during interviews is the inventory counting and storage of goods. If we first look at the problem in inventory counting, we can say that the main problem here is with the inventory of semi-manufactures. So work in progress inventory data should always be included in the system. When fully automated, namely production implemented through technology, the information is transmitted directly. However, if human labor is used in the production of the product, then it is necessary to determine the stage at which the semi-finished product is prepared and how much value it has gained. This process does not work in enterprises because it is required the high labor force and time. On the other hand, some companies have a commission to implement this process. However, members of the commission will be making misleading inventory decisions if there is no suitable person for decision-making. The other problem that may be formulated in this section is related to storage. Although the storage seems simple, its form and location can be changed according to the type of goods. For example, as a simple example, we can show food products that they should be kept in the refrigerator. In addition, normal goods are also customized according to the humidity standard. At the same time, it is important to place on the shelves. Consequently, improper placement of goods may cause them to become damaged or to become completely unusable. In addition, when placing commodities, they are not usually given a code, which this cause makes it difficult to find the desired products.

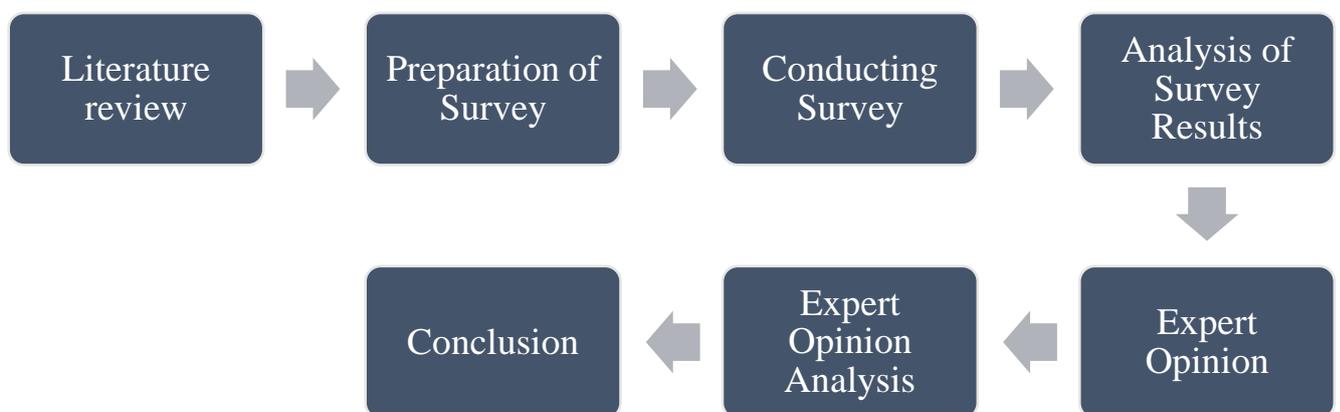
Conclusion

This section is of exceptional importance, because in this section I will point out the overall outcome of the thesis. In general, inventory accounting is a major part of accounting. Assessing inventory directly affects the determination of the company's assets, income and additionally taxes. As I mentioned before, inventory accounting purpose is to select the most suitable or affordable inventory method for the company and to implement it correctly and accurately. The table below illustrates the logic followed to achieve the objectives of the inventory above. The consistency of the logic used during the study was: literary stage, empirical phase, then conclusions and recommendations.



Let's take a more detailed look at the graph that we see. In order to achieve the result, it is important to first understand how this process is being implemented. Therefore, the initial stage is based on theoretical knowledge. Then we begin research to study the real situation, so we are preparing a questionnaire.

The aim of the questionnaire is to find the difference between theory and reality. Based on the survey's findings, we obtain some results, but these results are based on specific or concrete answers. Therefore, we get an expert opinion on the causes of these consequences, that is, to get more information. In the end, the information I receive gives us information on the real-life situation, the emerging problems, their causes, and opportunities. In this paragraph, you can briefly look at the chart below.



Now, we are in the final stage, so far, I've obtained some conclusions based on what I have learned. Let us take a look at them separately:

- ❖ Use of bar code and scanner barcode is not satisfactory.

So, the result of my inquiry is that many companies do not use bar code and scanned the barcode. When reviewing expert's reviews, many interviewers have pointed to this topic and have noted the cause of this problem. So, the reason why companies do not use bar code and scanner barcode coding is their lack of technology or software. In general, using bar code and scan equipment without the well-organized technology or software is not profitable, so you cannot get quality results. On the other hand, companies partly using this system have the

technology to use bar code and scanner barcode, but these systems may have problems such as weakness of the server system and loss of data. In this situation, companies that are partly used do not have special technology or software to handle these shortcomings.

❖ The application of the Perpetual inventory system is not good enough.

In the analysis of the survey results, we have seen that the use of both inventory systems is preferable, as the results were equal to 50%. In fact, this is based on the overall result. However, when looking at answers individually, some companies use the periodic method, even though they have to apply the perpetual inventory system. That is, the company continuously calculates the cost of the product but does not record it. The reason for this is that it requires more time or technology, namely require the buying and installing of the special equipment and the inventory software.

❖ Conducting of inaccuracy inventory counting

If we look at the problem in inventory counting, we can say that the main problem here is with the inventory of semi-manufactures. So, work in progress inventory data should always be included in the system. When fully automated, namely production implemented through technology, the information is transmitted directly. However, if human labor is used in the production of the product, then it is necessary to determine the stage at which the semi-finished product is prepared and how much value it has gained. This process does not work in enterprises because it is required the high labor force and time.

❖ Failure to apply the FIFO method

According to the survey, this problem is observed in more stores or wholesale markets. Though these companies are small, there is a certain place in the economy of our country. So, here, no valuation method is selected correct, or the selected method is not properly implemented. More specifically, let us assume

that the entity will use the FIFO method during the reporting period. However, when the value of the goods increases, the cost of the goods sold is determined based on the value of newly purchased goods. As we know, the cost of inventory that was most recently purchased in the FIFO method are marked as cost of ending inventory at the end of the reporting period because the first purchased inventory was first sold or used. Consequently, the entity determines the cost of ending inventory at the end of the reporting period based on the value of newly acquired goods. This also creates an incorrect report. The cause of this problem is the low-level understanding of staffing in this area. Experts also noted in their speeches that there is a low level of professionalism and awareness of the employees at enterprises. But it is now in a better situation compared to previous years.

❖ Inventory adjustment are not applied properly

One of the problems that arose during the survey was related to inventory adjustment. The problem in inventory related adjustment are due to the fact that it is not properly implemented. According to experts, this is due to the lack of technology. Although this may be true the low professionalism of employees also has a certain role. In general, incorrect adjustments have a direct impact on inventory management. That is, a shortage of goods may occur during the activity period. It turns out that companies do not know how much goods they need, that is, how much goods they will require. We know that adjustments are made monthly and annually. The main criterion for preparing monthly is the low number of employees, the lack of technology, or the low level of accuracy in the company.

❖ Incorrect recognition and accounting of inward and outward expense

It turned out that there was a problem with inward and outward spending on the results of the survey. So, let's take a look at each of these two expenses.

Let's start with the inward expenses first. As we know, this expense is included in the inventory cost. Therefore, some companies note the payment of inward spending as an advance payment on the account. The problem arises exactly here. Thus, products are not in the company's warehouse when paying for products to be delivered. When the company records expense as advance payment account, prepare the company's financial report. At this time, the report indicates that the number of the inventory is up to cost of the advance paid in the company's warehouse. This is not true. At the same time, the likelihood that such goods may not be included should also be considered. As far as the Outward problem is concerned, outward costs should be recorded in Other Expenses, but some companies are included in the product cost.

All things considered; a number of suggestions can be made to address these problems. I inform about the two most important of these suggestions in the following section.

Recommendation

- Training for employees

Human resources are one of the important factors for all companies. In order to accelerate the company's development and meet the requirements, a team of qualified and highly professional staff should be set up to evaluate the correctness and accuracy of the financial statements and so on. Some of the problems with the inventory accounting in the company are due to the lack of experience or knowledge of employees in this field, in short, their professionalism. That's why the accounting staff should be trained. Not only accountants but also financial analysts and warehouse workers should also be trained here. A certain amount of money should be allocated by the company for this training.

- Use of technology

Now it is selected by the strong development of science and technology, in particular, information technologies. Certainly, the introduction of this technology into the business leads to greater results. The use of technology and software has a positive impact on inventory accounting as in other areas of activity. This will facilitate and accelerate processes such as data entry and receipt, preparing the report, and so forth. It also helps to track commodities, determine the stage at which the inventory currently exists, and determine its previous value and current value. In the abovementioned queries and expert opinions, we also found that enterprises with ERP systems were doing better. Therefore, businesses should always follow up on innovations and invest in technology or software, ie allocate special funds.

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Appendix

Research Questions

1. Are there intra-enterprise approved rules for the inventory registration?
2. Which level is the classification of inventories in Azerbaijani enterprises?
Also, what condition is the use of scanning equipment or barcode coding in enterprises? Which businesses use?
3. How is maintenance and inventory counting of raw materials, semi-finished products, and finished products? Is there any technology for implementing this process in general?
4. Which periodic and perpetual inventory system is most used in Azerbaijan?
5. What inventory assessment method is most used in Azerbaijan? Which one do you prefer?
6. What is implementation period of adjustments to the inventory and what is the key criterion here?
7. What are the advantages and disadvantages of switching to electronic invoice?
8. How do you realize the accounting and reporting of inward and outward expenses?

The link below is a link to my online survey, and you can click on that link to access the survey.

<https://forms.gle/3wZvmqzKXxr15xXn8>