The Meaning, Determination And Management Of Inventory

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Abstract: In every company, in one context or another, we come across the term inventory. The size of inventories determines the concept of operation of enterprises. That is, inventories are one of the most important items in accounting. Determining the size of inventories is a real challenge for any manager. This confirms how important they are.

That is, inventory management is necessary to be able to realistically know at any time how much they are.

In fact, to enable work that will take place in an easy and simple way. Through this data, managers will always be able to achieve a positive result with the lowest costs.

That is, accounting control that needs to take place continuously in order to meet the requirements and claims. But also to keep costs low.

Namely, the results that are presented for a certain period depend on many factors. This includes inventories (raw materials that are prepared to enter the work process and then receive a new output in the form of products or services). But in another case, the inventory implies stored material that is provided for a future period of operationalization.

In fact, inventories are assets from which a certain benefit is expected in a certain period and they act in the operating process only once.

Therefore, they have current assets treatment and their shelf life is one year. But you can also find inventories that are used repeatedly and the shelf life will certainly be longer than one year.

Keywords: current assets, stored material, raw materials, accounting control, inventories.

INTRODUCTION

Inventories are stored for multiple purposes. They can be like work items and small inventory that are consumed in the production process.

They can also appear as unfinished production, ie as finished products of own production for further sale or as purchased goods that are intended for future sale.

Therefore, the question arises: what should be the optimal size of inventories to achieve the required economy and the required rationality in operation?

The answer would be: in order to achieve optimal inventory, it is necessary to determine the diagnostic substrates that set the normal to the smallest and largest amount of inventory.

Of course, this will be achieved by harmonizing the quantity of inventory with the needs of production, the needs of the provision of services, the composition of the means of inventory and the state of the inventories on the market.

Therefore, in order to achieve the economic efficiency of the operation, it is necessary to manage them correctly and accurately.

From this point of view, accounting should constantly monitor the situation and provide information to the managers in charge of conducting the inventory policy in the company.

Here it is necessary to emphasize the importance of continuous inventory monitoring, not only for maintaining the optimal level of inventory, but also for maintaining the optimal level of costs. Because, in the total operating costs of the enterprise, the cost of inventory makes up a fairly large percentage. This means that inventory costs include all procurement costs (invoice price, import and other duties, transport costs, storage costs, etc.)

In fact, valuing inventory in accounting is really very important.

1. ACCOUNTING CONTROL OF INVENTORIES

Accounting control of inventories, as well as their management is one of the most important tasks of any company. Certain shortcomings may arise that burden business entities in finding the optimal level of inventory.

Namely, it is necessary for the company to hire an experienced manager who will always face the problems and certain difficulties that will appear during the operation. Because there is unpredictability in claims, unreliable suppliers, a wide range of items, different lengths of delivery, a certain interest in a product, etc. For all these reasons, it is very important to keep track of the inventories of raw materials.

Inventory planning

Since business entities, in large part, cannot function without inventory, it is necessary to constantly determine their sizes.

They contribute to the successful solution of many problems that arise when procurement is shifted, possible delays in sales, etc.

It is well known that in many businesses the principle - just in time- is used

However, this means working without inventory or stocks that are provided just before the start of a job task. This means that not every company needs the same level of inventory. This means that inventories need to be kept at an acceptable level, where the amount of inventory will determine the opportunity cost, which can be a risk if they do not have inventory.

Namely, determining the size of inventories is influenced by the type of work, observance of the principle of continuity, the duration of the procurement phase, how much the costs for storing inventories are, as well as the risk of inventory storage or vice versa, the risk of non-storage.

Accommodation and storage of inventory

Inventories are accommodated and stored in depots, warehouses, large refrigerators, etc. This means that the storage can be in its own space, area, building. But it can also be rented space for a certain period and agreed rent.

Namely, it depends on the type of accommodation, as well as the conditions and the manner of storage.

Then, it depends on what materials, finished products, small inventory, goods that require special storage conditions to prevent spoilage. Differentiation of all inventory, from an accounting point of view is necessary because all items are kept separately on a separate account.

Nomenclature and inventory encryption

Each inventory has its own specifics. Therefore, in addition to the type of inventory, it is necessary that they have the correct name and list the other technical properties of the product.

Namely, the inventory needs to be numbered and have a nomenclature with which it will be marked.

Therefore, in the continuous functioning, ie movement of the large number of stored products, items and other materials, there is a need for accurate marking. All this is in the interest of the company because confusion is very unlikely.

In this way, through encryption, it is very easy to recognize which inventory is in question, and at the same time the way of accounting is facilitated, ie. posting. In analytical accounting, encryption and ciphering are of great importance.

That is, the inventory and their grouping and sorting in any form of storage is done very easily.

This means that encryption takes place using the letters of the alphabet, numbers, and can be mixed in the form of alphanumeric codes. It is choice of the company itself or the type of inventory imposes the concept of marking, ie encryption.

For illustration only, the European Union uses its own product encryption system called European Article Numbering (EAN). This code is also imprinted on a sticker in the form of a bar code, which reads as Optical Character Recognition - OCR.

Recording (bookkeeping) of inventories

As we pointed out earlier in the paper, the inventory needs to be constantly monitored.

That is, the information and data about them should be constantly accurately processed and presented in reports. The operational activities would move in the right direction when, at any moment, we know the inventory situation. This means that the accountant, ie the accounting function, needs to make a chronological record of the events in the trade books, and hence to have a constant insight in the warehouses and other depots.

Namely, the managers will make the right decisions, if they receive the financial statements in a timely manner and with accurate and objective data.

Therefore, the records are kept in the general ledger, analytical accounting and auxiliary accounting records.

In fact, the accounting task mainly consists of records of procurement data. All procurement is performed by the procurement department, ie the procurement function which is responsible for each product to take special care.

This refers to the monitoring of prices, as well as the markets, the timeliness of delivery and the correctness of the order.

Namely, the connection between the procurement and accounting function is correlated and they are cautious in choosing the suppliers. The chief accountant continuously controls the whole procedure.

In the general ledger, different accounts are kept for each type of inventory, as well as for each individual item.

This confirms the importance of control and the need for analytical accounting.

In this way, the records enable the improvement of the operation of the enterprise.

Meanwhile, the auxiliary accounting records control and monitor the minimum, optimal and maximum inventory. And, of course, we will emphasize that, after a certain period of time, it is necessary to perform inventory, inspection and harmonization of all types of inventory.

Documentation for the procured raw materials (inventories)

The documentation is also very important, because it confirms the principle of materiality.

When keeping inventory, bookkeepers need to have complete documentation of their procurement and sales.

Namely, the various documents (invoices, delivery notes, requests, etc.) confirm the correctness of the accounting records and the final results obtained in a certain period.

In addition to the confirmation of the accuracy and correctness of the financial and material indicators, the documentation should be submitted in a timely manner.

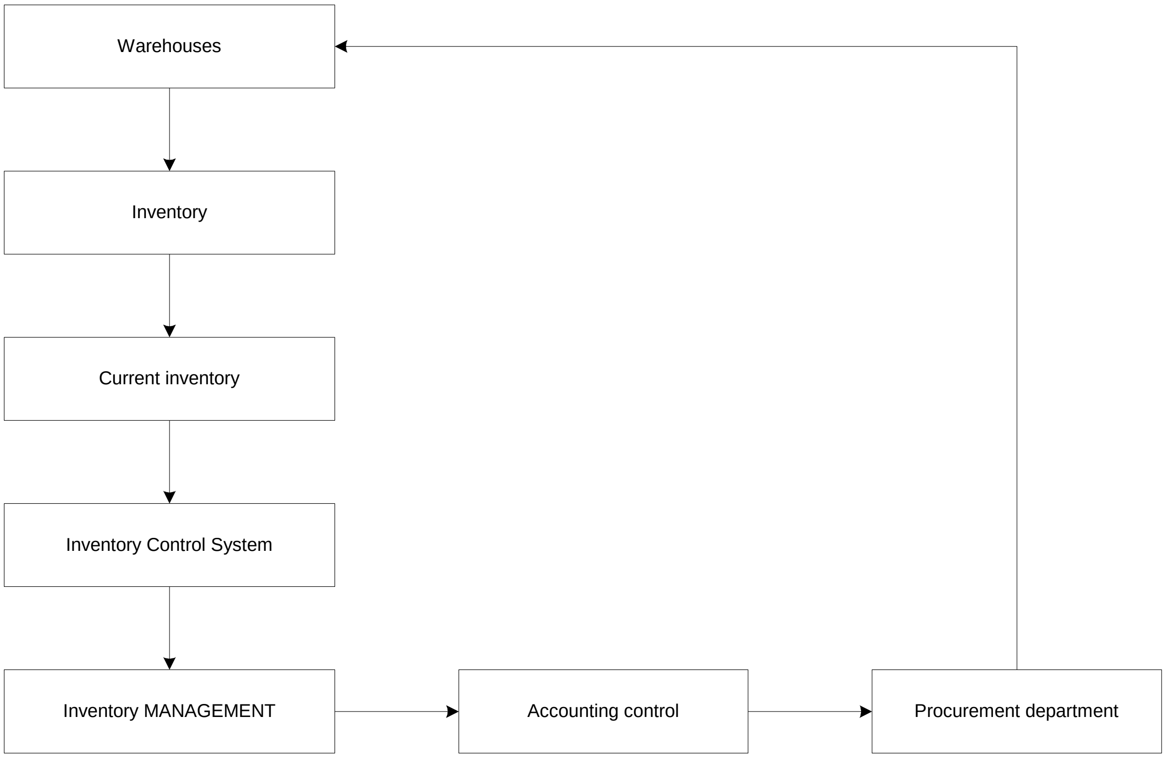
In fact, the accounting department, in the accounting information system is required to collect and classify all documents.

Hence, it will be possible at any time to inspect the condition of inventories and to enable proper direction of operational activities.

However, we will emphasize that all this depends on the dynamics of procurement and turnover with them. The classification of documents begins with whether the inventories are from own production, whether they are commercial goods or whether they are inventories that are items of work.

Namely, the forms themselves are different so that the accountants can more easily classify and record them.

Picture 1. Inventory management and control



2. FRAMEWORK FOR INVENTORY RECOGNITION AND MEASUREMENT

(IAS 2 – Inventories)[1]

The purpose of this Standard is to prescribe the inventory accounting procedure according to the cost system. The basic issue in inventory accounting is the amount of expense that should be recognized as an asset that should be kept in the records until the appropriate revenue is recognized.

This value is recognized as an asset in the enterprise until the related revenue is recognized (ie when inventories are sold), at which point inventories are recognized as an expense (ie cost of sales).

IAS 2 provides guidance on determining the cost and subsequent recognition as an expense, including any deductions from net realizable value.

[1] IAS (1999)

Revised IAS 2 contains guidance on cost formulas used to evaluate inventories.

Under IAS 2 Inventories, they are defined as assets:

- which are kept for sale in the regular course of operations;
- in the production process intended for such sale; and
- in the form of raw materials or auxiliary materials that are consumed in the production process or in the provision of services.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated cost of selling.

The net realizable value refers to the net amount that the business entity expects to realize from the sale of inventories in the regular course of operations. Fair value is the amount for which an asset can be exchanged or a liability settled, in a transaction under commercial terms, between parties sufficiently informed and willing to accept the transaction arbitrarily.

Namely, the fair value reflects the amount by which the same stocks could be exchanged in the market, between known and prepared buyers and sellers.

Inventory measurement

Inventories, like most assets, are accounted for at cost.

Namely, inventory according to IAS 2 are measured

1) according to costs, or
2) according to the net realizable value, which can be realized on the market if it is lower than the measurement according to the costs.

When inventories are measured at cost, the cost of inventories includes the cost of purchasing inventory, conversion costs, and all other costs.

When inventories are measured at cost, the cost of inventories includes inventory costs, conversion costs and other costs. Inventory costs include the cost of inventory, customs duties, non-refundable taxes, transport costs and transport insurance costs, then handling costs and all other costs directly attributable to the purchase of inventory.

Namely, conversion costs are direct labor costs, but also each separate part fixed overheads and each separate part of the variable overhead costs. When fixed costs are allocated to conversion costs, production capacity is used. This means that the fixed part of the costs, which refers to the unused part of the capacity, cannot be realization costs, instead of being settled as an expense in the period in which they arose. Other costs incurred in bringing inventory to a specific location in a specific location time includes the cost of designing products that are designed for specific customers.

Namely, the inventories, as stated above, need to be measured according to the amount of costs or net realizable value. That is, depending on which of them is lower.

Inventory measurement is extremely important in accounting.

Because in the financial statements according to IAS 2 they should disclose:

a) Inventory accounting policies adopted, including the cost method used,
b) The total accounting amount of inventories and the accounting amount in the appropriate classifications for the enterprise,
c) The accounting amount of the inventories expressed at the net realizable value,
d) The amount of any reimbursement of write-offs recognized as income in the period in accordance with IAS 2, paragraph 31;

e) Circumstances or events that led to the replenishment of write-offs in accordance with IAS 2, item 31, and

f) The accounting amount of the inventories pledged to secure the liabilities.

CONCLUSION

Inventories are crucial assets for the operation of the enterprise. They are inevitable. But also inventory management is a key foundation on which the company operates. For that reason, it is necessary to observe the principles in determining and procuring inventories.

That is, first of all, care should be taken to respect the principle of continuity, ie. determining the size of inventory.

Then, the principle of dynamics and consumption of inventories, ie determining the time and quantity used for production and trade with them.

It is also very important to observe the principle of control, or to coincide the accounting control with the warehouse control. Inventory control ensures maintained quality and optimal inventory level. And, the principle of accounting control, monitoring of each process of entry and exit of inventories. Inventories generate costs for which a special plan should be made in their procurement.

Therefore, it is first necessary to adopt which methods will be used in determining the costs.

Inventory costs are determined using the method first in - ~~the~~ first out or known as the FIFO method.

This method requires that items in inventory with the earliest purchase date be the first to be sold or issued. And everything else in that order.

However, the weighted average cost method can also be used.

According to this method, the cost of each item in inventory is determined based on the weighted average cost. The average can be calculated periodically or depending on the circumstances. The FIFO method or, last in - first out can also be applied. This method requires reverse selling from the FIFO method.

This means that the purchased items with the latest date are sold or issued first and again the other stocks in order.

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