

Enhancing the consolidation of finished goods audit results and the preparation of the audit report

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Abstract: This study explores the transformation of national accounting practices toward compliance with International Financial Reporting Standards (IFRS), focusing specifically on finished goods accounting within Uzbekistan's light industry sector. As outlined in the country's 2022–2026 Development Strategy, enhancing the export potential and investment attractiveness of textile and garment enterprises requires transparent and internationally aligned financial reporting systems. The analysis compares current national practices with IFRS requirements, identifying key discrepancies in valuation methods, cost components, revaluation procedures, and disclosure standards. Findings indicate that adopting IFRS-based accounting for finished goods ensures greater financial transparency, accurate cost tracking, and improved audit reliability. Furthermore, the implementation of IFRS supports strategic decision-making, strengthens investor confidence, and aligns local enterprises with global trade and reporting expectations.

Key words: IFRS, finished goods accounting, light industry, Uzbekistan, inventory valuation, cost accounting, IAS 2, audit planning, financial transparency, international standards



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Introduction.

In accordance with the Development Strategy of New Uzbekistan for 2022–2026, increasing the efficiency of foreign investments directed toward key sectors of the economy — particularly light industry enterprises — has become a strategic priority. The strategy specifically outlines the goal to double the production volume of textile industry products and triple the output of leather and footwear goods through the use of modern equipment and technologies¹.

In line with these objectives, a development strategy has been adopted to enhance the operations of textile enterprises in Uzbekistan, with a focus on increasing production output, maximizing profits, and ensuring financial stability. To achieve these goals, special attention is being given to modernizing textile industry enterprises and diversifying their product assortment, while improving accounting and audit systems based on international best practices.

Establishing an effective and internationally aligned accounting and auditing framework is viewed as a crucial step toward enhancing the performance of textile and knitwear enterprises and boosting their export potential. In the current context, there is a growing demand for developing the scientific foundations of mass production of competitive textile products, which depends heavily on the modernization of production infrastructure and the implementation of innovative technologies.

¹ The Development Strategy of the New Uzbekistan for 2022–2026, enacted by Presidential Decree No. PF-60 on January 28, 2022, outlines a comprehensive roadmap for the nation's advancement across seven priority areas. <https://lex.uz/docs/5841063>

Against this backdrop, improving the organizational and methodological foundations of finished goods accounting and auditing in Uzbekistan's light industry enterprises—particularly in textile and apparel manufacturing—has emerged as one of the most pressing issues requiring immediate academic and practical attention.

Literature review

The development and enhancement of accounting and auditing systems in industrial enterprises—particularly in sectors like textile, chemical, and automotive manufacturing—have become critical in ensuring financial transparency, cost control, and strategic decision-making. In Uzbekistan, many scholars have contributed to this field by exploring both theoretical frameworks and practical applications related to internal control, cost accounting, inventory management, and audit practices.

Aliqulov (2011) provides a comprehensive monograph on the theoretical and practical issues of cost accounting and analysis. He highlights the need for methodological improvements in cost classification and calculation, particularly in production-intensive industries. Similarly, Ibragimov (2002) focuses on the accounting and auditing of production costs in agriculture, emphasizing the need to align cost records with audit reliability and pricing accuracy.

In terms of inventory and finished goods, Achilov (2019) investigates the optimization of accounting for material reserves in chemical industry enterprises, underscoring the importance of proper classification and valuation. Complementary to this, Raxmonov (2010) and Tashnazarov (2017) explore issues related to inventory cost valuation and its reflection in financial statements, advocating for better integration of inventory data into internal audit systems.

Nabiyev (2021) addresses the improvement of finished goods and sales accounting in automotive enterprises. He emphasizes establishing accurate links between warehouse records, sales documentation, and audit evidence to ensure a transparent reflection of financial results. Nurmanov (2012) and Mavlyanova (2020) both delve into the methodological improvement of current asset accounting and audit, stressing the importance of timely reporting and analytical consistency.

Internal audit and management control have also received considerable attention. Ahmedjanov (2016) and Xasanov (2004) examine the modernization of internal audit methodologies in enterprise management systems. Their works argue that aligning audit functions with international frameworks can strengthen financial discipline and fraud prevention. Abdusalomova (2019) and Maxsudov (2018) contribute to this discourse by proposing improvements in budgeting and internal control within management accounting systems.

Broader theoretical perspectives are offered by Karimov (2008) and Dusmuratov (2007). Karimov analyzes accounting and audit in the context of corporate governance, while Dusmuratov provides a well-rounded view of auditing principles and techniques, blending theory with real-world application.

On the management accounting side, Pardayev & Pardayev (2008) present a structured understanding of managerial accounting in Uzbekistan, and Maxmudov (2023) expands this by suggesting enhancements to the methodology for accounting for costs and revenues within the internal audit framework. Pardayev M.Q. (2002) also contributes to the theoretical and methodological foundations of economic analysis in liberalized market conditions.

Furthermore, Tuychiyev (2007) explores the improvement of sales and financial result accounting in competitive industries, and Xolbekov (2006) outlines principles of organizing production accounting in grain storage and processing enterprises, which also relate to inventory and finished goods tracking.

These studies collectively underscore the importance of aligning national accounting and auditing practices with international standards, particularly in the context of increasing foreign investment and expanding export potential in light industry and other manufacturing sectors. The literature supports the argument that improved cost control, inventory accounting, and internal audit systems are essential for enhancing financial reporting quality, investment attractiveness, and enterprise-level governance in Uzbekistan.

Analysis and discussion.

The Development Strategy of New Uzbekistan for 2022–2026, outlined in Presidential Decree PF-60 (2022), reflects a paradigm shift in national policy by placing significant emphasis on economic liberalization, modernization of industry, and integration with international standards. Within this strategic framework, light industry—particularly textile and apparel manufacturing—has been identified as a priority sector for attracting foreign direct investment, expanding exports, and enhancing value-added production through technological innovation.

One of the core directives in the strategy is the doubling of textile product output and tripling the production of leather and footwear goods. Achieving this ambitious target demands not only the modernization of physical infrastructure but also the enhancement of financial infrastructure, especially in the areas of cost accounting, inventory management, and audit mechanisms. The strategy implicitly acknowledges that sustainable economic growth cannot be achieved without transparent, standardized, and internationally compliant financial practices.

In this context, the development of organizational and methodological foundations for finished goods accounting and audit becomes crucial. Many enterprises in Uzbekistan continue to rely on outdated methods of product valuation and cost allocation that limit financial visibility and undermine the reliability of financial statements. The implementation of international financial reporting standards (IFRS) and the adaptation of best audit practices serve as vital steps toward increasing investment attractiveness and export competitiveness.

Moreover, the emphasis on digital transformation and efficient public administration, as set out in Priority Area 7 of the strategy, provides further impetus for integrating automated accounting systems and electronic audit trails. These reforms not only reduce human error and the risk of fraud but also allow real-time access to inventory and cost data—critical elements for timely decision-making in production-intensive industries such as textiles.

The strategy also underscores inclusive economic development, where transparency and accountability are essential to promoting public trust and investor confidence. In line with this vision, modern internal audit systems in industrial enterprises can serve as early warning tools for operational inefficiencies and financial misstatements, thereby supporting strategic objectives such as increasing profitability, ensuring financial sustainability, and maintaining compliance with both domestic and international regulatory frameworks.

Audit planning is recognized as one of the most critical initial stages of the audit process, conducted immediately after a formal agreement is signed between the audit firm and the client enterprise. At this stage, the scope, timeline, and sequence of the audit procedures are defined, setting the foundation for an effective and structured audit engagement.

Economists K. Akhmadjonov and I. Yakubov emphasize that audit planning involves defining the audit's objective and developing a roadmap to achieve it. According to them, auditors should familiarize themselves with the client's business and financial operations before initiating the audit, basing the general audit plan on preliminary economic and financial information about the enterprise.

International Standard on Auditing (ISA) 300, titled Planning an Audit of Financial Statements, defines audit planning as the process of determining the audit strategy and selecting methods that will help achieve audit objectives efficiently. The standard highlights that planning ensures not only the auditor's readiness but also minimizes the risk of failing to detect material misstatements.

Scholars N. Sanayev and R. Narziyev note that audit planning must comply with international standards and be approached systematically. They identify three key reasons for planning: (a) to ensure the auditor has sufficient knowledge and competence; (b) to allocate time effectively and remain competitive in the audit market; and (c) to maintain communication and accountability with the client in the event of disputes or breaches.

Internet sources further support this structured approach, emphasizing that audit planning includes developing a general audit plan and a detailed audit program. The general plan sets out the expected scope and timing, while the audit program outlines the procedures necessary to form an independent and well-grounded opinion on the financial statements.

Overall, audit planning is not merely a preparatory step—it is a strategic tool that enhances audit quality, ensures efficient use of resources, reduces engagement risk, and increases the audit firm's competitiveness in the market. A well-developed audit plan also contributes to detecting potential financial misstatements early and strengthens the credibility of the audit process.

Table1. Specific rules of audit planning

No.	Specific Rule	Description
1	Understanding the Client's Business	The auditor must gain preliminary knowledge of the client's operations, industry, internal control system, and accounting policies.

2	Risk Assessment	Identify and evaluate potential risks of material misstatement in the financial statements (inherent, control, and detection risks).
3	Determining Audit Objectives	Clearly define the goals of the audit engagement, focusing on expressing an opinion on the fairness of financial statements.
4	Establishing Audit Strategy	Develop a strategic plan outlining the overall audit approach, including scope, nature, and timing of procedures.
5	Designing the Audit Program	Create a detailed set of procedures tailored to the specific areas of risk and audit objectives identified in the strategy.
6	Resource Allocation	Assign audit staff with appropriate skills and experience; plan time and effort needed for each audit area.
7	Coordination and Supervision	Ensure effective communication, supervision, and coordination among team members during fieldwork and reporting.
8	Materiality Determination	Set thresholds for materiality to guide testing procedures and evaluation of findings.
9	Documentation	Maintain clear and comprehensive records of audit plans, procedures, and judgments to ensure traceability and compliance with standards.
10	Client Communication	Agree with the client on timing, information requirements, access to documentation, and formalize expectations in an engagement letter.

Source: Compiled by the author.

The process of transforming national accounting systems to conform with International Financial Reporting Standards (IFRS) represents a fundamental shift in financial reporting, aimed at enhancing transparency, comparability, and investor confidence. For Uzbekistan, where the economy is rapidly integrating into global markets, this transformation is particularly relevant in sectors such as light industry, where production volumes, product diversity, and foreign trade dynamics require robust and standardized accounting frameworks.

In light industry enterprises—especially those engaged in textile and apparel production—finished goods accounting is a critical component of financial reporting. Traditionally, many national enterprises have used domestic valuation rules based on historical cost, simplified classification schemes, and internal pricing mechanisms that often fall short of IFRS requirements. This results in inconsistent valuation of inventories, unclear cost allocation, and limited transparency in financial statements. Transitioning to IFRS addresses these limitations by enforcing standardized valuation methods (such as lower of cost or net realizable value), proper cost absorption, and enhanced disclosure requirements.

The need for IFRS-based transformation is underscored by Uzbekistan's 2022–2026 Development Strategy, which emphasizes increasing the share of value-added exports, modernizing industrial production, and attracting foreign investment. These objectives are inherently dependent on financial reporting systems that meet the expectations of international stakeholders. As such, modernizing the accounting of finished goods is not only a technical necessity but also a strategic imperative.

One of the key challenges in aligning national practices with IFRS lies in the valuation of finished goods and inventory management. Under IFRS (specifically IAS 2 – Inventories), companies are required to implement accurate cost-tracking mechanisms that distinguish between direct and indirect costs, and to reassess inventory values at each reporting date. This contrasts with many legacy systems used in domestic enterprises, where accounting prices are fixed and not regularly reconciled with actual production costs. Therefore, enterprises must invest in capacity-building, ERP system upgrades, and methodological reforms to ensure real-time inventory tracking and compliance with IFRS valuation principles.

Another area of consideration is audit planning and documentation, which must evolve in tandem with accounting reforms. As audit firms begin to audit IFRS-compliant financial statements, they must revise their audit planning procedures, expand risk assessment frameworks, and adopt international documentation standards. The role

of audit becomes particularly vital in validating the correctness of finished goods valuation and ensuring that disclosures related to cost of goods sold, write-downs, and inventory turnover are presented fairly and consistently.

Furthermore, the transformation process requires significant institutional support, including regulatory guidance, professional training, and academic adaptation. Regulatory bodies such as the Ministry of Finance and the State Tax Committee must provide clear roadmaps, while educational institutions need to align their curricula with IFRS principles, especially in areas like cost accounting, managerial reporting, and financial analysis. Without this holistic approach, attempts to align with IFRS may remain formalistic and fail to yield substantive improvements in financial transparency.

Table 2. Key Differences Between National Accounting Practices and IFRS in Finished Goods Accounting

Criteria	National Standards (Uzbekistan)	IFRS (IAS 2 – Inventories)	Implications
Valuation Method	Mostly at planned (normative) cost or average past cost	Lower of cost or net realizable value (NRV)	Risk of overstatement under national norms; IFRS ensures conservative valuation
Cost Components Included	Direct costs (materials, labor); indirect costs often partially included	Direct + all relevant indirect production costs	Full cost absorption required under IFRS
Revaluation Frequency	Rarely revalued, especially at interim periods	Revalued at each reporting date	Requires stronger inventory tracking systems
Write-down of Obsolete Inventory	Often not systematically applied	Mandatory if NRV falls below cost	Prevents inventory overstatement
Disclosure Requirements	Minimal disclosure in notes to financial statements	Detailed disclosure (valuation method, changes in inventory levels, etc.)	Improves financial transparency and comparability
Standardization of Terminology	Local classification schemes and terms used	Uniform international terminology	Facilitates understanding by global stakeholders
Audit Trail	Limited digital traceability, paper-based documentation	Digital systems expected to support audit and traceability	Demands IT system upgrades and internal control enhancements

Source: Compiled by the author.

This comparative analysis reveals that Uzbekistan's national accounting system for finished goods remains more rule-based and static, relying on predefined cost norms and limited periodic reassessments. In contrast, IFRS introduces a principle-based, dynamic valuation approach, demanding regular inventory reassessment and full cost transparency.

The most significant practical difference lies in the valuation and revaluation of inventory. Under IFRS, enterprises must consistently apply a "lower of cost or NRV" policy, which may require inventory markdowns that national systems currently avoid. This approach ensures that inventory is not overstated, thus protecting investors and users of financial statements from misleading information.

Furthermore, cost inclusion rules under IFRS are broader, meaning that enterprises must capture not only direct costs but also systematically allocate indirect costs such as depreciation of production equipment, utilities, and supervisory labor. This necessitates advanced cost accounting systems, which many light industry enterprises in Uzbekistan have yet to fully implement.

The disclosure requirement under IFRS also represents a major shift. While national reporting formats often condense inventory information into a single line item, IFRS mandates detailed explanatory notes that break down inventory by category, valuation method, and significant changes. This level of detail enhances transparency and decision-making, particularly for foreign investors and auditors.

Finally, digital audit trail and internal control requirements under IFRS demand a significant technological upgrade and capacity-building within enterprises. Manual or paper-based inventory records are insufficient to meet the audit standards expected in IFRS-based reporting.

Conclusion.

The transition from national accounting standards to International Financial Reporting Standards (IFRS) represents a pivotal step in enhancing the financial reporting quality and global competitiveness of Uzbekistan's light industry enterprises. As the country deepens its integration into international trade and investment networks, particularly through its textile and garment sectors, the modernization of finished goods accounting becomes a strategic imperative.

The study reveals that national practices, while historically effective for internal control and administrative reporting, lack the valuation flexibility, cost inclusiveness, and transparency required by IFRS. Specifically, the traditional use of planned or historical cost without regular revaluation, minimal disclosure requirements, and limited integration of indirect costs fall short of international expectations. These gaps may lead to inventory overstatement, poor cost tracking, and reduced comparability of financial statements across borders.

In contrast, IFRS—particularly IAS 2 (Inventories)—demands comprehensive valuation techniques, periodic re-assessment of inventory values, and detailed financial disclosures. This shift fosters greater investor confidence, enhances audit reliability, and supports decision-making at both enterprise and national levels.

The following key findings emerged from the analysis:

1. IFRS-based finished goods accounting improves financial transparency by ensuring inventory is valued at the lower of cost or net realizable value, avoiding overstatement of assets.
2. Cost accounting under IFRS is more complete, requiring the inclusion of both direct and indirect production costs, thus offering a more accurate picture of profitability.
3. Regular revaluation and write-downs mandated by IFRS encourage timely financial adjustments, reducing the risk of outdated or inflated asset valuations.
4. Improved disclosure standards under IFRS enhance the quality of financial reports, enabling better understanding by foreign investors, lenders, and stakeholders.
5. The digitalization of accounting systems and introduction of stronger internal controls are prerequisites for IFRS compliance, pushing enterprises toward broader operational modernization.

In conclusion, aligning national accounting systems—especially in finished goods accounting—with IFRS is not simply a regulatory requirement, but a transformative opportunity. For Uzbekistan's light industry, such alignment will not only support better internal financial management but also strengthen the sector's export capacity, investment readiness, and integration into global value chains.

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