FORMATION OF THE ACCOUNTING POLICY OF THE ENTERPRISE
IN THE CONTEXT OF ENSURING EFFECTIVE INVENTORIES
MANAGEMENT IN THE PROCESS OF INNOVATIVE ACTIVITY

Olha Roieva

Abstract. The article considers the issues of organization and formation of inventory accounting policy, substantiates its role in the system of information support of inventory management processes and highlights the impact on the effectiveness of inventory management in the process of innovation activity. Based on the study of trends in the share of inventories of industrial enterprises and indicators of innovation development, it is established that inventories are not currently considered as a resource that has a significant impact on the innovation potential of the enterprise, and in combination with financial performance indicates inefficient investment in inventories and inefficient inventory management. It is proved that it is possible to increase the efficiency of inventory management due to the optimal organization of the inventory accounting system, the foundations of which are laid during the formation of accounting policies. The author's approach to understanding the accounting policy in the sphere of inventory accounting, which is considered as a set of principles, methods and procedures used by the company to generate quality, timely, relevant, clear, complete and reliable information about the availability, movement, storage and use of inventories, sufficient to make management decisions aimed at improving the efficiency of inventory management and disclosure of inventory information in the financial statements. Coverage of approaches to the formation of accounting policy is based on a combination of organizational, technological and methodological components of accounting policy. The first (organizational and technological) component includes such elements as: inventory principles, laws and regulations concerning accounting of inventories, forms of primary documents and internal management reporting used for inventory accounting, document management rules and accounting information processing technology, control procedures on the movement of inventories and the responsibility of officials, the procedure and frequency of revaluation of inventories and inventory count, the order of analytical inventory, the unit of natural measurement of inventories for each unit of accounting, the interaction of accounting with other services during the transfer and exchange of inventory. The second component (methodological) reveals the principles and rules of receipt, processing, recording and transmission of inventory information, inventory valuation rules, inventory accounting (development of a working plan of accounts), disclosure of inventory information in the financial statements. It has been considered such main elements of organizational, technological and methodological components: features of the work plan of inventory accounts, the issue of documentation of inventory transactions, the recognition of inventories and their evaluation, document management rules, accounting for transport and procurement costs. Variable elements of inventory accounting policy are identified.

Key words: inventories, accounting, accounting policy, management system, innovative activity, efficiency, information support, stock estimation, document circulation.

JEL Classification: M40, M42

1. Introduction
The current stage of development of economic processes in Ukraine is characterized by evolutionary nature, and in the face of intensifying competitive relations in world and national resource markets, an important factor that determines the development of economic entities is their focus on innovative development. A distinctive feature of modern development is the emergence of highly integrated (vertical and horizontal) structures that distinguish by the ability to share technology, human and financial
resources can develop high-tech industries, and this concentration is especially important when several ideas must be combined into one viable innovation. The formation and effective use of inventories by enterprises that are actively involved in innovation is one of the determining factors in developing strategy of organization, management and regulation of innovation processes.

Therefore, ensuring effective inventory management in the process of innovation activity, given the significant amount of money invested in the creation and maintenance of the required level of inventories is a very important issue. The results of efficiency or inefficiency of such management will affect overall liquidity, solvency, financial stability enterprises and levels of its innovative activity.

Achieving effective management of inventories is possible through timely, relevant, clear and reliable information about the availability, movement, storage and use of inventories at the enterprise. The only reliable source of such information is the company’s accounting system, accounting of inventories in which is one of the most time-consuming processes. In this regard, the formation of accounting policies of the enterprise, aimed at ensuring effective inventory management in the process of innovation, is an important tool for achieving performance indicators.


However, the current challenges of the globalized world and the need for an innovative economy in Ukraine necessitate the study of the formation of inventory accounting policy in a new direction, in line with effective inventory management in the process of innovation activity of business entity.

In this context, it is necessary to use actively the developments of foreign scientists in the sphere of inventory accounting and their using in innovation activity. The research of a simple adjustment that restates the LIFO inventory to the more current cost based FIFO value and analyzes the effects of this adjustment (Sander, Hughes, 2005) can be singled out. Despite the fact that it was published in 2005, the proposed technique transformed can be used nowadays. A comparison of current U.S. GAAP and IFRS Standards in the field of inventory accounting has been presented (Lucchese, Carlo, 2020); the state of establishing by the internal accounting regulations of the companies / organizations the Inventory taking procedure has been analyzed (Nukka, Kasearu, 2016); methods of forming optimal models of inventory accounting have been studied (Chouhana, Soralb, Chandrac, 2017; Khan, Faisal, Al-Aboud, 2018).

2. Objective and methodology of the study

The purpose of the study is to highlight the approaches to the technology of accounting policy of the enterprise in the context of ensuring effective inventory management in the process of innovation. The research hypothesis is based on the assumption that the proposed methodological approaches to the formation of inventory accounting policy will provide an opportunity for effective inventory management and will help to build the innovative potential of the enterprise.

During the research such scientific methods have been used: the dialectical method of cognition and the method of comparison to study, analysis and generalization of the theoretical foundations of the formation of inventory accounting policy; method of induction, deduction and observation – to study general trends and practical experience in the formation of accounting policies of inventories in industrial enterprises; method of comparison and grouping – for analyzing of analytical information; abstract-logical method, method of causal relations, concretization, formalization – to identify and systematize existing shortcomings and determine the needs of the management system in information about inventories in the context of ensuring effective inventory management in the process of innovation activity.

3. Analysis of the efficiency of using inventories by Ukrainian enterprises

The inventory management system has a significant impact on the overall performance of the enterprise, so it must be able to respond quickly to changes in
the external environment of its operation, while ensuring the maintenance of previously achieved results. Effective inventory management is an important factor in intensifying innovation and improving the efficiency of the enterprise as a whole.

Inventories for most national enterprises are a significant component of current assets, the share of which, depending on the specifics of economic activity, is from 5% to 94% of its current assets, although on average this value ranges from 20-25% (Table 1).

Examining the change in the size of inventories of industrial enterprises and their innovation activity, it should be noted that the value of inventories during 2015-2019 tended to increase gradually, while the indicators of innovation activity remained unchanged, and in some periods it even showed a decline. Thus, the highest number of innovatively active industrial enterprises of Ukraine was in 2016 (834 units). In the same year, 2016, the highest among all the years of the study period were the indicators of the number of new technological processes introduced into production (3489 units), the indicators of the number of introduced innovative products (4139 units) and the indicators of total innovation costs (23229.5 million UAH) (Table 2).

According to the data shown in table 2, the largest increase in inventories of industrial enterprises occurred in 2018 (UAH 417778.5 million), while the total cost of innovation in 2018 was the lowest for the entire period (UAH 9117.45 million). This situation is evidence that inventories are not considered as a resource that has a significant impact on the innovation potential of the enterprise. In addition, comparing the growth rates of inventories and indicators of financial performance of industrial enterprises of Ukraine during 2015-2019, it should also be noted that there is no direct relationship between changes in these indicators (Table 3).

The growth of inventories was more or less uniform, while the indicators of profitability (loss) of industrial enterprises of Ukraine had both positive and negative values. During 2015-2016, industrial enterprises mostly operated at a loss, receiving a total loss of 188,267.9 million UAH (2015) and 24,724.7 million UAH (2016) accordingly. Therefore, investments in inventories do not justify themselves from the standpoint of the final results of enterprises.

Given this circumstance, it should be noted that the issue of inventory management in industrial enterprises is not given due attention in the context of ensuring compliance of the management system with the objectives of effective operation and development of the enterprise as a whole and its innovation in particular.

Table 1
The share of inventories in current assets of Ukrainian enterprises by type of economic activity in 2015-2019, %

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>The value of inventories in current assets of Ukrainian enterprises, %</td>
<td>20.7</td>
<td>18.1</td>
<td>22.9</td>
<td>24.6</td>
<td>24.5</td>
</tr>
<tr>
<td>The value of inventories in current assets of industrial enterprises of Ukraine, %</td>
<td>24.1</td>
<td>23.0</td>
<td>23.5</td>
<td>25.1</td>
<td>25.6</td>
</tr>
<tr>
<td>The value of inventories in current assets of agricultural enterprises, %</td>
<td>22.3</td>
<td>23.0</td>
<td>23.5</td>
<td>25.1</td>
<td>25.6</td>
</tr>
<tr>
<td>The value of inventories in current assets of enterprises in the construction sector, %</td>
<td>23.1</td>
<td>25.6</td>
<td>27.4</td>
<td>28.6</td>
<td>28.9</td>
</tr>
<tr>
<td>The value of inventories in current assets of wholesale and retail trade enterprises, %</td>
<td>23.5</td>
<td>22.1</td>
<td>25.2</td>
<td>85.2</td>
<td>93.7</td>
</tr>
<tr>
<td>The value of inventories in current assets of the transport enterprises, %</td>
<td>15.7</td>
<td>13.5</td>
<td>21.1</td>
<td>20.8</td>
<td>17.4</td>
</tr>
<tr>
<td>The value of inventories in current assets of information and telecommunications enterprises, %</td>
<td>6.0</td>
<td>5.3</td>
<td>7.1</td>
<td>7.6</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Source: compiled by the author based on the data of State Statistics Service of Ukraine (2020)

Table 2
Indicators of innovation activity and the size of inventories of industrial enterprises of Ukraine in 2015-2019

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of stocks of industrial enterprises, million UAH</td>
<td>289901.2</td>
<td>349754.1</td>
<td>417778.5</td>
<td>480254.4</td>
<td>481775.1</td>
</tr>
<tr>
<td>Net profit (loss) of industrial enterprises, million UAH</td>
<td>-188267.9</td>
<td>-24724.7</td>
<td>56124.0</td>
<td>109288.8</td>
<td>133701.6</td>
</tr>
</tbody>
</table>

Source: compiled by the author based on the data of State Statistics Service of Ukraine (2020)
4. Possibilities of the accounting system in the context of inventory management

Effective inventory management of the enterprise should provide constant monitoring of inventories and market environment, analysis of their interaction and impact on the performance of the enterprise as a subject of market relations and making informed decisions aimed at saving money and increasing the rate of economic return on capital. In turn, the validity of management decisions depends on the optimal organization of the inventory accounting system, which is able to form an array of information, able to identify alternative solutions and ensure the achievement of strategic goals in the future.

Many problems of inefficient inventory management can be solved by the company’s accounting system, which aims to: formation of complete and reliable information about inventories; providing the management system of the enterprise with the necessary organization of the inventory accounting system, which is able to form an array of information, able to identify alternative solutions and ensure the achievement of strategic goals in the future.

5. Organizational and technological components of inventory accounting policy

Inventory accounting policy is a set of principles, methods and procedures used by the company to generate quality, timely, relevant, clear, complete and reliable information about the availability, movement, storage and use of inventories in the enterprise, sufficient to make management decisions aimed at to improve the efficiency of inventory management and disclosure of inventory information in the financial statements.

The formation of the accounting policy of the enterprise in the context of ensuring effective inventory management should be carried out taking into account such components of accounting policy as: organizational, technological and methodological.

Table 3
Indicators of financial results of activity and the size of inventories of industrial enterprises of Ukraine in 2015-2019

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of new technological processes and units introduced into production, units</td>
<td>1217</td>
<td>3489</td>
<td>1831</td>
<td>2002</td>
<td>2318</td>
</tr>
<tr>
<td>Number of introduced innovative types of products, names, units</td>
<td>3136</td>
<td>4139</td>
<td>2387</td>
<td>3843</td>
<td>2148</td>
</tr>
<tr>
<td>Number of innovatively active industrial enterprises, units</td>
<td>824</td>
<td>834,0</td>
<td>759,0</td>
<td>777,0</td>
<td>782,0</td>
</tr>
<tr>
<td>Total expenditures on innovation, million UAH</td>
<td>13813,7</td>
<td>23229,5</td>
<td>9117,5</td>
<td>12180,1</td>
<td>14220,9</td>
</tr>
<tr>
<td>Volume of stocks of industrial enterprises, million UAH</td>
<td>289901,2</td>
<td>349754,1</td>
<td>417778,5</td>
<td>480254,4</td>
<td>481775,1</td>
</tr>
</tbody>
</table>

Source: compiled by the authors based on the data of State Statistics Service of Ukraine (2020)
It should be noted that the document flow schedule must comply with the job descriptions developed at the enterprise of the accounting service staff and job descriptions of persons responsible for supplies (which should be reflected in the accounting policy). These internal documents should be complementary and non-contradictory, as they affect the quality of formation, preparation and timing of inventory information for management purposes and the disclosure of such information in the entity’s financial statements.

7. Methodological component of inventory accounting policy

The methodological component of the accounting policy includes: principles and rules of receipt, processing, recording and transmission of inventory information, inventory valuation rules, inventory accounting (development of a working plan of accounts), disclosure of inventory information in the financial statements.

The establishment of accounting policies in terms of inventory accounting is implemented through the consolidation of the list of valuation methods, accounting and procedures (elements of accounting policy), according to which the regulatory framework provides for more than one option. And from all admissible variants the enterprise should choose that variant which most completely reflects specificity of its economic activity.

In particular, the accounting policy of the enterprise should determine: provisions on recognition and initial valuation of inventories; provisions for assessing the disposal of inventories; the order of accounting (identified or in general) of transport and procurement costs, the use of a separate sub-account of accounting of transport and procurement costs; the frequency of determining the weighted average unit cost of inventories; forms of primary documents used for registration of the movement of inventories, which are not provided by standard forms of primary accounting; rules of document circulation and technology of accounting information processing; the order of control over the movement of inventories and the responsibility of management staff; the order of analytical inventory accounting; unit of natural measurement of inventories for each unit of accounting.

The elements of the inventory accounting policy, according to which the national legislation provides for several alternatives (options) or...
does not provide for any regulations, are the following: determination of the unit of analytical inventory accounting; the order of accounting and distribution of transport and procurement costs; methods of estimating the disposal of inventories; frequency of determining the weighted average unit cost of inventories.

8. Conclusions

1. The results of the study showed that the inventory management system of industrial enterprises is not effective enough, because inventories are not perceived as a source of innovation, as evidenced by comparing the dynamics of inventories and the results of innovation.

2. It is substantiated that effective inventory management is able to provide the accounting system of the enterprise, the foundations of which are laid during the formation of accounting policies. Inventory accounting policy is a set of principles, methods and procedures used by the company to generate quality, timely, relevant, clear, complete and reliable information about the availability, movement, storage and use of stocks in the company, sufficient for management decisions, aimed at improving the efficiency of inventory management and disclosure of inventory information in the financial statements. The formation of the accounting policy of the enterprise in the context of ensuring effective inventory management is based on organizational, technological and methodological components.

3. It is established that the formation of inventory accounting policy should be implemented through the consolidation of the list of valuation methods, accounting and procedures (elements of accounting policy), according to which the regulatory framework provides for variability. The main such elements include: determining the unit of analytical inventory; the order of accounting and distribution of transport and procurement costs; methods for estimating inventory disposal; the frequency of determining the weighted average unit cost of inventories. The stated approaches to formation and disclosure of elements of the accounting policy of stocks are directed on maintenance of effective inventory management in the course of innovative activity of the enterprise.

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