

UDC 657.421.1

A. V. TARASENKO,
Post-Graduate Student,
National Academy of Statistics, Accounting and Audit

Inventories as Economic Category and Object of Audit: Theoretical Aspect

Transformations in business relations result in the increasingly more sophisticated structure of business resources capacities. High competition, volatility of business and differentiation of risks have implications for profit-making capacities at enterprise level. No quality improvement in inventories management at enterprise level would be possible without timely and correct information provided by the accounting system.

The aim of the study is to investigate interpretations of the concept "inventories", to develop theoretic background of science about control by further elaborating its economic meaning and outlining the criteria for defining inventories as object of audit.

The meaning of "inventories" being interpreted in different ways, its comprehensive definition still doesn't exist. Analysis of recent studies on inventories allows for outlining four main approaches to their interpretation, enabling for a comprehensive description of their essential characteristics. The literature review shows the prevailing approach to interpreting the economic meaning of inventories as a combination of physical resources and objects of labor. Because inventories are subject of audit, a clear definition of the meaning of the notion of "subject of audit" is required. There are different approaches to its definition, explained by a wide range of its purposes. Inventories as subject of audit cannot be interpreted in a right way unless object of inventories audit is specified. Object of audit has broader meaning than subject of audit.

The analysis shows a causal link between inventories as an economic category and subject of audit. Inventories as an economic category occur as a result of business transactions, and they are used in business process of an enterprise. Inventories as subject of audit are to be considered as a system of data filled in accounting, internal control and financial reporting documents, which provide information on purchase, use and disposal of inventories at an enterprise.

Keywords: *inventories, economic category, object of audit, data filled in accounting, internal control and financial reporting documents.*

Introduction. Transformations in business relations between enterprising entities, business expansion and business development strategies result in the increasingly more sophisticated structure of business resources capacities. High competition, volatile relations between manufacturers and consumers, and differentiation of risks in both internal and external economic environment have implications for profit-making capacities at enterprise level. No quality improvement in inventories management at enterprise level would be possible without timely and correct information provided by the accounting system.

Literature review. The concept of "inventories" has been analyzed in works of Ukrainian researchers: P. S. Bezrukykh, I. A. Blank, I. A. Bondarev, F. F. Butynets, S. F. Golova, V. I. Efimenko, N. M. Tkachenko, I. B. Shvets, R. F. Yakobs, to mention just a few.

The analysis of scientific sources does not show researchers' agreement regarding the concept of "inventory" as an economic category, and it is often identified with other concepts such as "object of work" and "material resources".

The aim of the study is to investigate researchers' interpretations of the concept "inventories", which will enable us to develop theoretic background of science about control by further elaborating its economic meaning and outlining the criteria for defining inventories as object of audit.

© A. V. Tarasenko, 2014

Results. From the economic perspective, "the objective necessity to form inventories results from spatial and time gaps between production and consumption of physical resources" [3, p. 38]. It should be remembered that the inventory management system at enterprise level needs to be organized in a way to balance the expenses on inventories purchase and storage, and inventories consumption for production purposes.

The meaning of "inventories" being interpreted in different ways, its comprehensive definition still doesn't exist. The scientists are yet to reach agreement on its characteristics and its links with other definitions, which complicates effective decision-making on cost management control as a tool for competitiveness enhancement at enterprise level (Table 1).

Analysis of recent studies on inventories allows us to outline four main approaches to their interpretation, enabling for a comprehensive description of their essential characteristics.

Summing up the literature review, we can infer that researchers tend to interpret the economic meaning of inventories as a combination of physical resources and objects of labor.

Taken from objects of labor perspective, inventories include all the physical components of manufacturing to which labor is applied, meant to be used in production of goods and services, purchased to be resold or used in for internal production and administrative purposes. We think that this approach best in defining the term "inventories".

Table 1

**Theoretical approaches to the definition
of the notion of "inventories"
as an economic category and their main flaws**

Approach	Authors	Flaws
Inventories as part of means of production	M. S. Pushkar, P. S. Bezrukykh, V. B. Ivashkevych, N. P. Kondrakov, P. T. Sabluk	– no reference to inventories use in various business processes; – no reference to inventories as a component of the enterprise's assets; – no reference to business cycle in inventories use
Inventories in work in progress	Y. V. Ponmaryova, S. V. Shubina, V. P. Yurchenko, V. V. Sopko, G. I. Filina	– nomenclature of inventories not given; – "material resources" defined in a broader way; – use of inventories in the production cycle only
Part of the enterprise's circulated assets	V. V. Kovalyov, N. N. Grabova, V. N. Dobrovskiy, A. A. Shomshtein, G. V. Nashkarska	– no reference to purpose of inventories us; – nomenclature of inventories by category is not full; – no clear definition of the term "consumption"
Objects of labor meant to be used in the manufacturing cycle	K. I. Posylaeva, Y. O. Krot, L. V. Tytenko, V. V. Lopatina, S. F. Pokropyvnyi, V. S. Len, V. V. Glyvenko	– no definition of object of labor; – no reference to inclusion of objects of labor in inventories

Source: Developed by the author.

Therefore, the critical review of existing definitions and interpretations allows us to give our interpretation of the term "inventory" as an economic category: it is a combination of physical objects of labor used in one production cycle and being of importance for the continuity of business processes at enterprises.

Inventories of an enterprise, when interpreted as an economic category, should be grouped by production phase: purchased inventories, inventories in work in progress, and commodity inventories. Purchased inventories include materials, semi-products and parts, fuel, packaging materials, construction materials, recyclable materials and other materials, purchased for the continuity of production cycle.

Inventories in work in progress include self-made semi-products, unfinished products etc. Commodity inventories include ready-made products and products in distribution (products in shipment and products in retailer stocks).

"Considering that the costs of materials, fuel and semi-products constitute about 80–90% of the total production costs in most enterprises, the main objective is to determine the level of enterprise's supply with various physical resources and to seek for ways for rational use of these resources" [13]. This thesis emphasizes the importance of inventories optimization by scope and structure, with due account for ownership forms and sectoral specifics.

Imbalances in the resource supply of an enterprise can be avoided given rational organization of inventories accounting. The accounting, if properly organized, gives robust and comprehensive data on inventories to the management. The audit is an instrument to verify the data on inventories flows, reported in accounting documents, to shoot troubles at the right moment and provide verified information for the stakeholders on the business performance and the efficiency of inventories use.

Because inventories are object of audit, a clear definition of the meaning of the notion of "object of audit" is required. There are different approaches to its definition, which can be explained by a wide range of its purposes.

L. P. Kulakovska and Y. V. Picha argue that "objects of audit are business processes that constitute the economic activities of an entity under audit. Object of audit as a whole is the documented information on enterprise's assets, their formation and circulation" [7, p. 34].

A more detailed definition is proposed by B. F. Usach who argues that "objects of audit are legal entities and physical persons, implying that audit is applicable to business facilities and processes, which, if combined, characterize financial and business activities of enterprises and executive persons in a given period, which, in their totality, constitute the object of control. Objects may include economic processes, logistics, production, sales, labor efficiency, costs, profit etc." [12, p. 24].

Identification of object of audit with legal entities or physical persons has been a debated issue because an auditor verifies the authenticity of data contained in financial reporting and gives his judgment on the quality of financial reporting in accordance with the existing regulation and accounting methods. Also, object of audit depends on purpose of audit and auditor's tasks during the inspection.

According to V. Y. Savchenko [10], "objects of audit may vary by structure, economic activity and other characteristics. Objects of audit may include regulatory acts of an organization (enterprise), which fix its competencies regarding finances, formation and changes of statutory capital; payment of salaries; resources: means and objects of labor, workforce, financial resources, material assets; economic processes related with introducing new equipment, recruitment of workforce, logistics, maintenance of technical facilities and energy supply, main and ancillary production, financial resources etc.; economic results; management forms: stimulation systems etc.; management functions: planning, accounting, control, economic analysis and regulation, stimulation etc."

L. Sukhareva and I. Dmytrenko argue that "objects of audit are the system for accounting and internal control and the information system" [11, p. 9]. V. S. Rudnitskiy [9, p. 108] argues that "object of audit is the information about business-specific facts (processes or events) at an inspection object, contained in the accounting system and in other information sources, which is subject to qualitative and quantitative evaluation". The above given review allow us to outline several approaches to interpretation of object of audit (Fig. 1).

The analysis shows no single approach to defining "object of audit", with each definition being useful for specific purposes. The most meaningful definition is the

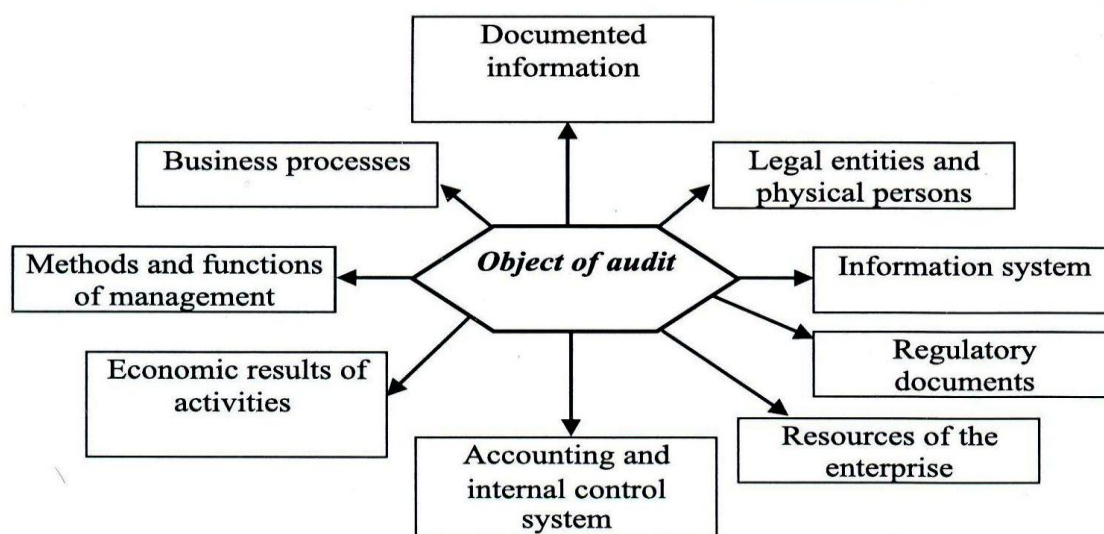


Figure 1. Interpretations of the notion of "subject of audit"

Source: Developed by the author.

one where object of audit is seen as an information system, because this approach encompasses all its characteristics.

The main purpose of inventories audit is to check and verify the initial data on inventories stocks and decommissioning, completeness and relevancy of initial data in consolidated documents and registers, regularity of inventories accounting by category and its correspondence with the conventional accounting policy, regularity of the reported information on transactions with inventories (inventories flows).

It should be noted that inventories as object of audit cannot be interpreted in a right way unless subject of inventories audit is specified. Subject of audit has broader meaning than object of audit (Table 2).

Table 2

Definitions of subject of production stocks audit

№	Author	Definition
1	L. P. Kulakovska, Y. V. Picha [7, p. 368]	Subject of inventories audit includes documented processes and events related with their flows, balance, estimating etc.
2	S. I. Lebedevych [8]	Subject of inventories audit are business activities and transactions related with their purchase and use, production costs, rejects, work in progress, ready-made goods and the related internal and external business communications of an enterprise.
3	V.Y. Danilevych [4, p. 7]	Subject of inventories audit includes documented processes and events related with their flows, balance, estimating etc.
4	A.O. Andriyenko [1, p. 12]	Subject of inventories audit are business activities and transactions related with their purchase and use, and the related internal and external business communications of the enterprise.
5	N. A. Ivaniova, O. V. Rolinskiy [5, p. 67]	Subject of inventories audit are business activities and transactions related with their purchase and use, and the related internal and external business communications of the enterprise.

Source: Developed by the author.

N. I. Gordiyenko, O. V. Varlamova and M. Y. Karpenko define object of audit as documented processes or events specifying the condition of facilities and resources, formation of resources and business activities of an enterprising entity. Subject of audit is, therefore, an economic activity, with its economic, organization-specific, information-specific and other characteristics [2, p. 41]. Therefore, subject of audit involves analysis of the characteristics of object of audit, to determine its functional principles and specifics.

The aforementioned definitions of subject of audit allow us to infer that subject of inventories audit are business activities and transactions related with their purchase and use, and the related internal and external business communications of the enterprise.

The above definition allows us to conclude that inventories as object of audit are data filled in accounting, internal control and financial reporting documents, providing information on inventory flows (purchase, use and disposals) at an enterprise (Fig. 2).

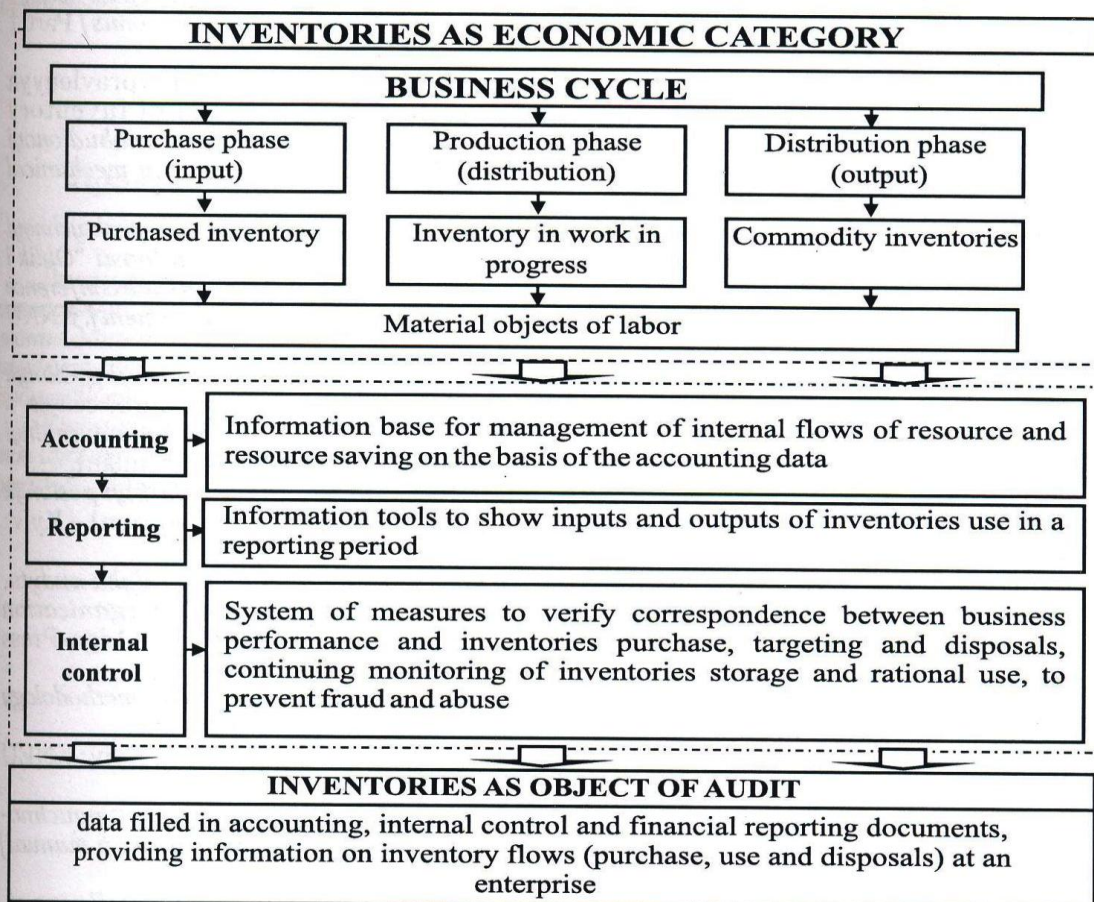


Figure 2. Inventories as an economic category

Source: Developed by the author.

Inventories audit involves verification of the accounting data, to check the procedures of documenting and accounting inventories flows; verification of writing off certificates, to check the properness of their format, targeted use of inventories and writing off methods; properness of inventories records in accounts and analytical accounting.

One of the information sources for inventories audit is data from financial reports. Financial reporting is a prime source of full, correct and unbiased information on the financial status and performance of an enterprise, required for decision-making. Therefore, audit is meant to check if the financial reporting of an enterprise provides full and

correct information about enterprise's inventories, and whether the prudence concept is realized in inventories reporting.

Conclusions. The analysis shows a causal link between inventories as an economic category and object of audit. Inventories as an economic category occur as a result of business transactions, and they are used in business process of an enterprise. Inventories as object of audit are to be considered as a system of data filled in accounting, internal control and financial reporting documents, which provide information on purchase, use and disposal of inventories at an enterprise.

References

1. Andrenko, O. A. (2012) *Konspekt lektsiy z dystsypliny Organizatsiya i metodyka audytu* [Lecture notes on the "Organization and methods of audit"]. Kharkiv : KNAMG [in Ukrainian].
2. Gordiyenko, N. I., Kharlamova, O. B., and Karpenko, M. Y. (2007) *Audyt, metodyka i orhanizatsiya: navchal'nyy posibnyk (dlya studentiv ekonomichnykh spetsial'nostey)* [Audit, its methods and organization: the textbook for economics students] Part 1 of 2. Kharkiv : KNAMG [in Ukrainian].
3. Hryshko, S. V. (2008) *Ekonomyko-matematicheskaya model' upravleniya torhovymy zapasamy* [Economic and mathematical model of inventory management] / *Ekonomika ta upravlinnya pidpryyemstvamy mashynobudivnoyi haluzi: problemy teorii ta praktyky* – Economics and management at mechanical engineering enterprises: theory and practice [in Russian].
4. Danilevych, V. Y. *Audyt vyrobnychkykh zapasiv. – Materialy naukovo-praktychnoyi internet-konferentsiyi mahistriv ekonomichnoho fakul'tetu spetsial'nosti "Oblik i audyt"* [Inventory audit – Proceedings of a scientific and practical on-line conference with master degree students in accounting and audit, Economics Department]. KNAU [in Ukrainian].
5. Ivanova, N. A. (2008) *Orhanizatsiya i metodyka audytu: navchalnyi posibnyk* [Organization and methods of audit: a manual]. Kyiv : Learning resource center.
6. Krushelnytska, O. B. (2007) *Upravlinnya material'nymy resursamy: navchalnyi posibnyk* [Inventory management: a manual]. Kyiv : Condor [in Ukrainian].
7. Kulakovska, L. P. (2009) *Orhanizatsiya i metodyka audytu: navchalnyi posibnyk* [Organization and methods of audit: a manual], Y. V. Picha. – [2nd edition] – Kyiv : Karavela [in Ukrainian].
8. Lebedevych, S. I. (2007) *Kurs audytu: Audyt Orhanizatsiya i metodyka audytu. Ekologichniy audit: navchalnyi posibnyk* [Audit course: Audit. Organization and methods of audit. Environmental audit: a study guide]. Lviv : Liga-Press [in Ukrainian].
9. Rudnytskiy, V. S. (1998) *Metodolohiya i orhanizatsiya audytu* [Audit methodology and organization]. Ternopil : Ekonomichna dumka [in Ukrainian].
10. Savchenko, V. Y. (2005) *Audyt: navchalnyi posibnyk* [Audit: a manual]. Kyiv : KNEU [in Ukrainian].
11. Sukhareva, L. (2000) *Vhutrenniy audit: organizatsiya i metodologiya: nauchno-prakticheskoe posobiye* [Internal audit: methodology and organization: a manual] Donetsk [in Russian].
12. Usach, B. F. (2007) *Audyt: navchalnyi posibnyk* [Audit: a manual]. Kyiv : Znannya-Press [in Ukrainian].
13. Yaremenko, L. M. (2012) *Oblik vyrobnychkykh zapasiv v Ukrayini – problemy vedennya ta shlyakhy yikh podolannya* [Inventories accounting – problems and solutions] / *Ekonomichnyy visnyk universytetu* [Economic bulletin of the university] [in Ukrainian].

А. В. ТАРАСЕНКО,
аспірант,

Національна академія статистики, обліку та аудиту

Виробничі запаси як економічна категорія та об'єкт аудиту: теоретичний аспект

Розглянуто теоретичні підходи до визначення сутності поняття "виробничі запаси", що дозволило уточнити та поглибити економічний зміст цієї категорії. На основі трактувань різних авторів розкрито предмет аудиту виробничих запасів та визначено об'єкт аудиту виробничих запасів.

Ключові слова: виробничі запаси, економічна категорія, об'єкт аудиту, дані бухгалтерського обліку, внутрішнього контролю та фінансової звітності.

А. В. ТАРАСЕНКО,
аспірант,

Национальная академия статистики, учета и аудита

Производственные запасы как экономическая категория и объект аудита: теоретический аспект

Рассмотрены теоретические подходы к определению сущности понятия «производственные запасы», что позволило уточнить и углубить экономическое содержание данной категории. На основании трактовок различных авторов раскрыт предмет аудита производственных запасов, а также определен объект аудита производственных запасов.

Ключевые слова: производственные запасы, экономическая категория, объект аудита, данные бухгалтерского учета, внутреннего контроля и финансовой отчетности.

