

ISBN: 978-9916-9769-8-2 (Online Edition)

DOI: 10.36962/MSSPA02022022

© EFIS OPEN MONOGRAPH PRESS

# MODERN SOCIETY & SCIENCE

PROGNOSIS & ACHIEVEMENT

VOLUME 02 ISSUE 02 2022

<https://fisdd.org/omp/>

**PROSPECTS FOR THE DEVELOPMENT OF  
FINANCE IN THE CONDITIONS OF  
EUROPEAN INTEGRATION OF UKRAINE**

Monograph

Estonia, Tallin  
2022

**ISBN: 978-9916-9769-8-2 (Online Edition)**

**P.34: PROSPECTS FOR THE DEVELOPMENT OF FINANCE IN THE  
CONDITIONS OF EUROPEAN INTEGRATION OF UKRAINE**

**Editorial board:** Namig Agaheydar Isazade, PhD in Busines; Ptashchenko Liana, D.Sc.  
(Economics), Professor; Svystun Lyudmyla, PhD in Economics, Associate Professor

**P.34**      **Prospects for the development of finance in the conditions of European integration  
of Ukraine:** monograph / Ptashchenko L., Yehorycheva S., Chychkalo-Kondratska I.,  
Onyshchenko S., Berezhna A. [etc.]; in general ed Ptashchenko L. Tallin: Estonia, IRETC  
MTÜ, 2022. 212 p.

The monograph is dedicated to the consideration of the problems of the development of the financial market of Ukraine that are relevant in the context of European integration. Very important issues of today, which are highlighted in the monograph, are the restoration of budgetary stability and debt security of Ukraine in the post-war period, improvement of monetary and budgetary policy aimed at macroeconomic stabilization in the country. The authors emphasize the tools that can ensure anti-crisis regulation of the banking system, financial business management. The monograph examines the issues of ensuring the economic security of the construction industry, directions for improving the accounting policy in the field of business as a whole, and improving the quality of audits.

These and other aspects of the current problems and priority directions of the development of the financial market are devoted to the monograph of the team of authors who carry out up to date researches within the scientific school of the National University "Poltava Polytechnic named after Yury Kondratyuk".

**ISBN: 978-9916-9769-8-2 (Online Edition)**

© National University «Yuri Kondratyuk Poltava Polytechnic», 2022

Ptashchenko L., Yehorycheva S., Chychkalo-Kondratska I., Onyshchenko S., Berezhna A.

Filonych O., Vovchenko O., Hlushko A., Dmytrenko A., Karpenko Ye., Svystun L., Skryl V.,  
Berezhetska T., 2022

## CONTENT

<b>INTRODUCTION</b>	4
<b>CHAPTER 1. CURRENT PROBLEMS OF THE DEVELOPMENT OF THE FINANCIAL MARKETS OF UKRAINE</b>	
<b>Ptashchenko Liana</b> CURRENT LINES OF FINANCIAL TECHNOLOGIES' DEVELOPMENT IN THE CONDITIONS OF THE EUROPEAN INTEGRATION OF UKRAINE	5
<b>Yehorycheva Svitlana</b> STATE-OWNED BANKS IN THE BANKING SYSTEM OF UKRAINE: PROBLEMS AND PERSPECTIVES	22
<b>Vovchenko Oksana, Berezhetska Tetiana</b> ASSESSMENT OF FINANCIAL STABILITY AS A COMPONENT OF THE BANKING SYSTEM ANTI-CRISIS REGULATION MECHANISM	36
<b>Skryl Vitaliia</b> ENHANCING FINANCIAL INCLUSION IN UKRAINE ON THE BASE OF EUROPEAN EXPERIENCE	60
<b>SECTION 2. ENSURING THE STABILITY OF STATE FINANCES IN THE CONDITIONS OF EUROPEAN INTEGRATION OF UKRAINE</b>	
<b>Chychkalo-Kondratska Iryna</b> FINANCIAL GLOBALIZATION: FEATURES OF THE CURRENT STAGE, CHALLENGES AND DEVELOPMENT PRIORITIES	74
<b>Onyshchenko Svitlana, Berezhna Alla, Filonych Olena</b> BUDGETARY AND MONETARY POLICY: THEORETICAL PRINCIPLES AND PRACTICE OF COMPLEMENTARITY	89
<b>Hlushko Alina</b> CONCEPTUAL PRINCIPLES OF REFORMING THE TAX SYSTEM OF UKRAINE IN THE CONDITIONS OF EUROPEAN INTEGRATION	120
<b>CHAPTER 3. CURRENT DOMINANTS OF CORPORATE FINANCE MANAGEMENT</b>	
<b>Svystun Lyudmyla</b> MODELS AND TOOLS OF ANTI-CRISIS FINANCIAL ENTERPRISE MANAGEMENT IN MODERN CONDITIONS	149
<b>Koba Olena</b> ACCOUNTING AND ANALYTICAL ENSURING THE ECONOMIC SECURITY OF THE CONSTRUCTION INDUSTRY	162
<b>Dmytrenko Alla</b> THE CHOICE OF THE METHOD OF INVENTORY DISPOSAL ASSESSMENT AND ITS IMPACT ON THE FINANCIAL PERFORMANCE OF THE ENTITY	176
<b>Karpenko Yevheniia</b> CERTIFICATION AND DIGITIZATION AS MODERN METHODS OF IMPROVING AUDIT QUALITY	190

## THE CHOICE OF THE METHOD OF INVENTORY DISPOSAL ASSESSMENT AND ITS IMPACT ON THE FINANCIAL PERFORMANCE OF THE ENTITY

**Dmytrenko Alla**

*D.Sc. (Economics), Associate Professor*

*ORCID 0000-0003-3304-8652*

Agricultural, industrial, transport and service enterprises use a wide variety of inputs in their activities [19]. In turn, the cost of purchased raw materials, materials, components, etc. is influenced by inflation in the country, trends in world prices, competition of suppliers in the market, the size of transport tariffs, the volume of purchases of materials, etc. At the same time, the above has a direct impact on the formation of the cost of production produced by the enterprise, the determination of the break-even point and the financial result of the business entity, which determines the relevance of the selected study [19].

Among the main methods for evaluating production inventories when writing them off to production costs, which are defined by Regulations (standard) of accounting 9 "Inventories" [4], are the following methods

- identified cost of the corresponding unit of inventories;
- weighted average cost;
- cost of first in time of receipt of inventories (FIFO);
- LIFO (since 2005 it was banned in Ukraine);
- standard costs;
- selling price.

Also, Regulations (standard) of accounting 9 "Inventories" [4] stipulates that for all units of inventories that have the same purpose and the same conditions of use, only one of the above methods is used.

Along with this, in order to provide the management with the necessary information in decision-making, in the system of management (internal economic) accounting, which has no official regulation, the company can use the abolished method of LIFO (cost of the last in time of receipt of inventories), and, depending on information needs, simultaneously use all these methods of writing off production inventories. This makes it possible to evaluate the category of production cost from different points of view, which has an undoubtedly positive impact when making decisions on pricing for manufactured products and assessing the financial performance of the entity [16].

Accounting and analysis of production inventories were studied by such scientists as L. M. Ocheretko [8], M. V. Paltseva [8], N. B. Melnyk [13], L. V. Burdeina [14], M. O. Yunatsky [12], T. A. Burova [7] and others. Despite the significant achievements of these scientists, some issues of organization and methodology of accounting and analysis of production inventories, taking into account domestic and foreign experience and the choice of method for assessing the write-off of production inventories require further research.

The purpose of the study is: to determine the features of methods for assessing the write-off of inventory, their advantages and disadvantages.

The information base of the study was the legislative and regulatory acts of Ukraine, international accounting standards for inventory accounting, works of domestic scientists on accounting and analysis of inventory, Internet resources.

According to Regulations (standard) of accounting 9 [4], inventories are assets that:

- held for subsequent sale in the ordinary course of business;
- are in the process of production for the purpose of further sale of the production product;
- held for consumption in the production of goods, performance of works and provision of services, as well as management of the enterprise.

According to paragraph 16 of Regulations (standard) of accounting 9 "Inventories" [4], inventory valuation at their release for production, sale or write-off is carried out by one of the following methods

- identified cost;
- weighted average cost;
- FIFO;
- standard costs;
- selling price.

*METHOD 1. Measurement at identified cost.* At the same time, only one of the above methods is used for all inventory accounting units that have the same purpose and the same conditions of use [6].

In other words, "for what price I bought, for what price I wrote off" (into production, to the finished goods warehouse or for sale - depending on what types of inventories and for what purpose they are disposed of). The method of identified cost is the most accurate in terms of financial results, but requires significant warehouses for separate storage of each batch of stocks, requires the organization of natural cost accounting of stocks in the context of their names [10].

According to Regulations (standard) of accounting 9 [4], this method is used to assess the disposal of inventories purchased for the purpose of their sale on a special order, and to assess the disposal of inventories that do not replace each other. For example, cars, computer equipment, furniture, household appliances, jewelry, etc. However, it is not entirely clear why such a restriction in the application of the identified cost method was introduced in Regulations (standard) of accounting 9 [4]. Perhaps, the emphasis on special orders and irreplaceability should not be understood as a limitation, but only in the sense that all enterprises will be able to apply this valuation method for special orders, and in the case of irreplaceability - mandatory [10].

Most likely, this is how clause 17 together with the first paragraph of clause 16 of Regulations (standard) of accounting 9 [4] should be understood. After all, many enterprises have long established computer accounting of receipt and disposal of inventories at the identified cost, and since this method is the most accurate, it makes no sense to change and rebuild programs for the sake of introducing approximate accounting, which is the accounting of disposal at: weighted average cost, FIFO, LIFO. Another thing is that we did not know the term identified cost. But this is only a new term, and the method itself is not new - it has long been widely used in our country.

In our country, it has always prevailed and was used in almost all sectors of the economy. A prerequisite for this is the ability to establish its price (historical cost) for each unit of stocks [10].

*METHOD 2. Valuation at weighted average cost.* The method is applied separately for each set of inventories taken into account, identical in purpose and consumer characteristics [16].

As for the procedure for applying the weighted average cost method, this method provides for the evaluation of inventory disposal in two ways:

1) assessment at the monthly weighted average cost is carried out for each unit of inventories by dividing the total value of the balance of such inventories at the beginning of the reporting

month and the value of inventories received in the reporting month by the total number of inventories at the beginning of the reporting month and inventories received in the reporting month.

2) valuation at the periodic weighted average cost of inventories is carried out for each transaction on disposal of inventories by dividing the total cost of such inventories at the date of the transaction by the total quantity of inventories at the date of the transaction.

*METHOD 3. Valuation by the FIFO method.* Thus, in conditions of constantly rising prices, the FIFO method gives the highest gross profit. And if we take into account that in the conditions of general price growth, each enterprise seeks to increase the prices for the goods sold, then when applying the FIFO method to the assessment of disposal, the gross profit indicator indicated in the Statement of Financial Results can be considered unreasonably high. Therefore, this method is beneficial for the state for fiscal purposes and leads to the payment of a larger amount of income tax.

Accordingly, in the conditions of constant decline in prices, the opposite process is observed: the gross profit indicator as a result of applying the FIFO method to the assessment of the disposal of inventories and the forced reduction of selling prices for the products (goods) sold by the enterprise is unjustifiably understated in the report.

At the same time, since inventories purchased in conditions of constantly rising prices and valued at disposal by the FIFO method are written off for sale at the lowest of the prices, the inventories that remain on the balance sheet of the enterprise are valued at a cost more or less close to the market value. This means that when analyzing the balance sheet of such an enterprise, the indicators of its own working capital, working capital and, accordingly, the coverage ratio will be not only more optimistic, but also more realistic compared to if this enterprise used the LIFO method when disposing of inventories [8].

*METHOD 4. Valuation by the normative method of inventory disposal accounting.* The method of normative costs is used in production and consists in the application of norms of costs per unit of products (works, services), which are set by the enterprise, taking into account the normal levels of use of stocks, labor, production capacity and current prices. [13]

In order to ensure the maximum approximation of standard costs to actual costs and prices should be regularly checked and revised.

The standard cost method is used in production enterprises with a small range of products, for example, in the light, food and furniture industries. Its essence lies in the fact that for each type of product manufactured at the enterprise, norms for the use of certain components are developed and approved. Thus, for the manufacture of food products at food industry enterprises, the norms of ingredients are determined by the approved state industry standards [13]. For the manufacture of dishes and semi-finished products (meaning semi-finished products used for further sale), these norms are defined by the Collection of recipes for dishes and culinary products. In the light industry, for the manufacture of products for each type and model, the enterprise independently determines and approves the cost norms.

As a rule, such enterprises constantly change prices for purchased basic materials, raw materials, purchased products and semi-finished products, etc. It is no secret that these changes are in the direction of growth. Therefore, it is advisable for manufacturing enterprises to conclude long-term supply contracts with suppliers. Because, firstly, when concluding a long-term contract, you can get a number of discounts on raw materials and supplies; secondly, the prices for such materials and supplies are determined in advance. In the future, when calculating products, the manufacturer will have the opportunity not to change these cost items for a long time. Moreover, when

concluding long-term supply contracts, money can be paid for each batch of raw materials received [13].

When setting these standards, the normal level of inventory utilization, production capacity, labor remuneration, forecasted production volumes and current prices are taken into account. If you imagine an ideal situation: prices for raw materials and supplies do not change, the company has a regular buyer, production works rhythmically, finished products are shipped according to the plan, variable production costs exactly correspond to the normative ones, and fixed costs remain unchanged, you can easily determine the planned production cost. In this case, it will correspond to the actual cost [13].

However, in practice it is almost impossible. Prices for basic materials and raw materials are constantly changing; wages of employees are changing; actual consumption of materials and raw materials in the production process may exceed the standard. Therefore, there are differences between actual and standard costs, which are conditionally divided into several groups:

1. Quantity variances - differences between actual and standard costs of input components of finished products. This includes their overruns and underruns. In this case, the main task of the accounting department and the head of the enterprise is to minimize such deviations.

2. Cost differences are the differences between the actual and standard cost of raw materials, materials, semi-finished products. In addition, cost differences include differences in other input costs of the production process: wages, utilities, etc.

3. Production differences are differences arising in the volume of output. Production differences mainly arise as a result of the two previous types of differences [13].

*METHOD 5. Method of valuation of inventory disposal at selling prices.* It may seem that this method is the only one that applies only to the disposal of inventory from the enterprise. It is not so. After all, the trade margin is added to the original cost of goods purchased for further sale at retail already at the stage of posting these goods to account 282. In the future, accounting for the movement of goods at all pre-sale stages can occur at selling prices [10].

At the same time, this does not contradict the requirements of Regulations (standard) of accounting 9 [4] and IFRS 2 [3] regarding the valuation of inventories at the balance sheet date at the lower of cost or net realizable value. After all, on the balance sheet the balance of goods in retail trade is shown curtailed: Balance D-t 282 - Balance K-t 285, that is, taking into account the contract "Trade margin" as an indicator that adjusts the sales value to the level of the original cost.

When choosing one of these methods, it is necessary to be guided by the goals set by each enterprise in a particular situation. The most common methods are: FIFO method, weighted average cost [9].

The method of writing off inventories affects such financial categories as:

- cost of production (works, services) in terms of direct material costs and, as a result, the formation of financial results and profitability;

- the value of current assets in the structure of the balance sheet at the end of the reporting period and, as a result, the liquidity and financial stability of the enterprise. Thus, in conditions of constant price growth, the FIFO method gives the highest gross profit [9].

If we take into account that in the conditions of general price growth each enterprise tends to increase the prices for the goods sold, then when using the FIFO method, the gross profit indicator reflected in the Statement of financial results can be considered overstated. At the same time, if inventories acquired in conditions of constant price growth are accounted for under the FIFO method and written off for sale at the lowest prices, the inventories remaining on the balance sheet

will be valued at a cost closer to market. For organizations that have losses and seek to minimize them in their financial statements, it is more appropriate to apply the FIFO method. Most accountants believe that the FIFO method overstates the profit, and therefore companies pay extra money in the form of income tax. The weighted average cost method shows higher expenses of the period compared to the FIFO method, so it is more profitable for the company. (Table 1). When applying this method, net profit takes an average value and the final cost of inventories is lower than the market value [9].

*Comparative analysis of domestic and foreign experience in inventory accounting.* Materials, as a rule, are the most important and significant part of the assets of the enterprise, they occupy a special place in the composition of property and dominate the structure of costs of enterprises in various fields of activity, in determining the results of economic activity of the enterprise and in covering information about its financial condition. Inventories are classified as current assets because they can be converted into cash within a year or one operating cycle. To ensure the smooth operation of production, the warehouses of the enterprise should always have production stocks within the norms provided by the needs of the enterprise. In the warehouses of enterprises, business operations are carried out to preserve incoming production stocks, as well as to release them into production. Accounting should ensure control over the balances, receipt and expenditure of inventories in the warehouse, which is an important condition for ensuring the safety of the property of the enterprise [18].

The movement of materials from one business entity to another leads to a change (increase or decrease) in the value and structure of inventories within a particular enterprise. At the same time, the change in the structure of materials reflects the economic aspect of this issue [20].

Table 1.

**Advantages and disadvantages of inventory disposal valuation methods**

Method of inventory disposal valuation	Advantages	Disadvantages
1	2	3
Identities fic cost price toast	1) the most accurate method; 2) when applying this method, a special marking is used for each unit of inventories, which allows to determine its cost, so the company can regulate profits by selling more expensive or cheaper inventories [6].	1) labor intensity of the method; 2) as a result of using this method, the same stocks are accounted for at different values, which is not always convenient [6].
Among Niezwa wife's cost toasts	1) gives an objective picture of the movement of material assets at the enterprise; 2) when applying this method, net profit will have an average value that is closest to the actual one; 3) the expediency of using this method of inventory valuation is due to the uniformity of their write-off, the reality of the state of inventory balances in the balance sheet and the cost of spent material assets; 4) the method facilitates the work and does not require detailed accounting of movement for each unit of stocks [6].	1) no attention is paid to the most recent prices, and they are more appropriate in assessing income and making management decisions; 2) in the period of rising prices, the method leads to the fact that enterprises declare higher profits than they actually receive, as a result of which excess funds are paid in the form of taxes [6].

First in first out (FIFO) cost of inventories	<p>1) the method is easy to use and prevents the possibility of manipulating profits;</p> <p>2) balances of unused materials are reflected in the balance sheet asset at prices that are as close as possible to the real market value as of the reporting date;</p> <p>3) it is beneficial to apply in case of planned reduction of purchases of materials and in case of expectation of falling prices for manufactured products;</p> <p>4) in the period of constant price growth, the method provides the highest possible level of net income [7].</p>	<p>1) the method leads to underestimation of expenses that are written off at purchase prices to the cost of goods sold;</p> <p>2) in the period of price growth, enterprises declare higher profits than the real ones and pay excess funds in the form of income taxes;</p> <p>3) overestimates financial results, which in conditions of inflation will lead to a decrease in the share of purchase price and to the "washing out" of working capital and lack of payment resources for the purchase of new consignments of goods at prices that are constantly growing [7].</p>
Norm positive cost	<p>1) the possibility of current operational accounting of costs by accounting for deviations from the norms;</p> <p>2) separate accounting of changes in norms, i.e. control over the implementation of the economy regime;</p> <p>3) enlargement of accounting objects, since normative calculations are made for all types of products, and deviations are taken into account by groups of homogeneous products, resulting in a reduced number of calculation objects;</p> <p>4) coverage of a significant part of costs by normative calculations;</p> <p>5) the possibility of less frequent inventory of work in progress [8].</p>	<p>1) constant review of the norms of use of stocks, labor, production capacities and current prices [8]</p>
Prices for sale zhu	<p>1) this method is common in retail trade [8]</p>	<p>1) the balance sheet reflects the sales value of goods less unrealized trade margin, which is calculated using the average percentage of trade margins. The value calculated in this way is quite approximate and may deviate from the real value of goods [8].</p>

The legal or legal aspect is related to the existence of a contract - a document of a legal nature, which is the basis for the implementation of such operations on the movement of inventories. The contract, on the one hand, makes it possible to carry out such operations, on the other - determines the ownership of inventories.

An enterprise can store in its warehouses various types of current tangible assets, and when creating asset reserves, there is a need to organize material responsibility for their safety [20].

Thus, the creation of reserves of stocks in the warehouses of the enterprise in any case determines the need to organize the responsibility of persons in whose responsible custody are inventories.

Inventories in Ukraine are accounted for only on accounts in the permanent inventory accounting system. Production inventories consist of raw materials, basic and auxiliary materials, purchased semi-finished products and components, construction materials, packaging and packaging materials, waste of the main production intended for the production of goods, works, services, maintenance of production and administrative needs [19].

To summarize information on the availability and movement of stocks of raw materials, materials, fuel, components and other stocks, the Chart of Accounts [5] provides for account 20 "Production stocks".

In foreign countries, the methods of analytical accounting of inventories include:

- method of periodic accounting;
- method of continuous (current) accounting [19].

According to the method of periodic accounting, detailed accounting of inventories during the year is not carried out, and at the end of the year an inventory of available inventories should be carried out to determine the level of inventories at the end of the reporting period. The cost of inventories sold cannot be determined until the inventory count is completed, since the calculation of cost is determined as follows: net cost of purchases plus the inventory level at the beginning of the reporting period minus the inventory level at the end of the reporting period. The essence of the method of current (continuous) accounting of inventories is that systematically with the receipt and movement of inventories, their quantity and value are strictly documented. The method provides control over the movement of inventory, signals the need for new orders of materials to replenish stocks, generates information about the optimal order volume. As a result, the volume of available stocks is known throughout the reporting period [19].

There are a number of methods for valuing inventories for financial reporting purposes. Most of them are based on either cost or market price.

The US Institute of Certified Public Accountants states that the primary basis of accounting for inventories is cost, which includes the following elements

- invoice amount, net of discounts upon purchase;
- the amount of insurance for goods in transit;
- relevant taxes and tariffs [14].

Other costs associated with the purchase, acceptance, etc., in principle, should also be included in the cost of inventories. However, in practice, it is so difficult to separate these costs between individual types that they are mostly accounted for as expenses of the reporting period (i.e. included in overheads), rather than as an element of the cost of inventories.

The peculiarities of inventory valuation methods in some countries are:

- in Portugal, in some industries (agriculture, forestry, fishing) inventories may be valued as follows: the book price is determined as the selling price minus a certain profit margin. This method can also be used for inventory accounting in wholesale trade;

- in Spain, inventories are valued at a general fixed rate if they are constantly updated and their total value and structure change insignificantly. As an exception, they can be valued at an

overall fixed rate if they are constantly updated and their overall value and structure change insignificantly;

- in Switzerland, inventories may be valued in the consolidated accounts on the basis of actual current costs, replacement cost or similar costs;

- in Italy, for long-term contracts, work in progress is accounted for either upon completion of the contract or by percentage of completion;

- in the UK it is forbidden to use FIFO and basic stock methods [14].

Long-term contracts for unfinished projects are accounted for by the methods:

- "share of completion", "contract completion";

- in the United States, when using the LIFO method, the accounting policy must determine the amount of the current reproduction cost (cost of movement) of inventories, as well as the impact on the results of operations of a decrease in the inventory lot [14].

National accounting standards are based on International Standards, but according to the specifics of the national system, there are differences in accounting in Ukraine and foreign countries [3].

The LIFO method is an assessment of the disposal of inventories at the prices of the last purchases based on the assumption that the cost of inventories received last is used to determine the cost of goods sold first (last-in, first-out method - LIFO) [17].

The LIFO method has some advantages over the FIFO method, although it is not without drawbacks. If we take into account the well-known statement that the most accurate financial result can be derived by comparing the current cost of goods with their current selling value, then we can assume that the LIFO method has a clear advantage over the FIFO method, since it is the LIFO method that allows you to correlate these two values: the current (market) value of inventories and the current (market) value of sales. In addition, the assessment of the disposal of inventories at current (current market) value allows the enterprise to replenish its stocks in the conditions of rising prices, without looking for additional sources of replenishment of working capital [17].

Thus, due to the fact that the LIFO method at any price fluctuations, i.e. regardless of whether they are rising or falling, assumes that the cost of goods sold (products, works) will be formed by expenses in accordance with the price level at the time of sale, this method, in comparison with others, will show a lower gross profit during inflation and a large one during deflation. Thus, the influence of factors of rise and fall in the economy of the state is smoothed out. (Table 2).

However, since the cost of inventories available at the end of the period refers to earlier purchases, and the cost of inventories sold correlates with the latest purchases, the use of the LIFO method in conditions of rising or falling prices leads to the fact that the balance of inventories is reflected at the prices of the first purchases, that is, their balance sheet value does not coincide with their real value: during inflation it is understated, during deflation - overstated compared to their current market value [17].

All these circumstances arising from price fluctuations must be taken into account when analyzing the balance sheet indicators. That is why in the appendices to the financial statements it is necessary to indicate which of the methods of inventory disposal valuation is used by the enterprise in the reporting period.

*Methodological recommendations for improving and choosing the method of inventory disposal valuation.* In the context of the need to ensure the effective functioning of business entities to achieve reliable financial results, the choice of methods for assessing the write-off of inventories is an important prerequisite for the organization of accounting for these objects. The importance of

the correct choice of methods for estimating the write-off of inventories is also due to the fact that this type of cost is directly related to the calculation of the cost of production. Thus, in fact, the valuation of inventories is the basis for determining the actual cost and price of manufactured products. Thus, it is very important to choose the optimal method of inventory disposal for each business entity, based on the current and strategic objectives of its activities [12].

Table 2

**Methods of inventory disposal valuation, accepted in foreign practice**

№	Country	Methods of inventory valuation				
		FIFO	LIFO	Weighted average (average) cost	Net realizable value	Other methods of inventory write-off
1	2	3	4	5	6	7
1	Ukraine	+	Canceled	+	-	The method of identified cost, selling price method
2	United Kingdom		+	+	+	-
3	Greece	+	+	+	-	Basic stock method of finished goods
4	Spain	+	+	+	-	-
5	Italy	+	+	+	-	-
6	Luxembourg		+	+	+	Actual costs
7	Netherlands	+	+	+	-	Method of basic stock of finished and unfinished works
8	Germany	+	+	+	+	-
9	Portugal	+	+	+	-	Standard and special (market) price of the underlying stock
11	USA	+	+	+	-	Retail method
12	France	+	It is used in the preparation of consolidated statements		+	-
13	Switzerland	+	+	+	-	-
14	Sweden	+	-	-	+	Percentage of completion method, contract completion method

Production inventories have a significant impact on the financial result of economic activity, as they have the largest share in the cost of production of most industries in various fields of activity. In this regard, Regulations (standard) of accounting 9 "Inventories" was developed [4].

Considerable attention in Regulations (standard) of accounting 9 "Inventories" [4] is paid to the valuation of inventories. In general, the valuation of the company's property is one of the most important tools that ensure the reliability of accounting information about the results of economic activity. It is carried out by summing up the costs of purchasing and/or manufacturing inventories and determining the amount of costs that are reflected as expenses of the enterprise at the next disposal of inventories.

When inventories are released into production, from production, sale and other disposal, they are evaluated by one of the methods provided by Regulations (standard) of accounting 9 "Inventories" [4]. For all units of inventory accounting that have the same purpose and the same conditions of use, only one of the above methods is used. For inventories of different purposes, different valuation methods can be used simultaneously.

The enterprise faces the task of choosing the method that would best meet its needs:

- did not overstate financial results of activity
- did not underestimate the cost of finished products;
- was simple and easy to use [11].

For application it is important to choose the method that allows the most accurate assessment, taking into account the interests of the owners of the enterprise and the specifics of production activities. In accounting, it is not the number of inventory valuation methods that is very important, but undoubtedly their positive impact when making decisions on pricing for manufactured products and assessing the financial performance of an entity. Also, the method of writing off inventories affects the value of current assets in the structure of the balance sheet at the end of the reporting period and, as a result, the liquidity and financial stability of the enterprise [11].

The analysis of existing methods for estimating the disposal of inventories allowed to identify the following reasons that affect the choice of a particular method:

- different nature and specificity of production inventories (assortment, price, etc.)
- specifics of the enterprise activity (industry, trade, transport, communication)
- place of use (by structural units, departments, workshops, departments);
- economic and legal factor (trends in economic development, tax regulation);
- historical factor (historical prerequisites for the formation of the accounting system);
- information and organizational support (use of computer information systems of accounting, provision of the enterprise with warehouses, other places of storage of stocks) [6].

The choice of a particular method depends mainly on what tasks are solved by the organization in the field of investment, finance and taxation. According to some scholars, the FIFO method should be used by enterprises that plan to make capital investments from their own sources and use the appropriate income tax benefits. The weighted average cost method is considered moderate in terms of impact on profit and liquidity compared to FIFO [8].

Let us consider the impact of the method of valuation of inventories at their disposal on the amount of profit on the example. (Table 3).

Table 3

**Initial data on the movement of goods A for the month**

Date	Indicator	Number of units	Price per unit, UAH.
01.03.2022 y.	Balance at the beginning of the month	15	10
14.03.2022 y.	Purchased	15	12
17.03.2022 y.	Sold	10	20
24.03.2022 y.	Purchased	17	13
29.03.2022 y.	Sold	12	20

Calculation:

In March, 22 units of product A were sold. The sales revenue was 440 UAH.

Proceeds from the sale =  $10 \times 20 + 12 \times 20 = 200 + 240 = 440$  UAH.

Balance at the beginning of the month =  $15 \times 10 = 150$  UAH.

In total, 32 units of product A were purchased during the month.

The purchase price is equal to 401 UAH.

Purchased for the month =  $15 \times 12 + 17 \times 13 = 180 + 221 = 401$  UAH.

Let's determine the cost of inventories using different methods:

Identified cost

If the company uses the identified cost method, then it is known how many units of product A were disposed of and at what price (from which batch this particular product was) [21].

Disposal of inventories =  $10 \text{ units} \times 10 \text{ UAH} = 100$  UAH.

$5 \text{ units} \times 12 \text{ UAH} = 60$  UAH.

$7 \text{ units} \times 13 \text{ UAH} = 91$  UAH.

251 UAH.

Inventory balance at the end of the month =  $150 + 401 - 251 = 300$  UAH.

$5 \text{ units} \times 10 \text{ UAH} = 50$  UAH.

$10 \text{ units} \times 12 \text{ UAH} = 120$  UAH.

$10 \text{ units} \times 13 \text{ UAH} = 130$  UAH.

Weighted average price

Disposal of inventories

17.03.2022  $(15 \times 10 + 15 \times 12) / 30 = 330 / 30 = 11$  UAH.

Sale =  $10 \times 11 = 110$  UAH.

29.03.2022  $(20 \times 11 + 17 \times 13) / 37 = 441 / 37 = 11.92$  UAH.

Sale =  $12 \times 11.92 = 143$  UAH.

Inventory balance at the end of the month =  $150 + 180 - 110 + 221 - 143 = 298$  UAH.

Or in a whole month:

Weighted average price:  $(15 \times 10 + 15 \times 12 + 17 \times 13) / (15 + 15 + 17) = 551 / 47 = 11.72$  UAH.

Sales =  $11.72 \times (10 + 12) = 258$  UAH.

Inventory balance at the end of the month:  $150 + 180 + 221 - 258 = 293$  UAH.

FIFO

Disposal of inventories:

17.03.2022p.  $10 \text{ items} \times 10 = 100$  UAH.

29.03.2022.  $5 \text{ items} \times 10 = 50$  UAH.

$7 \text{ items} \times 12 = 84$  UAH.

Total = 234 UAH.

Inventory balance at the end of the month:

$8 \text{ items} \times 12 = 96$  UAH.

$17 \text{ items} \times 13 = 221$  UAH.

Total = 317 UAH. (Table 4).

Table 4

**Impact on profit of different inventory valuation methods (UAH)**

№	Indicator	Identifiable cost price	Weighted average price		FIFO
			for each disposal transaction	in total for the month	
1	2	3	4	5	6
1	Revenue from sales (22 units)	440	440	440	440
2	Balance at the beginning of the month	150	150	150	150
3	Purchased	401	401	401	401
4	Balance at the end of the month	300	298	293	317
5	Cost of inventories sold	251	253	258	234
6	Gross profit	189	187	182	206
7	Operating expenses	130	130	130	130
8	Profit before taxation	59	57	52	76
9	Income tax (30%)	18	17	16	23
10	Net profit	41	40	36	53

Thus, it can be concluded that it is more appropriate to use the FIFO method. Although, on the one hand, the FIFO method increases the profit of the enterprise, it provides the most reliable information on the accounting of inventory disposal, because only those goods that were purchased later remain on the balance sheet. The impact of this method on the financial condition of the economic entity can be considered positive, since the balance sheet indicators characterizing the items of current assets are reflected in the value close to the market value.

Thus, the study examined the essence and components of inventory disposal valuation methods. It is determined that there are five methods in Ukraine:

- identified cost of the relevant unit of inventories
- weighted average cost;
- cost of first in time of receipt of inventories (FIFO);
- standard costs;
- selling price.

Each method has its advantages and disadvantages. Thus, the identified cost method is the most time-consuming and the same inventory may have different values. The most equal amount of profit, is less affected by fluctuations in purchase prices, does not require detailed accounting of the movement of each unit of inventory is provided by the weighted average cost method. The FIFO method is easy to apply. The normative cost method allows to estimate inventories at a cost close to the actual cost, but requires regular checking of prices and cost norms.

The article compares and analyzes domestic and foreign experience in inventory accounting, determines the availability and movement of materials. The features of methods in different countries are reflected. Great Britain uses such methods as LIFO, weighted average cost and net cost. Greece, Spain, the Netherlands, Germany and Italy - FIFO, LIFO and weighted average cost.

Some countries also use the method of basic stock of finished goods, actual costs, method of basic stock of finished and unfinished works, standard and special (market) price of basic stock, percentage of completion method, contract completion method, retail method.

The use of the identified cost method in enterprises is limited due to the difficulty of clearly identifying and ensuring the physical and cost movement of inventories from the moment of purchase to the moment of sale, as well as accounting for purchase prices and other expenses for each specific type of inventory. Thus, the identified cost method can be equally applied to both permanent and periodic accounting systems.

In the conditions of rising prices for inventories, the FIFO method provides the lowest cost of sale, which will result in the highest profit. At the same time, the valuation of inventories in the balance sheet using the FIFO method is closest to their actual cost.

Weighted average cost of sales provides a more even amount of profit, is less affected by fluctuations in purchase prices than other methods. When using this method, the net profit for the month as a whole will be the lowest.

Therefore, the use of the FIFO method is the most appropriate for use in enterprises. The impact of this method on the financial condition of the economic entity can be considered positive, since the balance sheet indicators characterizing the items of current assets are reflected in the value close to the market value.

## REFERENCES

1. On accounting and financial reporting in Ukraine: Law of Ukraine of 16.07.1999. No 996-XIV (1999). URL: <https://zakon.rada.gov.ua/laws/show/996-14#Text> (date of access: 20.10.2022).
2. On Accounting Policy: Letter of the Ministry of Finance of Ukraine dated 21.12.2005. No 31-34000-10-5/27793 (2005). URL: <http://www.minfin.gov.ua> (date of access: 20.10.2022).
3. International Accounting Standard 2: International Standard from 01.01.2012. No 929-021 (2012). URL: [https://zakon.rada.gov.ua/laws/show/929\\_021#Text](https://zakon.rada.gov.ua/laws/show/929_021#Text) (accessed 20.10.2022).
4. On approval of accounting regulation (standard) 9 "Inventories": Order of the Ministry of Finance of Ukraine dated 20.10.1999. No 246 (1999). URL: <http://zakon.rada.gov.ua/laws/show/z075> (date of access: 20.10.2022).
5. Instruction on the application of the Chart of Accounts for Accounting of Assets, Capital, Liabilities and Business Operations of Enterprises and Organizations: Order of the Ministry of Finance of Ukraine of 30.11.1999. No 291 (1999). URL: <https://zakon.rada.gov.ua/laws/show/z0893-99#Text> (date of access: 20.10.2022).
6. Justified preliminary accounting estimate as an integral part of the accounting policy of the enterprise (2018). *Vestnik*. No 2. C. 179-183.
7. Burova T.A. (2016). Information bases of accounting policy and ways of their improvement. *Scientific Bulletin of Polissya*. No 2. C. 73-78.
8. Ocheretko L.M., Paltseva M.V. (2016). Ways to improve methods for assessing the disposal of production stocks. *Sustainable development of the economy*. No 2. C. 141-147.
9. Skorobogatova N.E. (2017). Accounting: textbook. Kyiv: Kyiv Polytechnic Institute, Polytechnic Publishing House. 248 c.
10. Kononova O.E. (2018). Organization of accounting: textbook. Dnipro: DVNZ PDABA. 102c.
11. Pirozhok O. S., Voichyshina V. V. (2016). *The role of accounting policy at the enterprise and requirements for it*. *Science and Economics*. No 1. C. 28-32.

12. Conceptual basis for the formation of accounting policy of the enterprise for accounting purposes. (2016). *Scientific Bulletin of Uzhhorod National University*. No 6. C. 159-162.
13. Melnyk N.B. (2016). Evaluation of inventory disposal at periodic and permanent accounting systems. *Sustainable development of the economy*. No 2. C. 245-250.
14. Burdeina L.V. (2016). Comparative analysis of domestic and foreign experience of inventory accounting. *Economics*. No 2. C. 105-110.
15. Chaban G.V., Burlakov O.O. (2017). Analysis of factors influencing the formation of accounting policy in the enterprise management system. *Economic Bulletin of the University*. No 32/1. C. 38-45.
16. Stetsiv I.I., Stetsiv I.S. (2018). Financial (accounting) accounting: textbook. Lviv: SPOLOM. 224 c.
17. Orlova V.K., Kafka S.M. (2018). Influence of accounting policy on the book value of the enterprise. *Economy of Ukraine*. No 4. C. 55-62.
18. Bondarenko N.M., Yaresko A.M. (2015). The essence and classification of inventories at the enterprise. *Bulletin of Chernihiv State Technological University*. No 4 (76). C. 273-281.
19. Artemenko N.V. (2017). Production stocks: features of accounting and methodological principles of audit. *Economy and society*. No 12. C. 665-670.
20. Balashuk D.M. (2015). The value of inventory accounting in enterprise management. *Student bulletin*. No 5. C. 404-406.
21. Internet resource "Ministry of Finance" (2022). URL: [https://minfin.com.ua/taxes/-/gospoper/bo\\_2\\_5\\_4\\_obliczapasy.html](https://minfin.com.ua/taxes/-/gospoper/bo_2_5_4_obliczapasy.html) (date of access: 20.10.2022).

# **PROSPECTS FOR THE DEVELOPMENT OF FINANCE IN THE CONDITIONS OF EUROPEAN INTEGRATION OF UKRAINE**

Monograph

Accepted for publication in this edition 21.12.2022

© EFIS OPEN MONOGRAPH PRESS

ISBN: 978-9916-9769-8-2 (Online Edition); DOI: 10.36962/MSSPA02022022

©**Publisher:** NGO International Center for Research, Education & Training.

MTÜ Rahvusvaheline Teadus-, Haridus- ja Koolituskeskus.

**Management Board Member:** Seyfulla Isayev.

©**Editorial office:** Väike-Paala tn 2, 11415 Tallinn, Estonia.

©**Typography:** NGO International Center for Research, Education & Training. R/C 80550594

**Registered address:** Harju county, Tallinn, Lasnamäe district, Väike-Paala tn 2, 11415, Tallinn, Estonia.

**Telephones:** +994 552 80 70 12; +994 518 64 88 94; Whatsapp: +994 552 41 70 12;

**E-mail:** sc.mediagroup2017@gmail.com

**Websites:** <https://fisdd.org/omp/>

## JOURNAL INDEXING



**Accepted for publication in this edition 21.12.2022**

**© EFIS OPEN MONOGRAPH PRESS**

**ISBN: 978-9916-9769-8-2 (Online Edition); DOI: 10.36962/MSSPA02022022**

**©Publisher:** NGO International Center for Research, Education & Training.  
MTÜ Rahvusvaheline Teadus-, Haridus- ja Koolituskeskus.

**Management Board Member:** Seyfulla Isayev.

**©Editorial office:** Väike-Paala tn 2, 11415 Tallinn, Estonia.

**©Typography:** NGO International Center for Research, Education & Training. R/C 80550594

**Registered address:** Harju county, Tallinn, Lasnamäe district, Väike-Paala tn 2, 11415, Tallinn, Estonia.

**Telephones:** +994 552 80 70 12; +994 518 64 88 94; Whatsapp: +994 552 41 70 12;

**E-mail:** [sc.mediagroup2017@gmail.com](mailto:sc.mediagroup2017@gmail.com)

**Websites:** <https://fisdd.org/omp/>

**ISBN: 978-9916-9769-8-2**  
**(Online Edition)**

